Tatneft Group

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF AND FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2013

Contents

Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors of OAO Tatneft

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Tatneft and its subsidiaries (the "Group") as at 30 September 2013 and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three and nine months then ended, and the related consolidated interim condensed statements of changes in equity and cash flows for the nine months then ended. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial statements is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

29 November 2013
Moscow, Russian Federation

TATNEFT
Consolidated Interim Condensed Statement of Financial Position (Unaudited)
(In millions of Russian Roubles)

	Note	30 September 2013	31 December 2012
Assets			
Cash and cash equivalents	4	17,234	13,083
Restricted cash		737	1,369
Accounts receivable, net	5	63,005	53,553
Short-term financial assets	6	13,961	14,931
Inventories	7	33,425	28,590
Prepaid expenses and other current assets	8	18,965	28,806
Total current assets		**147,327**	**140,332**
Long-term accounts receivable, net	5	957	1,530
Long-term financial assets	9	25,944	25,782
Investments in associates and joint ventures	10	7,911	6,711
Property, plant and equipment, net		471,996	448,903
Deferred income tax assets		2,014	2,633
Other long-term assets		3,484	4,716
Total non-current assets		**512,306**	**490,275**
Total assets		**659,633**	**630,607**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	11	37,135	32,096
Accounts payable and accrued liabilities	12	30,943	31,019
Taxes payable	14	17,592	13,435
Total current liabilities		**85,670**	**76,550**
Long-term debt, net of current portion	11	14,427	37,991
Other long-term liabilities	13	3,587	3,710
Decommissioning provision, net of current portion		54,162	51,089
Deferred tax liability		15,761	15,034
Total non-current liabilities		**87,937**	**107,824**
Total liabilities		**173,607**	**184,374**
Shareholders' equity			
Preferred shares (authorized and issued at 30 September 2013 and 31 December 2012– 147,508,500 shares; nominal value at 30 September 2013 and 31 December 2012 – RR1.00)		746	746
Common shares (authorized and issued at 30 September 2013 and 31 December 2012– 2,178,690,700 shares; nominal value at 30 September 2013 and 31 December 2012 – RR1.00)		11,021	11,021
Additional paid-in capital		87,482	87,482
Accumulated other comprehensive income		1,101	726
Retained earnings		368,685	333,072
Less: Common shares held in treasury, at cost (55,540,000 shares and 55,543,000 shares at 30 September 2013 and 31 December 2012, respectively)		(3,092)	(3,093)
Total Group shareholders' equity		**465,943**	**429,954**
Non-controlling interest		**20,083**	**16,279**
Total shareholders' equity		**486,026**	**446,233**
Total liabilities and equity		**659,633**	**630,607**

TATNEFT
Consolidated Interim Condensed Statements of Profit or Loss and Other Comprehensive Income (Unaudited)
(In millions of Russian Roubles)

	Note	Three months ended 30 September: 2013	Three months ended 30 September: 2012	Nine months ended 30 September: 2013	Nine months ended 30 September: 2012
Sales and other operating revenues, net	16	**123,389**	**127,247**	**334,639**	**334,390**
Costs and other deductions					
Operating		23,316	24,288	63,225	62,225
Purchased oil and refined products		12,572	14,826	37,623	39,970
Exploration		578	514	1,239	1,366
Transportation		7,920	7,691	23,366	21,686
Selling, general and administrative		11,247	10,974	31,816	28,838
Depreciation, depletion and amortization		3,679	4,383	12,894	13,175
(Gain)/loss on disposals of property, plant and equipment, investments and impairments		(567)	417	(1,040)	1,123
Taxes other than income taxes	14	29,191	27,516	82,051	80,482
Maintenance of social infrastructure and transfer of social assets		1,172	1,072	3,411	3,069
Total costs and other deductions		**89,108**	**91,681**	**254,585**	**251,934**
Other (expenses)/income					
Foreign exchange gain/(loss)		117	1,941	(1,035)	1,255
Interest income		912	910	2,484	3,026
Interest expense, net of amounts capitalized		(1,476)	(1,866)	(4,614)	(5,807)
Earnings from equity investments	10	73	82	296	531
Other income, net		181	318	610	512
Total other (expenses)/income		**(193)**	**1,385**	**(2,259)**	**(483)**
Profit before income taxes		**34,088**	**36,951**	**77,795**	**81,973**
Income taxes					
Current income tax expense		(6,632)	(7,895)	(16,601)	(19,282)
Deferred income tax (expense)/benefit		(1,461)	(244)	(1,285)	622
Total income tax expense	14	**(8,093)**	**(8,139)**	**(17,886)**	**(18,660)**
Profit for the period		**25,995**	**28,812**	**59,909**	**63,313**
Items to be reclassified subsequently to profit or loss:					
Foreign currency translation adjustments		(76)	(320)	366	(210)
Actuarial gain/(loss) on employee benefit plans		-	-	26	(85)
Unrealized holding gains/(losses) on available-for-sale securities, including share of associates, net of tax		15	45	(17)	78
Other comprehensive (expenses)/income		**(61)**	**(275)**	**375**	**(217)**
Total comprehensive income for the period		**25,934**	**28,537**	**60,284**	**63,096**
Profit attributable to:					
- Group shareholders		23,232	27,119	55,141	59,022
- Non-controlling interest		2,763	1,693	4,768	4,291
		25,995	**28,812**	**59,909**	**63,313**
Total comprehensive income is attributable to:					
- Group shareholders		23,171	26,844	55,516	58,805
- Non-controlling interest		2,763	1,693	4,768	4,291
		25,934	**28,537**	**60,284**	**63,096**
Basic and diluted net earnings per share (RR)					
Common		10.23	11.94	24.28	25.99
Preferred		10.20	11.92	24.25	25.97
Weighted average shares outstanding (millions of shares)					
Common		2,123	2,123	2,123	2,123
Preferred		148	148	148	148

The accompanying notes are an integral part of these consolidated interim condensed financial statements.

