KAZANORGSINTEZ GROUP

International Financial Reporting Standards

Consolidated Financial Statements
for the year ended 31 December 2009

Independent Auditor's Report

KAZANORGSINTEZ GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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 2009, 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 2009 were approved on 30 April 2010 in Kazan, Republic of Tatarstan, Russian Federation, by:

L.S. Alekhin
General Director

N.F. Gainullina
Chief Financial Officer

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
White Square Office Center
10 Butyrsky Val
Moscow, Russia, 125047
Telephone +7 (495) 967 6000
Fax +7 (495) 967 6001
www.pwc.ru

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 of 31 December 2009 and the consolidated statements of comprehensive income, changes in shareholders equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
30 April 2010

KAZANORGSINTEZ GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Sales	7	22,158,880	23,004,806
Cost of sales	8	(18,761,615)	(18,989,837)
Gross profit		**3,397,265**	**4,014,969**
Selling, general and administrative expenses	9	(2,503,323)	(2,979,177)
Loss from other sales, net	10	(112,322)	(135,337)
Finance costs	11	(2,233,129)	(1,226,935)
(Loss)/income from investments, net	12	(510)	(78)
Share of (loss)/profit of associates	13	-	(44,727)
Foreign exchange (loss)/gain, net		(629,810)	(2,982,189)
Other expenses, net	14	(383,099)	(418,917)
Loss before income tax		**(2,464,928)**	**(3,772,391)**
Income tax credit/(expense)	15	377,514	816,899
Loss for the period		**(2,087,414)**	**(2,955,492)**
Other comprehensive income:			
Currency translation differences		2,476	-
Total comprehensive income for the year		**(2,084,938)**	**(2,955,492)**
Profit/(loss) is attributable to:			
Shareholders of the parent company		(2,087,948)	(2,955,417)
Non-controlling interest		534	(75)
Loss for the year		**(2,087,414)**	**(2,955,492)**
Total comprehensive income is attributable to:			
Shareholders of the parent company		(2,086,710)	(2,955,417)
Non-controlling interest		1,772	(75)
Total comprehensive income for the year		**(2,084,938)**	**(2,955,492)**
(LOSS)/EARNINGS PER SHARE (RUR)			
Basic and diluted	34	(1.19)	(1.67)

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

KAZANORGSINTEZ GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in thousands of Russian Roubles)

	Notes	As at 31 December 2009	As at 31 December 2008
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	16	38,443,254	40,150,036
Intangible assets	17	1,264,223	919,665
Other financial assets	18	52,675	52,675
Investments in associates	19	240	2,560
Advances paid for licenses	20	-	417,253
Total non-current assets		**39,760,392**	**41,542,189**
CURRENT ASSETS:			
Inventories	21	3,856,577	3,904,388
Trade and other receivables	22	668,192	864,305
Income tax prepaid		5,106	70,527
Other prepaid and recoverable taxes	23	310,322	370,091
Other current assets	24	432,293	207,008
Cash and cash equivalents	25	1,014,157	324,630
Total current assets		**6,286,647**	**5,740,949**
Assets held for sale	26	100,267	-
TOTAL ASSETS		**46,147,306**	**47,283,138**
EQUITY AND LIABILITIES			
EQUITY AND RESERVES:			
Share capital	27	1,904,710	1,904,710
Additional paid-in capital	27	1,515,015	1,515,015
Currency translation differences		1,238	-
Retained earnings		5,867,486	7,955,434
Equity attributable to shareholders of the parent company		**9,288,449**	**11,375,159**
Non-controlling interest		9,755	7,983
Total equity		**9,298,204**	**11,383,142**
NON-CURRENT LIABILITIES:			
Long-term borrowings	28	440,000	948,349
Deferred tax liabilities	15	299,035	678,692
Obligations under finance leases	29	-	551,577
Total non-current liabilities		**739,035**	**2,178,618**
CURRENT LIABILITIES:			
Short-term borrowings	30	29,054,211	27,941,132
Trade payables	31	3,802,613	4,027,523
Other payables and accrued liabilities	32	1,982,195	1,347,708
Advances received from customers		1,011,704	292,524
Other taxes payable	33	179,224	112,491
Total current liabilities		**36,029,947**	**33,721,378**
Liabilities associated with Assets held for sale	26	80,120	-
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**46,147,306**	**47,283,138**

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of Russian Roubles)

	Notes	Equity attributable to shareholders of the parent company						Non-controlling interest	Total equity
		Share capital	Additional paid-in capital	Treasury shares	Cumulative currency translation differences	Retained earnings	Total		
Balance at 1 January 2008		**1,904,710**	**1,515,015**	**(7,712)**	**-**	**11,691,746**	**15,103,759**	**32,253**	**15,136,012**
Total comprehensive income for the year		-	-	-	-	(2,955,417)	**(2,955,417)**	(75)	**(2,955,492)**
Dividends	35	-	-	-	-	(780,895)	**(780,895)**	-	**(780,895)**
Disposal of subsidiaries		-	-	-	-	-	**-**	(24,195)	**(24,195)**
Acquisition of treasury shares		-	-	(758)	-	-	**(758)**	-	**(758)**
Disposition of treasury shares		-	-	8,470	-	-	**8,470**	-	**8,470**
Balance at 31 December 2008		**1,904,710**	**1,515,015**	**-**	**-**	**7,955,434**	**11,375,159**	**7,983**	**11,383,142**
Loss for the period		-	-	-	-	(2,087,948)	**(2,087,948)**	534	**(2,087,414)**
Currency translation differences		-	-	-	1,238	-	**1,238**	1,238	**2,476**
Total comprehensive income for the year ended 31 December 2009		**-**	**-**	**-**	**1,238**	**(2,087,948)**	**(2,086,710)**	**1,772**	**(2,084,938)**
Balance at 31 December 2009		**1,904,710**	**1,515,015**	**-**	**1,238**	**5,867,486**	**9,288,449**	**9,755**	**9,298,204**

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands of Russian Roubles)

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
OPERATING ACTIVITIES:			
Cash flows from operations	36	**4,833,401**	**3,271,193**
Income tax paid		-	(100,159)
Interest paid		(1,720,140)	(2,042,398)
Net cash from operating activities		**3,113,261**	**1,128,636**
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1,587,403)	(5,327,280)
Proceeds on disposal of property, plant and equipment		203,245	9,595
Proceeds on disposal of equity investments		-	75
Payments for the licenses		(47,069)	(297,927)
Interest received		1,500	4,795
Dividends received		-	1,682
Net cash used in investing activities		**(1,429,727)**	**(5,609,060)**
FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		1,557,354	14,674,641
Repayments of short-term borrowings		(2,288,662)	(13,486,584)
Proceeds from long-term borrowings		466,773	5,196,287
Repayments of long-term borrowings		(574,830)	(1,049,673)
Dividends paid		-	(603,340)
Re-acquisition of issued shares		-	(758)
Proceeds on re-issuance of ordinary shares from treasury shares		-	8,470
Repayment of obligations under finance lease		(144,697)	(336,506)
Net cash generated from financing activities		**(984,062)**	**4,402,537**
Net decrease in cash and cash equivalents		**699,472**	**(77,887)**
Cash and cash equivalents at beginning of the period		**324,630**	**455,205**
Effect of exchange rate changes on cash held in foreign currencies		(9,945)	(52,688)
Cash and cash equivalents at end of the period		**1,014,157**	**324,630**

The accompanying notes on pages 5 to 40 are an integral part of these consolidated financial statements.

