
**Open Joint Stock Company
“Svyazinvestneftekhim”**

Financial Statements
for the six-month periods ended
June 30, 2013 and 2012
(Unaudited)

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Independent Auditors' Review Report

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

Report on the financial statements

We have reviewed the accompanying balance sheet of Open Joint Stock Company "Svyazinvestneftekhim" (the Company), including the schedule of investments, as of June 30, 2013, and the statements of comprehensive income, changes in net assets and cash flows for the six-month periods ended June 30, 2013 and 2012.

Management's Responsibility

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with U.S. generally accepted accounting principles; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with U.S. generally accepted accounting principles.

Auditors' Responsibility

Our responsibility is to conduct our reviews in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

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.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with U.S. generally accepted accounting principles.

Other matter

The financial statements include investments valued at US dollars 1,993,660 thousand as of June 30, 2013 (25% of total assets) and US dollars 2,065,476 thousand as of December 31, 2012 (23% of total assets), whose values are estimated by the management in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the difference could be material.



Kolosov A.E.

Director

Power of attorney dated 3 October 2011 No. 3771

ZAO KPMG

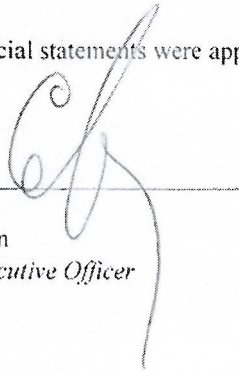
24 September 2013

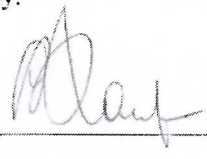
Moscow, Russian Federation



<i>In thousands of US dollars</i>	Note	June 30, 2013 (unaudited)	December 31, 2012
Assets			
Investments, at fair value (cost at June 30, 2013 US dollars 2,069,360 thousand and at December 31, 2012 US dollars 2,069,108 thousand, refer to note 18)		7,058,281	8,200,766
Cash and cash equivalents	4	36,374	53,776
Deposits placed	5	166,342	268,948
Accounts receivable and other assets	6	585,010	393,628
Total assets		7,846,007	8,917,118
Liabilities			
Long-term loan participation notes	7	256,288	256,122
Loans payable	8	30,575	32,926
Accounts payable and accrued expenses	9	3,037	3,089
Deferred tax liabilities	10	870,942	1,064,768
Total liabilities		1,160,842	1,356,905
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 (loss) income		(145,297)	376,795
Retained earnings		4,732,307	5,085,263
Total net assets		6,685,165	7,560,213
Total liabilities and net assets		7,846,007	8,917,118

The financial statements were approved on September 24, 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 12 to 22.

<i>In thousands of US dollars</i>	<u>Note</u>	<u>Six-month period ended June 30, 2013 (unaudited)</u>	<u>Six-month period ended June 30, 2012 (unaudited)</u>
Dividends (net of withholding taxes)	12	235,939	205,018
Interest income		17,684	20,490
Investment income		253,623	225,508
Interest expense		(9,894)	(9,734)
Administrative expenses		(3,269)	(2,397)
Charitable donations	13	(109,642)	(84,126)
Legal and professional expenses		(954)	(618)
Loss on disposal of fixed assets		(143)	-
Total expenses		(123,902)	(96,875)
Net investment income		129,721	128,633
Net (decrease) increase in unrealised appreciation on investments		(586,627)	360,389
Net foreign exchange loss		(18,500)	(5,048)
Net (loss) gain on investments		(605,127)	355,341
Net (decrease) increase in net assets before income taxes		(475,406)	483,974
Income tax benefit (expense)	14	122,450	(73,768)
Net (decrease) increase in net assets resulting from operations		(352,956)	410,206
Foreign currency translation adjustment		(522,092)	(137,337)
Other comprehensive loss		(522,092)	(137,337)
Total comprehensive (loss) income		(875,048)	272,869



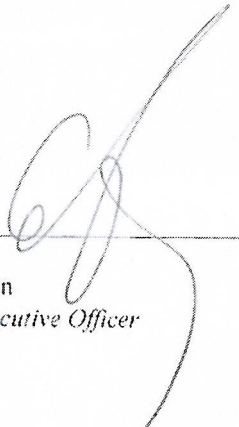
 V. Sorokin
 Chief Executive Officer




 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 12 to 22.

