KAZANORGSINTEZ GROUP

Consolidated Financial Statements
for the year ended 31 December 2010
prepared in accordance with
International Financial Reporting Standards

Independent Auditor's Report

CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following statements, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditor in relation to the consolidated financial statements of Open Joint Stock Company "Kazanorgsintez" and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of the Group at 31 December 2010, and the consolidated results of its operations, changes in shareholders' equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking steps to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2010 were approved on 25 March 2011 in Kazan, Republic of Tatarstan, Russian Federation, by:

L.S. Alekhin
General Director

N.F. Gainullina
Chief Financial Officer

Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company "Kazanorgsintez":

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

Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

25 March 2011
Moscow, Russian Federation

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(in millions of Russian Roubles)

	Note	Year ended 31 December 2010	Year ended 31 December 2009
Sales	8	33,567	21,996
Cost of sales	9	(27,304)	(19,010)
Gross profit		**6,263**	**2,986**
Selling, general and administrative expenses	10	(2,576)	(2,085)
Loss from other sales, net	11	(150)	(118)
Finance costs	12	(2,957)	(2,233)
Finance income	13	306	3
Foreign exchange gain/(loss), net		582	(630)
Other expenses, net	14	(146)	(388)
Profit/(loss) before income tax		**1,322**	**(2,465)**
Income tax (expense)/ credit	15	(316)	378
Profit/(loss) for the year		**1,006**	**(2,087)**
Other comprehensive income:			
Currency translation differences		(4)	2
Total comprehensive income for the year		**1,002**	**(2,085)**
Profit/(loss) attributable to:			
Shareholders of the parent company		1,005	(2,088)
Non-controlling interest		1	1
Profit/(loss) for the year		**1,006**	**(2,087)**
Total comprehensive income attributable to:			
Shareholders of the parent company		1,003	(2,087)
Non-controlling interest		(1)	2
Total comprehensive income for the year		**1,002**	**(2,085)**
EARNINGS/(LOSS) PER SHARE (RUB)			
Basic and diluted	33	0.55	(1.19)

(in millions of Russian Roubles)

	Note	As at 31 December 2010	As t 31 December 2009	As at 1 January 2009
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	16	37,438	38,443	40,150
Intangible assets	17	1,136	1,264	920
Other financial assets	18	53	53	53
Other non-current assets	19	131	157	567
Total non-current assets		**38,758**	**39,917**	**41,690**
CURRENT ASSETS:				
Inventories	20	4,220	3,700	3,756
Trade and other receivables	21	192	668	864
Income tax prepaid		5	5	71
Other prepaid and recoverable taxes	22	399	311	370
Other current assets	23	698	432	207
Cash and cash equivalents	24	907	1,014	325
Total current assets		**6,421**	**6,130**	**5,593**
Assets held for sale	25	146	100	-
TOTAL ASSETS		**45,325**	**46,147**	**47,283**
EQUITY AND LIABILITIES				
EQUITY AND RESERVES:				
Share capital	26	1,905	1,905	1,905
Treasury shares	26	(99)	-	-
Additional paid-in capital	26	1,515	1,515	1,515
Currency translation differences		(1)	1	-
Retained earnings		6,872	5,867	7,955
Equity attributable to shareholders of the parent company		**10,192**	**9,288**	**11,375**
Non-controlling interest		9	10	8
Total equity		**10,201**	**9,298**	**11,383**
NON-CURRENT LIABILITIES:				
Long-term borrowings	27	28,375	440	948
Deferred tax liabilities	15	613	299	679
Financial lease liabilities	28	135	-	552
Total non-current liabilities		**29,123**	**739**	**2,179**
CURRENT LIABILITIES:				
Short-term borrowings	29	695	29,054	27,941
Trade accounts payable	30	1,709	3,803	4,028
Other payables and accrued liabilities	31	1,501	1,982	1,348
Advances from customers		1,831	1,012	293
Other taxes payable	32	142	179	112
Total current liabilities		**5,878**	**36,030**	**33,721**
Liabilities associated with assets held for sale	25	123	80	-
TOTAL EQUITY AND LIABILITIES		**45,325**	**46,147**	**47,283**

(in millions of Russian Roubles)

	Note	Equity attributable to shareholders of the parent company							
		Share capital	Treasury shares	Additional paid-in capital	Cumulative currency translation differences	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009		**1,905**	**-**	**1,515**	**-**	**7,955**	**11,375**	**8**	**11,383**
Loss for the period		-	-	-	-	(2,088)	**(2,088)**	1	**(2,087)**
Currency translation differences		-	-	-	1	-	**1**	1	**2**
Total comprehensive loss for the year ended 31 December 2009		**-**	**-**	**-**	**1**	**(2,088)**	**(2,087)**	**2**	**(2,085)**
Balance at 31 December 2009		**1,905**	**-**	**1,515**	**1**	**5,867**	**9,288**	**10**	**9,298**
Profit for the period		-	-	-	-	1,005	**1,005**	1	**1,006**
Currency translation differences		-	-	-	(2)	-	**(2)**	(2)	**(4)**
Total comprehensive income for the year ended 31 December 2010		**-**	**-**	**-**	**(2)**	**1,005**	**1,003**	**(1)**	**1,002**
Purchase of treasury shares	26	-	(102)	-	-	-	**(102)**	-	**(102)**
Sale of treasury shares	26	-	3	-	-	-	**3**	-	**3**
Balance at 31 December 2010		**1,905**	**(99)**	**1,515**	**(1)**	**6,872**	**10,192**	**9**	**10,201**

(in millions of Russian Roubles)

	Year ended 31 December 2010	Year ended 31 December 2009
OPERATING ACTIVITIES:		
Profit/(loss) before income tax	**1,322**	**(2,465)**
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangible assets	3,212	2,748
Finance income	(306)	(3)
Provision for impairment of financial investments	-	4
Change in provision for doubtful debts	(33)	112
Change in obsolescence provision	(11)	(274)
Gain on disposal of property, plant and equipment	(19)	(11)
Finance costs	2,957	2,233
Foreign exchange (gain) / loss, net	(582)	629
Operating cash flows before working capital changes	**6,540**	**2,973**
Decrease /(increase) in trade and other receivables	393	(207)
(Increase)/decrease in prepaid and recoverable taxes, other than income tax	(88)	125
(Increase)/decrease in inventories	(359)	531
Decrease in other non-current assets	24	-
(Increase)/decrease in trade and other payables	(1,244)	74
Increase in advances from customers	819	719
Increase in other current liabilities	(9)	554
(Decrease)/increase in other taxes payable	(38)	64
Net cash generated from operating activities	**6,038**	**4,833**
Income taxes paid	(2)	-
Interest paid	(4,867)	(1,720)
Cash inflow from operating activities	**1,169**	**3,113**
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(2,377)	(1,587)
Proceeds on disposal of property, plant and equipment	-	203
Advances paid for licenses	-	(47)
Interest received	14	1
Net cash used in investing activities	**(2,363)**	**(1,430)**
FINANCING ACTIVITIES		
Proceeds from short-term borrowings	341	1,558
Repayment of short-term borrowings	(4,731)	(2,289)
Proceeds from long term borrowings	25,155	467
Repayment of long term-borrowings	(19,085)	(575)
Dividends paid	(14)	-
Purchase of treasury shares	(102)	-
sale of treasury shares	3	-
Repayment of obligations under finance lease	(479)	(145)
Cash generated from (used in) financing activities	**1,088**	**(984)**
Net (decrease)/increase in cash and cash equivalents	**(106)**	**699**
Cash and cash equivalents at the beginning of the year	**1,014**	**325**
Effects of exchange rate changes on the balance of cash held in foreign currencies	(1)	(10)
Cash and cash equivalents at the end of the year	**907**	**1,014**

1. GENERAL

Open Joint Stock Company "Kazanorgsintez" (the "Company") was incorporated in Kazan, Republic of Tatarstan, Russian Federation on 1 September 1993. The principal activity of the Company and its subsidiaries (the "Group") is production of chemical products and derivatives thereof (mainly polyethylene) which are marketed and sold primarily in the Russian Federation.