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 40.

2. OPERATING ENVIRONMENT OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

(i) Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.

(ii) The rise in Russian and emerging market risk premia resulted in a steep increase in foreign financing costs.

(iii) The depreciation of the Russian Rouble against hard currencies (compared to RUR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.

(iv) As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. 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 is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Certain new standards and interpretations became effective for the Group from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (continued)

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a balance sheet (Statement of Financial Position) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Group.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these 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 2010 or later periods and which the Group has not early adopted:

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's 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 settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. IFRIC 19 is not expected to have any impact on the Group's financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS (continued)

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 will require 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 current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must 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 will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its financial statements.

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 existing 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. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, 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 Group will apply the new provisions of this standard prospectively to any business combination on or after 1 January 2010.

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 is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

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 Group concluded that the revised standard does not have any effect on its financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (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 Group does not expect the amendments to have any material effect on its financial statements.

Classification of Rights Issues – Amendment to IAS 32 (issued 8 October 2009; 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.

4. NEW ACCOUNTING PRONOUNCEMENTS (continued)

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 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. 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.

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. 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 that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

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

5. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

The financial statements have been prepared on the historical cost basis except for the valuation of certain financial instruments. The principal accounting policies are set out below.

Subsidiaries

Subsidiaries are those companies and other entities (including special purpose entities) 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. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (including special purpose entities) controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, 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.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interest share of changes in equity since the date of the combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Purchases and sales of non-controlling interests

The Group applies the parent company model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as goodwill or negative goodwill. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a gain or loss in the income statement.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Special purpose entities

Special purpose entities ("SPEs") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPE, or exposed to risks associated with activities of the SPE.

SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

Revenue recognition

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

Sale of goods

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, which is typically at the date of loading to third party for transportation;
- 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.

Dividend, interest and other revenue

Dividend revenue from investments is recognised when the Group's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Foreign currencies

The functional currency of the Company and all its subsidiaries, which reflects the economic substance of their operations, and presentation currency of the consolidated financial statements of the Group, is the Russian rouble ("RUR").

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

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.

Income taxes

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge or credit comprises current tax and deferred tax and is recognised in the income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

Deferred 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 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. Deferred tax assets and liabilities are netted only within the individual companies of the Group. 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 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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

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

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their cost less any accumulated depreciation and accumulated impairment losses.

Capitalised cost includes acquisition cost and major 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 income statement as incurred.

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

	Useful lives in years
Buildings	20-80 years
Machinery and equipment	5-30 years
Other	3-10 years

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 recognized in the income statement.

Construction in progress

Construction in progress comprises costs directly related to construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of constructed assets commences when the assets are put into operation.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs 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 for which the estimates of future cash flows have not been adjusted.

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 immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to 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 reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

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 in the income statement.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour, transportation, handling costs and those overhead costs that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Work in progress and semi-finished products are valued at the net unit cost of production allocated to the estimated stage of completion.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash with banks, deposits and marketable securities with original maturity of three months or less.

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. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. 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.

Financial assets

Financial assets, except for cash and cash equivalents and financial assets out of scope of IAS 39 (Revised), *Financial Instruments: Recognition and Measurement*, are classified into the following specified categories: financial assets as "held-to-maturity" ("HTM") investments, "available-for-sale" ("AFS") financial assets and "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

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 or payments through the expected life of the financial asset, or, where appropriate, a shorter period.

HTM investments

Debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as HTM investments. HTM investments are recorded at amortised cost using the effective interest method less impairment, with income recognised on an effective yield basis.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition AFS financial assets are measured at fair value with gains and losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the closing of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques.

Dividends on AFS equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

Loans and receivables

Loans and receivables include trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest method less any impairment. Interest income is recognized 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 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 financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

With the exception of AFS 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 recognized, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised. Any increase in fair value of AFS equity securities subsequent to an impairment loss is recognised directly in equity.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities, including borrowings, trade and other payables are initially measured at fair value, net of transaction costs, and subsequently measured at amortised cost using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings per share

Earnings per share is determined by dividing the profit or loss attributable to equity holders of the Group less amount of dividends on preferred shares by the weighted average number of participating shares in issue outstanding during the reporting year.

Employee benefit obligations

Remuneration to employees in respect of services rendered during a reporting period is recognised as expenses in that period.

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund. These contributions are recognised in the income statement as incurred.

In the Russian Federation all obligatory social contributions, including contributions to the Russian Federation State Pension Fund, are collected through a unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three state social funds, including the Russian Federation State Pension Fund at the rates varying from 20% to 2% of the annual gross remuneration of each employee. UST is recognised as an expense when employees have rendered service entitling them to the contributions.

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 and derivatives thereof. It is consistent with the internal reporting provided to the chief operating decision maker ("CODM"). The CODM has been identified as the management executive committee.

Dividends declared

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

Accumulated profit legally distributable by the Company is based on the amounts available for distribution in accordance with the applicable 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.

Treasury shares

When Group companies purchase the Company's equity share capital, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. When such shares are subsequently sold, any consideration received is included, net of associated income tax in equity. Treasury shares are recorded at cost as determined on a weighted average basis. The gains (losses) arising from treasury share transactions are recognized as a movement in the consolidated statement of changes in shareholders' equity.

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, against VAT related to sales.

Opening statement of financial position at the beginning of the earliest comparative period presented and related information in the notes.