(In millions of Russian Roubles)

	Attributable to Group shareholders									Non-con-trolling interest	Total equity
	Number of shares (thousands)	Share capital	Additional paid-in capital	Treasury shares	Actuarial (loss)/gain on employee benefit plans	Foreign currency translation adjustments	Unrealized holding gain/(losses) on available-for-sale securities, including share of associates, net of tax	Retained earnings	Total shareholders' equity		
At 1 January 2012	**2,270,643**	**11,767**	**87,482**	**(3,094)**	**496**	**1,184**	**315**	**275,675**	**373,825**	**11,602**	**385,427**
Profit for the nine months	-	-	-	-	-	-	-	59,022	59,022	4,291	63,313
Other comprehensive (loss)/income for the nine months	-	-	-	-	(85)	(210)	78	-	(217)	-	(217)
Total comprehensive (loss)/income for the nine months	**-**	**-**	**-**	**-**	**(85)**	**(210)**	**78**	**59,022**	**58,805**	**4,291**	**63,096**
Treasury shares:	13	-	-	1	-	-	-	-	1	-	1
- Acquisitions	(77)	-	-	(14)	-	-	-	-	(14)	-	(14)
- Disposals	90	-	-	15	-	-	-	-	15	-	15
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	281	281
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(17)	(17)
Dividends declared	-	-	-	-	-	-	-	(16,074)	(16,074)	(172)	(16,246)
Balance at 30 September 2012	**2,270,656**	**11,767**	**87,482**	**(3,093)**	**411**	**974**	**393**	**318,623**	**416,557**	**15,985**	**432,542**
At 1 January 2013	**2,270,656**	**11,767**	**87,482**	**(3,093)**	**(494)**	**754**	**466**	**333,072**	**429,954**	**16,279**	**446,233**
Profit for the nine months	-	-	-	-	-	-	-	55,141	55,141	4,768	59,909
Other comprehensive income/(loss) for the nine months	-	-	-	-	26	366	(17)	-	375	-	375
Total comprehensive income/(loss) for the nine months	**-**	**-**	**-**	**-**	**26**	**366**	**(17)**	**55,141**	**55,516**	**4,768**	**60,284**
Treasury shares:	3	-	-	1	-	-	-	-	1	-	1
- Acquisitions	(30)	-	-	(6)	-	-	-	-	(6)	-	(6)
- Disposals	33	-	-	7	-	-	-	-	7	-	7
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(201)	(201)
Dividends declared	-	-	-	-	-	-	-	(19,528)	(19,528)	(763)	(20,291)
Balance at 30 September 2013	**2,270,659**	**11,767**	**87,482**	**(3,092)**	**(468)**	**1,120**	**449**	**368,685**	**465,943**	**20,083**	**486,026**

The accompanying notes are an integral part of these consolidated interim condensed financial statements.

(In millions of Russian Roubles)

	Nine months ended 30 September 2013	Nine months ended 30 September 2012
Operating activities		
Profit for the period	59,909	63,313
Adjustments:		
Depreciation, depletion and amortization	12,894	13,175
Income tax expense	17,886	18,660
(Gain)/loss on disposals of property, plant and equipment, investments and impairments	(1,040)	1,123
Transfer of social assets	26	3
Effects of foreign exchange	3,324	(3,703)
Equity investments earnings net of dividends received	(296)	(531)
Change in provision for impairment of financial assets	884	36
Change in fair value of trading securities	(234)	(356)
Interest income	(2,484)	(3,026)
Interest expense	4,614	5,807
Other	670	401
Changes in operational working capital, excluding cash:		
Accounts receivable	(10,004)	(3,073)
Inventories	(5,518)	(946)
Prepaid expenses and other current assets	9,136	5,939
Trading securities	32	97
Accounts payable and accrued liabilities	81	(3,372)
Taxes payable	2,322	1,220
Notes payable	255	162
Other non-current assets	750	452
Net cash provided by operating activities before income tax and interest	**93,207**	**95,381**
Income taxes paid	(14,146)	(17,161)
Interest paid	(2,194)	(2,804)
Interest received	2,442	3,026
Net cash provided by operating activities	**79,309**	**78,442**
Investing activities		
Additions to property, plant and equipment	(38,639)	(36,411)
Proceeds from disposal of property, plant and equipment	536	585
Proceeds from disposal of investments	368	1,623
Purchase of investments	(10)	(1,009)
Proceeds from/(purchase of) certificates of deposit, net	737	(1,537)
Proceeds from loans and notes receivable, net	1,874	378
Change in restricted cash	632	(312)
Net cash used in investing activities	**(34,502)**	**(36,683)**
Financing activities		
Proceeds from issuance of debt	23,916	26,928
Repayment of debt	(44,549)	(52,409)
Dividends paid to shareholders	(19,493)	(16,048)
Dividends paid to non-controlling shareholders	(763)	(172)
Purchase of treasury shares	(6)	(14)
Proceeds from sale of treasury shares	6	15
Proceeds from issuance of shares by subsidiaries	-	27
Net cash used in financing activities	**(40,889)**	**(41,673)**
Net change in cash and cash equivalents	**3,918**	**86**
Effect of foreign exchange on cash and cash equivalents	233	(92)
Cash and cash equivalents at the beginning of the period	13,083	16,901
Cash and cash equivalents at the end of the period	**17,234**	**16,895**

Note 1: Organisation

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products as well as production and marketing of petrochemicals (see Note 16).

