

Open Joint Stock Company
“Svyazinvestneftekhim”

Financial Statements
for the years ended December 31, 2013 and 2012
(With Auditors' Report Thereon)

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Auditors' Report

To the Board of Directors
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 statements of assets and liabilities, including the schedules of investments, as of December 31, 2013 and 2012, and the related statements of operations, changes in net assets, and cash flows for 2013 and 2012, 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, 2013 and 2012, and the results of its operations and its cash flows for 2013 and 2012 in accordance with U.S. generally accepted accounting principles.

Other matter

The financial statements include investments valued at US dollars 2,273,676 thousand at December 31, 2013 (27% of total assets) and US dollars 2,065,476 thousand at December 31, 2012 (23% of total assets), whose fair values are estimated by the management in the absence of a quoted price in an active market. Those estimated fair 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

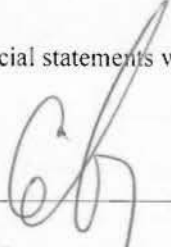
ZAO KPMG

April 30, 2014

Moscow, Russian Federation

<i>In thousands of US dollars</i>	Note	December 31, 2013	December 31, 2012
Assets			
Investments, at fair value (cost at December 31, 2013 US dollars 2,187,501 thousand and at December 31, 2012 US dollars 2,069,108 thousand, refer to note 18)		7,697,478	8,200,766
Cash and cash equivalents	4	43,084	53,776
Deposits placed	5	227,288	268,948
Accounts receivable and other assets, net	6	361,519	393,628
Total assets		8,329,369	8,917,118
Liabilities			
Long-term loan participation notes	7	256,792	256,122
Loans payable	8	30,556	32,926
Accounts payable and accrued expenses	9	2,860	3,089
Deferred tax liabilities	10	970,279	1,064,768
Total liabilities		1,260,487	1,356,905
Net assets	11		
Share capital (authorised 754,900 ordinary shares, issued and outstanding 556,674 ordinary shares and 544,394 ordinary shares at December 31, 2013 and 2012, respectively, with par value of 100 000 Roubles each)		1,780,265	1,741,980
Additional paid in capital		426,890	356,175
Accumulated other comprehensive (loss) income		(168,329)	376,795
Retained earnings		5,030,056	5,085,263
Total net assets		7,068,882	7,560,213
Total liabilities and net assets		8,329,369	8,917,118

The financial statements were approved on April 30, 2014 and signed by:



 V. Sorokin
 Chief Executive Officer

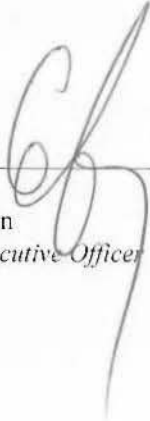


 A. Khayrullin
 Chief Financial Officer

The statements of assets and liabilities are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 12 to 23.

Open Joint Stock Company "Svyazinvestneftekhim"
Statements of operations for the years ended December 31, 2013 and December 31, 2012

<i>In thousands of US dollars</i>	Note	Year ended December 31, 2013	Year ended December 31, 2012
Dividends (net of withholding taxes)	12	230,547	202,877
Interest income		37,845	40,153
Gain (loss) on disposal of fixed assets		160	(98)
Investment income		268,552	242,932
Interest expense		(19,757)	(19,160)
Administrative expenses		(7,135)	(6,617)
Charitable donations	13	(196,869)	(147,145)
Legal and professional expenses		(1,569)	(1,940)
Total expenses		(225,330)	(174,862)
Net investment income		43,222	68,070
Net (decrease) increase in unrealised appreciation on investments		(86,138)	1,670,137
Net realised loss on investments		(166)	(30)
Net foreign exchange (loss) gain		(18,076)	13,490
Net (loss) gain on investments		(104,380)	1,683,597
Net (decrease) increase in net assets before income taxes		(61,158)	1,751,667
Income tax benefit (expense)	14	15,102	(343,370)
Net (decrease) increase in net assets resulting from operations		(46,056)	1,408,297
Foreign currency translation adjustment		(545,124)	379,099
Other comprehensive (loss) income		(545,124)	379,099
Total comprehensive (loss) income		(591,180)	1,787,396


V. Sorokin
Chief Executive Officer


A. Khayrullin
Chief Financial Officer

The statements of operations are to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 12 to 23.