The revised IAS 1 which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. Therefore, an entity that makes such a prior period adjustment or reclassification normally presents, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

5. SIGNIFICANT ACCOUNTING POLICIES (continued)

Opening statement of financial position at the beginning of the earliest comparative period presented and related information in the notes (continued)

In 2009, the Group made a restatement that does not impact the statement of financial position, the Group now presents unallocated steam energy expenses in cost of sales rather that selling, general and administrative expenses. IAS 1 suggests that the opening statement of financial position should be presented even if the restatements have an impact only on the other primary statements. In these circumstances, management considered whether omitting the opening statement of financial position at 1 January 2008 would represent a material omission of information. In management's opinion, the omission of the opening statement of financial position, where the restatement or reclassification does not affect any statement of financial position (and that fact is disclosed), is not material and is therefore permitted. Management considered that materiality of an omission is measured against its ability to influence the economic decisions of the users of the financial statement

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

Going concern assumption

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. As of 31 December 2009 the Group's borrowings totaled RUR 29,494,211 thousand. Of this amount, RUR 3,755,680 thousand (2008: RUR 4,745,474 thousand) is contractually due in the next twelve months and RUR 16,134,356 thousand has been reclassified to short-term as the Group was not in compliance with certain debt covenants at 31 December 2009 (2008: RUR 16,542,604 thousand) and also has received a notification from one of the lenders at the date of these financial reports issuance. As a result of this reclassification, and the performance of the Group for the year, the Group is in a net current liability position of RUR 29,723,154 thousand (2008: RUR 27,980,429 thousand).

As further discussed in Note 28, management has taken steps to secure additional long term financing. Also as further discussed in Note 41, as at the date of preparation of the consolidated financial statements, the Group has successfully refinanced RUR 21,517,253 thousand of it's debt using credit facilities of Sberbank of Russia and the Group's parent company OJSC "TAIF". The Group has also reached a settlement with the holders of the Group's non-convertible bonds. As a consequence of this restructuring and other cost control measures that the Group has undertaken, the management of the Group considers that these consolidated financial statements should be prepared on a going concern basis.

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 these 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.

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.

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

Critical judgments in applying accounting policies (continued)

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. 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.

Debt Modification

As a result of the receipt of the refinancing described in the going concern paragraph above, 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 Sberbank loans 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. In the next reporting period, the loans existing at 31 December 2009 will be derecognised and the new loans received from Sberbank and the parent will be recognised at fair value.

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 other 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.

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. SALES

	Year ended 31 December 2009	Year ended 31 December 2008
By geographic region:		
Domestic sales	15,558,318	16,951,040
Export sales	6,600,562	6,053,766
Total	**22,158,880**	**23,004,806**
By products:		
High density polyethylene	9,475,367	8,962,848
Low density polyethylene	4,691,498	5,700,159
Organic products	1,566,294	2,289,939
Plastic goods	1,331,221	1,814,415
Bisphenol A	217,952	1,647,151
By-products of Phenol, Acetone and Ethylene plant	1,218,348	1,213,450
Polycarbonate	2,255,509	13,081
Tolling services	1,402,691	1,363,763
Total	**22,158,880**	**23,004,806**

8. COST OF SALES

	Year ended 31 December 2009	Year ended 31 December 2008
Raw materials	9,979,526	11,469,114
Energy and water	3,695,863	2,791,625
Labour costs	1,331,596	1,785,138
Depreciation	2,411,505	1,571,182
Auxiliary materials	877,312	904,506
Services	205,916	279,031
Other	110,097	354,598
Inventory obsolescence provision charged/(released)	(274,017)	284,694
	18,337,798	**19,439,888**
Decrease/(Increase) in work in progress and finished goods	423,817	(450,051)
Total	**18,761,615**	**18,989,837**

The 2008 Group financial statements recorded unallocated steam energy expenses amounting to RUR 103,233 thousand in selling, general and administrative expenses. These expenses have been reclassified to energy and water in cost of sales as management assesses that unallocated steam energy expenses are more appropriately treated as a production cost. Current period unallocated steam energy expenses amount to RUR 230,636 thousand.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2009	Year ended 31 December 2008
Labour costs	806,222	1,021,597
Taxes, other than income tax	346,633	322,834
Transportation, storage and export duties	233,835	321,006
Insurance expenses	192,939	297,434
Material costs (energy, materials, etc.)	160,186	203,028
Services	196,410	252,431
Depreciation and amortization	254,559	153,306
Bank charges	64,459	79,239
Other	248,080	328,302
Total	**2,503,323**	**2,979,177**

As described in Note 8 management has determined that unallocated steam energy expenses are more appropriately treated as a production cost and these expenses in the 2008 Group financial statements have been reclassified accordingly. The 2008 Group financial statements recorded unallocated steam energy expenses amounting to RUR 103,233 thousand in selling, general and administrative expenses within the following categories; material costs, depreciation and amortization, services, transportation, storage and export duties.

10. LOSS FROM OTHER SALES, NET

	Year ended 31 December 2009	Year ended 31 December 2008
Other revenue	499,197	506,038
Cost of other sales	(611,519)	(641,375)
Total	**(112,322)**	**(135,337)**

Revenue and costs from other sales comprise revenue and the corresponding costs from sales of products of subsidiary units and auxiliary shops.

11. FINANCE COSTS

	Year ended 31 December 2009	Year ended 31 December 2008
Interest expense on loans and borrowings	2,617,744	2,011,431
Interest expense on obligations under finance leases	53,157	51,247
Less: amount included in the cost of qualifying assets	(437,772)	(835,743)
Total	**2,233,129**	**1,226,935**

12. (LOSS)/ INCOME FROM INVESTMENTS, NET

	Year ended 31 December 2009	Year ended 31 December 2008
(Loss)/Income from disposal of subsidiaries	-	(6,555)
Financial investments impairment	(2,564)	-
Interest income	1,500	4,795
Dividends received	554	1,682
Total	**(510)**	**(78)**

13. SHARE OF (LOSS)/ PROFIT OF ASSOCIATES

	Year ended 31 December 2009	Year ended 31 December 2008
LLC TAIF Invest	-	(24,159)
LLC Kolos-Sintez	-	(20,568)
Total	**-**	**(44,727)**

14. OTHER EXPENSES, NET

	Year ended 31 December 2009	Year ended 31 December 2008
Rent of land	195,000	223,744
Penalties on contracts	54,490	5,299
Service divisions	87,819	84,999
Bad debt provision	111,715	11,302
Maintenance of social infrastructure	6,873	45,173
(Income)/loss on disposal of property, plant and equipment	(10,976)	27,540
Income from disposal of materials	(60,593)	(17,745)
Other expenses/(income)	(1,229)	38,605
Total	**383,099**	**418,917**

Penalties on contracts mainly include interest accrued on delayed loan repayments. The Group has reached agreements with some lenders concerning the non-application of penalties accrued as at 31 December 2009.

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

Expenses for rent of land relate to rent of an idle plot of land in the remote region of Tatarstan Republic, the agreement was concluded at the request of the local tax authorities.

15. INCOME TAX

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

	Year ended 31 December 2009	Year ended 31 December 2008
Current income tax	2,143	2,605
Deferred tax (credit)/charge	(379,657)	(819,504)
Total	**(377,514)**	**(816,899)**

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 income statement. From January 2009 the income tax rate decreased from 24% to 20%.

