Tatneft Group

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

AS OF AND FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2014

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of OAO Tatneft

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO Tatneft and its subsidiaries (the "Group") as of 30 June 2014 and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three and six month periods then ended, and changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim condensed financial statements based on our review.

Scope of Review

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

Conclusion

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

ZAO PricewaterhouseCoopers Audit

22 August 2014
Moscow, Russian Federation

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Consolidated Interim Condensed Statement of Financial Position (Unaudited)

(In millions of Russian Roubles)

	Note	30 June 2014	31 December 2013
Assets			
Cash and cash equivalents	4	18,653	29,535
Restricted cash		1,077	917
Accounts receivable, net	5	57,792	52,098
Short-term financial assets	6	48,302	16,693
Inventories	7	33,061	29,538
Prepaid expenses and other current assets	8	22,293	23,217
Total current assets		**181,178**	**151,998**
Long-term accounts receivable, net	5	967	1,016
Long-term financial assets	9	26,246	25,814
Investments in associates and joint ventures	10	7,796	7,778
Property, plant and equipment, net		493,049	481,883
Deferred income tax assets		2,597	2,049
Other long-term assets		3,208	3,551
Total non-current assets		**533,863**	**522,091**
Total assets		**715,041**	**674,089**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	11	17,278	36,561
Accounts payable and accrued liabilities	12	32,209	28,341
Dividends payable		18,787	103
Taxes payable	14	20,048	16,706
Income tax payable		1,521	1,462
Total current liabilities		**89,843**	**83,173**
Long-term debt, net of current portion	11	8,572	12,785
Other long-term liabilities	13	3,717	3,839
Decommissioning provision, net of current portion		56,709	54,511
Deferred income tax liability		17,606	15,799
Total non-current liabilities		**86,604**	**86,934**
Total liabilities		**176,447**	**170,107**
Shareholders' equity			
Preferred shares (authorized and issued at 30 June 2014 and 31 December 2013– 147,508,500 shares; nominal value at 30 June 2014 and 31 December 2013 – RR1.00)		746	746
Common shares (authorized and issued at 30 June 2014 and 31 December 2013– 2,178,690,700 shares; nominal value at 30 June 2014 and 31 December 2013 – RR1.00)		11,021	11,021
Additional paid-in capital		87,482	87,482
Accumulated other comprehensive income		107	889
Retained earnings		417,253	384,376
Less: Common shares held in treasury, at cost (55,539,000 shares and 55,592,000 shares at 30 June 2014 and 31 December 2013, respectively)		(3,092)	(3,102)
Total Group shareholders' equity		**513,517**	**481,412**
Non-controlling interest		**25,077**	**22,570**
Total shareholders' equity		**538,594**	**503,982**
Total liabilities and equity		**715,041**	**674,089**

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

Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

(In millions of Russian Roubles)