Open Joint Stock Company "Syazinvestneftekhim"
Statements of cash flows for the years ended December 31, 2013 and December 31, 2012

<i>In thousands of US dollars</i>	<u>Note</u>	<u>Year ended December 31, 2013</u>	<u>Year ended December 31, 2012</u>
Cash flows from operating activities			
Acquisition of investments		(32,486)	(85)
Proceeds from sale of investments		1,097	699
Payments for other assets		(791)	(14,016)
Deposits withdrawn		23,454	219,056
Proceeds from disposal of fixed assets		4,463	-
Interest and dividend receipts		264,790	242,908
Interest paid		(19,169)	(19,627)
Payments for legal and professional services and administration costs		(5,818)	(7,819)
Foreign currency receipts (payments)		491	(386)
Charitable donations paid		(184,178)	(147,145)
Taxes paid		(4,226)	(3,444)
Loans issued		(54,623)	(273,716)
Cash flows used in operating activities		<u>(6,996)</u>	<u>(3,575)</u>
Net decrease in cash and cash equivalents		(6,996)	(3,575)
Cash and cash equivalents at the beginning of year		53,776	55,240
Effect of exchange rate fluctuations		(3,696)	2,111
Cash and cash equivalents at the end of year	4	<u>43,084</u>	<u>53,776</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 23.

Open Joint Stock Company "Svyazinvestneftekhim"
Statements of changes in net assets for the years ended December 31, 2013 and December 31, 2012

In thousands of US dollars

	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	-	-	-	-	68,070	68,070
Net gain on investments	-	-	-	-	1,683,597	1,683,597
Income tax expense	-	-	-	-	(343,370)	(343,370)
Translation adjustment	-	-	-	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
Net investment income	-	-	-	-	43,222	43,222
Net loss on investments	-	-	-	-	(104,380)	(104,380)
Income tax benefit	-	-	-	-	15,102	15,102
Translation adjustment	-	-	-	(545,124)	-	(545,124)
Total comprehensive loss	-	-	-	(545,124)	(46,056)	(591,180)
Shares issued (note 11)	12,280	38,285	70,715	-	-	109,000
Distribution to shareholder (note 11)	-	-	-	-	(9,151)	(9,151)
Balances as of December 31, 2013	556,674	1,780,265	426,890	(168,329)	5,030,056	7,068,882


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 23.

In thousands of US dollars

Investment by Industry⁽¹⁾	December 31, 2013			December 31, 2012		
	Acquisition cost	Fair Value	Direct owner-ship⁽²⁾	Acquisition cost	Fair Value	Direct owner-ship⁽²⁾
Financial Services (11.48%)						
<i>Ak Bars Bank</i>						
- ordinary shares	169,893	65,410	18.49%	169,893	84,767	18.49%
<i>Ak Bars Holding Company⁽⁶⁾</i>						
- ordinary shares	7,600	7,600	19.90%	10,144	8,100	18.73%
<i>Sinek Investment & Development Limited⁽³⁾</i>						
- ordinary shares	123,894	201,490	100.00%	112,392	103,234	100.00%
<i>Investneftekhim⁽⁴⁾</i>						
- ordinary shares	126,164	531,507	99.99%	125,706	543,544	99.99%
<i>First Transport Corporation⁽⁴⁾</i>						
- ordinary shares	-	-	-	2,142	1,100	100.00%
<i>Omega Finance Group⁽⁵⁾</i>						
- ordinary shares	-	-	-	815	1,480	50.00%
<i>Tatneftekhiminvest Holding</i>						
- ordinary shares	1,120	77,300	48.97%	1,120	83,400	48.97%
Financial Services	428,671	883,307		422,212	825,625	
Telecommunication (1.38%)						
<i>Tattelecom</i>						
- ordinary shares	50,426	106,300	87.20%	50,426	133,200	87.20%
Telecommunication	50,426	106,300		50,426	133,200	
Chemical (6.24%)						
<i>Kazanorgsintez</i>						
- ordinary shares	17,000	108,442	26.64%	17,000	88,938	26.64%
<i>Nizhnekamskneftekhim</i>						
- ordinary shares	163,232	372,010	25.21%	163,232	446,012	25.21%
<i>NII Neftepromkhim</i>						
- ordinary shares	61	100	25.00%	61	90	25.00%
Chemical	180,293	480,552		180,293	535,040	
Manufacturing (1.42%)						
<i>Kazan Engine Building Plant⁽³⁾</i>						
- ordinary shares	-	-	-	11,502	152,000	49.22%
<i>Tatspirtprom</i>						
- ordinary shares	109,000	109,000	100.00%	-	-	-
Manufacturing	109,000	109,000		11,502	152,000	
Building and Construction (0.06%)						
<i>First Development Corporation</i>						
- ordinary shares	11,505	4,639	78.62%	9,718	4,350	77.68%
Building and Construction	11,505	4,639		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 23.