The Company was incorporated as an open joint stock company effective 1 January 1994 (the "privatization date") pursuant to the approval of the State Property Management Committee of the Republic of Tatarstan (the "Government"). All assets and liabilities previously managed by the production association Tatneft, Bugulminsky Mechanical Plant, Menzelinsky Exploratory Drilling Department and Bavlinsky Drilling Department were transferred to the Company at their book value at the privatization date in accordance with Decree No. 1403 on Privatization and Restructuring of Enterprises and Corporations into Joint-Stock Companies. Such transfers were considered transfers between entities under common control at the privatization date, and were recorded at book value.

The Group does not have an ultimate controlling party.

As of 30 September 2013 and 31 December 2012 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, holds approximately 36% of the Company's voting stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through OAO Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company's suppliers and contractors.

The Company is domiciled in the Russian Federation. The address of its registered office is Lenina St., 75, Almet'evsk, Tatarstan Republic, Russian Federation.

Note 2: Basis of presentation

The consolidated interim condensed financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". The consolidated interim condensed financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2012, which have been prepared in accordance with IFRS.

These consolidated interim condensed financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2012 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these consolidated interim condensed financial statements are read in conjunction with the Group's 2012 audited consolidated financial statements and the notes related thereto. In the opinion of the Group's management, the unaudited consolidated interim condensed financial statements and notes thereto reflect all known adjustments, all of which are of a normal and recurring nature, necessary to fairly state the Group's financial position, results of operations and cash flows for the interim periods.

The entities of the Group maintain their accounting records and prepare their statutory financial information principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying consolidated interim condensed financial statements have been prepared from these accounting records and adjusted as necessary to comply with IFRS.

The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) share based payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for decommissioning provision; (10) pensions and other post retirement benefits and (11) business combinations and goodwill.

Note 2: Basis of presentation (continued)

The accounting policies adopted are consistent with those of the previous financial year.

Income tax in the interim periods is accrued using the tax rate that would be applicable to expected total annual profit or loss.

Use of estimates in the preparation of financial statements. The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In preparing these consolidated interim condensed financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012, with the exception of changes in estimates that are required in determining the provision for income taxes.

Functional and Presentation Currency. Management has determined the functional currency for each consolidated subsidiary of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Rouble because the majority of its revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Roubles. Accordingly, transactions and balances not already measured in Russian Roubles (primarily US Dollars) have been re-measured into Russian Roubles in accordance with the relevant provisions of IAS 21 "The Effects of Changes in Foreign Exchange Rates".

For operations of subsidiaries located outside of the Russian Federation, that primarily use USD as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Roubles are recorded in a separate component of shareholders' equity entitled accumulated other comprehensive income or loss. Revenues, expenses and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US $") at 30 September 2013 and 31 December 2012 was RR 32.35 and RR 30.37 to US $, respectively. Average rate of exchange for the nine months ended 30 September 2013 and 2012 was RR 31.62 and RR 31.09 per US $, respectively.

Consolidation. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

Associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Note 3: Adoption of New or Revised Standards and Interpretations

The following new standards or revised standards became effective from 1 January 2013:

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "Statements of profit or loss and other comprehensive income".

The following other new pronouncements did not have a material impact on these consolidated interim condensed financial statements.

- IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

(in millions of Russian Roubles)

Note 3: Adoption of New or Revised Standards and Interpretations (continued)

- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.
- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7, Financial Instruments: Disclosures, (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013) - IAS 16, Property, Plant and Equipment, was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013) - IAS 34, Interim Financial Reporting, was amended to bring its requirements in line with IFRS 8, Operating Segments. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group has not early adopted:

Amendments to IAS 36, Recoverable amount disclosures for non-financial assets (issued on 29 May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on the disclosures in its consolidated financial statements.

Note 4: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 30 September 2013	**At 31 December 2012**
Cash on hand and in banks	9,188	7,814
Term deposits with original maturity of less than three months	8,046	5,269
Total cash and cash equivalents	**17,234**	**13,083**

As of 30 September 2013 and 31 December 2012 the majority of cash and cash equivalents are held in Sberbank, Bank Zenit and its subsidiaries. Bank deposits represent deposits with original maturities of less than three months. The fair value of cash and term deposits approximates their carrying value.

(in millions of Russian Roubles)

Note 5: Accounts receivable

Short-term and long-term accounts receivable comprise the following:

	At 30 September 2013	At 31 December 2012
Short-term accounts receivable:		
Trade receivables	69,623	60,940
Other financial receivables	6,096	3,813
Less provision for impairment	(12,714)	(11,200)
Total short-term accounts receivable	**63,005**	**53,553**
Long-term accounts receivable:		
Trade receivables	249	757
Other financial receivables	742	777
Less provision for impairment	(34)	(4)
Total long-term accounts receivable	**957**	**1,530**
Total financial assets within trade and other receivables	**63,962**	**55,083**

In accordance with the Group's policies for recorded provision for impairment the Group fully provided for receivables from ChMPKP Avto of US $334 million as of 30 September 2013 and 31 December 2012, relating to the sale of crude oil to Ukraine (Kremenchug refinery) (Note 18).