	Year ended 31 December 2009	Year ended 31 December 2008
(Loss)/profit before income tax	(2,464,928)	(3,772,391)
Theoretical income tax (credit)/expense at 20% (2008: 24%)	(492,986)	(905,374)
Effect of non-deductible expenses and other permanent differences, net	115,472	224,213
Effect of reduction in tax rate to 20% enacted in 2008 with effect from 1 January 2009	-	(135,738)
Income tax (credit)/expense	**(377,514)**	**(816,899)**

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% (2008: 24%).

	Year ended 31 December 2007	Tax effect of movement in temporary differences	Year ended 31 December 2008	Tax effect of movement in temporary differences	Year ended 31 December 2009
Property, plant and equipment	1,526,117	83,967	1,610,084	576,670	2,186,754
Allowance for doubtful debts	(5,082)	4,428	(654)	5,226	4,572
Accrued expenses	(22,839)	11,751	(11,088)	(20,923)	(32,011)
Tax losses carried forward		(919,650)	(919,650)	(940,630)	(1,860,280)
Net deferred income tax liability	**1,498,196**	**(819,504)**	**678,692**	**(379,657)**	**299,035**

	2009	2008
Balance at the beginning of the year	**678,692**	**1,498,196**
Recognised in the statement of comprehensive income	(379,657)	(819,504)
Balance at the end of the year	**299,035**	**678,692**

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Other assets	Construction In progress	Total
Cost					
At 1 January 2008	**10,625,379**	**16,893,412**	**1,821,335**	**18,700,874**	**48,041,000**
Additions	2,642	706,639	10,641	6,577,915	**7,297,837**
Disposals	(53,898)	(191,719)	(37,412)	(91,827)	**(374,856)**
Transfers	166,191	5,507,356	259,398	(5,932,945)	**-**
At 31 December 2008	**10,740,314**	**22,915,688**	**2,053,962**	**19,254,017**	**54,963,981**
Additions	2,037	133,992	6,210	1,012,505	**1,154,744**
Disposals	(8,928)	(195,772)	(18,022)	(190,361)	**(413,083)**
Transfers	4,037,308	6,877,837	347,759	(11,262,904)	**-**
At 31December 2009	**14,770,731**	**29,731,745**	**2,389,909**	**8,813,257**	**55,705,642**
Accumulated depreciation					
At 1 January 2008	**(4,606,080)**	**(7,975,306)**	**(619,153)**	**-**	**(13,200,539)**
Charge for the year	(257,176)	(1,322,772)	(213,710)	-	**(1,793,658)**
Eliminated on disposals	16,367	157,261	6,624	-	**180,252**
At 31 December 2008	**(4,846,889)**	**(9,140,817)**	**(826,239)**	**-**	**(14,813,945)**
Charge for the period	(293,574)	(2,012,390)	(333,441)	-	**(2,639,405)**
Eliminated on disposals	3,964	169,770	17,228	-	**190,962**
At 31December 2009	**(5,136,499)**	**(10,983,437)**	**(1,142,452)**	**-**	**(17,262,388)**
Net book value					
At 31 December 2008	**5,893,425**	**13,774,871**	**1,227,723**	**19,254,017**	**40,150,036**
At 31December 2009	**9,634,232**	**18,748,308**	**1,247,457**	**8,813,257**	**38,443,254**

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

At 31 December 2009 property, plant and equipment with the carrying value of RUR 8,636,894 thousand (2008: RUR 7,012,245 thousand) were pledged to secure certain short-term and long-term loans granted to the Group (refer to Note 28 and 30).

During the year ended 31 December 2009 interest of RUR 437,772 thousand has been capitalized in property, plant and equipment (2008: RUR 835,743 thousand) refer to Note 11. The average interest capitalization rates for 2009 and 2008 were 8.21% and 8.33%, respectively.

At 31 December 2009, property, plant and equipment include assets held under a number of finance lease agreements (refer to Note 29). At the end of the lease term the Group takes automatic ownership of these assets. The carrying value of such assets is RUR 971,474 thousand, comprising RUR 831,721 thousand of equipment, and RUR 139,753 thousand of construction in progress (2008: RUR 1,170,660 thousand, comprising RUR 1,030,907 thousand of equipment and RUR 139,753 thousand of construction in progress).

17. INTANGIBLE ASSETS

Intangible assets at 1 January 2008 primarily comprised costs incurred in connection with acquisition and implementation of the management information system SAP R/3 and are amortised over a period of thirteen years. In addition, as commercial Bisphenol A and Polycarbonates productions have commenced in 2008 and High density polyethylene production in 2009 the licence costs associated with the production technology have been reclassified from advances paid for licenses to Intangible assets and are being amortised over the ten year term of the licenses.

	Software	Licences and franchises	Other intangible assets	Total
Cost				
At 1 January 2008	**108,502**	**411**	**51**	**108,964**
Additions	-	920,498	198	**920,696**
Disposals	-	(77)	-	**(77)**
At 31 December 2008	**108,502**	**920,832**	**249**	**1,029,583**
Additions	-	452,800	118	**452,918**
Disposals	-	(538)	-	**(538)**
At 31 December 2009	**108,502**	**1,373,094**	**367**	**1,481,963**
Accumulated amortisation				
At 1 January 2008	**(85,098)**	**-**	**-**	**(85,098)**
Charge for the year	(8,346)	(16,450)	(24)	**(24,820)**
At 31 December 2008	**(93,444)**	**(16,450)**	**(24)**	**(109,918)**
Charge for the period	(8,346)	(99,717)	(44)	**(108,108)**
Eliminated on disposals	-	286	-	**286**
At 31 December 2009	**(101,790)**	**(115,881)**	**(68)**	**(217,740)**
Net book value				
At 31 December 2008	**15,058**	**904,382**	**225**	**919,665**
At 31 December 2009	**6,712**	**1,257,213**	**299**	**1,264,223**

Disposals of licences and franchises totaling RUR 538 thousand during the year ended 31 December 2009 relates to assets held by LLC "Elmer" which have been reclassified as assets held for sale. Refer to Note 26 for more information.

18. OTHER FINANCIAL ASSETS

	As at 31 December 2009		As at 31 December 2008	
	% ownership	**Amount**	**% ownership**	**Amount**
OJSC "Tatneftekhiminvestholding"	7%	38,538	7%	38,538
National non-state pension fund	2%	10,557	2%	10,557
OJSC "Kazanskaya yarmarka"	2%	2,950	2%	2,950
LLC Taif-Invest	3.16%	630	6.65%	630
Total		**52,675**		**52,675**

Management was unable to determine fair value of unquoted shares using valuation techniques that are supported by publicly available market information. As a result, AFS 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.