<i>In thousands of US dollars</i>	<u>Note</u>	<u>Six-month period ended June 30, 2013 (unaudited)</u>	<u>Six-month period ended June 30, 2012 (unaudited)</u>
Cash flows from operating activities			
Acquisition of investments		-	(10,532)
Interest and dividend receipts		63,125	23,792
Interest paid		(9,461)	(9,686)
Cash paid for legal and professional services and administration costs		(3,090)	(2,290)
Foreign currency payments		(209)	(394)
Charitable donations paid		(109,642)	(84,126)
Taxes paid		(1,714)	(3,016)
Loans issued		(41,990)	(5,501)
Cash paid for other assets		(617)	(3,991)
Deposits withdrawn		88,681	94,552
Cash flows used in operating activities		<u>(14,917)</u>	<u>(1,192)</u>
Net decrease in cash and cash equivalents		(14,917)	(1,192)
Cash and cash equivalents at the beginning of period		53,776	55,240
Effect of exchange rate fluctuations		(2,485)	(808)
Cash and cash equivalents at the end of period	4	<u>36,374</u>	<u>53,240</u>

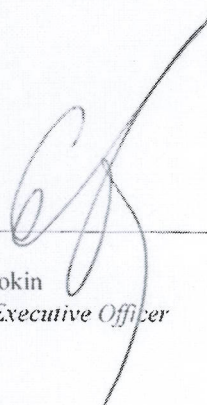

V. Sorokin
Chief Executive Officer

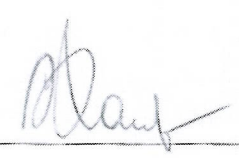

A. Khayrullin
Chief Financial Officer

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 12 to 22.

Open Joint Stock Company "Svyazinvestneftekhim"
Statements of changes in net assets for the six-month periods ended June 30, 2013 and 2012

<i>In thousands of US dollars</i>	Number of shares	Share capital	Additional paid in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total
Balances as of January 1, 2012	544,394	1,741,980	356,175	(2,304)	3,676,966	5,772,817
Net investment income	-	-	-	-	128,633	128,633
Net gain on investments	-	-	-	-	355,341	355,341
Income tax expense	-	-	-	-	(73,768)	(73,768)
Translation adjustment	-	-	-	(137,337)	-	(137,337)
Total comprehensive income	-	-	-	(137,337)	410,206	272,869
Balances as of June 30, 2012 (unaudited)	544,394	1,741,980	356,175	(139,641)	4,087,172	6,045,686
Balance as of January 1, 2013	544,394	1,741,980	356,175	376,795	5,085,263	7,560,213
Net investment income	-	-	-	-	129,721	129,721
Net loss on investments	-	-	-	-	(605,127)	(605,127)
Income tax benefit	-	-	-	-	122,450	122,450
Translation adjustment	-	-	-	(522,092)	-	(522,092)
Total comprehensive loss	-	-	-	(522,092)	(352,956)	(875,048)
Balances as of June 30, 2013 (unaudited)	544,394	1,741,980	356,175	(145,297)	4,732,307	6,685,165


V. Sorokin
Chief Executive Officer


A. Khayrullin
Chief Financial Officer

The statements of changes in net assets are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 12 to 22.