Major production facilities of the Group are located in Kazan, Republic of Tatarstan, Russian Federation. The registered office of the Company is located at the following address: 101, Belomorskaya street, 420051, Kazan, Republic of Tatarstan, Russian Federation.

Details of the Company's subsidiaries are in Note 37.

2. OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased liquidity levels in the banking sector.

Exchange rates of hard foreign currencies as at 31 December 2010 were: RUB 30.4769 per USD 1 (RUB 30.2442 at 31 December 2009), RUB 40.3331 for EUR 1 (RUB 43.3883 at 31 December 2009).

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

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

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

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Standards affective for annual periods beginning on or after 1 January 2010

Certain new IFRS standards and interpretations became effective for the Group from 1 January 2010:

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

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

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

3. ADOPTION OF NEW OR REVISED STANDARTS AND INTERPRETATIONS (CONTINUED)

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

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

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

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, amendments clarifying the classification of assets as held for sale under IFRS 5 in the event of a loss of control over a subsidiary, which were published as part of the annual improvements to International Financial Reporting Standards issued in May 2008, become effective for annual periods beginning on or after 1 July 2009. The amendment did not have a material impact on these financial statements.

Unless otherwise stated, these amendments and interpretations did not significantly affect the Group's consolidated financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Additional changes were introduced to IFRS 9 in October 2010 with regards to classification and measurement of financial liabilities.

Key features are as follows:

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

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

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

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

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

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

4. NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow the carrying value determined in accordance with revaluation for the purposes of the prior accounting standards to be used as initial cost of an item of property, plant and equipment or an intangible asset if the revaluation result at the revaluation date was comparable to the fair value or the residual value of the item adjusted to the price index, (ii) to allow an event driven revaluation to be used as initial cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Group as explained in Note 5.

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the Russian Federation. Accounting principles and financial reporting procedures in the Russian Federation may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of individual entities of the Group have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The consolidated financial statements of the Group are prepared on the historical cost basis, as modified by:

- Fair valuation of assets, liabilities and contingent liabilities of subsidiaries and associates acquired at the acquisition date, in accordance with IFRS 3 Business Combinations;
- Mark-to-market valuation of financial instruments, in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

Basis of consolidation

Subsidiaries

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

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

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

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

Business combinations

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Goodwill is carried at cost less accumulated impairment losses if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination.

Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

If acquired at bargain price, when the fair value of net assets exceeds the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date, any excess ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

Purchases and sales of non-controlling interests

The Group applies the individual economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates

Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately in the statement of comprehensive income.

Losses of associates are initially recognised in the consolidated financial statements as long as investments in associates are not written down to nil. Then losses are recorded in the consolidated financial statements to the extent it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries or associates

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

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

Revenue and income recognition

Revenue is measured at the fair value of the consideration received or receivable net of VAT and discounts.

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

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

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

The income from other sales includes revenues from sale of ancillary items, net of cost of sales. Other sales primarily consist of sales of electricity, water and heat.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs, and the capital repayment, which reduces the related lease obligation to the lessor so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, depending on maturity, are included in other long-term liabilities or trade and other payables.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency transactions

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purposes of the consolidated financial statements, the results of operations and financial position of each entity are presented in the Russian Roubles ("RUB"). RUR has been selected as the presentation currency for the consolidated financial statements of the Group.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates of the Central Bank of the Russian Federation ("CBRF") effective at the date of the transactions. The assets and liabilities (both monetary and non-monetary) of the Group entities whose functional currency is not the Russian Rouble are translated into Russian Roubles at the closing exchange rate at each balance sheet date. All items included in the shareholders' equity, other than profit or loss, are translated at historical exchange rates. The financial results of these entities are translated into Russian Roubles using average exchange rates for each reporting period.

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for use or sale (a qualifying asset) are capitalised as part of the costs of this asset, until such time as the asset is substantially ready for its intended use or sale, if the commencement date for capitalisation is on or after 1 January 2009.

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

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

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

Employee benefits

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

The Group is legally obliged to make defined contributions to the Russian Federation State Pension Fund. The only obligation of the Group is to make the specified contributions in the period in which they arise. These contributions are expensed as incurred.

In the Russian Federation all obligatory social contributions, including contributions to the Russian Federation State Pension Fund, are collected through insurance contributions calculated by the application of a regressive rate of the annual gross remuneration of each employee specified by law.

Income taxes

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised (enacted or substantively enacted at the balance sheet date). Deferred tax assets and liabilities are offset if there is a legal right for the offset of the current tax assets and liabilities, and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains at their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Property, plant and equipment

A significant portion of the Group's property, plant and equipment was valued by an independent firm of professionally qualified appraisers, as at 1 January 2001. The basis of the valuation was fair value, which is defined as the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction. The fair value of marketable assets was determined as their market value. Property, plant and equipment of a specialised nature were valued on the depreciated replacement cost basis. For each item of property, plant and equipment, the new replacement cost was estimated as the current cost to replace the asset with a functionally equivalent asset. The new replacement cost was then adjusted for accumulated depreciation, including both physical depreciation and functional and economic obsolescence, to arrive at the fair value of the asset.

Items acquired after 1 January 2001 are recorded at cost less accumulated depreciation and impairment provision of any. Capitalised cost includes acquisition cost and material expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repair and maintenance expenditures that do not meet the foregoing criteria for capitalisation are charged to the statement of comprehensive income as incurred.

Depreciation is computed under the straight-line method over the estimated useful lives of the assets, which are:

Buildings	20-80 years
Machinery and equipment	5-30 years
other	3-10years

Land occupied by the Group's facilities is owned by the Group. Land is not depreciated and is included in property, plant and equipment.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as similar owned assets or, where shorter, the term of the relevant lease.

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

Construction in process

Construction-in-progress comprises costs directly related to the construction of property, plant and equipment. Cost also includes finance charges capitalised during the construction periods where such costs are financed by borrowings. Depreciation of these assets commences when the assets are put into operation.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives.

The Group has purchased various licenses for the use of technologies used in the production of Bisphenol-A, polycarbonate and high density polyethylene. The cost of acquiring these licenses are initially recorded as advances paid for licenses. The terms of the licenses are 10 years from the commencement of commercial production as defined in the respective agreements. Upon commencement of commercial production, these licenses are reclassified to intangible assets and amortized on a straight line basis over the term of the license.

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

Software costs incurred for the development, implementation and enhancement of the operating systems, are capitalised and amortised over the expected useful life of the system. Software costs relating to the maintenance of the operating system are recognised as an expense in the period in which they occur.