19. INVESTMENTS IN ASSOCIATES

Name of associate	Principal activity	As at 31 December 2009 % ownership	As at 31 December 2009 Amount	As at 31 December 2008 % ownership	As at 31 December 2008 Amount
LLC "Kolos-Sintez"	Agriculture	25.5	-	49	2,560
LLC "Novomoskovsky trubny zavod"	Manufacturing	26	-	26	-
LLC "PEST"	Energy sales	24	240	-	-
Total			**240**		**2,560**

	As at 31 December 2009	As at 31 December 2008
Total assets	353,616	275,392
Total liabilities	(490,598)	(309,557)
Net (liabilities)/assets	**(136,982)**	**(34,165)**

LLC "Novomoskovsky trubny zavod" and LLC "Kolos-Sintez" are loss making. The Group has not recognized the losses beyond the value of the investment.

	As at 31 December 2009	As at 31 December 2008
Group's share of associates' net (liabilities)/assets	**240**	**2,560**
Total revenue	239,932	380,178
Total loss for the period	(151,561)	100,509
Unrecognised share of losses in an associate	(39,054)	-
Group's share of associates' (loss)/profit for the period	**-**	**(44,727)**

20. ADVANCES PAID FOR LICENSES

Advances paid for licenses as at 31 December 2008 are comprised of prepaid amounts for licenses for high density polyethylene production technology.

The costs of the license acquired during the previous periods were reclassified from advances paid for licenses to Intangible assets as commercial high density polyethylene production has commenced in the current period (refer to Note 17).

21. INVENTORIES

	As at 31 December 2009	As at 31 December 2008
Stores and materials	2,940,956	2,823,443
Finished goods	410,392	894,012
Work in progress and semi-finished products	518,161	473,882
Less: provision for obsolescence	(12,932)	(286,949)
Total	**3,856,577**	**3,904,388**

22. TRADE AND OTHER RECEIVABLES

	As at 31 December 2009	As at 31 December 2008
Trade receivables	713,018	772,069
Other receivables	80,795	109,568
Less: provision for doubtful debts	(125,621)	(17,332)
Total	**668,192**	**864,305**

The prevailing majority of sales of goods are contracted at prepayment basis. Post payment sales are used to promote new types of product to the markets and under sales of tolling services. 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, because 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 analysis and credit history.

As of 31 December 2009, trade receivables of RUR 117,010 thousand (2008: RUR 29,411 thousand) 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 2009	As at 31 December 2008
90-180 days	5,324	7,154
180-365 days	106,107	4,517
1 year – 3 years	5,579	17,740
Total	**117,010**	**29,411**

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.

Movement in the provision for doubtful debts:

As of 31 December 2009, trade receivables of RUR 125,639 thousand (2008: RUR 23,456 thousand) were impaired and provided for. The amount of the provision was RUR 125,621 thousand at 31 December 2009 (2008: RUR 17,332 thousand). It was assessed that a portion of the receivables is expected to be recovered. Movements on the Group provision for impairment of these receivables are as follows:

	As at 31 December 2009	As at 31 December 2008
Balance at beginning of the year	**17,332**	**22,392**
Impairment losses recognised on receivables	137,107	19,997
Amounts written off as uncollectible	(2)	(16,762)
Amounts recovered during the year	(28,816)	(8,295)
Balance at end of the year	**125,621**	**17,332**

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 further credit provision required in excess of the allowance for doubtful debts.

The provision for impairment losses on receivables has increased as a limited number of customers are experiencing financial difficulties due in part of the effect of the financial crisis. The Group continues to pursue recovery of the receivables for which an impairment provision has been recognized.

23. OTHER PREPAID AND RECOVERABLE TAXES

	As at 31 December 2009	As at 31 December 2008
Value added tax, net of output VAT	309,866	370,091
Social tax	456	-
Total	**310,322**	**370,091**

24. OTHER CURRENT ASSETS

	As at 31 December 2009	As at 31 December 2008
Advances paid	456,289	227,779
Less: provision for doubtful debts	(23,996)	(20,771)
Total	**432,293**	**207,008**

25. CASH AND CASH EQUIVALENTS

	As at 31 December 2009	As at 31 December 2008
Current accounts, including:		
RUR-denominated	591,707	61,117
USD-denominated	384,882	123,656
EUR-denominated	36,487	38,545
Deposits RUR-denominated	-	70,000
Deposits EUR-denominated	-	30,252
Other cash and cash equivalents	1,081	1,060
Total	**1,014,157**	**324,630**

26. 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 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 branch was not considered strategically important to the Group. The Group has initiated an active programme to locate a buyer and complete the sale during the next twelve months. Net assets of the Disposal Group are stated at the lower of their carrying amount and fair value less costs to sell.

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

	As at 31 December 2009
Property, plant and equipment	7,217
Trade and other account receivables	77,821
Inventories	14,596
Other assets	633
Total Assets classified as held for sale	**100,267**
Trade and other accounts payable	47,061
Short term loans	33,059
Total Liabilities associated with Assets held for sale	**80,120**

The net assets of LLC "Elmer" at 31 December 2009 are equal to RUR 20,147 thousand. No impairment of assets was necessary as a result of the decision to sell this subsidiary.

27. SHARE CAPITAL AND ADDITIONAL PAID IN CAPITAL

	As at 31 December 2009 '000 shares	As at 31 December 2008 '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	-	648
Re-acquired by the Group	-	64
Re-issued from treasury shares	-	(712)
At the end of the year	-	-

The company did not have any treasury shares reducing issued and fully paid share capital at 31 December 2009 and at 31 December 2008.

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 loss for reporting year is RUR 2,114,523 thousand (2008: RUR 2,796,042 thousand net loss). The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit for the reporting year. However this legislation is open to interpretation.

Group's ownership structure was as follows:

	% of ownership	
	As at 31 December 2009	As at 31 December 2008
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%**

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 year ended 31 December 2008 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", which controls LLC "Telecom-Management".

28. LONG-TERM BORROWINGS

	As at 31 December 2009	As at 31 December 2008
Banks:		
USD denominated fixed rate	2,976,096	2,316,781
RUR denominated fixed rate	7,657,482	7,634,287
USD denominated floating rate	4,158,212	4,212,948
EUR denominated floating rate	3,651,891	3,455,833
RUR denominated floating rate	1,182,554	605,448
Non-convertible bonds (loan participation notes) fixed rate	6,112,294	5,918,710
Total long-term borrowings	**25,738,529**	**24,144,007**
Less: Current portion repayable within one year and shown under short-term borrowings (refer to Note 30)	(9,519,403)	(6,659,227)
Less: Non-convertible bonds (loan participation notes) with covenants breach (refer to Note 30)	(6,015,934)	(5,843,174)
Less: Obligations under agreements with covenants breach and cross-default event (refer to Note 30)	(9,763,192)	(10,693,257)
Net long-term borrowings	**440,000**	**948,349**

