

Open Joint Stock Company
“Svyazinvestneftekhim”

Financial Statements
for the years ended December 31, 2012 and 2011

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Auditors' Report

To the Board of Directors of
Open Joint Stock Company "Svyazinvestneftekhim"

Report on the financial statements

We have audited the accompanying financial statements of Open Joint Stock Company "Svyazinvestneftekhim" (the Company), which comprise the balance sheets, including the schedules of investments, as of December 31, 2012 and 2011, and the statements of comprehensive income, changes in stockholders' equity and cash flows for 2012 and 2011, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these financial statements based on our audits. We conducted our audits in accordance with Russian Federal Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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. Accordingly, we express no such opinion. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these financial statements.

Audited entity: Open Joint Stock Company "Svyazinvestneftekhim".

Registered by Inter-Regional Authority of the Ministry of taxes and levies of the Russian Federation in the Republic of Tatarstan on 14 April 2003, Certificate No. 16 002778096.

Entered in the Unified State Register of Legal Entities on 14 April 2003 by Inter-Regional Authority of the Ministry of taxes and levies of the Russian Federation in the Republic of Tatarstan. Registration No. 1031621006042, Certificate No. 16 002778096.

Address of the audited entity: 10/15, Kremlevskaya Street, Kazan, 420111, Republic of Tatarstan, Russian Federation.

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

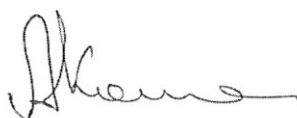
Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for 2012 and 2011 in accordance with U.S. generally accepted accounting principles.

Other matter

The financial statements include investments valued at US dollars 2,065,476 thousand at December 31, 2012 (23% of total assets) and US dollars 1,940,083 thousand at December 31, 2011 (29% of total assets), whose values are estimated by the management in the absence of a quoted price in an active market. Those estimated values may differ from the values that would have been used had a quoted price in an active market existed, and the difference could be material.



Kolosov A.E.

Director

Power of attorney dated 3 October 2011 No. 37/11,

license No. 01-000130

ZAO KPMG

29 April 2013


Moscow, Russian Federation



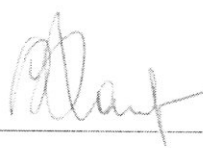
Open Joint Stock Company "Svyazinvestneftekhim"
Balance sheets as of December 31, 2012 and December 31, 2011

<i>In thousands of US dollars</i>	<u>Note</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Assets			
Investments, at fair value (cost at December 31, 2012 US dollars 2,069,108 thousand and at December 31, 2011 US dollars 2,068,710 thousand, refer to note 18)		8,200,766	6,124,402
Cash and cash equivalents	4	53,776	55,240
Deposits placed	5	268,948	465,567
Accounts receivable and other assets, net	6	393,628	102,020
Total assets		8,917,118	6,747,229
Liabilities			
Long-term loan participation notes	7	256,122	255,500
Loans payable	8	32,926	31,062
Accounts payable and accrued expenses	9	3,089	11,368
Deferred tax liabilities	10	1,064,768	676,482
Total liabilities		1,356,905	974,412
Net assets			
	11		
Share capital (authorised 754,900 ordinary shares, issued and outstanding 544,394 ordinary shares with par value of 100 000 Roubles each)		1,741,980	1,741,980
Additional paid in capital		356,175	356,175
Accumulated other comprehensive income (loss)		376,795	(2,304)
Retained earnings		5,085,263	3,676,966
Total net assets		7,560,213	5,772,817
Total liabilities and net assets		8,917,118	6,747,229

The financial statements were approved on April 29, 2013 and signed by:



 V. Sorokin
Chief Executive Officer





 A. Khayrullin
Chief Financial Officer

The balance sheets are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 22.

Open Joint Stock Company "Syvazinvestneftekhim"
Statements of comprehensive income for the years ended December 31, 2012 and December 31, 2011

<i>In thousands of US dollars</i>	<u>Note</u>	<u>Year ended December 31, 2012</u>	<u>Year ended December 31, 2011</u>
Dividends (net of withholding taxes)	12	202,877	145,684
Interest income		40,153	44,353
Investment income		243,030	190,037
Interest expense		(19,160)	(19,392)
Administrative expenses		(6,617)	(3,428)
Charitable donations	13	(147,145)	(107,685)
Legal and professional expenses		(1,940)	(2,482)
Loss on disposal of fixed assets		(98)	(2,879)
Total expenses		(174,960)	(135,866)
Net investment income		68,070	54,171
Net increase (decrease) in unrealised appreciation on investments		1,670,137	(429,524)
Net realised loss on investments		(30)	-
Net foreign exchange gain (loss)		13,490	(14,574)
Net gain (loss) on investments		1,683,597	(444,098)
Net increase (decrease) in net assets before income taxes		1,751,667	(389,927)
Income tax (expense) benefit	14	(343,370)	93,196
Net increase (decrease) in net assets resulting from operations		1,408,297	(296,731)
Foreign currency translation adjustment		379,099	(315,197)
Other comprehensive income		379,099	(315,197)
Total comprehensive income (loss)		1,787,396	(611,928)