In thousands of US dollars

Investment by Industry⁽¹⁾	December 31, 2013			December 31, 2012		
	Acquisition cost	Fair Value	Direct owner-ship⁽²⁾	Acquisition cost	Fair Value	Direct owner-ship⁽²⁾
Oil and Gas (64.03%)						
<i>Tatneft</i>						
- ordinary shares	584,261	4,479,930	30.44%	584,261	5,075,381	30.44%
- preferred shares	45	350	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	433,000	36.00%	58,000	411,000	36.00%
<i>Tatnefteproduct</i>						
- ordinary shares	2,000	8,800	34.20%	2,000	7,800	34.20%
<i>Nizhnekamsky Oil Refinery</i>						
- ordinary shares	64	2,200	9.00%	64	2,200	9.00%
<i>Oil and gas technology</i>						
- ordinary shares	700	1,500	25.93%	700	1,600	26.00%
Oil and Gas	645,300	4,928,280		645,300	5,500,821	
Pharmaceutical (0.35%)						
<i>Tatchimpharmpreparaty</i>						
- ordinary shares	2,000	27,000	100.00%	2,000	30,000	100.00%
Pharmaceutical	2,000	27,000		2,000	30,000	
Energy (14.5%)						
<i>Tatenergo</i>						
- ordinary shares	18,093	17,200	100.00%	18,093	21,500	100.00%
<i>Generation company</i>						
- ordinary shares	620,971	992,000	100.00%	620,971	867,000	100.00%
<i>Kazan Heat Network Company</i>						
- ordinary shares	41,632	47,500	66.87%	41,632	48,800	66.87%
<i>Naberezhnye Chelny Heat Network Company</i>						
- ordinary shares	24,329	26,700	98.41%	24,329	25,800	98.41%
<i>Tatenergosbyt</i>						
- ordinary shares	35,572	32,800	100.00%	35,572	34,200	100.00%
<i>Tatenergospetsremont</i>						
- ordinary shares	744	100	51.00%	744	130	51.00%
Energy	741,341	1,116,300		741,341	997,430	
Hospitality (0.38%)						
<i>Publishing House on Bauman Street</i>						
- ordinary shares	6,465	29,600	99.01%	6,316	22,300	99.00%
Hospitality	6,465	29,600		6,316	22,300	

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 23.

In thousands of US dollars

	December 31, 2013			December 31, 2012		
	Acquisition cost	Fair Value	Direct owner- ship ⁽²⁾	Acquisition cost	Fair Value	Direct owner- ship ⁽²⁾
Investment by Industry⁽¹⁾						
Airport operations (0.16%)						
<i>International Kazan Airport</i>						
- ordinary shares	12,500	12,500	14.84%	-	-	-
Airport operations	12,500	12,500		-	-	
	2,187,501	7,697,478		2,069,108	8,200,766	

All investments are in companies operating in Russia.

Notes

⁽¹⁾ Percentages indicated are based on the investment portfolio as of December 31, 2013.

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

⁽³⁾ As of December 31, 2013 and 2012 Sinek Investment & Development Limited held 9.21% of the ordinary shares of Ak Bars Bank with a fair value of US dollars 32,590 thousand and US dollars 42,233 thousand, respectively. In 2013 the Company transferred its 49.22% share in Kazan Engine Building Plant to Sinek Investment & Development Limited.

⁽⁴⁾ As of December 31, 2013 Investneftekhim held 3.36% of the ordinary shares of Tatneft with a fair value of US dollars 463,070 thousand and 21.38% of the ordinary shares of First Development Corporation with a fair value of US dollars 1,261 thousand.