The estimated fair value of short-term and long-term accounts receivable approximates their carrying value.

Note 6: Short-term financial assets

Short-term financial assets comprise the following:

	At 30 September 2013	At 31 December 2012
Loans and receivables:		
Notes receivable	2,202	2,564
Other loans (net of provision for impairment of RR 23 million and RR 24 million as of 30 September 2013 and 31 December 2012)	1,937	1,752
Certificates of deposit	3,296	4,251
Financial assets at fair value through profit or loss:		
Held-for-trading	6,526	6,364
Total short-term financial assets	**13,961**	**14,931**

During the nine months ended 30 September 2013 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 4,774 million and RR 5,729 million, respectively.

During the nine months ended 30 September 2012 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 20,824 million and RR 19,301 million, respectively.

During the nine months ended 30 September 2013 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 949 million and RR 3,354 million, respectively.

During the nine months ended 30 September 2012 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 1,012 million and RR 2,730 million, respectively.

The estimated fair value of loans and receivables approximates their carrying value.

(in millions of Russian Roubles)

Note 6: Short-term financial assets (continued)

Financial assets at fair value through profit and loss comprise the following:

	At 30 September 2013	At 31 December 2012
Held-for-trading:		
Equity securities	3,671	3,864
Corporate debt securities	2,773	2,315
Russian government debt securities	82	185
Total financial assets at fair value through profit and loss	**6,526**	**6,364**

Information on held-for-trading securities issued by related parties is disclosed in Note 17.

Note 7: Inventories

	At 30 September 2013	At 31 December 2012
Materials and supplies	12,879	12,152
Crude oil	5,175	5,332
Refined oil products	8,162	6,291
Petrochemical supplies and finished goods	7,209	4,815
Total inventories	**33,425**	**28,590**

Note 8: Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are as follows:

	At 30 September 2013	At 31 December 2012
VAT recoverable	6,812	7,536
Advances	5,063	5,613
Prepaid export duties	4,637	11,729
Prepaid transportation expenses	251	551
Other	2,202	3,377
Prepaid expenses and other current assets	**18,965**	**28,806**

(in millions of Russian Roubles)

Note 9: Long-term Financial Assets

Long-term financial assets comprise the following:

	At 30 September 2013	At 31 December 2012
Loans and receivables:		
Notes receivable (net of provision for impairment RR 318 million and RR 318 million as of 30 September 2013 and 31 December 2012)	610	1,909
Loans to employees	2,338	2,305
Other loans	3,926	2,749
Certificates of deposit	14,387	14,133
Available-for-sale investments	4,683	4,686
Total long-term financial assets	**25,944**	**25,782**

The fair value of long-term financial assets is estimated by discounting the future contractual cash inflows at the market interest rate available to the Group at the end of the reporting period.

The carrying amounts and fair values of long-term financial assets are as follows:

	Carrying amounts		Fair values	
	At 30 September 2013	At 31 December 2012	At 30 September 2013	At 31 December 2012
Notes receivable	610	1,909	670	2,100
Loans to employees	2,338	2,305	2,338	2,305
Other loans	3,926	2,749	3,875	2,713
Certificates of deposit	14,387	14,133	15,104	14,835
Total long-term financial assets	**21,261**	**21,096**	**21,987**	**21,953**

During the nine months ended 30 September 2013 purchases of long-term certificates of deposit were RR 218 million.

During the nine months ended 30 September 2012 purchases of long-term certificates of deposit were RR 159 million and proceeds from long-term certificates of deposit were RR 145 million.

During the nine months ended 30 September 2013 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 1,454 million and RR 923 million, respectively.

During the nine months ended 30 September 2012 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 1,839 million and RR 499 million, respectively.

Note 10: Investments in associates and joint ventures

Investments in associates and joint ventures comprise the following:

Name of an investee	Ownership percentage at		Net book value at		Group's share of profit/(loss) for the nine months ended 30 September	
	30 September 2013	31 December 2012	30 September 2013	31 December 2012	2013	2012
Associates and joint ventures:						
Bank Zenit	25	25	6,866	6,455	432	455
Other	20-75	20-50	1,045	256	(136)	76
Total			**7,911**	**6,711**	**296**	**531**

(in millions of Russian Roubles)

Note 11: Debt

	At 30 September 2013	At 31 December 2012
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	31,391	18,259
Other foreign currency denominated debt	199	2,328
Rouble denominated debt		
Current portion of long-term debt	36	5,002
Other Rouble denominated debt	5,509	6,507
Total short-term debt	**37,135**	**32,096**
Long-term debt		
Foreign currency denominated debt		
US $2.0 bln 2010 credit facility	16,761	27,619
US $1.5 bln 2009 credit facility	2,940	4,551
US $550 mln 2011 credit facility	17,729	16,582
US $75 mln 2011 credit facility	1,614	1,562
US $144.5 mln 2011 credit facility	2,655	2,165
EUR 55 mln 2013 credit facility	1,133	-
Other foreign currency denominated debt	2,176	3,167
Rouble denominated debt		
Bonds	-	4,941
Other Rouble denominated debt	846	665
Total long-term debt	**45,854**	**61,252**
Less: current portion of long-term debt	(31,427)	(23,261)
Total long-term debt, net of current portion	**14,427**	**37,991**

Foreign currency debts are primarily denominated in US Dollars.