Inventories

Inventories are recorded at the lower of cost and net realisable value. During the release of inventory to production or other disposals the cost of inventory is determined on the weighted average basis. Cost of finished goods and semi-finished products comprises raw material, direct labour, other direct costs and those variable costs but excludes borrowing costs and other costs directly not related to production. Inventories and materials are valued using weighed average method less impairment provision. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Work in progress is valued at the net unit cost of production allocated to the estimated stage of completion.

Inventories, depending on planned write-off period, are recorded in the statement of financial position within current assets (line "inventories") or non-current assets (line "other non-current assets").

Value added tax

Value-added taxes Value-added taxes ("VAT") related to sales are payable to the tax authorities on an accrual basis based upon invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions.

Prepayments

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

Impairment of assets except for goodwill and financial assets

Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of comprehensive income in line "other expenses, net".

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated statement of comprehensive income in line "other expenses, net".

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

Financial assets are recognised when the Group has become a party to the contractual arrangement of the instrument and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through the statement of comprehensive income, which are initially measured at fair value.

Financial assets of the Group are classified into the following specified categories:

- financial assets at fair value through profit or loss;
- Available-for-sale financial assets;
- held to maturity;
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method – applied to financial assets

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including transaction costs and other premiums or discounts) through the expected life of the financial asset.

Income is recognised on an effective interest basis for debt securities other than those financial assets designated as at fair value through profit or loss.

Financial assets available for sale

Available-for-sale financial assets mainly include investments in listed and unlisted shares.

Listed securities held by the Group that are traded in an active market are stated at their market value. Gains and losses arising from changes in fair value of these investments are recognised in equity in the investments valuation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is included in the consolidated statement of comprehensive income for the period in profit and loss.

Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the Group's right to receive the dividends is established.

Investments in unlisted shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, impairment losses are recognised through making a provision in the amount to make assets carrying amount reach the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset includes the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

With the exception of available-for-sale equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. The carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year. When a decline in fair value of an available-for-sale equity investment has been recognised in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised in other comprehensive income is transferred to the consolidated statement of comprehensive income in profit and loss even though the investment has not been derecognised. Impairment losses previously recognised in the consolidated statement of comprehensive income through profit and loss are not reversed through profit and loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Disposal group

Assets and liabilities of disposal groups (which may include both non-current and current assets, non-current and current liabilities) are classified in the statement of financial position as "disposal group assets" and "disposal group liabilities" if the carrying value is recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets and liabilities) within twelve months after the reporting period. The disposal group assets and liabilities are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (d) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Disposal groups held for sale as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Share capital

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

Treasury shares

Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued any consideration received net of any directly attributable incremental transaction costs and the related income tax effects is included in equity attributable to the Company's equity holders.

Dividends

Dividends payable and related taxation thereon are recognised in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the Russian legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Dividends are disclosed in Note "Subsequent events" when they are declared after the reporting date but before the date of approval of consolidated financial statements.

Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to owners of the Company, adjusted by dividends attributable to preference shareholders, by the weighted average number of participating shares outstanding during the reporting year.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment reporting

The Group oversees its business activity as one operating segment as the majority of the Group's business operations are located in the Russian Federation and relate solely to the production and marketing of chemical products (mainly polyethylene) and derivatives thereof. It is consistent with the internal reporting provided to the chief operating decision maker of the Company ("CODM") (the management executive committee).

Financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Subsequently, the financial liabilities are carried at amortised cost using effective interest method.

Effective interest method – applied to financial liabilities

The effective interest method is a method of calculating the amortised cost of a financial liabilities and of allocating interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash outflows through the expected life of the financial liability.

Amortised cost of financial assets and liabilities

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition (including expenses attributable to third-party collateral) and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related assets and liabilities in the statement of financial position.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions for liabilities and charges

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 embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recorded as provisions is the best estimate of payments required to settle obligations at the balance sheet date accounting for obligation related risks and uncertainty. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

Going concern

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

In the application of the Group's accounting policies management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may significantly differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES (CONTINUED)

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Taxation

Judgments are required in determining current income tax liabilities. The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact income tax and deferred tax provisions in the period in which such determination is made.

The Group has not recognised a deferred tax liability in respect of temporary differences associated with investments in subsidiaries. The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future.

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumptions in the business plan are obtaining refinance, sales volumes, sales prices and raw materials prices.

Refinancing of borrowings

As a result of the receipt of the refinancing described in Note 27, the Group considered the requirements of IAS 39 in determining whether a gain or loss on debt modification should be recognised in the income statement and statement of comprehensive income. Management's consideration focused on Group's long and short term loans from Sberbank existing at 31 December 2009 and the refinancing obtained from Sberbank after the balance sheet date. Management assessed that no modification has taken place because the qualitative factors of the Sberbank loans outstanding at 31 December 2009 and the subsequent refinancing received are significantly different, principally in length and repayment terms. Consequently during the year 2010 the loans existing at 31 December 2009 were derecognised and the new loans received from Sberbank and borrowing from the parent company were recognised at fair value less transaction expenses.

Environmental obligations.

The Group's activities are subject to various laws and regulations governing the protection of the environment. The Group pays fees to the regulatory authorities for the right to discharge within legal norms. Management believes this fee covers all environmental obligations, and this fee is recorded as an expense in the period incurred. No provisions for environmental obligations are recorded.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful economic lives of property, plant and equipment

Management assesses the useful economic lives of property, plant and equipment considering the current technical condition of assets and potential changes in technology and demand. Any changes of these conditions could affect prospective depreciation of property, plant and equipment and their carrying value.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash generating unit. Management necessarily applies its judgment in allocating assets that do not generate independent cash flows to appropriate cash generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. Key assumptions in Management's analysis relate to obtaining refinance, sales volumes, sales prices and raw materials prices. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowances for doubtful debts

The Group creates allowances for doubtful debts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimates on the current overall economic conditions, the aging of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms.

(in millions of Russian roubles, unless otherwise stated)

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES (CONTINUED)

Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

7. CHANGES IN THE PRESENTATION OF FINANCIAL STATEMENTS

If necessary, comparative data is adjusted to conform to the current year results presentation.

In 2010 the Group reclassified catalysts with service lives of over 12 months on the reporting date into Other non-current assets. The catalysts serve as chemical agents used in production. In 2009 these assets were recorded in Inventories.

The effect of reclassifications in the financial statements as of 31 December 2009 is given in the table below:

	Amount reported in the previous financial statements	Reclassification	Post-reclassification amount as of 31 December 2009
Other Non-Current Assets	-	157	157
Inventory	3,857	(157)	3,700

These financial statements include the third statement of financial position as of 1 January 2009 due to the above changes in the presentation of the financial information. The requirement to submit additional opening statement of financial position when the entity makes adjustments or reclassification includes the requirement to present additional disclosures in the relevant notes. Management considered the materiality of this requirement and came to the conclusion that for the company it is sufficient to disclose this information only in those notes, which were affected by adjustments or reclassifications made and disclose in the financial statements that the adjustment or reclassification made had no effect on other notes. Consequently, management believes that the absence of notes relating to additional opening statement of financial position is not material.

The reclassification in the statement of financial position impacted the disclosures in Notes 19 and 20 but had no effect on other items of the statement of financial position and disclosures in the relevant notes.