In 2013 the Company transferred its 100% share in First Transport Corporation to First Development Corporation.

As of December 31, 2012 Investneftekhim held 3.36% of the ordinary shares of Tatneft with a fair value of US dollars 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⁾ In 2013 the Company sold its 100% share in Omega Finance Group to Kazan Engine Building Plant.

⁽⁶⁾ In 2013 the Company increased its share in Ak Bars Holding Company to 22.68% and distributed 22.58% to its shareholder. Later that year Ak Bars Holding Company issued 693,819,805 shares representing 19.83% of its share capital to the Company with a fair value of US dollars 7,573 thousand.

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 23.

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 assets items are translated from the functional to reporting currency at their historical exchange rates
- statement of operations 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, 2013 and 2012 exchange rates of 32.73 and 30.37 Russian Roubles to the US dollar, respectively, are used for translation purposes. The weighted average exchange rates used are 31.91 and 31.07 Russian Roubles to the US dollar for the years ended December 31, 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 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 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 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) Loans issued

Loans issued is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at cost including any directly attributable transaction costs. Subsequent to initial recognition loans are measured at amortised cost using the effective interest method, less any impairment losses.

(f) 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

3. Significant accounting policies (continued)

(g) 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.

(h) 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.

(i) 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 operations except to the extent they relate to items directly recognized in net assets, in which case they are recognized in net assets or other comprehensive income.

(j) 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 operations. Interest and dividend income is recognized on an accrual basis with dividend income being accrued when the dividend is declared.

(k) 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.

(l) Operating lease payments

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

(m) 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, 2013	December 31, 2012
Rouble bank deposits at Ak Bars Bank – related party	30,554	32,923
Rouble bank accounts at Ak Bars Bank – related party	11,900	20,029
US dollar bank account at Ak Bars Bank – related party	557	735
Rouble bank account at Commerzbank	11	22
Rouble bank accounts at Zenit Bank – related party	62	67
	43,084	53,776

As of December 31, 2013 and 2012 the effective interest rates on bank accounts and bank deposits are 1.9% and 0.3%, respectively.

5. Deposits placed

<i>In thousands of US dollars</i>	December 31, 2013	December 31, 2012
Rouble bank deposits at Ak Bars Bank – related party	153,380	190,069
Rouble bank deposits at Tatfondbank – related party	64,163	69,171
US dollar deposits at Commerzbank	9,745	9,708
	227,288	268,948

As of December 31, 2013 and 2012, the Company holds a deposit of US dollars 9,745 thousand with an interest rate of 0.35% and US dollars 9,708 thousand with an interest rate of 0.6%, 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, 2013 are Rouble denominated deposits of US dollars 61,108 thousand with an effective interest rate of 8.0% maturing in 2014, US dollars 92,272 thousand with an effective interest rate of 9.5% maturing in 2015, which are placed at Ak Bars Bank, and US dollars 64,163 thousand with an effective interest rate of 8.0% 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 effective 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 effective interest rate of 8.0% maturing in 2016, placed at Tatfondbank.

6. Accounts receivable and other assets

<i>In thousands of US dollars</i>	December 31, 2013	December 31, 2012
Loan issued to Sinek Investments & Development Limited - related party	219,389	229,768
Loans issued to First Development Corporation – related party	66,114	48,010
Loan issued to Aviacompany Tatarstan	16,601	17,096
Loans issued to Ak Bars Aero – related party	9,206	-
Loans issued to Holding Company Ak Bars - related party	-	38,290
Fixed assets, net	44,046	53,490
Other assets	6,163	6,974
	361,519	393,628

As of December 31, 2013 and 2012, the Company has a loan issued to Sinek Investment & Development Limited in the amount of US dollars 219,389 thousand and US dollars 229,768 thousand, respectively, with an interest rate of 5.5% maturing in 2016, which is granted for the purchase of Ak Bars Luxembourg SA (related party) loan participation notes. The loan participation notes have a coupon rate of 8.0% and mature in 2022.

7. Long-term loan participation notes

<i>In thousands of US dollars</i>	December 31, 2013	December 31, 2012
Long-term loan participation notes	256,792	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 December 31, 2013 and 2012, the Company is required to hold one semi-annual interest payment of US dollars 9,745 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 397,199 thousand as of December 31, 2013) on behalf of the Company in respect of these long-term loan participation notes.