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

Short-term foreign currency denominated debt. In December 2011 the Group entered into an up to US $70 million one month revolving credit facility with Credit Suisse Zurich. The monthly revolving loan bears interest at one month LIBOR plus varying margin of about 1.8% per annum and is collateralized by crude oil sales.

Short-term Russian Rouble denominated debt. Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 5,509 million and RR 6,507 million bear contractual interest rates of 1.1% to 9.25% per annum as of 30 September 2013 and 31 December 2012.

Note 11: Debt (continued)

Long-term foreign currency denominated debt. In October 2009, the Company entered into a dual (3 and 5 year) tranches secured syndicated pre-export facility for up to US $1.5 billion arranged by WestLB AG, Bayerische Hypo-und Vereinsbank AG, ABN AMRO Bank N.V., OJSC Gazprombank, Bank of Moscow and Nordea Bank. This credit facility is collateralized with the contractual rights and receivables under an oil export contract between Tatneft and Tavit B.V. under which Tatneft supplies no less than 360,000 metric tons of oil and refined products in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The 3-year tranche was fully repaid. The 5-year tranche bears interest at LIBOR plus 4.10%.

In June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured credit facility for up to US $2 billion arranged by Barclays Bank PLS, BNP Paribas (Suisse) SA, Bank of Moscow, Bank of Tokyo-Mitsubishi UFJ, LTD, Citibank, N.A., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis SA, Nordea Bank, The Royal Bank of Scotland N.V., Sberbank, Société Générale, Sumitomo Mitsui Finance Dublin LTD, Unicredit Bank AG, VTB Bank and WestLB AG. The loan is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than 750,000 metric tons of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The 3-year tranche was fully repaid. The 5-year tranche has the margin of LIBOR plus 3.40%, while the 7-year tranche bears the interest of LIBOR plus 5%.

In June 2011, the Company entered into a US $550 million unsecured financing with a fixed rate of 3.50% per annum with bullet repayment in three years. The loan was arranged by BNP Paribas (Suisse) SA, The Bank Of Tokyo Mitsubishi UFJ, Ltd., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis, Open Joint Stock Company Nordea Bank, Sumitomo Mitsui Banking Corporation and WestLB AG, London Branch. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios.

In November 2011, TANECO entered into a US $75 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios.

In November 2011, TANECO entered into a US $144.5 million credit facility with equal semi-annual repayments during ten years this first repayment date as of 15 May, 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ, LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios.

In May 2013, TANECO entered into a EUR 55 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by The Royal Bank of Scotland plc and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.5% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios.

Long-term Russian Rouble denominated debt. In September 2010, the Group issued Rouble exchange bonds in the amount of RR 5,000 million due in September 2013 at an interest rate of 7.25% per annum. The bonds were fully repaid in September 2013.

Management believes that for the periods ended 30 September 2013 and 31 December 2012 the Group was in compliance with all covenants required by the above loan agreements.

Loan arrangements on short-term and long-term debt have both fixed and variable interest rates that reflect the currently available terms for similar debt. The carrying value of debt is a reasonable approximation of its fair value.

(in millions of Russian Roubles)

Note 12: Accounts payable and accrued liabilities

	At 30 September 2013	At 31 December 2012
Trade payables	16,582	16,715
Dividends payable	136	101
Other payables	855	1,071
Total financial liabilities within trade and other payables	**17,573**	**17,887**
Salaries and wages payable	5,217	4,093
Advances received from customers	-	1,109
Current portion of decommissioning provisions	1,388	1,361
Other accounts payable and accrued liabilities	6,765	6,569
Total non-financial liabilities	**13,370**	**13,132**
Accounts payable and accrued liabilities	**30,943**	**31,019**

The fair value of each class of financial liabilities included in short-term trade and other payables at 30 September 2013 and 31 December 2012 approximates their carrying value.

Note 13: Other long-term liabilities

Other long-term liabilities are as follows:

	At 30 September 2013	At 31 December 2012
Pension liability	3,556	3,622
Other long-term liabilities	31	88
Total other long-term liabilities	**3,587**	**3,710**

Note 14: Taxes

Income tax expense comprises the following:

	Three months ended 30 September:		Nine months ended 30 September:	
	2013	**2012**	**2013**	**2012**
Current income tax expense	6,632	7,895	16,601	19,282
Deferred income tax expense/(benefit)	1,461	244	1,285	(622)
Income tax expense for the period	**8,093**	**8,139**	**17,886**	**18,660**

Presented below is reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate to income before income taxes:

	Three months ended 30 September:		Nine months ended 30 September:	
	2013	**2012**	**2013**	**2012**
Income before income taxes and non-controlling interest	34,088	36,951	77,795	81,973
Theoretical income tax expense at statutory rate	6,818	7,390	15,559	16,395
Increase due to:				
Non-deductible expenses, net	1,275	749	2,327	2,265
Income tax expense	**8,093**	**8,139**	**17,886**	**18,660**

(in millions of Russian Roubles)

Note 14: Taxes (continued)

The Group is subject to a number of taxes other than income taxes, which are detailed as follows:

	Three months ended 30 September:		Nine months ended 30 September:	
	2013	**2012**	**2013**	**2012**
Mineral extraction tax	27,640	26,955	77,451	78,061
Property tax	1,150	571	3,466	1,660
Penalties and interest	(9)	(329)	20	(265)
Other	410	319	1,114	1,026
Total taxes other than income taxes	**29,191**	**27,516**	**82,051**	**80,482**

At 30 September 2013 and 31 December 2012 taxes payable were as follows:

	At 30 September 2013	**At 31 December 2012**
Mineral extraction tax	8,976	8,457
Value Added Tax on goods sold	2,560	2,107
Income tax	2,055	201
Other	4,001	2,670
Total taxes payable	**17,592**	**13,435**

Note 15: Fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes.