In 2010 the Group has also made reclassifications in 2009 statement of comprehensive income that had no impact on the statement of financial position. The following reclassifications have been made to the comparative figures in the consolidated statement of comprehensive income to conform to the current period presentation:

- Insurance expenses, services provided by water and wastewater treatment facilities as well as other personnel and tax expenses totaling to RUR 418 million were reclassified to cost of sales from selling, general and administrative expenses as such presentation more appropriately reflects the nature of such costs.
- Sales and cost of sales of non-core business goods in the amount of RUR 163 million and RUR 169 million, respectively, were reclassified into losses from other sales.

The effect of reclassifications on the data presentation in the financial statements as of 31 December 2009 is presented in the table below:

	Amount reported in the previous financial statements	Reclassification	Amount after reclassifications as of 31 December 2009
Cost of sales	18,762	248	19,010
Selling, general and administrative expenses	2,503	(418)	2,085
Sales	22,159	(163)	21,996
Losses from other sales	(112)	(6)	(118)

(in millions of Russian roubles, unless otherwise stated)

8. SALES

	2010	2009
By geographic regions:		
Domestic sales	24,659	15,558
Export sales	8,908	6,438
Total	**33,567**	**21,996**
By products:		
High density polyethylene	15,013	9,427
Low density polyethylene	8,901	4,577
Polycarbonate	4,592	2,256
By-products of Phenol, Acetone, Ethylene, Polycarbonate	1,731	1,218
Organic products	1,621	1,566
Plastic goods	1,396	1,331
Bisphenol A	313	218
Tolling services	-	1,403
Total	**33,567**	**21,996**

Tolling agreement was terminated starting from 1 January 2010.

9. COST OF SALES

	2010	2009
Raw materials	16,847	9,885
Energy and water	4,068	3,727
Depreciation of property, plant and equipment	3,047	2,495
Labour costs	1,854	1,353
Auxiliary materials	946	884
Production services	307	207
Other	215	309
Inventory obsolescence provision released	(11)	(274)
	27,273	**18,586**
Decrease in work in progress and finished goods	31	424
Total	**27,304**	**19,010**

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
Labour costs	921	751
Taxes, other than income tax	356	337
Transportation and storage	315	216
Material costs (energy, materials, etc.)	178	75
Services	166	168
Depreciation and amortization	165	215
Insurance expenses	46	34
Bank charges	45	64
Other	384	225
Total	**2,576**	**2,085**

11. LOSSES FROM OTHER SALES, NET

	2010	2009
Other revenue	673	662
Cost of other sales	(823)	(780)
Total	**(150)**	**(118)**

Other revenue and cost of other sales comprise revenue and the corresponding costs of sales of products of subsidiary units and auxiliary shops.

(in millions of Russian roubles, unless otherwise stated)

12. FINANCE COSTS

	2010	2009
Interest expense and commissions on loans and borrowings	3,422	2,618
Interest expense on obligations under finance leases	35	53
Less: amount included in the cost of qualifying assets	(500)	(438)
Total	**2,957**	**2,233**

13. FINANCE INCOME

	2010	2009
Income from redemption of Eurobonds (Note 27)	292	-
Interest income	14	2
Dividends received	-	1
Total	**306**	**3**

14. OTHER EXPENSES, NET

	2010	2009
Penalties on contracts	116	55
(Decrease)/increase in debt provision	(33)	112
Maintenance of social infrastructure	108	95
Income on disposal of property, plant and equipment	(19)	(11)
Income from disposal of materials	(42)	(61)
Provision for the impairment of financial investments	-	4
Rent of land	-	195
Other expenses/(income)	16	(1)
Total	**146**	**388**

In 2010 penalties on contracts mainly include penalties for breach of supply contracts with OAO Tatenergosbyt and OAO Tatteplosbyt.

Maintenance of social infrastructure comprises primarily operating costs of facilities such as hotel, dormitory and other sports facilities.

15. INCOME TAX

The Group's provision for income tax is as follows:

	2010	2009
Current income tax	2	2
Deferred tax charge/(credit)	314	(380)
Total	**316**	**(378)**

The following presents a reconciliation of theoretical income tax calculated at the rate effective in the Russian Federation (20%) to the amount of actual income tax expense recorded in the statement of comprehensive income.

	2010	2009
Profit /(loss) before income tax	1,322	(2,465)
Theoretical income tax expense/(credit) at 20%	264	(493)
Effect of non-deductible expenses and other permanent differences, net	52	115
Income tax expense/(credit)	**316**	**(378)**

Temporary differences between the Russian statutory tax accounts and these financial statements give rise to the following deferred tax liabilities. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

(in millions of Russian roubles, unless otherwise stated)

15. INCOME TAX (CONTINUED)

	Year ended 31 December 2010	Tax effect of movement in temporary differences	Year ended 31 December 2009	Tax effect of movement in temporary differences	Year ended 31 December 2008
Property, plant and equipment and other assets	2,140	(47)	2,187	577	1,610
Allowance for doubtful debts	6	2	4	5	(1)
Accrued liabilities	(15)	17	(32)	(21)	(11)
Tax losses carried forward	(1,518)	342	(1,860)	(941)	(919)
Net deferred income tax liability	**613**	**314**	**299**	**(380)**	**679**

	As at 31 December 2010	As at 31 December 2009
Balance at the beginning of the year	299	679
Recognised in the statement of comprehensive income	314	(380)
Balance at the end of the year	**613**	**299**

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost					
At 1 January 2009	**10,740**	**22,916**	**2,054**	**19,254**	**54,964**
Additions	2	134	6	1,012	**1,154**
Disposals	(9)	(196)	(18)	(190)	**(413)**
Transfers	4,037	6,878	348	(11,263)	-
At 31 December 2009	**14,770**	**29,732**	**2,390**	**8,813**	**55,705**
Additions	18	158	42	2,007	**2,225**
Disposals	(4)	(7)	(4)	(163)	**(178)**
Transfers	344	269	-	(613)	-
Reclassifications	(46)	37	9	-	-
At 31 December 2010	**15,082**	**30,189**	**2,437**	**10,044**	**57,752**
Accumulated depreciation					
At 1 January 2009	**(4,847)**	**(9,141)**	**(826)**	**-**	**(14,814)**
Charge for the year	(294)	(2,081)	(264)	-	**(2,639)**
Write-off upon disposal	5	170	16	-	**191**
At 31 December 2009	**(5,136)**	**(11,052)**	**(1,074)**	**-**	**(17,262)**
Charge for the year	(382)	(2,505)	(177)	-	**(3,064)**
Write-off upon disposal	2	6	4	-	**12**
Reclassifications	50	(40)	(10)	-	-
At 31 December 2010	**(5,466)**	**(13,591)**	**(1,257)**	**-**	**(20,314)**
Net carrying amount					
At 31 December 2009	**9,634**	**18,680**	**1,316**	**8,813**	**38,443**
At 31 December 2010	**9,616**	**16,598**	**1,180**	**10,044**	**37,438**

The Group's plant sites presently occupy approximately 489.6 hectares of land for which the Group holds the title.