8. Loans payable

<i>In thousands of US dollars</i>	December 31, 2013	December 31, 2012
Unsecured loan from the Ministry of Land and Property Relations of the Republic of Tatarstan – related party	30,556	32,926
	30,556	32,926

As of December 31, 2013 and 2012, the Company has a Russian rouble denominated loan totalling Russian roubles 1 billion (US dollars 30,556 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 2016.

9. Accounts payable and accrued expenses

<i>In thousands of US dollars</i>	December 31, 2013	December 31, 2012
Tax payables	179	379
Other payables	2,681	2,710
	2,860	3,089

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, 2013 and 2012. These deferred tax assets and liabilities are attributable to the following items:

<i>In thousands of US dollars</i>	Assets		Liabilities		Net	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Investments	-	-	(977,429)	(1,068,846)	(977,429)	(1,068,846)
Other	7,150	4,078	-	-	7,150	4,078
Net tax assets (liabilities)	7,150	4,078	(977,429)	(1,068,846)	(970,279)	(1,064,768)

The rate of tax applicable for deferred taxes is 20% as of December 31, 2013 and 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 years ended December 31, 2013 and 2012 is as follows:

<i>In thousands of US dollars</i>	Balance January 1, 2013	Translation adjustment	Recognised in income	Balance December 31, 2013
Investments	(1,068,846)	76,495	14,922	(977,429)
Other	4,078	(291)	3,363	7,150
	(1,064,768)	76,204	18,285	(970,279)
<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
	(676,482)	(48,451)	(339,835)	(1,064,768)

11. Net assets

Share capital

As of December 31, 2013 and 2012 the authorised share capital comprised 754,900 ordinary shares, and issued and outstanding share capital comprised 556,674 ordinary shares and 544,394 ordinary shares, respectively, with a par value of 100,000 Roubles each.

During the year ended December 31, 2013, the Company entered into a non-cash transaction whereby the Company issued 12,280 ordinary shares with a par value of 100,000 Roubles per share to the shareholder in exchange for ordinary shares of Tatspirotprom with a fair value of US dollars 109,000 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, 2013 and 2012 the retained earnings available for distribution according to legislation in the Russian Federation amounts to US dollars 5,188,099 thousand and US dollars 5,716,983 thousand, respectively (unaudited).

Distribution to shareholder

During the year ended December 31, 2013 the Company made a distribution to its shareholder in the form of 566,519,447 shares of Ak Bars Holding Company with a fair value of US dollars 8,622 thousand and fixed assets with a carrying value of US dollars 529 thousand.

12. Dividends

Dividends declared by investee companies and recognised as revenue during the years ended December 31, 2013 and 2012 (net of withholding tax) amount to US dollars 230,547 thousand and US dollars 202,877 thousand, respectively.

13. Charitable donations

<i>In thousands of US dollars</i>	December 31, 2013	December 31, 2012
Fund of assistance to development of physical		
Training and sports – related party	87,479	-
Football Club Rubin – related party	35,710	84,251
Tugan II	25,179	7,265
Tatspirotprom– related party	22,898	-
Publishing House on Bauman Street – related party	18,178	28,797
International Swimming Federation “FINA”	4,562	1,875
First Development Corporation – related party	1,033	3,869
Ak Bars holding company – related party	613	-
Kazan Heat Network Company – related party	16	-
ANO Kazan 2013	2	1,887
Kazanorgsintez – related party	-	4,184
Basketball club “Uniks”	-	3,218
Neftekhimik	-	3,218
Fund of the World Congress of Tatars	-	2,188
Other	1,199	6,393
	196,869	147,145

14. Income tax (benefit) expense

<i>In thousands of US dollars</i>	December 31, 2013	December 31, 2012
<i>Current tax expense</i>		
Current year expense	3,183	3,535
<i>Deferred tax expense</i>		
Reversal of temporary differences	(18,285)	339,835
	(15,102)	343,370

The applicable tax rate is the corporate income tax rate of 20% for the years ended December 31, 2013 and 2012.