V. Sorokin
Chief Executive Officer


A. Khayrullin
Chief Financial Officer

The statements of comprehensive income are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 22.

Open Joint Stock Company "Svyazinvestneftekhim"
Statements of cash flows for the years ended December 31, 2012 and December 31, 2011

<i>In thousands of US dollars</i>	<u>Note</u>	<u>Year ended December 31, 2012</u>	<u>Year ended December 31, 2011</u>
Cash flows from operating activities			
Acquisition of investments		(85)	(372)
Interest and dividend receipts		242,908	190,028
Interest paid		(19,627)	(18,926)
Cash paid for legal and professional services and administration costs		(7,819)	(5,445)
Foreign currency payments		(386)	(67)
Charitable donations paid		(147,145)	(107,685)
Taxes paid		(3,444)	(4,385)
Loans issued		(273,716)	(1,955)
Cash paid for other assets		(14,016)	(28,262)
Deposits withdrawn (placed)		219,056	(8,948)
Cash received from sale of investments		699	-
Cash flows (used in) from operating activities		<u>(3,575)</u>	<u>13,983</u>
 Net (decrease) increase in cash and cash equivalents		 (3,575)	 13,983
Cash and cash equivalents at the beginning of year		55,240	45,996
Effect of exchange rate fluctuations		2,111	(4,739)
Cash and cash equivalents at the end of year	4	<u>53,776</u>	<u>55,240</u>



V. Sorokin
Chief Executive Officer




A. Khayrullin
Chief Financial Officer


The statements of cash flows are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 22.

Open Joint Stock Company "Svyazinvestneftekhim"
Statements of changes in stockholders' equity for the years ended December 31, 2012 and December 31, 2011

In thousands of US dollars

	Number of shares	Share capital	Additional paid in capital	Accumulated other comprehensive income	Retained earnings	Total
Balances as of January 1, 2011	542,659	1,736,129	346,423	312,893	3,983,039	6,378,484
Net investment income	-	-	-	-	54,171	54,171
Net loss on investments	-	-	-	-	(444,098)	(444,098)
Income tax benefit	-	-	-	-	93,196	93,196
Translation adjustment (note 19)	-	-	-	(315,197)	-	(315,197)
Total comprehensive loss	-	-	-	(315,197)	(296,731)	(611,928)
Shares issued	1,735	5,851	9,752	-	-	15,603
Dividends paid (note 11)	-	-	-	-	(9,342)	(9,342)
Total transactions with owners	1,735	5,851	9,752	-	(9,342)	6,261
Balances as of December 31, 2011	544,394	1,741,980	356,175	(2,304)	3,676,966	5,772,817
Net investment income	-	-	-	-	68,070	68,070
Net gain on investments	-	-	-	-	1,683,597	1,683,597
Income tax expense	-	-	-	-	(343,370)	(343,370)
Translation adjustment (note 19)	-	-	-	379,099	-	379,099
Total comprehensive income	-	-	-	379,099	1,408,297	1,787,396
Balances as of December 31, 2012	544,394	1,741,980	356,175	376,795	5,085,263	7,560,213


V. Sorokin
Chief Executive Officer


A. Khayrullin
Chief Financial Officer

The statements of changes in stockholders' equity are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 22.

Open Joint Stock Company "Svyazinvestneftekhim"
Schedules of investments as of December 31, 2012 and December 31, 2011