<i>In thousands of US dollars</i>		June 30, 2013 (unaudited)			December 31, 2012		
		Acquisition Value	Fair Value	Direct owner- ship ⁽²⁾	Acquisition Value	Fair Value	Direct owner- ship ⁽²⁾
Investment by Industry⁽¹⁾							
Financial Services (10.35%)							
<i>Ak Bars Bank</i>							
- ordinary shares		169,893	56,734	18.49%	169,893	84,767	18.49%
<i>Ak Bars Holding Company</i>							
- ordinary shares		10,144	7,100	18.73%	10,144	8,100	18.73%
<i>Sinek Investment & Development limited⁽³⁾</i>							
- ordinary shares		112,392	89,267	100.00%	112,392	103,234	100.00%
<i>Investneftekhim⁽⁴⁾</i>							
- ordinary shares		125,706	504,547	99.99%	125,706	543,544	99.99%
<i>Omega Finance Group⁽⁵⁾</i>							
- ordinary shares		2,142	950	50.00%	2,142	1,100	50.00%
<i>First Transport Corporation</i>							
- ordinary shares		815	900	100.00%	815	1,480	100.00%
<i>Tatneftekhiminvest Holding</i>							
- ordinary shares		1,120	71,400	48.97%	1,120	83,400	48.97%
Financial Services		422,212	730,898		422,212	825,625	
Telecommunication (1.58%)							
<i>Tattelecom</i>							
- ordinary shares		50,426	111,800	87.20%	50,426	133,200	87.20%
Telecommunication		50,426	111,800		50,426	133,200	
Chemical (6.27%)							
<i>Kazanorgsintez</i>							
- ordinary shares		17,000	85,331	26.64%	17,000	88,938	26.64%
<i>Nizhnekamskneftekhim</i>							
- ordinary shares		163,232	357,010	25.21%	163,232	446,012	25.21%
<i>NII Neftepromkhim</i>							
- ordinary shares		61	80	25.00%	61	90	25.00%
Chemical		180,293	442,421		180,293	535,040	
Manufacturing (1.29%)							
<i>Kazan Engine Building Plant</i>							
- ordinary shares		11,502	91,000	49.22%	11,502	152,000	49.22%
Manufacturing		11,502	91,000		11,502	152,000	
Building and Construction (0.06%)							
<i>First Development Corporation</i>							
- ordinary shares		9,821	4,560	78.62%	9,718	4,350	77.68%
Building and Construction		9,821	4,560		9,718	4,350	

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 12 to 22.

<i>In thousands of US dollars</i>	June 30, 2013 (unaudited)			December 31, 2012		
	Acquisition Value	Fair Value	Direct ownership ⁽²⁾	Acquisition Value	Fair Value	Direct ownership ⁽²⁾
Investment by Industry⁽¹⁾						
Oil and Gas (65.1%)						
<i>Tatneft</i>						
- ordinary shares	584,261	4,189,002	30.44%	584,261	5,075,381	30.44%
- preferred shares	45	280	0.01%	45	340	0.01%
<i>Nefteconsortium</i>						
- ordinary shares	230	2,500	25.02%	230	2,500	25.02%
<i>North-West Trunk Pipelines</i>						
- ordinary shares	58,000	393,000	36.00%	58,000	411,000	36.00%
<i>Tatnefteproduct</i>						
- ordinary shares	2,000	8,400	34.20%	2,000	7,800	34.20%
<i>Nizhnekamsky Oil Refinery</i>						
- ordinary shares	64	-	9.00%	64	2,200	9.00%
<i>Oil and gas technology</i>						
- ordinary shares	700	1,500	26.00%	700	1,600	26.00%
Oil and Gas	645,300	4,594,682		645,300	5,500,821	
Pharmaceutical (0.71%)						
<i>Tatchimpharmpreparaty</i>						
- ordinary shares	2,000	50,000	100.00%	2,000	30,000	100.00%
Pharmaceutical	2,000	50,000		2,000	30,000	
Energy (14.25%)						
<i>Tatenergo</i>						
- ordinary shares	18,093	18,700	100.00%	18,093	21,500	100.00%
<i>Generation company</i>						
- ordinary shares	620,971	882,000	100.00%	620,971	867,000	100.00%
<i>Kazan Heat Network Company</i>						
- ordinary shares	41,632	47,000	66.87%	41,632	48,800	66.87%
<i>Naberezhnye Chelny Heat Network Company</i>						
- ordinary shares	24,329	27,500	98.41%	24,329	25,800	98.41%
<i>Tatenergosbyt</i>						
- ordinary shares	35,572	30,300	100.00%	35,572	34,200	100.00%
<i>Tatenergosspetsremont</i>						
- ordinary shares	744	120	51.00%	744	130	51.00%
Energy	741,341	1,005,620		741,341	997,430	
Hospitality (0.39%)						
<i>Publishing House in Bauman street</i>						
- ordinary shares	6,465	27,300	99.01%	6,316	22,300	99.00%
Hospitality	6,465	27,300		6,316	22,300	
	2,069,360	7,058,281		2,069,108	8,200,766	

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 12 to 22.

All investments are in companies operating in Russia

⁽¹⁾ Percentages indicated are based on the investment portfolio as of June 30, 2013 and December 31, 2012, respectively.