(in millions of Russian roubles, unless otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT

At 31 December 2010 property, plant and equipment with the carrying value of RUR 23,335 million (2009: RUR 8,637 million) were pledged to secure certain long-term loans granted to the Group (refer to Note 27 and 29). In addition, property, plant and equipment with the carrying value of RUR 14,994 million were pledged to secure a long-term loan.

During the year ended 31 December 2010, interest of RUR 500 million has been capitalized in property, plant and equipment (2009: RUR 438 million), refer to Note 12. The average interest capitalization rates for 2010 and 2009 were 11.95 percent and 8.21 percent, respectively.

At 31 December 2010, property, plant and equipment include assets held under a number of finance lease agreements (refer to Note 28). At the end of the lease term the Group takes automatic ownership of these assets. The carrying value of such assets was RUR 763 million: RUR 669 million of equipment, and RUR 94 million of construction in progress (2009: RUR 971 million: RUR 832 million of equipment, and RUR 140 million of construction in progress).

17. INTANGIBLE ASSETS

Intangible assets primarily comprised costs incurred in connection with acquisition and implementation of the management information system SAP R/3, as well as license costs associated with production of Bisphenol A, Polycarbonates and High density polyethylene. SAP R/3 costs are amortised over a period of thirteen years, costs of license technology acquisition – ten years, in accordance with license agreements.

	Software	Licences, franchises and other intangible assets	Total
Cost			
At 1 January 2009	**109**	**921**	**1,030**
Additions	-	453	**453**
Disposals	-	(1)	**(1)**
At 31 December 2009	**109**	**1,373**	**1,482**
Additions	19	-	**19**
At 31 December 2010	**128**	**1,373**	**1,501**
Accumulated amortisation			
At 1 January 2009	**(94)**	**(16)**	**(110)**
Charge for the year	(8)	(100)	**(108)**
At 31 December 2009	**(102)**	**(116)**	**(218)**
Charge for the year	(10)	(137)	**(147)**
At 31 December 2010	**(112)**	**(253)**	**(365)**
Net carrying amount			
At 31 December 2009	**7**	**1,257**	**1,264**
At 31 December 2010	**16**	**1,120**	**1,136**

18. OTHER FINANCIAL ASSETS

	31 December 2010		31 December 2009	
	% ownership	Amount	% ownership	Amount
OJSC Tatneftekhiminvestholding	7%	39	7%	39
National non-state pension fund	2%	10	2%	10
OJSC Kazanskaya Yarmarka	2%	3	2%	3
LLC Taif-Invest	3.16%	1	3.16%	1
Total		**53**		**53**

Group Management was unable to determine fair value of unquoted shares using valuation techniques that are supported by publicly available market information. As a result, available for sale investments are presented at cost, net of impairment provision. The company has no intention to dispose of these financial assets.

The Group does not hold any collateral as security.

(in millions of Russian roubles, unless otherwise stated)

19. OTHER NON-CURRENT ASSETS

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008
Catalysts	131	157	147
Advances for licenses	-	-	417
Investments in associates	-	-	3
Total	**131**	**157**	**567**

As at 31 December 2010, other non-current assets comprise catalysts used in production whose operating period exceeds 12 months.

20. INVENTORIES

	As at 31 December 2010	As at 31 December 2009	As at 31 December 2008
Stores and materials	3,300	2,748	2,630
Finished goods	383	410	894
Work in progress and semi-finished goods	514	518	474
Other inventory	24	37	45
Less: inventory impairment provision	(1)	(13)	(287)
Total	**4,220**	**3,700**	**3,756**

21. TRADE AND OTHER RECEIVABLES

	As at 31 December 2010	As at 31 December 2009
Trade receivables	201	713
Other receivables and deferred expenses	59	81
Less: bad debt provision	(68)	(126)
Total	**192**	**668**

The majority of sales of goods are contracted on a prepayment basis. Post payment sales are used to promote new types of product to the markets. The maximum credit period on post payment sales of goods is 30 days. In case of delay, interest is charged at 3% (2% for export contracts) per month on the outstanding balance. The Group has analyzed all receivables over 45 days for recoverability historical experience indicates that accounts receivable aged between 45 and 90 days are recovered by 50 percent and receivables over 90 days are generally not recoverable. Based on results of this analysis, and in the cases where the Group has no collateral and no counter liabilities, the Group identified specific accounts and provided fully for the receivables that are past due beyond 90 days and provided 50 percent for the receivables between 45 days and 90 days.

Before accepting any new customer, the Group uses an internal procedure to assess the potential customer's credit quality and defines credit limits by customer. Credit sales are made only to customers, which have a long-term relationship with the Group and a good credit history. All new customers have to pass accepting procedures, which include: security check, check of set up documents, tax registration, feasibility study and credit history.

As of 31 December 2009, trade receivables of RUR 38 million (2009: RUR 117 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade and other receivables is as follows:

	As at 31 December 2010	As at 31 December 2009
90-180 days	-	5
180-365 days	-	106
1 year-3 years	38	6
Total	**38**	**117**

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

(in millions of Russian roubles, unless otherwise stated)

21. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement in bad debt provision

As at 31 December 2010 receivables of RUR 72 million (2009: RUR 126 million) were past due. The amount of the provision was RUR 68 million at 31 December 2010 (2009: RUR 126 million). It was assessed that a portion of the receivables is expected to be recovered. Movements in the Group provision for impairment of these receivables are as follows:

	As at 31 December 2010	As at 31 December 2009
Balance at beginning of the year	**126**	**17**
Impairment losses recognised on receivables	6	138
Amounts written off as uncollectible	(14)	-
Amounts recovered during the year	(50)	(29)
Balance at end of the year	**68**	**126**

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes that there is no need to make any additional bad debt provisions.

22. OTHER PREPAID AND RECOVERABLE TAXES

	As at 31 December 2010	As at 31 December 2009
Value added tax	398	310
Social tax	1	1
Total	**399**	**311**

23. OTHER CURRENT ASSETS

	As at 31 December 2010	As at 31 December 2009
Advances paid	730	456
Less: bad debt provision	(32)	(24)
Total	**698**	**432**

24. CASH AND CASH EQUIVALENTS

	As at 31 December 2010	As at 31 December 2009
Current accounts, including:		
RUR-denominated deposits	356	-
USD-denominated deposits	347	-
RUR-denominated accounts	123	592
EUR-denominated accounts	75	36
USD-denominated accounts	5	385
Other cash and cash equivalents	1	1
Total	**907**	**1,014**

25. ASSETS HELD FOR SALE (DISPOSAL GROUP)

The assets and liabilities related to LLC Elmer, a 50%-owned subsidiary, engaged primarily in trade and distribution activity in Hungary, have been reported as a Disposal Group following the decision of the management of the Group in June 2009 to dispose of its share in the subsidiary. Further development of this subsidiary is not considered strategically important to the Group. The Group has initiated an active programme to locate a buyer. Net assets within the Disposal Group were measured at the lower of their carrying amount and fair value less costs to sell.

(in millions of Russian roubles, unless otherwise stated)

25. ASSETS HELD FOR SALE (DISPOSAL GROUP) (CONTINUED)

Below is the breakdown of major classes of assets and liabilities within the Disposal Group:

	As at 31 December 2010	As at 31 December 2009
Property, plant and equipment	6	7
Trade and other accounts receivable	110	78
Inventory	29	14
Other assets	1	1
Total assets held for sale	**146**	**100**
Trade and other accounts payable	55	47
Short-term borrowings	68	33
Total liabilities held for sale	**123**	**80**

Total liabilities do not include intercompany transactions for RUR 4 million with settlements made in the ordinary course of business. The net assets of LLC Elmer at 31 December 2010 are equal to RUR 19 million (2009: RUR 20 million). No impairment of assets was necessary as a result of the decision to sell this subsidiary.