The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

Fair value hierarchy

The different levels of inputs have been defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. For the Group, Level 1 inputs include held-for-trading financial assets that are actively traded on the Russian domestic markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Group, Level 2 inputs include observable market value measures applied to available for sale securities.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Group does not use Level 3 inputs for any of its recurring fair-value measurements.

Note 16: Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Board of Directors and the Management Committee and for which discrete financial information is available.

Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group's business activities are conducted predominantly through three main operating segments:

- Exploration and production consists of exploration, development, extraction and sale of own crude oil. Intersegment sales consist of other goods and services provided to other operating segments,
- Refining and marketing comprises purchases and sales of crude oil and refined products from third parties, own refining activities and retailing operations,
- Petrochemical products include production and sales of tires and petrochemical raw materials and refined products, which are used in production of tires.

Other sales include revenues from ancillary services provided by the specialized subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies in Tatarstan, revenues from the sale of auxiliary petrochemical related services and materials as well as other business activities, which do not constitute reportable business segments.

The Group evaluates performance of its reportable operating segments and allocates resources based on income or losses before income taxes and non-controlling interest not including interest income, expense, and earnings from equity investments, other income and monetary effects. Intersegment sales are at prices that approximate market.

Group financing (including interest expense and interest income) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the three months ended 30 September 2013, revenues of RR 24,671 million or 20%, RR 12,282 million or 10% and RR 11,993 million or 10% of the Group's total sales and operating revenues are derived from three external customers.

For the nine months ended 30 September 2013, revenues of RR 70,496 million or 21%, RR 37,611 million or 11% and RR 33,018 million or 10% of the Group's total sales and operating revenues are derived from three external customers.

For the three months ended 30 September 2012, revenues of RR 33,158 million or 26% and RR 12,929 million or 10% of the Group's total sales and operating revenues are derived from two external customers.

For the nine months ended 30 September 2012, revenues of RR 73,053 million or 22% and RR 41,713 million or 12% of the Group's total sales and operating revenues are derived from two external customers.

These revenues represent sales of crude oil and refined products and are attributable to the exploration and production segment and refining and marketing segment.

Management does not believe the Group is dependent on any particular customer.

(in millions of Russian Roubles)

Note 16: Segment information (continued)

Segment sales and other operating revenues. Reportable operating segment sales and other operating revenues are stated in the following table:

	Three months ended 30 September:		Nine months ended 30 September:	
	2013	**2012**	**2013**	**2012**
Exploration and production				
Domestic own crude oil	12,813	13,924	40,832	45,805
CIS own crude oil	2,050	-	5,311	5,342
Non – CIS own crude oil	38,324	45,611	104,839	110,481
Other	1,138	946	3,141	2,822
Intersegment sales	27,129	20,719	66,651	56,668
Total exploration and production	**81,454**	**81,200**	**220,774**	**221,118**
Refining and marketing				
Domestic sales				
Crude oil purchased for resale	-	170	-	1,313
Refined products	28,991	21,853	70,066	52,950
Total Domestic sales	28,991	22,023	70,066	54,263
CIS sales				
Refined products	1,830	6,027	4,296	26,501
Total CIS sales[(1)]	1,830	6,027	4,296	26,501
Non – CIS sales				
Crude oil purchased for resale	3,546	5,128	12,554	12,985
Refined products	20,579	17,949	54,159	34,158
Total Non – CIS sales[(2)]	24,125	23,077	66,713	47,143
Other	1,024	1,292	2,997	2,928
Intersegment sales	833	708	2,580	2,282
Total refining and marketing	**56,803**	**53,127**	**146,652**	**133,117**
Petrochemicals				
Tires - domestic sales	6,214	7,643	17,835	20,232
Tires - CIS sales	1,995	2,322	5,025	5,699
Tires - non-CIS sales	331	329	789	813
Petrochemical products and other	665	530	1,748	1,653
Intersegment sales	238	259	619	667
Total petrochemicals	**9,443**	**11,083**	**26,016**	**29,064**
Total segment sales	**147,700**	**145,410**	**393,442**	**383,299**
Corporate and other sales	3,889	3,523	11,047	10,708
Elimination of intersegment sales	(28,200)	(21,686)	(69,850)	(59,617)
Total sales and other operating revenues	**123,389**	**127,247**	**334,639**	**334,390**

[(1)] - CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).
[(2)] - Non-CIS sales of crude oil and refined products are mainly made to Germany, Switzerland, Netherlands and United Kingdom based traders.