In thousands of US dollars

	December 31, 2012			December 31, 2011		
	Acquisition cost	Fair Value	Direct ownership ⁽²⁾	Acquisition cost	Fair Value	Direct ownership ⁽²⁾
Investment by Industry⁽¹⁾						
Financial Services (10.07%)						
<i>Ak Bars Bank</i>						
- ordinary shares	169,893	84,767	18.49%	169,893	98,116	18.49%
<i>Ak Bars Holding Company</i>						
- ordinary shares	10,144	8,100	18.73%	10,144	9,900	19.09%
<i>Sinek Investment & Development Limited⁽³⁾</i>						
- ordinary shares	112,392	103,234	100.00%	112,392	76,156	100.00%
<i>Investneftekhim⁽⁴⁾</i>						
- ordinary shares	125,706	543,544	99.99%	125,706	361,471	99.99%
<i>First Transport Corporation</i>						
- ordinary shares	2,142	1,100	100.00%	2,142	600	100.00%
<i>Omega Finance Group⁽⁵⁾</i>						
- ordinary shares	815	1,480	50.00%	815	1,140	50.00%
<i>Tatneftekhiminvest Holding</i>						
- ordinary shares	1,120	83,400	48.97%	1,120	65,000	50.02%
Financial Services	422,212	825,625		422,212	612,383	
Telecommunication (1.62%)						
<i>Tattelecom</i>						
- ordinary shares	50,426	133,200	87.20%	50,426	147,900	87.20%
Telecommunication	50,426	133,200		50,426	147,900	
Chemical (6.52%)						
<i>Kazanorgsintez</i>						
- ordinary shares	17,000	88,938	26.64%	17,000	61,051	26.64%
<i>Nizhnekamskneftekhim</i>						
- ordinary shares	163,232	446,012	25.21%	163,232	321,008	25.21%
<i>NH Neftepromkhim</i>						
- ordinary shares	61	90	25.00%	61	80	25.00%
Chemical	180,293	535,040		180,293	382,139	
Manufacturing (1.85%)						
<i>Kazancompressor</i>						
- ordinary shares	-	-	-	343	729	2.14%
<i>Kazan Engine Building Plant</i>						
- ordinary shares	11,502	152,000	49.22%	11,417	63,000	49.08%
Manufacturing	11,502	152,000		11,760	63,729	
Building and Construction (0.05%)						
<i>First Development Corporation</i>						
- ordinary shares	9,718	4,350	77.68%	9,718	3,340	77.68%
Building and Construction	9,718	4,350		9,718	3,340	

The schedules of investments are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 22.

Open Joint Stock Company "Svyazinvestneftekhim"
Schedules of investments as of December 31, 2012 and December 31, 2011

In thousands of US dollars

	December 31, 2012			December 31, 2011		
	Acquisition cost	Fair Value	Direct ownership ⁽²⁾	Acquisition cost	Fair Value	Direct ownership ⁽²⁾
Investment by Industry⁽¹⁾						
Oil and Gas (67.08%)						
<i>Tatneft</i>						
- ordinary shares	584,261	5,075,381	30.44%	584,261	3,445,821	30.44%
- preferred shares	45	340	0.01%	45	260	0.01%
<i>Nefteconsortium</i>						
- ordinary shares	230	2,500	25.02%	230	2,300	25.02%
<i>North-West Trunk Pipelines</i>						
- ordinary shares	58,000	411,000	36.00%	58,000	287,000	36.00%
<i>Tatnefteproduct</i>						
- ordinary shares	2,000	7,800	34.20%	2,000	6,900	34.20%
<i>Nizhnekamsky Oil Refinery</i>						
- ordinary shares	64	2,200	9.00%	64	900	9.00%
<i>Oil and gas technology</i>						
- ordinary shares	700	1,600	26.00%	700	1,500	26.00%
Oil and Gas	645,300	5,500,821		645,300	3,744,681	
Pharmaceutical (0.37%)						
<i>Tatchimpharmpreparaty</i>						
- ordinary shares	2,000	30,000	100.00%	2,000	23,000	100.00%
Pharmaceutical	2,000	30,000		2,000	23,000	
Energy (12.16%)						
<i>Tatenergo</i>						
- ordinary shares	18,093	21,500	100.00%	740,597	1,140,400	100.00%
<i>Generation company⁽⁶⁾</i>						
- ordinary shares	620,971	867,000	100.00%	-	-	-
<i>Kazan Heat Network Company⁽⁶⁾</i>						
- ordinary shares	41,632	48,800	66.87%	-	-	-
<i>Naberezhnye Chelny Heat Network Company⁽⁶⁾</i>						
- ordinary shares	24,329	25,800	98.41%	-	-	-
<i>Tatenergosbyt⁽⁶⁾</i>						
- ordinary shares	35,572	34,200	100.00%	-	-	-
<i>Tatenergospetsremont</i>						
- ordinary shares	744	130	51.00%	744	130	51.00%
Energy	741,341	997,430		741,341	1,140,530	
Hospitality (0.27%)						
<i>Publishing House on Bauman Street</i>						
- ordinary shares	6,316	22,300	99.00%	5,660	6,700	99.00%
Hospitality	6,316	22,300		5,660	6,700	
	2,069,108	8,200,766		2,068,710	6,124,402	

All investments are in companies operating in Russia.