26. SHARE CAPITAL AND ADDITIONAL PAID IN CAPITAL

	As at 31 December 2010 '000 shares	As at 31 December 2009 '000 shares
Authorised number of shares		
Ordinary shares at par value of RUR 1 each	26,785,114	26,785,114
Preferred shares at par value of RUR 1 each	119,596	119,596
Total authorised shares	**26,904,710**	**26,904,710**
Issued and fully paid number of shares		
Ordinary shares at par value of RUR 1 each	1,785,114	1,785,114
Preferred shares at par value of RUR 1 each	119,596	119,596
Total issued and fully paid shares	**1,904,710**	**1,904,710**
Treasury shares		
At the beginning of the year	-	-
Re-acquired by the Group	22,652	-
Re-issued from treasury shares	(707)	-
At the end of the year	**21,945**	**-**

Treasury shares reducing issued and fully paid share capital as at 31 December 2010 amounted to RUR 99 million (2009:none).

Share capital balance was adjusted for the effects of inflation in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies". The effect of such adjustments was recorded as Additional paid-in capital. The adjustment was determined using the inflation rate index from 1 September 1993, the date the Company was established as a joint stock company, through 31 December 2002.

In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. Under Russian Accounting Rules the net profit for 2010 is RUR 1,142 million (2009 net loss was: RUR 2,115 million).

Group's ownership structure was as follows:

	% of ownership	
	As at 31 December 2010	As at 31 December 2009
OJSC Svyazinvestneftekhim	26.6%	26.6%
LLC Telecom-Management	50.2%	50.2%
Other legal entities and individuals	23.2%	23.2%
Total	**100.0%**	**100.0%**

(in millions of Russian roubles, unless otherwise stated)

26. SHARE CAPITAL AND ADDITIONAL PAID IN CAPITAL (CONTINUED)

Common shareholders are allowed one vote per share. Preferred shares are non-voting. All common shares and preferred shares are eligible for distribution of earnings available in accordance with Russian statutory accounting regulations. Preferred shares holders are entitled to an annual payment of dividends in the amount equal to 25% of their par value. Shareholders of preferred shares have a preferred right to recover the par value of preferred shares in liquidation.

Due to the decision not to accrue dividends in respect of the years ended 31 December 2008 and 2009 on ordinary and preferred shares, holders of the latter have acquired voting rights of one vote per share. The voting rights cease upon the resumption of the receipt of preferred share dividends.

One share of the Company, held by the Government of Tatartstan, carries the right to veto certain decisions taken at shareholders' and Board of Directors' meetings. Decisions subject to veto include: increases and decreases in share capital, amendments to the Company's charter, liquidation or reorganization of the Group or any of its subsidiaries or branches and investments in other legal entities. This veto right is referred to as “Golden Share”, and the term was extended indefinitely in 1998 by a decree of the President of Tatarstan and may be utilized by the Government of Tatarstan notwithstanding its voting rights are less than 25% of the Group.

The ultimate controlling party and ultimate parent is OJSC “TAIF” (“TAIF”), which controls LLC “Telecom-Management”.

27. LONG-TERM BORROWINGS

	As at 31 December 2010	As at 31 December 2009
Banks:		
USD-denominated fixed rate	8	2,976
RUR-denominated fixed rate	18,652	7,217
USD-denominated floating rate	126	4,158
EUR-denominated floating rate	-	3,652
RUR-denominated floating rate	-	1,183
Loans:		
OJSC Taif loan with fixed rate	6,646	440
Non-convertible bonds (loan participation notes) fixed rate	3,122	6,112
Total long-term borrowings	**28,554**	**25,738**
Less: Current portion repayable within one year and shown under short-term borrowings (refer to Note 29)	(179)	(9,519)
Less: Non-convertible bonds (loan participation notes) with covenants breach (refer to Note 29)	-	(6,016)
Less: Obligations under agreements with covenants breach and cross-default event (refer to Note 29)	-	(9,763)
Net long-term borrowings	**28,375**	**440**

Loan participation notes in the amount of USD 101 million, bearing interest at 10%, due on 19 March 2015 are issued by Kazanorgsintez S.A., a special purpose entity, on a limited recourse basis for the sole purpose of funding a loan to the Company. The notes are fully and unconditionally guaranteed by the Company. Interest payments on the notes are due semi-annually in March and September of each year.

The interest rates per annum on these long-term borrowings vary as follows:

	As at 31 December 2010	As at 31 December 2009
USD-denominated fixed rate	4%	6.71% to 15%
RUR-denominated fixed rate	11% to 14%	8.5% to14.5%
USD-denominated floating rate	PRIME RATE + 0.75%	LIBOR + 0.75% to LIBOR + 8%, Cost of Funds + 2.45%
EUR-denominated floating rate	-	EURIBOR + 0.4% to EURIBOR + 1.25%
RUR-denominated floating rate	-	MOSPRIME + 2%
OJSC Taif loan	11% to 14%	14%
Non-convertible bonds	10%	9.25%

(in millions of Russian roubles, unless otherwise stated)

27. LONG-TERM BORROWINGS (CONTINUED)

As at 31 December 2010, long-term borrowings totalling RUR 18,652 million (2009: RUR 10,203 million) are secured by the pledge of equipment and transport means with the carrying value of RUR 16,644 million, real estate assets under mortgage agreement with the carrying value of RUR 186 million and construction in progress with carrying value of RUR 6,505 million (2009: equipment amounting to RUR 6,689 million, finished goods amounting to RUR 201 million and by the pledge of contract revenue amounting RUR 1,220 million). A long-term borrowing from OJSC TAIF totalling RUR 6,646 million is secured by the consecutive pledge of equipment and transport means with the carrying value of RUR 14,994 million collateralised to Sberbank of Russia.

On 28 December 2009, the Group signed two loan agreements with Sberbank of Russia totalling amount of RUR 20 billion and a loan agreement with the Group's parent OJSC "TAIF" for the amount of RUR 15 billion for the purposes of restructuring the Group's credit portfolio over a term of five years. The loan agreements with Sberbank of Russia are secured by a pledge of the Group's property, state guarantees of RUR 10 billion and shares in the Group held by LLC "Telecom-Management", as well as surety issued by OJSC "TAIF" on interest payments. The loan issued to OJSC "TAIF" is secured by a consecutive pledge of property collateralised to Sberbank of Russia.

In 2010 the Group also restructured its non-convertible Eurobonds resulting in the repurchase of USD 99 million par value bonds, an extension of the maturity of the remaining outstanding Eurobonds to 2015 and an increase in the interest rate from 9.25% to 10% per annum.

During the reporting period interest on loans provided by OJSC Sberbank of Russia and OJSC Taif decreased as follows:

13 May 2010 - from 14% to 13%;

6 July 2010 - from 13% to 11%;

On the 22th of December 2010 the decision of Credit committee of the Sberbank of Russia on decrease in the interest rate up to 10 % per annum was made (Note 37).