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

	As at 31 December 2009	As at 31 December 2008
Banks:		
USD denominated fixed rate	6.71 to 15%	6.36 to 7.83%
RUR denominated fixed rate	8.5% to 14.5%	8.5% to 13.5%
USD denominated floating rate	LIBOR plus 0.75% to LIBOR plus 8%, Cost of Funds plus 2.45%	LIBOR plus 0.75% to LIBOR plus 4.5%, Cost of Funds plus 2.5%
EUR denominated floating rate	EURIBOR plus 0.4% to EURIBOR plus 1.25%	EURIBOR plus 0.4% to EURIBOR plus 1.25%
RUR denominated floating rate	MOSPRIME plus 2.0%	MOSPRIME plus 2.0%

As at 31 December 2009, long-term borrowings totalling RUR 10,202,967 thousand (2008: RUR 9,297,566 thousand) are secured by the pledge of equipment with the carrying value of RUR 6,688,952 thousand (2008: RUR 4,653,606 thousand), by the pledge of finished goods amounting RUR 200,585 thousand and by the pledge of contract revenue amounting RUR 1,220,000 thousand (2008: the same).

At 31 December 2009 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 2009 are as follows:

	Less than 1 year (interest only)	Between 1 and 5 years	Over 5 years	Total
Banks:				
USD denominated fixed rate	-	-	-	-
RUR denominated fixed rate	67,726	686,265	-	**753,991**
USD denominated floating rate	-	-	-	-
EUR denominated floating rate	-	-	-	-
RUR denominated floating rate	-	-	-	-
	67,726	**686,265**	**-**	**753,991**

28. LONG-TERM BORROWINGS (continued)

At 31 December 2008 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 2008 are as follows:

	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Banks:				
USD denominated fixed rate	-	-	-	-
RUR denominated fixed rate	-	899,913	-	**899,913**
USD denominated floating rate	-	195,281	-	**195,281**
EUR denominated floating rate	-	-	-	-
RUR denominated floating rate	-	-	-	-
	-	**1,095,194**	**-**	**1,095,194**

As a result of the event of default under a loan agreement, on 12 May 2009 one of the lending banks demanded an immediate repayment of the total outstanding amount exceeding RUR 2,500,000 thousand.

Under the loan agreements with other lending banks and the terms and conditions of Eurobonds in issue a cross-default event took place.

Since May 2009, with the participation of a financial advisor, a debt restructuring process has been undertaken (along with the termination of the discharge of all liabilities including a moratorium on interest payments).

During 2009, the Group's management, together with the shareholders, have been in negotiation with creditors on the possible ways to restructure the Group's debt.

As a result of the negotiations and the debt restructuring opportunities reviewed by the Russian Government Commission for the Sustained Development of the Russian Economy, a decision was made that the Russian Government will provide state guarantees to secure a restructured loan issued by Sberbank of Russia.

As the restructuring process had not been completed by 31 December 2009, and the Group was still in default under its loan agreements and Eurobond issue, all the loans with breached covenants, including events of cross-default, were recorded as short-term debt irrespective of the terms of payment under agreements.

On 28 December 2009, the Group signed two loan agreements with Sberbank of Russia totalling amount of RUR 20,000,000 thousand and a loan agreement with the Group's parent OJSC "TAIF" for the amount of RUR 15,000,000 thousand 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 10,000,000 thousand 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 pledge of property collateralised to Sberbank of Russia.

29. OBLIGATIONS UNDER FINANCE LEASES

	As at 31 December 2009	As at 31 December 2008
Minimum lease payments		
Due within one year	254,263	339,255
Due within one year after breach of payment obligations	389,703	-
Due later than one year and not later than five years	-	631,478
Total future lease payments	**643,966**	**970,733**
Less: future finance charges	(72,502)	(138,173)
Present value of minimum lease payments	**571,464**	**832,560**
Less: Current portion of finance lease obligations including amounts reclassified to due within one year as a result of breach of payment obligations (refer to Note 28)	(571,464)	(280,983)
Non-current finance lease obligations	**-**	**551,577**

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

30. SHORT-TERM BORROWINGS

	As at 31 December 2009	As at 31 December 2008
RUR denominated fixed rate	720,334	1,107,993
USD denominated fixed rate	-	715,413
USD denominated floating rate	1,509,187	1,820,291
EUR denominated floating rate	-	145,644
RUR denominated floating rate	1,526,161	956,133
Non-convertible bonds (loan participation notes) with covenants breach fixed rate	6,015,934	5,843,174
Obligation under agreements with covenants breach and cross-default event (refer to Note 28)	9,763,192	10,693,257
Current portion of long-term borrowings repayable within one year	9,519,403	6,659,227
Total	**29,054,211**	**27,941,132**

Loan participation notes in the amount of USD 200,000 thousand, bearing interest at 9.25%, due on 30 October 2011 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 April and October of each year.

The interest rates per annum on the borrowings vary as follows:

	As at 31 December 2009	As at 31 December 2008
RUR denominated fixed rate	10.0% to 18.0%	6.5% to 19.0%
USD denominated fixed rate	11.02% to 11.44%	8.0% to 13.0%
USD denominated floating rate	Cost of Funds plus 2.25% to 6%	LIBOR plus 1,5 % to LIBOR plus 2.25%, Cost of Funds plus 3%
EUR denominated floating rate	Cost of Funds plus 2.25%	Cost of Funds plus 2.25%
RUR denominated floating rate	Cost of Funds plus 5.0%, inner rate plus 6.0% to 8.0%	Cost of Funds plus 2.5%
Non-convertible bonds	9.25%	9.25%

As at 31 December 2009, short-term borrowings totaling RUR 720,334 thousand (2008: RUR 1,262,783 thousand) are secured by the pledge of equipment with the carrying value of RUR 1,947,942 thousand (2008: RUR 2,358,639 thousand).