The schedules of investments are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 22.

Notes

⁽¹⁾ Percentages indicated are based on the investment portfolio as of December 31, 2012.

⁽²⁾ Of total share capital (preferred and ordinary shares).

⁽³⁾ As of December 31, 2012 and December 31, 2011 Sinek Investment & Development Limited held 9.21% of the ordinary shares of Ak Bars Bank with a fair value of US dollars 42,233 thousand and US dollars 48,885 thousand, respectively. As of December 31, 2011 Sinek Investment & Development Limited held 49.9997% of the ordinary shares of Kazancompressormash with a fair value of US dollars 16,271 thousand.

⁽⁴⁾ As of December 31, 2012 and December 31, 2011 Investneftekhim held 3.36% of the ordinary shares of Tatneft with a fair value of US dollars 524,619 thousand and US dollars 356,179 thousand, respectively, and 22.32% of the ordinary shares of First Development Corporation with a fair value of US dollars 1,250 thousand and US dollars 960 thousand, respectively.

⁽⁵⁾ As of December 31, 2012 Omega Finance Group held 89.58% of the ordinary and 62.68% of the preferred shares of Aviamotor with a fair value of US dollars 1,480 thousand. As of December 31, 2011 Omega Finance Group held 78.48% of the ordinary and 62.68% of the preferred shares of Aviamotor with a fair value of US dollars 1,140 thousand.

⁽⁶⁾ Due to the reorganization of Tatenergo, OJSC Syazinvestneftekhim received 100% ownership of Generation Company and Tatenergobyt, 66.87% ownership of Kazan Heat Network Company and 98.41% ownership of Naberezhnye Chelny Heat Network Company. These companies were transferred from Tatenergo ownership to OJSC Syazinvestneftekhim in February 2012.

The schedules of investments are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 11 to 22.

1. Background

(a) Organisation and operations

Open Joint Stock Company "Svyazinvestneftekhim" (the Company) is located in Kazan, Republic of Tatarstan, Russian Federation. The Company was incorporated as an open joint stock company on April 11, 2003 and its primary activity is investments into equity securities of companies located in the Republic of Tatarstan.

(b) Russian business environment

The Company's operations are primarily located in the Russian Federation. Consequently, the Company is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The accompanying financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

2. Basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The Company follows specialized investment accounting practices contained in ASC Topic 946 Financial Services – Investment Companies (the Guide), which requires investment companies to account for their investments at fair value, as opposed to consolidation or equity methods, as such provides more useful information to users of the financial statements regarding performance of an investment company.

(b) Functional and reporting currency

The Company conducted an assessment of its operations and determined the Russian Rouble to be its functional currency. The Company elected to use the US dollar as its reporting currency in these financial statements.

For the years ended December 31, 2012 and 2011, translation from the functional currency to reporting currency is performed as follows:

- all assets and liabilities are translated from the functional to the reporting currency at the exchange rate effective at the reporting date
- net asset items are translated from the functional to reporting currency at their historical exchange rates
- statement of comprehensive income transactions are translated from the functional to reporting currency at the approximate rates ruling at the dates of the transactions.

All translation adjustments are included in other comprehensive income in accordance with ASC Subtopic 830-30, Foreign Currency Matters – Translation of Financial Statements.

As of December 31, 2012 and December 31, 2011 exchange rates of 30.37 and 32.20 Russian Roubles to the US dollar, respectively, are used for translation purposes. The weighted average exchange rates used are 31.07 and 29.39 Russian Roubles to the US dollar for the years ended December 31, 2012 and 2011, respectively.

2. Basis of preparation (continued)

(c) Convertibility of the Russian Rouble

The Russian Rouble is not a convertible currency outside the Russian Federation. Accordingly, any conversion of Russian Rouble amounts to US dollars should not be construed as a representation that Russian Rouble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

3. Significant accounting policies

The following significant accounting policies are consistently applied in the preparation of the financial statements.

(a) Use of estimates

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with US GAAP. Significant items subject to such estimates and assumptions include the valuation of investments. Actual results could differ from those estimates.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits with an initial term of less than three months.

(c) Investments

Investments are carried at their fair values. Investments for which market quotations in an active market are available are valued at the closing bid price on the reporting date. Investments that are not publicly traded and for which no quotations in an active market are available are valued at their fair value as determined in good faith by management. In making the good faith determination, the fair value is adjusted when transactions or developments indicate that a change in carrying value of the investment is appropriate. Reductions to the carrying value of these investments are made when the estimate of fair value declines below the carrying value.