As at 31 December 2010, the contractual undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate and for variable rate borrowings is calculated using interest rates in effect at 31 December 2010 are as follows:

	Less than one year	Between 1 and 5 years	Total
Banks:			
USD-denominated fixed rate	8	-	**8**
RUR-denominated fixed rate	2,090	21,978	**24,068**
USD-denominated floating rate	53	75	**127**
Loan of OJSC Taif	756	7,856	**8,612**
Non-convertible bonds	396	4,022	**4,418**
Total	**3,303**	**33,931**	**37,233**

As at 31 December 2009, the undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate and for variable rate borrowings is calculated using interest rates in effect at 31 December 2009 are as follows:

	Less than one year (only interest)	Between 1 and 5 years	Total
Banks:			
RUR denominated fixed rate	68	686	**754**
Total	68	686	**754**

(in millions of Russian roubles, unless otherwise stated)

28. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 December 2010	As at 31 December 2009
Minimum lease payments		
Due within one year	142	254
Due later than one year and not later than five years	148	390
Total future lease payments	**290**	**644**
Less: future finance charges	(26)	(73)
Present value of minimum lease payments	**264**	**571**
Less: current portion of finance lease obligations (Note 31)	(129)	-
Less: amounts reclassified to due within one year as a result of breach of payment obligations (2009)	-	(571)
Non-current finance lease obligations	**135**	**-**

The Group has no right to sell or sub-lease the assets under the lease arrangements until transfer of ownership.

29. SHORT-TERM BORROWINGS

	As at 31 December 2010	As at 31 December 2009
RUR denominated fixed rate	-	720
USD denominated floating rate	516	1,509
RUR denominated floating rate	-	1,526
Non-convertible bonds (loan participation notes) with covenants breach fixed rate	-	6,016
Obligation under agreements with covenants breach and cross-default event (refer to Note 27)	-	9,763
Current portion of long-term borrowings repayable within one year	179	9,520
Total short-term borrowings	**695**	**29,054**

As at 31 December 2009 short-term borrowings to the total amount of RUR 720 million were secured by the pledge of equipment. The carrying amount of the pledged equipment was RUR 1,948 million.

The annual interest rates on these borrowings are represented as follows:

	As at 31 December 2010	As at 31 December 2009
RUR denominated fixed rate	-	10% to 18%
USD denominated floating rate	LIBOR 1m +6.50%	Cost of Funds + 2.25% to 6.0%
RUR denominated floating rate	-	Cost of Funds + 5% inner bank rate + 6%, 8%
Non-convertible bonds	-	9.25%

As at 31 December 2010, the contractual undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate and for variable rate borrowings is calculated using interest rates in effect at 31 December 2010 are as follows:

	Less than 3 months	Between 3 months and 1 year	Total
Banks:			
RUR denominated fixed rate	532	1,557	**2,089**
USD denominated fixed rate	6	2	**8**
USD denominated floating rate	36	548	**584**
OAO Taif loan with fixed rate	192	564	**756**
Non-convertible bonds fixed rate	165	232	**397**
Total	**931**	**2,903**	**3,834**

(in millions of Russian roubles, unless otherwise stated)

29. SHORT-TERM BORROWINGS (CONTINUED)

As at 31 December 2009, the undiscounted maturity profile for fixed rate borrowings is calculated using the applicable fixed interest rate and for variable rate borrowings is calculated using interest rates in effect at 31 December 2009 are as follows:

	Less than 3 months	Between 3 months and 1 year	Total
Banks:			
RUR denominated fixed rate	731	-	**731**
USD denominated fixed rate	1,509	-	**1,509**
USD denominated floating rate	1,533	-	**1,533**
Non-convertible bonds fixed rate		-	**6,016**
Obligation under agreements with covenants breach and cross-default event (refer to Note 27)			**9,763**
Current portion of long-term borrowings	9,519	-	**9,519**
Total	**13,292**	-	**29,071**

30. TRADE PAYABLES

At 31 December 2010 the majority of trade accounts payable was primarily denominated in RUR and included payables on purchases of raw materials, energy, maintenance services, spare parts and consumables. The fair value of trade accounts payable approximates their carrying amounts.

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity. Amounts presented in the schedule represent undiscounted cash flows including gross contractual obligations. Foreign currency payments are translated into reporting currency using the spot exchange rate at the balance sheet date.

	As at 31 December 2010	As at 31 December 2009
Within 90 days	1,708	2,936
From 90 to 365 days	1	867
Total	**1,709**	**3,803**

31. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at 31 December 2010	As at 31 December 2009
Dividends payable	769	781
Accrued employee benefit costs	389	220
Land plot lease obligations	195	195
Current portion of finance lease liabilities (Note 28)	129	571
Deferred income	2	5
Obligations on penalties charged under lending loan agreement.	-	184
Other accounts payables and accrued charges	17	26
Total	**1,501**	**1,982**

Dividends payable were due for payment before 19 April 2009. As at 31 December 2010 and 2009 dividends payable are past due.

32. OTHER TAXES PAYABLE

	As at 31 December 2010	As at 31 December 2009
Property tax	41	43
Land tax	40	40
Unified social tax	34	22
Personal income tax	20	19
Other taxes	7	55
Total	**142**	**179**

(in millions of Russian roubles, unless otherwise stated)

33. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share:

	2010	2009
Weighted average number of ordinary shares outstanding (thousands)	1,785,114	1,785,114
Adjusted for weighted average number of treasury shares (thousands)	(353)	-
Weighted average number of ordinary shares in issue (thousands)	1,784,761	1,785,114
Profit / (loss) for the year attributable to the Group's equity holders (million roubles)	1,005	(2,088)
Less: after-tax amount of preferred dividends (million roubles)	(28)	(30)
Basic and diluted earnings / (loss) per share (RUR)	**0.55**	**(1.19)**

The Group does not have shares with diluting effect.

34. RELATED PARTY TRANSACTIONS

Related parties of the Group include two shareholders (OJSC "Svyazinvestneftekhim" and LLC "Telecom-Management"), associates, entities under common control and key management personnel according to IAS 24 "Related Party Disclosure". In considering each possible related party relationship, attention is directed to the substance of relationships, not merely the legal form.

Transactions with shareholders, associates and other related parties are conducted in the ordinary course of business under the terms and conditions similar to transactions with third parties.

Presented below is information regarding transactions and balances with shareholders and other related parties not disclosed in other notes to the consolidated financial statements.