(in millions of Russian Roubles)

Note 16: Segment information (continued)

Segment earnings

	Three months ended 30 September:		Nine months ended 30 September:	
	2013	**2012**	**2013**	**2012**
Segment earnings				
Exploration and production	29,148	29,314	73,813	77,694
Refining and marketing	6,340	7,119	9,475	8,662
Petrochemicals	113	352	609	1,209
Total segment earnings	**35,601**	**36,785**	**83,897**	**87,565**
Corporate and other	(1,320)	(1,219)	(3,843)	(5,109)
Other (expenses)/income	(193)	1,385	(2,259)	(483)
Profit before income tax	**34,088**	**36,951**	**77,795**	**81,973**

Segment assets

	At 30 September 2013	At 31 December 2012
Assets		
Exploration and production	282,901	271,998
Refining and marketing	252,553	233,994
Petrochemicals	33,078	29,912
Corporate and other	91,101	94,703
Total assets	**659,633**	**630,607**

As of 30 September 2013 and 31 December 2012 corporate and other segment comprised RR 7,911 million and RR 6,711 million, respectively, investments in associates and joint ventures.

The Group's assets and operations are primarily located and conducted in the Russian Federation.

Segment depreciation, depletion and amortisation and additions to property, plant and equipment

	Three months ended 30 September:		Nine months ended 30 September:	
	2013	**2012**	**2013**	**2012**
Depreciation, depletion and amortization				
Exploration and production	1,961	2,924	7,456	8,443
Refining and marketing	1,007	790	2,882	2,330
Petrochemicals	407	309	1,272	1,007
Corporate and other	304	360	1,284	1,395
Total segment depreciation, depletion and amortization	**3,679**	**4,383**	**12,894**	**13,175**
Additions to property, plant and equipment				
Exploration and production	5,467	7,312	18,691	18,522
Refining and marketing	4,422	8,830	15,311	18,813
Petrochemicals	86	56	258	263
Corporate and other	2,445	971	6,203	2,273
Total additions to property, plant and equipment	**12,420**	**17,169**	**40,463**	**39,871**

(in millions of Russian Roubles)

Note 17: Related party transactions

Transactions are entered into in the normal course of business with affiliates, government related companies, key management personnel and other related parties. These transactions include sales of crude oil and refined products, purchases of electricity and banking transactions.

Associates and other related parties

The amounts of transactions for each period with associates and other related parties are as follows:

	Three months ended 30 September:		Nine months ended 30 September:	
	2013	**2012**	**2013**	**2012**
Revenues and income				
Sales of refined products	4	4	12	13
Other sales	74	143	187	354
Costs and expenses				
Purchases of crude oil	98	1,313	98	3,589
Other services	123	217	448	748
Other purchases	334	486	987	1,220

For the nine months ended 30 September 2013 and 2012, the Group sold crude oil on a commission basis from related parties for RR 98 million and RR 3,876 million, respectively.

For the nine month ended 30 September 2013 and 2012 the Group has entered into transactions with related parties for purchases of equipment in the amount of RR 1,549 million and RR 0 million, respectively, which is included in our property, plant and equipment.

At 30 September 2013 and 31 December 2012 the outstanding balances with related parties were as follows:

	At 30 September 2013	At 31 December 2012
Assets		
Accounts receivable	340	222
Notes receivable	2,120	1,973
Short-term certificates of deposit	2,596	550
Trading securities	198	307
Loans receivable	641	8
Prepaid expenses and other current assets	303	83
Due from related parties short-term	**6,198**	**3,143**
Long-term accounts receivable	-	2
Long-term certificates of deposit	14,313	14,132
Long-term loans receivable	2,518	2,569
Due from related parties long-term	**16,831**	**16,703**
Liabilities		
Accounts payable and accrued liabilities	(150)	(503)
Short-term debt	(2,404)	(2,130)
Due to related parties short-term	**(2,554)**	**(2,633)**
Long-term debt	(75)	(23)
Due to related parties long-term	**(75)**	**(23)**

As of 30 September 2013 and 31 December 2012, the Group had RR 3,480 million and RR 4,542 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2013 and 2017, bearing interest between 3.2% and 8.5%. As of 30 September 2013 and 31 December 2012, the Group has short and long-term certificates of deposit of RR 16,909 million and RR 14,682 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

In March 2009 the Group placed a long-term deposit with Bank Zenit for RR 2,140 million payable in 10 years bearing interest 10.85%.

(in millions of Russian Roubles)

Note 17: Related party transactions (continued)

The Group entered into a subordinated deposit agreement with Bank Zenit in January 2013 in the amount of RR 3,600 million payable in 10 years bearing interest of 9% per year.

Government bodies and state organizations

The amounts of transactions for each period with Government bodies and state organizations are as follows:

	Three months ended 30 September:		Nine months ended 30 September:	
	2013	**2012**	**2013**	**2012**
Sales of refined products	368	1,033	900	3,284
Other sales	75	17	220	162
Purchases of refined products	875	2,306	4,263	6,725
Purchases of electricity	2,561	2,448	7,361	6,656
Purchases of transportation services	5,558	5,742	17,990	16,564
Other services	871	862	2,801	2,411
Other purchases	217	-	217	-

Note 18: Contingencies and commitments

Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The ongoing uncertainty and volatility of the financial markets and other risks could have significant negative effects on the Russian financial and corporate sectors. Management determined provisions for impairment by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

Capital commitments. As of 30 September 2013 and 31 December 2012 the Group has outstanding capital commitments of approximately RR 15,020 million and RR 16,823 million, respectively, for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2013 and 2014.