Because of the inherent uncertainty of fair value estimation, fair values determined by the management may differ significantly from the values that would have been used had an active market for the investments existed, and the differences could be material.

(d) Trade and other receivables

Trade and other receivables are recorded at their transaction amounts less an allowance for doubtful debts. An allowance for doubtful debts is recorded to the extent that there is a likelihood that any of the amounts due will not be collected.

(e) Fixed assets

Fixed assets are stated at cost net of accumulated depreciation. Fixed assets are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease. The estimated useful lives are as follows:

- Buildings 30 years
- Other 3 to 7 years

(f) Interest-bearing liabilities

Interest-bearing borrowings are initially recorded at the value of net proceeds received. Any difference between the net proceeds and the redemption value is amortised at a constant rate over the term of the borrowing.

3. Significant accounting policies (continued)

(g) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in net assets. Repurchased shares are classified as treasury shares and are presented as a deduction from total net assets.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(h) Income tax

Income taxes are accounted for under the asset and liability method in accordance with ASC Topic 740, Income Taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Deferred taxes are recorded for the initial recognition of assets or liabilities in transactions that at the time of the transaction affects neither accounting profit nor taxable profit. Current and deferred taxes are recognized in the statement of comprehensive income except to the extent they relate to items directly recognized in equity, in which case they are recognized in equity or other comprehensive income.

(i) Revenue and expense recognition

Investment transactions are recorded as of the transaction date. Realized and unrealized gains and losses on investment securities are recorded in the statement of comprehensive income. Interest and dividend income is recognized on an accrual basis with dividend income being accrued when the dividend is declared.

(j) Employee benefits

The Company pays into the Russian Federation State Pension Fund a percentage of each employee's wage based on a scale as specified in and required by the Russian Tax Code. These amounts are expensed when they are incurred.

(k) Operating lease payments

Payments made under operating leases are recognized in the statement of comprehensive income as expenses as incurred.

(l) Fair Value Measurements

The Company applies the provisions of ASC Topic 820, Fair Value Measurements and Disclosures, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

4. Cash and cash equivalents

Cash and cash equivalents comprise local bank account balances and bank deposits with an initial term of less than three months.

<i>In thousands of US dollars</i>	December 31, 2012	December 31, 2011
Rouble bank deposits at Ak Bars Bank – related party	32,923	31,060
Rouble bank accounts at Ak Bars Bank – related party	20,029	22,330
US dollar bank account at Ak Bars Bank – related party	735	1,668
Rouble bank account at Commerzbank	22	119
Rouble bank accounts at Zenit Bank – related party	67	63
	53,776	55,240

As of December 31, 2012 and December 31, 2011 the effective interest rates on bank accounts and bank deposits are 0.02% and 0.30%, respectively.

5. Deposits placed

<i>In thousands of US dollars</i>	December 31, 2012	December 31, 2011
Rouble bank deposits at Ak Bars Bank – related party	190,069	381,170
Rouble bank deposits at Tatfondbank	69,171	65,240
US dollar deposits at Commerzbank	9,708	9,839
Rouble bank deposits at Rosselkhozbank	-	9,318
	268,948	465,567

As of December 31, 2012 and 2011, the Company holds a deposit of US dollars 9,708 thousand with an interest rate of 0.6% and US dollars 9,839 thousand with an interest rate of 0.85%, respectively at Commerzbank as a collateral for interest payments on long-term loan participation notes issued by the Company (note 7).

Included in deposits placed as of December 31, 2012 are Rouble denominated deposits of US dollars 90,638 thousand with an effective interest rate of 8.0% maturing in 2013 and US dollars 99,431 thousand with an interest rate of 9.5% maturing in 2015, both of which are placed at Ak Bars Bank, and US dollars 69,171 thousand with an interest rate of 8.0% maturing in 2016, placed at Tatfondbank.

Included in deposits placed as of December 31, 2011 are Rouble denominated deposits of US dollars 173,941 thousand with an effective interest rate of 8.0% maturing in 2012 and US dollars 207,229 thousand with an interest rate of 9.5% maturing in 2012, both of which are placed at Ak Bars Bank, US dollars 65,240 thousand with an interest rate of 8.0% maturing in 2016, placed at Tatfondbank, and US dollars 9,318 thousand with an interest rate of 2.0% maturing in 2012, placed at Rosselkhozbank.