	Trade and other receivables	Doubtful debt provision	Trade and other payables	Borrowings	Dividend payable
At 31 December 2010					
- controlling shareholder and ultimate parent	-	-	2	6,638	403
- significantly influencing shareholder	-	-	-	-	194
- other related parties (incl. entities under common control)	47	-	1,065	-	-
- other related parties (incl. entities under control of significantly influencing shareholder)	67	-	1	-	-
Total	**114**	**-**	**1,068**	**6,638**	**597**
At 31 December 2009					
- controlling shareholder and ultimate parent	-	-	6	489	403
- significantly influencing shareholder	-	-	-	-	194
- associates	42	(42)	-	-	-
- other related parties (incl. entities under common control)	42	-	1,267	-	-
- other related parties (incl. entities under control of significantly influencing shareholder)	92	-	1,119	-	-
Total	**176**	**(42)**	**2,392**	**489**	**597**

(in millions of Russian roubles, unless otherwise stated)

34. RELATED PARTY TRANSACTIONS (CONTINUED)

	Sales of products and services	Purchase of goods and services and interest on loans accrued	Dividends received	Re-issuing of treasury shares
Year ended 31 December 2010				
- controlling shareholder and ultimate parent	-	815	-	-
- other related parties (incl. entities under common control)	729	5,786	-	3
- other related parties (incl. entities under control of significantly influencing shareholder)	34	4,215	-	-
Total	**763**	**10,816**	**-**	**3**
Year ended 32 December 2009				
- controlling shareholder and ultimate parent	-	98	-	-
- associates	51	7	-	-
- other related parties (incl. entities under common control)	383	4,108	1	-
- other related parties (incl. entities under control of significantly influencing shareholder)	6	4,036	-	-
Total	**440**	**8,249**	**1**	**-**

Key management compensation for the year ended 31 December 2010 amounted to RUR 53 mln (2009: RUR 39 mln) and included salaries and bonuses to employees of the Group and related social security contributions.

35. COMMITMENTS AND CONTINGENCIES

Litigation

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of any ongoing legal proceedings will not have a material impact on the Group's financial position or operating results.

Russian taxation contingencies

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The Government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax laws. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with the practical application of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to issues of interpretation. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems, which would generally exist in a more mature market economy. The economy of the Russian Federation is characterized by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets.

Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal and political systems.

(in millions of Russian roubles, unless otherwise stated)

35. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Environmental matters

The Group's management believes that it is in compliance with all current existing environmental laws and regulations of the Russian Federation. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those environmental laws and regulations may change. Such change, if it occurs, may require that the Group modernize technology to meet more stringent standards or start to provide for costs to rehabilitate the environment.

Russian insurance environment

The Russian insurance industry is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available in Russia.

The Group maintains insurance cover for major production assets including insurance cover for damage related to explosion or environmental damage arising from accidents on the Group's property or related to the Group's operations. The Group does not have coverage for business interruption. Management believes that the existing level of insurance coverage addresses all major risks which could have a material effect on the Group's operations and financial position.

36. FINANCIAL RISK MANAGEMENT

Key financial risk factors

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

Risk management is carried out by a treasury department under policies approved by the board of directors. The Treasury Department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units.

Capital risk management

The group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Note 2 details the impact of the current economic conditions on the Group's capital structure.

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

The capital structure of the Group consists of debt which includes the borrowings disclosed in Notes 27 and 29, cash and cash equivalents in Note 24 and equity attributable to equity holders of the parent, comprising issued capital as disclosed in Note 26, reserves and retained earnings.

Consistent with others in the industry, the Group monitors capital on the basis of the debt to EBITDA ratio. This ratio is calculated as the ratio of debt as proportion of earnings before interest, taxes, depreciation and amortization.

Major classes of financial instruments

The following table sets out the carrying amount of the Group's financial instruments per categories at the following dates:

	As at 31 December 2010	As at 31 December 2009
Financial assets		
Cash and cash equivalents	907	1,014
Trade and other accounts receivables	192	668
Other financial assets	53	53
Total	**1,152**	**1,735**
Financial liabilities		
Finance lease liabilities	264	571
Long-term borrowings	28,375	440
Short-term borrowings	695	29,054
Trade accounts payables	1,709	3,803
Other payables and accrued liabilities	980	1,186
Total	**32,023**	**35,054**

(in millions of Russian roubles, unless otherwise stated)

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk management

Prudent liquidity risk management implies maintaining sufficient cash and marketable financial instruments, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the economic environment, the group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The liquidity risk is a risk that the Group won't be able to repay its liabilities as they mature. The Group manages its liquidity risk through a combination of short-term and long-term financing and self generated funds.

The summaries of the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 on contractual payments are presented in Notes 27, 28, 29 and 30.

Foreign currency risk management

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group performs certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Group is exposed to currency risk because a significant portion of its long-term borrowings are denominated in foreign currencies. The Group management controls this risk by aligning the foreign currency borrowings with expected currency sales proceeds.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	As at 31 December 2010	As at 31 December 2009	As at 31 December 2010	As at 31 December 2009
USD denominated	(3,882)	(15,127)	378	477
EUR denominated	(386)	(4,209)	75	44

Foreign exchange sensitivity analysis

The Group is mainly exposed to USD and EUR exchange rates.

The following table details the Group's sensitivity to a 5% (15% for 2009) increase and decrease in RUR against US dollar and 5% (15% for 2009) against Euro. The above estimates are based on development of exchange rates during 2010 and beginning of 2011. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a relevant change in foreign currency rates. Positive numbers below indicate an increase in profit and equity where RUR strengthens against the relevant currency. For a similar weakening of RUR against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	USD impact		EUR impact	
	2010 5%	2009 15%	2010 5%	2009 15%
Increase in profit before tax	175	2,198	16	625

This is mainly attributable to the exposure to USD and EUR borrowings outstanding as of the year end.

The Group's sensitivity to foreign exchange exposure has decreased during the current period due to the stabilisation of Russian Rouble against USD and EUR and repayment of liabilities denominated in foreign currencies.

Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date remained outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/ lower and all other variables were held constant, the Group's profit before income tax for the year ended 31 December 2010 and equity at 31 December 2010 would decrease/increase by RUR 6 mln (2009 - decrease/increase by RUR 76 mln). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current period mainly due to the stabilisation and reduction in variable interest rates on liabilities and repayment of variable rate liabilities.

(in millions of Russian roubles, unless otherwise stated)

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. New customers are dealt only on 100% prepayment terms. The Group uses available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

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

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

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

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

Rating C – others, creditworthiness difficulties are possible.

	Rating A	Rating B	Rating C
At 31 December 2010			
Cash and cash equivalents	907	-	-
Trade and other receivables	188	4	-
At 31 December 2009			
Cash and cash equivalents	1,014	-	-
Trade and other receivables	668		-

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

The maximum exposure to credit risk comprises the carrying amount of trade and other receivables totalling RUR 192 mln (2009: RUR 668 mln) and cash and cash equivalents totalling RUR 907 mln (2009: RUR 1,014 mln).

Fair value of financial instruments

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

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

(in millions of Russian roubles, unless otherwise stated)

37. INVESTMENTS IN SUBSIDIARIES

The Company's ownership interest in consolidated entities is as follows:

		% of ownership	
	Nature of business	**As at 31 December 2010**	**As at 31 December 2009**
Subsidiaries			
Incorporated in the Russian Federation			
LLC Tatkhimremont	Repairs & maintenance	100	100
LLC DK Khimikov	Entertainment	100	100
Incorporated in Hungary			
LLC Elmer	Trading	50	50
Special purpose entity			
Incorporated in Luxemburg			
Kazanorgsintez S.A.	Financing	-	-

The Group does not own a majority of the voting shares of LLC Elmer. However, management believes that the Group has the power to govern the financial and operating policies of this entity so as to obtain benefits from their activities through significant operational influence and accordingly LLC Elmer is considered as a subsidiary and consolidated. The Group exercises control over LLC Elmer through supplying the majority of goods for resale to this entity.

38. SUBSEQUENT EVENTS

In January 2011 the Group signed additional agreements with OJSC Sberbank of Russia and OJSC Taif to decrease its long-term borrowing interest rate to 10% per annum.