At 31 December 2009 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 2009 are as follows:

	Less than 3 months	3 month to 1 year	Total
Banks:			
RUR denominated fixed rate	731,156	-	**731,156**
USD denominated floating rate	1,509,186	-	**1,509,186**
RUR denominated floating rate	1,532,760	-	**1,532,760**
Non-convertible bonds fixed rate			**6,015,934**
Obligation under agreements with covenants breach and cross-default event (refer to Note 28)			**9,763,192**
Current portion of long-term borrowings	9,519,403	-	**9,519,403**
Total	**13,292,505**	**-**	**29,071,631**

30. SHORT-TERM BORROWINGS (continued)

At 31 December 2008 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 2008 are as follows:

	Less than 3 months	3 month to 1 year	Total
Banks:			
RUR denominated fixed rate	250,841	916,898	**1,167,739**
USD denominated fixed rate	727,577	-	**727,577**
USD denominated floating rate	1,836,169	14,045	**1,850,214**
EUR denominated floating rate	98,362	48,774	**147,136**
RUR denominated floating rate	993,026	-	**993,026**
Non-convertible bonds fixed rate			**5,843,174**
Obligation under agreements with covenants breach and cross-default event (refer to Note 28)			**10,693,257**
Current portion of long-term borrowings	1,352,179	5,499,861	**6,852,040**
Total	**5,258,154**	**6,479,578**	**28,274,163**

31. TRADE PAYABLES

At 31 December 2009 trade accounts payable primarily denominated in RUR includes 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 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are contractual undiscounted cash flows, including gross contract commitments. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

	As at 31 December 2009	As at 31 December 2008
Within 60 days	2,935,575	1,706,225
60-365 days	867,038	2,321,298
Total	**3,802,613**	**4,027,523**

32. OTHER PAYABLES AND ACCRUED LIABILITIES

	As at 31 December 2009	As at 31 December 2008
Dividends payable	780,515	780,515
Current portion of finance lease obligations (refer to Note 29)	571,464	280,983
Wages and salaries payable	219,803	255,976
Deferred income	5,221	4,259
Interest accrued	183,631	-
Liabilities on rent of land	195,000	-
Other payables and accrued liabilities	26,561	25,975
Total	**1,982,195**	**1,347,708**

Dividends payable were due for payment before 16 April 2009. As at 31 December 2009 dividends payables are past due.

33. OTHER TAXES PAYABLE

	As at 31 December 2009	As at 31 December 2008
Property tax	42,773	40,931
Land tax	39,969	40,033
Personal income tax	19,554	17,485
Unified social tax	21,986	8,449
Other taxes	54,942	5,593
Total	**179,224**	**112,491**

34. (LOSS)/EARNINGS PER SHARE

Basic earnings per share

	2009	2008
Weighted average number of ordinary shares outstanding (thousands)	1,785,114	1,785,114
Adjusted for weighted average number of treasury shares (thousands)	-	(96)
Weighted average number of ordinary shares in issue (thousands)	1,785,114	1,785,018
(Loss)/profit for the year attributable to the Group's equity holders	(2,087,414)	(2,955,417)
Less: after-tax amount of preferred dividends	(29,899)	(29,899)
Basic and diluted (loss)/earnings per share (RUR)	**(1.19)**	**(1.67)**

The Group does not have shares with diluting effect.

35. DIVIDENDS

	As at 31 December 2009	As at 31 December 2008
Dividends declared in respect of the year ended 31 December 2007:		
- ordinary shares (RUR 0.4207 per share)	-	750,996
- preferred shares (RUR 0.25 per share)	-	29,899
Total	**-**	**780,895**

The group did not declare a dividend in respect of the year ended 31 December 2008.

36. RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH FLOWS FROM OPERATIONS

	2009	2008
OPERATING ACTIVITIES:		
(Loss)/profit before income tax	**(2,464,928)**	**(3,772,391)**
Adjustments for:		
Depreciation and amortisation	2,747,512	1,818,478
Loss/(income) from investments and associates, net	510	51,282
Change in provision for doubtful debts	111,715	11,302
Change in obsolescence provision	(274,017)	284,694
Loss on disposal of property, plant and equipment	(10,976)	27,540
Finance costs, net	2,233,130	1,226,935
Foreign exchange loss/(gain), net	629,810	2,982,189
Operating cash flows before working capital changes	**2,972,756**	**2,630,029**
(Increase)/decrease in trade and other receivables	(207,369)	178,168
Decrease/(increase) in taxes recoverable and prepaid, other than income tax	125,190	625,107
Decrease/(increase) in inventories	530,722	(1,203,513)
Increase/(decrease) in trade payables	74,322	2,068,617
Increase/(decrease) in advances received from customers	719,181	(562,554)
Increase/(decrease) in other current liabilities	554,009	(425,592)
Decrease in other taxes payable	64,590	(39,069)
Net cash inflow from operations	**4,833,401**	**3,271,193**

37. RELATED PARTIES

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

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

Below is the information of transactions and balances with shareholders and other related parties not disclosed in other notes of the present financial statements:

	Cash and cash equivalents	Loans given	Trade accounts receivables and advances given	Provision for doubtful debts	Trade accounts payables and advances received	Loans and borrowings	Dividends payable
At 31 December 2009							
Kazanorgsintez JSC	**-**	**-**	**176,407**	**(42,196)**	**2,392,494**	**489,370**	**596,707**
- shareholders	-	-	9		6,135	489,370	596,706
- associates	-	-	42,196	(42,196)	269	-	-
- other related parties (incl. entities under common control)	-	-	42,397	-	1,266,556	-	1
- other related parties (incl. entities under control of significantly influencing shareholder)	-	-	91,805	-	1,119,534	-	-
Subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- associates	-	-	-	-	-	-	-
- other related parties	-	-	-	-	-	-	-
Total	**-**	**-**	**176,407**	**(42,196)**	**2,392,494**	**489,370**	**596,707**
At 31 December 2008							
Kazanorgsintez JSC	**169**	**-**	**54,707**	**-**	**1,823,586**	**107,501**	**615,911**
- shareholders	-	-	-	-	9,917	-	615,911
- associates	-	-	2,289	-	18	-	-
- other related parties (incl. entities under common control)	169	-	45,964	-	1,812,148	107,501	-
- other related parties (incl. entities under control of significantly influencing shareholder)	-	-	6,454	-	1,503	-	-
Subsidiaries	**891**	**-**	**72**	**-**	**3**	**-**	**-**
- associates	-	-	-	-	-	-	-
- other related parties (incl. entities under control of significantly influencing shareholder)	891	-	72	-	3	-	-
Total	**1,060**	**-**	**54,779**	**-**	**1,823,589**	**107,501**	**615,911**

37. RELATED PARTIES (continued)

	Sales	Purchase of goods and services	Purchase of PPE	Dividends received	Change of bad debt provision	Re-issuing of treasury shares	Dividends paid
Year ended 31 December 2009							
Kazanorgsintez JSC	**440,368**	**8,190,106**	**-**	**554**	**-**	**-**	**-**
- shareholders	-	39,197	-	-	-	-	-
- associates	50,918	7,227	-	-	-	-	-
- other related parties (incl. entities under common control and under control of significantly influencing shareholder)	383,680	4,108,032	-	554	-	-	-
- other related parties (incl. entities under common control)	5,770	4,035,650	-	-	-	-	-
Subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- associates	-	-	-	-	-	-	-
- other related parties	-	-	-	-	-	-	-
Total	**440,368**	**8,190,106**	**-**	**554**	**-**	**-**	**-**
Year ended 31 December 2008							
Kazanorgsintez JSC	**682,264**	**9,619,751**	**-**	**1,624**	**-**	**8,978**	**555,578**
- shareholders	1,544	30,484	-	-	-	8,978	555,578
- associates	274	-	-	-	-	-	-
- other related parties (incl. entities under common control)	673,432	6,428,618	-	1,624	-	-	-
- other related parties (incl. entities under control of significantly influencing shareholder)	7,014	3,160,649	-	-	-	-	-
Subsidiaries	**-**	**1,210**	**-**	**-**	**-**	**-**	**-**
- associates	-	-	-	-	-	-	-
- other related parties (incl. entities under control of significantly influencing shareholder)	-	1,210	-	-	-	-	-
Total	**682,264**	**9,620,961**	**-**	**1,624**	**-**	**8,978**	**555,578**

Key management compensation for the year ended 31 December 2009 amounted to RUR 39,396 thousand (2008: RUR 65,291 thousand) and included salaries and bonuses to employees of the Group and remuneration to members of Board of Directors and related social security contributions.