Management believes the Group's current and long-term capital expenditures program can be funded through cash generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities. Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project, refinance any maturing debts as well as finance business acquisitions and other transactions that may arise in the future.

Taxation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Note 18: Contingencies and commitments (continued)

Management believes that its pricing policy is arm's length and it has implemented internal processes to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

Environmental contingencies. The Group, through its predecessor entities, has operated in Tatarstan for many years without developed environmental laws, regulations and Group policies. Environmental regulations and their enforcement are currently being considered in the Russian Federation and the Group is monitoring its potential obligations related thereto. The outcome of environmental liabilities under proposed or any future environmental legislation cannot reasonably be estimated at present, but could be material. Under existing legislation, however, management believes that there are no probable liabilities, which would have a material adverse effect on the operating results or financial position of the Group.

Legal contingencies. The Group is subject to various lawsuits and claims arising in the ordinary course of business. The outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present. In the case of all known contingencies the Group accrues a liability when the loss is probable and the amount is reasonably estimable. Based on currently available information, management believes that it is remote that future costs related to known contingent liability exposures would have a material adverse impact on the Group's consolidated financial statements.

Social commitments. The Group contributes significantly to the maintenance of local infrastructure and the welfare of its employees within Tatarstan, which includes contributions towards the construction, development and maintenance of housing, hospitals and transport services, recreation and other social needs. Such funding is periodically determined by the Board of Directors after consultation with governmental authorities and recorded as expenditures when incurred.

Guarantees. The Group has no outstanding guarantees at 30 September 2013 and 31 December 2012.

Transportation of crude oil. The Group benefits from the blending of its crude oil in the Transneft pipeline system since the Group's crude oil production is generally of a lower quality than that produced by some other regions of the Russian Federation (mainly Western Siberia) which supply through the same pipeline system. There is currently no equalization scheme for differences in crude oil quality within the Transneft pipeline system and the implementation of any such scheme is not determinable at present. However, if this practice were to change, the Group's business could be materially and adversely affected.

Ukrtatnafta. The Group holds 49.6% investment in AmRUZ Trading AG ("AmRUZ") and 100% investment in Seagroup International Inc. ("Seagroup"). These entities primary activities are ownership interests in Closed Joint Stock Company Ukrtatnafta ("Ukrtatnafta"), the owner of the Kremenchug refinery, and their holdings constitute 8.34% and 9.96% of the outstanding common shares in Ukrtatnafta, respectively. Historically, and in particular during the course of 2007, there have been a number of attempts by Ukraine to challenge AmRUZ and Seagroup's acquisition of shares in Ukrtatnafta, and in particular, by the State Property Fund and NJSC Naftogaz of Ukraine ("Naftogaz"). Naftogaz is 100% owned by the Ukrainian Government and also owner of record of 43% Ukrtatnafta's common shares.

The challenges were suspended in April 2006 when the Supreme Court of Ukraine ruled the payment for Ukrtatnafta shares made with promissory notes issued by AmRUZ and Seagroup was lawful. However, in May 2007 the Ministry of Fuel and Energy of Ukraine ("MFEU") resumed its attempts and, as a result, succeeded in obtaining alleged and doubtful court decisions, after which it announced the transfer into Naftogaz's custody the 18.3% of Ukrtatnafta's shares, representing the entire holdings of AmRUZ and Seagroup in Ukrtatnafta. Subsequent to these actions, MFEU effectively began to exclude the Group from exercising their shareholder rights related to Ukrtatnafta.

In October 2007 the existing management of Ukrtatnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently, individuals who obtained the ability to manage Ukrtatnafta took certain actions effectively assisting MFEU in taking control over the shares in Ukrtatnafta owned by SeaGroup and AmRUZ. In addition, Ukrtatnafta subsequently refused to settle its payables to ChMPKP Avto (Note 5), a Ukrainian intermediary that previously purchased crude from the Group for deliveries to Ukrtatnafta. Following this forced change of control of Ukrtatnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its crude oil deliveries to Ukrtatnafta.

Subsequently, the Ukrainian courts also invalided direct purchase of the shares in Ukrtatnafta by Tatneft.

Note 18: Contingencies and commitments (continued)

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT"). The arbitration concerns losses suffered by Tatneft as a consequence of the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russian-Ukraine BIT and to order Ukraine to pay compensation in excess of US $2.4 billion. In March 2013 the arbitral tribunal held the hearing on the merits with the award expected by the end of 2013.

As a result of the ongoing legal dispute over shareholding interests, as of 30 September 2013 and 31 December 2012 the Company has fully provided for its investments in Ukrtatnafta.

Libya. As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations there and evacuate all its personnel. From February 2013 the Group has started the process of resuming its operations in Libya, including the return of some of its personnel to a branch in Tripoli, and is currently discussing with all relevant parties arrangements relating to its exploration activities. As of the date of these consolidated interim condensed financial statements the Group is not certain when it would be able to return to full operational activity in Libya. As of 30 September 2013 the Group had approximately RR 5,686 million of assets associated with its Libyan operations of which RR 5,455 million is related to capitalized exploration costs, RR 210 million of inventories and RR 21 million of cash. As of 31 December 2012 the Group had approximately RR 5,681 million of assets associated with its Libyan operations, correspondingly, of which RR 5,451 million are related to capitalized exploration costs, RR 208 million of inventories and RR 22 million of cash.