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

⁽³⁾ As of June 30, 2013 and December 31, 2012 Sinek Investment & Development limited held 9.21% of the ordinary shares of Ak Bars Bank with a fair value of US dollars 28,266 thousand and 42,233 thousand, respectively.

⁽⁴⁾ As of June 30, 2013 Investneftekhim held 3.36% of the ordinary shares of Tatneft with a fair value of US dollars 432,998 and 21.38% of the ordinary shares of First Development Corporation with a fair value of US dollars 1,240 thousand.

As of December 31, 2012 Investneftekhim held 3.36% of the ordinary shares of Tatneft with a fair value of US 524,619 thousand and 22.32% of the ordinary shares of First Development Corporation with a fair value of US dollars 1,250 thousand.

⁽⁵⁾ As of June 30, 2013 and 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 950 thousand and US dollars 1,100 thousand, respectively.

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 12 to 22.

1. Background

(a) Organisation and operations

The 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.

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 June 30, 2013 and December 31, 2012 exchange rates of 32.71 and 30.37 Russian Roubles to the US dollar, respectively, are used for translation purposes. The weighted average exchange rates used are 31.05 and 30.57 Russian Roubles to the US dollar for the six-month periods ended June 30, 2013 and 2012, 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 U.S. 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 are readily available are valued at the closing bid price on the reporting date. Investments that are not publicly traded and for which no quotations are readily available are valued at their fair value as determined in good faith by the 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 securities 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 valuation, fair values determined by the management may differ significantly from the values that would have been used had a ready 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. 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 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.

	June 30, 2013 (unaudited)	December 31, 2012
<i>In thousands of US dollars</i>		
Rouble bank deposits at Ak Bars Bank – related party	30,573	32,923
Rouble bank accounts at Ak Bars Bank – related party	5,069	20,029
US dollar bank account at Ak Bars Bank – related party	654	735
Rouble bank accounts at Zenit Bank – related party	62	67
Rouble bank account at Commerzbank	16	22
	36,374	53,776

As of June 30, 2013 the effective interest rates on bank accounts and bank deposits are 0.07% and 0.30%, respectively.

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

5. Deposits placed

	June 30, 2013 (unaudited)	December 31, 2012
<i>In thousands of US dollars</i>		
Rouble bank deposits at Ak Bars Bank – related party	92,385	190,069
Rouble bank deposits at Tatfondbank	64,231	69,171
US dollar deposits at Commerzbank	9,726	9,708
	166,342	268,948

As of June 30, 2013 and December 31, 2012 the Company holds a deposit of US dollars 9,726 thousand and US dollars 9,708 thousand, respectively, at Commerzbank with an interest rate of 0.85% as a collateral for interest payments on long-term loan participation notes issued by the Company (note 7).

Included in deposits placed as of June 30, 2013 are Rouble denominated deposits of US dollars 92,385 thousand with an effective interest rate of 9.5% maturing in 2015, placed at Ak Bars Bank, and US dollars 64,231 thousand with an interest rate of 8% maturing in 2016, placed at Tatfondbank.

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.

6. Accounts receivable and other assets

	June 30, 2013 (unaudited)	December 31, 2012
<i>In thousands of US dollars</i>		
Loan issued to Sinek Investments & Development Limited - related party	212,182	229,768
Dividends receivable	180,732	-
Loans issued to First Development Corporation – related party	60,500	48,010
Loans issued to Holding Company Ak Bars - related party	60,048	38,290
Fixed assets, net	48,623	53,490
Loan issued to Aviacompany Tatarstan	16,498	17,096
Other assets	6,427	6,974
	585,010	393,628

The loan issued to Sinek Investment & Development Limited in the amount of US dollars 212,182 thousand (US dollars 229,768 thousand as of December 31, 2012) 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

	June 30, 2013 (unaudited)	December 31, 2012
<i>In thousands of US dollars</i>		
Long-term loan participation notes	256,288	256,122

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 June 30, 2013 and December 31, 2012 the Company is required to hold one semi-annual interest payment of US dollars 9,726 thousand and US dollars 9,708 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 397,444 thousand as of June 30, 2013) on behalf of the Company in respect of these long-term loan participation notes.