38. COMMITMENTS AND CONTINGENCIES

Litigation

There is no unresolved tax litigation at 31 December 2009 (2008: nil).

The Group has been and continues to be the subject of other 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.

38. COMMITMENTS AND CONTINGENCIES (continued)

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.

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.

39. FINANCIAL RISK MANAGEMENT

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.

Risk management is carried out by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group'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.

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 28 and 30, cash and cash equivalents in Note 25 and equity attributable to equity holders of the parent, comprising issued capital as disclosed in Note 27, 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 amortisation. The Group did not comply with externally imposed restrictions on the ratio of net debt to EBITDA. Refer to Note 6 and 28.

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 2009	As at 31 December 2008
Financial Assets		
Cash and cash equivalents	1,014,157	324,630
Trade and other accounts receivable	668,192	864,305
Other financial assets	52,675	52,675
Investments in associates	240	2,560
Total	**1,735,264**	**1,244,170**

	As at 31 December 2009	As at 31 December 2008
Financial Liabilities		
Finance lease liabilities	571,464	832,560
Long-term borrowings	440,000	948,349
Short-term borrowings	29,054,211	27,941,132
Trade accounts payable	3,802,613	4,027,523
Other payables and accrued liabilities	1,185,709	806,490
Total	**35,053,997**	**34,556,054**

39. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk management

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, 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 underlying businesses, group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due. The Group manages its liquidity risk through a combination of short-term and long-term financing and self generated funds.

At 31 December 2009 the Group had no available credit facilities for the management of its day to day liquidity requirements (2008: RUR 3,360,206 thousand).

The summaries of maturity profile of the Group's financial liabilities at 31 December 2009 and 2008 on contractual payments are presented in Notes 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 undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The Group is exposed to currency risk in that a significant portion of long and short 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 2009	**As at 31 December 2008**	**As at 31 December 2009**	**As at 31 December 2008**
USD denominated	(15,126,750)	(15,380,793)	476,562	195,327
EUR denominated	(4,208,559)	(4,188,348)	44,298	129,223

Foreign currency sensitivity analysis

The Group is mainly exposed to USD and EUR.

The following table details the Group's sensitivity to a 15% (33% for 2008) increase and decrease in RUR against US dollar and 15% (27% for 2008) against Euro. The above estimates are based on development of exchange rates during 2009 and beginning of 2010. 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. A positive number below indicates 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**	
	2009	**2008**	**2009**	**2008**
	15%	**33%**	**15%**	**27%**
Effect on profit and loss and equity	2,197,528	5,026,350	624,639	1,094,500

This is mainly attributable to the exposure outstanding on USD and EUR borrowings at year end in the Group.

The Group's sensitivity to foreign currency has decreased during the current period due to the stabilisation of the exchange value of the Russian Rouble against USD and EUR.

39. FINANCIAL RISK MANAGEMENT (continued)

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 was 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 2009 and equity at 31 December 2009 would decrease/ increase by RUR 75,751 thousand (2008 - decrease/ increase by RUR 110,446 thousand). 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.

Credit risk management

Credit risk refers to the risk that 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 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. The 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 are considered at the time of the deposit to have minimal risk of default.

Credit risk is managed on a Group basis. For wholesale customers there is no independent rating and therefore 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 more than one year, no creditworthiness difficulties;

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

Rating C – others, credit worthiness difficulties are anticipated.

	Rating "A"	Rating "B"	Rating "C"
At 31 December 2009			
Cash and cash equivalents	1,014,157	-	-
Trade accounts receivable and other receivables	668,173	19	-
At 31 December 2008			
Cash and cash equivalents	324,630	-	-
Trade accounts receivable and other receivables	858,182	6,123	-

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 668,192 thousand (2008: RUR 864,305 thousand) and cash and cash equivalents totalling RUR 1,014,157 thousand (2008: RUR 324,630 thousand).

39. FINANCIAL RISK MANAGEMENT (continued)

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 2009 and 31 December 2008 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.

40. INVESTMENTS IN SUBSIDIARIES

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

		% of ownership	
	Nature of business	**As at 31 December 2009**	**As at 31 December 2008**
Subsidiaries			
Incorporated in Russian Federation			
LLC "Tatkhimremont"	Repair & Maintenance	100	100
LLC "DK Khimikov"	Entertainment	100	100
Incorporated in Hungary			
LLC "Elmer"	Trading	50	50
Special purpose entity			
Incorporated in Luxembourg			
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.

41. EVENTS AFTER THE BALANCE SHEET DATE

In January 2010 and March 2010 the Group disposed of its stakes in associates LLC "Kolos-Sintez" and LLC "Novomoskovsky Trubny Zavod", respectively.

In the period from 31 December 2009 to the date of preparation of these consolidated financial statements, the Group has started to refinance it's credit portfolio using the credit facilities obtained from Sberbank of Russia and OJSC "TAIF". As at the date preparation of these consolidated financial statements the Group has successfully refinanced RUR 21,517,253 thousand of debt.

On 16 March the Group held two extraordinary meetings with holders of the Group's Eurobonds in issue where the following resolutions were passed:

- to extend the Eurobond maturity to 19 March 2015;
- to increase the coupon rate from 9.25% p.a. to 10.0% p.a. beginning from 19 March 2010;
- to cancel certain Eurobond covenants (restrictions related to new borrowings, offering pledges on financial liabilities);
- a waiver was obtained on any events of default in the period prior to 16 March 2010.

On 17 March 2010 the Group repurchased Eurobonds with a par value of USD 99,166 thousand claimed for redemption by the holders under the Tender Agreement for the price of USD 900 per bond for each USD 1,000 of the par value. This transaction has resulted in a gain of USD 9,917 thousand. Subsequent to this repurchase, Eurobonds with a par value of USD 100,834 thousand remain in circulation.

On 31 March 2010 the Group repurchased 707,000 ordinary shares and 21,945,025 preferred shares for a total sum of RUR 102,161 thousand.