6. Accounts receivable and other assets

<i>In thousands of US dollars</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Loan issued to Sinek Investments & Development Limited - related party	229,768	-
Loans issued to First Development Corporation - related party	48,010	40,094
Loans issued to Holding Company Ak Bars - related party	38,290	-
Loan issued to Aviacompany Tatarstan	17,096	9,262
Fixed assets, net	53,490	47,708
Other assets	6,974	4,956
	<u>393,628</u>	<u>102,020</u>

The loan issued to Sinek Investment & Development Limited in the amount of US dollars 229,768 thousand with an interest rate of 5.5% maturing in 2016 is granted for the purchase of Ak Bars Luxembourg SA (related party) loan participation notes. The loan participation notes have a coupon rate of 8% and mature in 2022.

7. Long-term loan participation notes

<i>In thousands of US dollars</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Long-term loan participation notes	<u>256,122</u>	<u>255,500</u>

In August 2005, the Company issued 7.7% long-term loan participation notes with a nominal value of US dollars 250,000 thousand maturing in August 2015, with a semi-annual interest payment. Under the terms of the long-term loan participation notes as at December 31, 2012 and 2011, the Company is required to hold one semi-annual interest payment of US dollars 9,708 thousand and US dollars 9,839 thousand, respectively as a collateral at Commerzbank (note 5) until August 2015. The Ministry of the Republic of Tatarstan issued a guarantee of Russian roubles 13,000,000 thousand (US dollars 428,054 thousand as of December 31, 2012) on behalf of the Company in respect of these long-term loan participation notes.

8. Loans payable

<i>In thousands of US dollars</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Unsecured loan from the Ministry of Land and Property Relations of the Republic of Tatarstan - related party	32,926	-
Unsecured loan from the Ministry of Finance of the Republic of Tatarstan - related party	-	31,062
	<u>32,926</u>	<u>31,062</u>

At December 31, 2012, the Company has a Russian rouble denominated loan totalling Russian roubles 1 billion (US dollars 32,926 thousand) at an interest rate of 0.001% from the Ministry of Land and Property Relations of the Republic of Tatarstan maturing in December 2013.

At December 31, 2011, the Company has a Russian rouble denominated loan totalling Russian roubles 1 billion (US dollars 31,062 thousand) at an interest rate of 0.001% from the Ministry of Finance of the Republic of Tatarstan that matured in December 2012.

9. Accounts payable and accrued expenses

<i>In thousands of US dollars</i>	December 31, 2012	December 31, 2011
Tax payables	379	799
Other payables	2,710	10,569
	<u>3,089</u>	<u>11,368</u>

10. Deferred tax liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax liabilities as of December 31, 2012 and 2011. These deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
<i>In thousands of US dollars</i>	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Investments	-	-	(1,068,846)	(682,824)	(1,068,846)	(682,824)
Other	4,078	6,342	-	-	4,078	6,342
Net tax assets (liabilities)	<u>4,078</u>	<u>6,342</u>	<u>(1,068,846)</u>	<u>(682,824)</u>	<u>(1,064,768)</u>	<u>(676,482)</u>

The rate of tax applicable for deferred taxes is 20% as of December 31, 2012 and 2011. The majority of the deferred tax liability arises from the amount of income tax the Company would be required to pay if the investment portfolio was sold for its carrying amount.

Movement in temporary differences during the years ended December 31, 2012 and 2011

<i>In thousands of US dollars</i>	Balance January 1, 2012	Translation adjustment	Recognised in income	Balance December 31, 2012
Investments	(682,824)	(48,913)	(337,109)	(1,068,846)
Other	6,342	462	(2,726)	4,078
	<u>(676,482)</u>	<u>(48,451)</u>	<u>(339,835)</u>	<u>(1,064,768)</u>
<i>In thousands of US dollars</i>	Balance January 1, 2011	Translation adjustment	Recognised in income	Balance December 31, 2011
Investments	(812,779)	34,844	95,111	(682,824)
Other	3,848	(165)	2,659	6,342
	<u>(808,931)</u>	<u>34,679</u>	<u>97,770</u>	<u>(676,482)</u>

11. Net assets

Share capital

As of December 31, 2012 and 2011 the authorised share capital comprised 754,900 ordinary shares, and issued and outstanding share capital comprised 544,394 ordinary shares with a par value of 100,000 Roubles each.

During the year ended December 31, 2011, the Company entered into a non-cash transaction whereby the Company issued 1,735 ordinary shares with a par value of 100,000 Roubles per share to the shareholder in exchange for ordinary shares of First Transport Corporation, ordinary shares of Ak Bars Holding Company and fixed assets with a total fair value of US dollars 15,603 thousand.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Company determined according to legislation in the Russian Federation. At December 31, 2012 and 2011 the retained earnings available for distribution according to legislation in the Russian Federation amounts to US dollars 5,806,602 thousand and US dollars 3,575,809 thousand, respectively (unaudited).