Reconciliation of effective tax rate

<i>In thousands of US dollars</i>	December 31, 2013	December 31, 2012
Net (decrease) increase in net assets before income taxes	(61,158)	1,751,667
Income tax at applicable tax rate	(12,232)	350,335
Non-taxable items (dividends)	(46,109)	(40,575)
Non-deductible items (charitable donations)	43,239	33,610
Income tax (benefit) expense	(15,102)	343,370

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, 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 who 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.

Starting from 1 January 2012 new transfer pricing rules came into force in Russia. They provide the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controllable transactions if their prices deviate from the market range or profitability range. According to the provisions of transfer pricing rules, the taxpayer should sequentially apply 5 methods of market price determination prescribed by the Tax Code.

15. Commitments and contingencies (continued)

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the short period since the current transfer pricing rules became effective, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Company.

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 interpretations of the relevant authorities could differ and the effect on the financial position, 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, 2013 and 2012 are US dollars 37,052 thousand and US dollars 33,285 thousand, respectively, of interest income received from related parties.

Included in interest expense for the years ended December 31, 2013 and 2012 is US dollars 1 thousand of interest expense paid to related parties.

Related party balances and guarantees outstanding as of December 31, 2013 and 2012 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.

	December 31, 2013	December 31, 2012
Ratios to average net assets		
Ratio of net investment income	0.59%	1.02%
Ratio of expenses	(3.08%)	(2.62%)
Total return	(6.50%)	30.96%

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>	December 31, 2013	December 31, 2012
Cost of investments contributed by the shareholder	1,922,952	1,824,659
Cost of investments purchased from other parties	264,549	244,449
	2,187,501	2,069,108

19. Fair values

The Company estimates that the fair values of its financial assets and liabilities are 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, i.e. interest rates, maturity dates and currencies. 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, 2013	8,329,369	7,697,478	5,423,802	-	2,273,676
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 years ended 31 December 2013 and 2012 is as follows:

19. Fair values (continued)

In thousands of US dollars

Balance as at January 1, 2013	2,065,476
Net increase in unrealised appreciation on investments:	45,320
Included in net increase in net assets	203,239
Included in other comprehensive loss (translation difference)	(157,919)
Purchases	63,286
Contribution by shareholder	109,000
Distribution to shareholder	(8,622)
Sales	(784)
	<hr/>
Balance as at December 31, 2013	2,273,676
	<hr/>
Total gain for the year included in changes in net assets attributable to the change in unrealized appreciation relating to investments still held at December 31, 2013	<hr/> 45,320 <hr/>

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)
	<hr/>
Balance as at December 31, 2012	2,065,476
	<hr/>
Total gain for the year included in changes in net assets attributable to the change in unrealized appreciation relating to investments still held at December 31, 2012	<hr/> 125,381 <hr/>

As of December 31, 2013 and 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 investments in Level 3 are the investments in Generation Company and North-West Trunk Pipelines (NWTP).

To estimate the fair value of Generation Company a discounted cash flow (DCF) model is used. The following key assumptions were used in this model as of December 31, 2013 and 2012:

- cash flows are projected based on a company business plan and using a 17-year forecast period (18-year forecast period as of December 31, 2012)

19. Fair values (continued)

- regulated and market electricity prices are estimated to grow at 4.3% and 2.5% (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 3.0% and 3.0% (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 12.68% (12.22% as of December 31, 2012).

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

- an 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 43 million and US dollars 100 million as of December 31, 2013 and 2012, respectively
- a 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 43 million and US dollars 139 million as of December 31, 2013 and 2012, respectively
- a 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 10 million and US dollars 19 million as of December 31, 2013 and 2012, respectively.

The fair value of the investment in NWTP is determined based on the market value of a similar company adjusted for:

- NWTP's estimated ratio of the volume of oil transfer of 13% and 15% as of December 31, 2013 and 2012, respectively
- A marketability discount of 50%.

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

- a decrease of one percentage point in the ratio in the volume of oil transfer would have caused a decrease in fair value of the investment in NWTP by US dollars 32 million and US dollars 28 million as of December 31, 2013 and 2012, respectively
- an increase of ten percentage points in marketability discount would have caused a decrease in fair value of the investment in NWTP by US dollars 96 million and US dollars 83 million as of December 31, 2013 and 2012, respectively.

20. Subsequent events

The Company has evaluated subsequent events from December 31, 2013 through April 30, 2014, 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