8. Loans payable

	June 30, 2013 (unaudited)	December 31, 2012
<i>In thousands of US dollars</i>		
Unsecured loan from the Ministry of Land and Property Relations of the Republic of Tatarstan – related party	30,575	32,926
	30,575	32,926

At June 30, 2013 and December 31, 2012, the Company has a Russian rouble denominated loan totalling Russian roubles 1 billion (US dollars 30,575 thousand and US dollars 32,926 thousand, respectively) at an interest rate of 0.001% from the Ministry of Land and Property Relations of the Republic of Tatarstan maturing in December 2013.

9. Accounts payable and accrued expenses

	June 30, 2013 (unaudited)	December 31, 2012
<i>In thousands of US dollars</i>		
Tax payables	570	379
Other payables	2,467	2,710
	<u>3,037</u>	<u>3,089</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 June 30, 2013 and December 31, 2012. These deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
<i>In thousands of US dollars</i>	June 30, 2013 (unaudited)	December 31, 2012	June 30, 2013 (unaudited)	December 31, 2012	June 30, 2013 (unaudited)	December 31, 2012
Investments	-	-	(876,496)	(1,068,846)	(876,496)	(1,068,846)
Other	5,554	4,078	-	-	5,554	4,078
Net tax assets/(liabilities)	<u>5,554</u>	<u>4,078</u>	<u>(876,496)</u>	<u>(1,068,846)</u>	<u>(870,942)</u>	<u>(1,064,768)</u>

The rate of tax applicable for deferred taxes is 20% as of June 30, 2013 and December 31, 2012. 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 six-month periods ended June 30, 2013 and 2012

<i>In thousands of US dollars</i>	Balance January 1, 2013	Translation adjustment	Recognised in income tax expense	Balance June 30, 2013 (unaudited)
Investments	(1,068,846)	70,023	122,327	(876,496)
Other	4,078	(267)	1,743	5,554
	<u>(1,064,768)</u>	<u>69,756</u>	<u>124,070</u>	<u>(870,942)</u>

<i>In thousands of US dollars</i>	Balance January 1, 2012	Translation adjustment	Recognised in income tax expense	Balance June 30, 2012 (unaudited)
Investments	(682,824)	17,874	(72,057)	(737,007)
Other	6,342	(166)	393	6,569
	<u>(676,482)</u>	<u>17,708</u>	<u>(71,664)</u>	<u>(730,438)</u>

11. Net assets

Share capital

As of June 30, 2013 and December 31, 2012 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.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Company determined according to legislation in the Russian Federation. At June 30, 2013 and December 31, 2012 the retained earnings available for distribution according to legislation in the Russian Federation amounts to US dollars 4,946,945 thousand and US dollars 5,806,602 thousand, respectively (unaudited).

12. Dividends

Dividends declared and recognised as revenue during the six-month periods ended June 30, 2013 and 2012 (net of withholding tax) amount to US dollars 235,939 thousand and US dollars 205,018 thousand, respectively.

13. Charitable donations

	June 30, 2013 (unaudited)	June 30, 2012 (unaudited)
<i>In thousands of US dollars</i>		
Fund of assistance to development of physical training and sports – related party	54,108	-
Football Club Rubin	34,525	51,226
Publishing house in Bauman Street – related party	9,018	10,772
Tugan II	5,628	5,758
First Development Corporation – related party	628	1,660
Kazanorgsintez – related party	-	3,272
ANO Kazan 2013	-	1,864
Fund of the World Congress of Tatars	-	1,799
Other	5,735	7,775
	109,642	84,126

14. Income tax (benefit) expense

	June 30, 2013 (unaudited)	June 30, 2012 (unaudited)
<i>In thousands of US dollars</i>		
Current tax expense		
Current period expense	1,620	2,104
Deferred tax expense		
Origination of temporary differences	(124,070)	71,664
	(122,450)	73,768

The applicable tax rate is the corporate income tax rate of 20% for the six-month periods ended June 30, 2013 and 2012.

14. Income tax (benefit) expense (continued)

Reconciliation of effective tax rate

In thousands of US dollars

	June 30, 2013 (unaudited)	June 30, 2012 (unaudited)
Net (decrease) increase in net assets before income taxes	(475,406)	483,974
Income tax at applicable tax rate	(95,081)	96,795
Non-taxable items (dividends)	(47,188)	(41,004)
Non-deductible items (charitable donations)	19,819	17,977
Income tax (benefit) expense	(122,450)	73,768

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 Relations 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 six-month periods ended June 30, 2013 and 2012 are US dollars 14,326 thousand and US dollars 17,117 thousand, respectively, of interest income received from related parties.