	Note	Three months ended 30 June: 2014	2013	Six months ended 30 June: 2014	2013
Sales and other operating revenues, net	16	**128,122**	**104,696**	**244,862**	**211,250**
Costs and other deductions					
Operating		(22,736)	(21,068)	(42,398)	(39,909)
Purchased oil and refined products		(15,495)	(12,731)	(26,279)	(25,051)
Exploration		(437)	(335)	(828)	(661)
Transportation		(5,402)	(6,928)	(11,645)	(15,446)
Selling, general and administrative		(10,815)	(10,804)	(20,064)	(20,569)
Depreciation, depletion and amortization		(5,289)	(4,169)	(10,232)	(9,215)
(Loss)/gain on disposals of property, plant and equipment, investments and impairments		(640)	142	(857)	473
Taxes other than income taxes	14	(30,359)	(25,476)	(61,712)	(52,860)
Maintenance of social infrastructure and transfer of social assets		(902)	(1,486)	(1,809)	(2,239)
Total costs and other deductions		**(92,075)**	**(82,855)**	**(175,824)**	**(165,477)**
Other income/(expenses)					
Foreign exchange gain/(loss)		403	(948)	(803)	(1,152)
Interest income		1,813	840	3,173	1,572
Interest expense, net of amounts capitalized		(1,422)	(1,421)	(2,873)	(3,138)
Earnings/(losses) from equity investments	10	203	(4)	40	223
Other income/(expenses), net		197	(264)	(318)	429
Total other income/(expenses)		**1,194**	**(1,797)**	**(781)**	**(2,066)**
Profit before income taxes		**37,241**	**20,044**	**68,257**	**43,707**
Income taxes					
Current income tax expense		(4,841)	(3,665)	(12,342)	(9,969)
Deferred income tax (expense)/benefit		(3,287)	(425)	(1,308)	176
Total income tax expense	14	**(8,128)**	**(4,090)**	**(13,650)**	**(9,793)**
Profit for the period		**29,113**	**15,954**	**54,607**	**33,914**
Items that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustments		(1,139)	362	(901)	442
Actuarial gain on employee benefit plans		7	26	7	26
Unrealized holding gains/(losses) on available-for-sale securities, including share of associates, net of tax		185	(29)	112	(32)
Other comprehensive (loss)/income		**(947)**	**359**	**(782)**	**436**
Total comprehensive income for the period		**28,166**	**16,313**	**53,825**	**34,350**
Profit attributable to:					
- Group shareholders		27,174	14,935	51,565	31,909
- Non-controlling interest		1,939	1,019	3,042	2,005
		29,113	**15,954**	**54,607**	**33,914**
Total comprehensive income is attributable to:					
- Group shareholders		26,227	15,294	50,783	32,345
- Non-controlling interest		1,939	1,019	3,042	2,005
		28,166	**16,313**	**53,825**	**34,350**
Basic and diluted net earnings per share (RR)					
Common		11.97	6.58	22.71	14.05
Preferred		11.94	6.55	22.68	14.02
Weighted average shares outstanding (millions of shares)					
Common		2,123	2,123	2,123	2,123
Preferred		148	148	148	148

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Consolidated Interim Condensed Statement of Changes in Equity (Unaudited)
(In millions of Russian Roubles)

	Attributable to Group shareholders									Non-con-trolling interest	Total equity
	Number of shares (thousands)	Share capital	Additional paid-in capital	Treasury shares	Actuarial (loss)/gain on employee benefit plans	Foreign currency translation adjustments	Unrealized holding gain/(losses) on available-for-sale securities, including share of associates, net of tax	Retained earnings	Total shareholders' equity		
At 1 January 2013	**2,270,656**	**11,767**	**87,482**	**(3,093)**	**(494)**	**754**	**466**	**333,072**	**429,954**	**16,279**	**446,233**
Profit for the six months	-	-	-	-	-	-	-	31,909	31,909	2,005	33,914
Other comprehensive income/(loss) for the six months	-	-	-	-	26	442	(32)	-	436	-	436
Total comprehensive income/(loss) for the six months	**-**	**-**	**-**	**-**	**26**	**442**	**(32)**	**31,909**	**32,345**	**2,005**	**34,350**
Treasury shares:	(5)	-	-	(1)	-	-	-	-	(1)	-	(1)
- Acquisitions	(5)	-	-	(1)	-	-	-	-	(1)	-	(1)
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(221)	(221)
Dividends declared	-	-	-	-	-	-	-	(19,528)	(19,528)	(600)	(20,128)
Balance at 30 June 2013	**2,270,651**	**11,767**	**87,482**	**(3,094)**	**(468)**	**1,196**	**434**	**345,453**	**442,770**	**17,463**	**460,233**
At 1 January 2014	**2,270,607**	**11,767**	**87,482**	**(3,102)**	**(818)**	**1,284**	**423**	**384,376**	**481,412**	**22,570**	**503,982**
Profit for the six months	-	-	-	-	-	-	-	51,565	51,565	3,042	54,607
Other comprehensive income/(loss) for the six months	-	-	-	-	7	(901)	112	-	(782)	-	(782)
Total comprehensive income/(loss) for the six months	**-**	**-**	**-**	**-**	**7**	**(901)**	**112**	**51,565**	**50,783**	**3,042**	**53,825**
Treasury shares:	53	-	-	10	-	-	-	-	10	-	10
- Acquisitions	(302)	-	-	(63)	-	-	-	-	(63)	-	(63)
- Disposals	355	-	-	73	-	-	-	-	73	-	73
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	163	163
Dividends declared	-	-	-	-	-	-	-	(18,688)	(18,688)	(698)	(19,386)
Balance at 30 June 2014	**2,270,660**	**11,767**	**87,482**	**(3,092)**	**(811)**	**383**	**535**	**417,253**	**513,517**	**25,077**	**538,594**