Dividends of US dollars 9,342 thousand or US dollars 17.16 per share were declared and paid during 2011.

12. Dividends

Dividends declared by investee companies and recognised as revenue during the years ended December 31, 2012 and 2011 (net of withholding tax) amount to US dollars 202,877 thousand and US dollars 145,684 thousand, respectively.

13. Charitable donations

<i>In thousands of US dollars</i>	December 31, 2012	December 31, 2011
Football Club Rubin	84,251	74,437
Publishing House on Bauman Street – related party	28,797	3,284
Tugan II	7,265	3,572
Kazanorgsintez – related party	4,184	-
First Development Corporation – related party	3,869	8,787
Basketball club "Uniks"	3,218	6,294
Neftekhimik	3,218	1,701
Fund of the World Congress of Tatars	2,188	-
ANO Kazan 2013	1,887	1,769
International Swimming Federation "FINA"	1,875	2,117
Other	6,393	5,724
	147,145	107,685

14. Income tax expense/(benefit)

<i>In thousands of US dollars</i>	December 31, 2012	December 31, 2011
<i>Current tax expense</i>		
Current year expense	3,535	4,574
<i>Deferred tax expense</i>		
Reversal of temporary differences	339,835	(97,770)
	343,370	(93,196)

The applicable tax rate is the corporate income tax rate of 20% for the years ended December 31, 2012 and 2011.

Reconciliation of effective tax rate

<i>In thousands of US dollars</i>	December 31, 2012	December 31, 2011
Net increase (decrease) in net assets before income taxes	1,751,677	(389,927)
Income tax at applicable tax rate	350,335	(77,985)
Non-taxable items (dividends)	(40,575)	(29,137)
Non-deductible items (charitable donations)	33,610	13,926
Income tax expense/(benefit)	343,370	(93,196)

15. Commitments and contingencies

Litigation

Management is unaware of any actual, pending or threatened claims against the Company.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, and official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges.

A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretation of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

16. Related parties

Principal shareholder

The shareholder of the Company is the Ministry of Land and Property Relationship of the Republic of Tatarstan with a holding of 100%. The Government of the Republic of Tatarstan also owns, controls, or has influence over the operations of many other significant companies and enterprises in the Republic of Tatarstan and has a significant influence on the local economy. The Company's activities are significantly linked to companies owned or controlled by the Government.

Included in interest income for the years ended December 31, 2012 and 2011 are US dollars 33,285 thousand and US dollars 36,668 thousand, respectively, of interest income received from related parties.

Included in interest expense for the years ended December 31, 2012 and 2011 are US dollars 19,144 thousand and US dollars 19,392 thousand, respectively, of interest expense paid to related parties.

Related party balances and guarantees outstanding as of December 31, 2012 and 2011 are included in notes 4, 5, 6, 8 and 13.

17. Financial highlights

According to the Guide, financial highlights should consist of total return, ratio of expenses to average net assets and ratio of net investment income to average net assets for the reporting periods.

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Ratios to average net assets		
Ratio of net investment income	1.02%	0.89%
Ratio of expenses	(2.62%)	(2.24%)
Total return	30.96%	(9.50%)

Ratios to average net assets are computed as the annual net investment income and expenses divided by the average net assets.

Total return represents the change in net assets during the year divided by the beginning of the year balance of net assets.

18. Acquisition cost

The acquisition cost of investments is as follows:

<i>In thousands of US dollars</i>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Cost of investments contributed by the shareholder	1,824,659	1,825,002
Cost of investments purchased from other parties	244,449	243,708
	<u>2,069,108</u>	<u>2,068,710</u>

19. Fair values

The Company estimates that the fair value of its financial assets and liabilities is not materially different from their carrying values. The estimate of fair value is subject to management judgment and economic uncertainties, and should not be interpreted as being realisable in an immediate settlement of the instruments.