Included in interest expense for six-month periods ended June 30, 2013 and 2012 is US dollars 1 thousand of interest expense paid to related parties.

Related party balances and guarantees outstanding as of June 30, 2013 and of December 31, 2012 are included in notes 4, 5, 6, 7, 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.

	June 30, 2013 (unaudited)	June 30, 2012 (unaudited)
Ratios to average net assets		
Ratio of net investment income	3.64%	4.35%
Ratio of expenses	(3.48%)	(3.28%)
Total return	(23.15%)	9.45%

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

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

18. Acquisition cost

The acquisition cost of investments is as follows:

<i>In thousands of US dollars</i>	June 30, 2013 (unaudited)	December 31, 2012
Cost of investments contributed by the shareholder	1,824,659	1,824,659
Cost of investments purchased from other parties	244,701	244,449
	2,069,360	2,069,108

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.

19. Fair values (continued)

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

	Total	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Assets	measurements - investments			
June 30, 2013	7,846,007	7,058,281	5,064,621	-	1,993,660
December 31, 2012	8,917,118	8,200,766	6,135,290	-	2,065,476

A roll forward of activity of investments categorized as Level 3 investments for the six-month periods ended 30 June 2013 and 2012 is as follows:

In thousands of US dollars

Balance as of January 1, 2013	2,065,476
Net decrease in unrealised appreciation on investments:	(72,068)
Included in net decrease in net assets	79,510
Included in other comprehensive loss (translation difference)	(151,578)
Purchases	252
Balance as of June 30, 2013	1,993,660
Total loss for the period included in changes in net assets attributable to the change in unrealized loss relating to assets still held at June 30, 2013	(72,068)

In thousands of US dollars

Balance as of January 1, 2012	1,940,083
Net decrease in unrealised appreciation on investments:	(291,643)
Included in net decrease in net assets	(273,762)
Included in other comprehensive income (translation difference)	(17,881)
Purchases	43
Sales	(729)
Balance as of June 30, 2012	1,647,754
Total loss for the period included in changes in net assets attributable to the change in unrealized loss relating to assets still held at June 30, 2012	(291,643)

As of June 30, 2013 and 2012 the fair values of investments measured using significant unobservable inputs, except for 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 a discounted cash flow (DCF) model was used. The following key assumptions were used in this model as of June 30, 2013 and December 31, 2012:

- cash flows are projected based on company business plan and using a 17.5-year forecast period (18-year forecast period as of December 31, 2012)


- regulated and market electricity prices were estimated to grow at 4.1% and 9.4% (4.3% and 10.0% as of December 31, 2012) compound annual growth rate (CAGR), respectively, during the forecast period
- regulated and market capacity prices are estimated to grow at 2.4% and 3.8% (2.4% and 4.1% as of December 31, 2012) 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 12.29% (12.22% as of December 31, 2012)


These estimates are particularly sensitive to the following assumptions as of June 30, 2013 and December 31, 2012:

- increase of 0.5 percentage points in the discount rate would cause a decrease in fair value of the investment in Generation Company by US dollars 94 million and US dollars 100 million, respectively
- decrease of one percentage point in market electricity prices for the forecast period would cause a decrease in fair value of the investment in Generation Company by US dollars 134 million and US dollars 139 million, respectively
- decrease of one percentage point in market capacity prices for the forecast period would cause a decrease in fair value of the investment in Generation Company by US dollars 18 million and US dollars 19 million, respectively

20. Subsequent events

The Company has evaluated subsequent events from June 30, 2013 through September 24, 2013, the date at which the financial statements were available to be issued. Subsequent to period end, the shareholder of the Company decided to contribute shares (representing 100% of share capital) of Tatspyrtprom to the Company and in return receive 12,280 additional ordinary shares of the Company with a par value of Roubles 100 thousand per share. The fair value of the shares to be contributed is estimated to be Roubles 5,506,463 thousand as determined by management.



V. Sorokin
Chief Executive Officer

A. Khayrullin
Chief Financial Officer