When estimating the fair value of financial assets and liabilities that are not quoted in an active market, the Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair values of investments based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The fair value measurements for investments that are measured at fair value on a recurring basis are categorized as follows:

	Total Assets	Fair Value measurements - investments	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012	8,917,118	8,200,766	6,135,290	-	2,065,476
December 31, 2011	6,747,229	6,124,402	4,184,319	-	1,940,083

A roll forward of activity of investments categorized as Level 3 investments for the years ended 31 December 2012 and 2011 is as follows:

In thousands of US dollars

Balance as at January 1, 2012	1,940,083
Net increase in unrealised appreciation on investments:	125,381
Included in net increase in net assets	8,708
Included in other comprehensive income (translation difference)	116,673
Purchases	741
Sales	(729)
Balance as at December 31, 2012	2,065,476
Total gain for the year included in changes in net assets attributable to the change in unrealized gain relating to investments still held at December 31, 2012	125,381

19. Fair values (continued)

In thousands of US dollars

Balance as at January 1, 2011	2,600,519
Net decrease in unrealised appreciation on investments:	(688,290)
Included in net decrease in net assets	(599,133)
Included in other comprehensive income (translation difference)	(89,157)
Purchases	44,125
Settlements	(16,271)
Balance as at December 31, 2011	<u>1,940,083</u>

Total loss for the year included in changes in net assets attributable to the change in unrealized gain relating to investments still held at December 31, 2011	<u>(688,290)</u>
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As of December 31, 2012 the fair values of investments measured using significant unobservable inputs, except for the investment in Generation Company, are determined based on market values of similar companies adjusted for company illiquidity, control premium and other company specific non-observable inputs. The most significant investment in Level 3 is the investment in Generation Company. To estimate its fair value as of December 31, 2012 a discounted cash flow ("DCF") model was used. The valuation technique used to determine the fair value of the investment in Generation Company has changed from the market approach as of December 31, 2011 to the income approach as of December 31, 2012, which management believes results in a measurement that is more representative of fair value. The following key assumptions were used in the DCF model:

- cash flows are projected based on Generation Company's business plan and the 18-year forecast
- regulated and market electricity prices are estimated to grow at 4.3% and 10.0% compound annual growth rate, respectively, during the forecast period
- regulated and market capacity prices are estimated to grow at 2.4% and 4.1% compound annual growth rate, respectively, during the forecast period
- the cash flow forecasts are discounted to their present value at the nominal weighted average cost of capital of 12.22%

These estimates are particularly sensitive to the following assumptions as of December 31, 2012:

- increase of 0.5 percentage points in the discount rate would have caused a decrease in fair value of the investment in Generation Company by US dollars 100 million
- decrease of one percentage point in market electricity prices for the forecast period would have caused a decrease in fair value of the investment in Generation Company by US dollars 139 million
- decrease of one percentage point in market capacity prices for the forecast period would have caused a decrease in fair value of the investment in Generation Company by US dollars 19 million

As of December 31, 2011 the fair values of investments measured using significant unobservable inputs are determined based on market values of similar companies adjusted for company illiquidity, control premium and other company specific non-observable inputs. The most significant investment in Level 3 is the investment in Tatenergo.

The main inputs used to estimate the fair value of the investment in Tatenergo as of December 31, 2011 are:

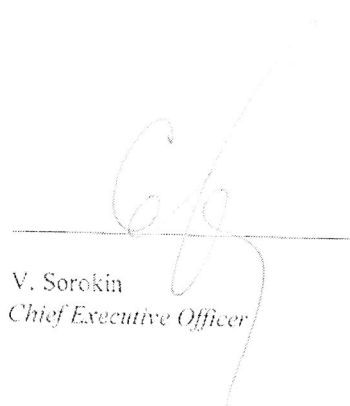
- multiples of Enterprise Value/Installed Capacity ratio varying from 0.24 to 0.25 and Enterprise Value/Sales ratio varying from 0.71 to 0.79
- marketability discount of 50%
- control premium of 30%

These estimates are particularly sensitive to the following assumptions as of December 31, 2011:

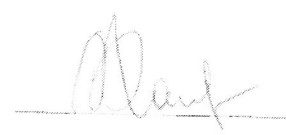
- decrease of five percentage points in multiples of Enterprise Value/Installed Capacity ratio would have caused a decrease in fair value of the investment in Tatenergo by US dollars 19,922 thousand
- decrease of five percentage points in multiples of Enterprise Value/Sales ratio would have caused a decrease in fair value of the investment in Tatenergo by US dollars 11,928 thousand
- increase of five percentage points in marketability discount would have caused a decrease in fair value of the investment in Tatenergo by US dollars 32,994 thousand
- decrease of five percentage points in control premium would have caused a decrease in fair value of the investment in Tatenergo by US dollars 20,635 thousand

20. Subsequent events

The Company has evaluated subsequent events from December 31, 2012 through April 29, 2013, the date at which the financial statements were available to be issued, and determined there are no other items to disclose.



V. Sorokin
Chief Executive Officer



A. Khayrullin
Chief Financial Officer