(In millions of Russian Roubles)

	Six months ended 30 June 2014	Six months ended 30 June 2013
Operating activities		
Profit for the period	54,607	33,914
Adjustments:		
Depreciation, depletion and amortization	10,232	9,215
Income tax expense	13,650	9,793
Loss/(gain) on disposals of property, plant and equipment, investments and impairments	857	(473)
Transfer of social assets	1	29
Effects of foreign exchange	1,522	3,851
Equity investments earnings net of dividends received	(40)	(223)
Change in provision for impairment of financial assets	(467)	640
Change in fair value of trading securities	(34)	55
Interest income	(3,173)	(1,572)
Interest expense	2,873	3,138
Other	(447)	576
Changes in operational working capital, excluding cash:		
Accounts receivable	(4,274)	86
Inventories	(4,354)	(3,278)
Prepaid expenses and other current assets	767	8,748
Trading securities	1,166	(654)
Accounts payable and accrued liabilities	3,022	(894)
Taxes payable	3,507	3,816
Notes payable	(2)	255
Other non-current assets	332	1,094
Net cash provided by operating activities before income tax and interest	**79,745**	**68,116**
Income taxes paid	(12,300)	(8,934)
Interest paid	(1,177)	(1,318)
Interest received	2,453	1,572
Net cash provided by operating activities	**68,721**	**59,436**
Investing activities		
Additions to property, plant and equipment	(21,923)	(27,209)
Proceeds from disposal of property, plant and equipment	678	242
Proceeds from disposal of investments	75	368
Purchase of investments	(67)	(10)
Purchase of certificates of deposit, net	(30,604)	(4,676)
(Issuance)/proceeds from loans and notes receivable, net	(2,538)	1,360
Change in restricted cash	(160)	582
Net cash used in investing activities	**(54,539)**	**(29,343)**
Financing activities		
Proceeds from issuance of debt	7,249	19,707
Repayment of debt	(31,703)	(34,510)
Dividends paid to shareholders	(4)	(131)
Dividends paid to non-controlling shareholders	(698)	(600)
Purchase of treasury shares	(37)	(1)
Proceeds from sale of treasury shares	37	-
Net cash used in financing activities	**(25,156)**	**(15,535)**
Net change in cash and cash equivalents	**(10,974)**	**14,558**
Effect of foreign exchange on cash and cash equivalents	92	276
Cash and cash equivalents at the beginning of the period	29,535	13,083
Cash and cash equivalents at the end of the period	**18,653**	**27,917**

Note 1: Organisation

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

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

The Group does not have an ultimate controlling party.

As of 30 June 2014 and 31 December 2013 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, holds approximately 36% of the Company’s voting stock. These shares were contributed to OAO Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a “Golden Share”, a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and “major” and “interested party” transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through OAO Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company’s suppliers and contractors.

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

Note 2: Basis of presentation

The consolidated interim condensed financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”. The consolidated interim condensed financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRSs.

These consolidated interim condensed financial statements are unaudited and do not include all the information and disclosures required in the annual IFRS financial statements. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2013 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these consolidated interim condensed financial statements are read in conjunction with the Group’s 2013 audited consolidated financial statements and the notes related thereto. In the opinion of the Group’s management, the unaudited consolidated interim condensed financial statements and notes thereto reflect all known adjustments, all of which are of a normal and recurring nature, necessary to fairly state the Group’s financial position, results of operations and cash flows for the interim periods.

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

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

(in millions of Russian Roubles)

Note 2: Basis of presentation (continued)

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

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

Use of estimates in the preparation of financial statements. The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In preparing these consolidated interim condensed financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013, with the exception of changes in estimates that are required in determining the provision for income taxes.

Decommissioning provisions. Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future decommissioning provisions is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Sensitivity analysis for changes in rates:

		Impact on decommissioning provision	
	Change in	**At 30 June 2014**	**At 31 December 2013**
Discount rate	+1%	(12,888)	(11,436)
	-1%	17,192	15,384

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

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

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US $") at 30 June 2014 and 31 December 2013 was RR 33.63 and RR 32.73 to US $, respectively. Average rate of exchange for the six months ended 30 June 2014 and 2013 was RR 34.98 and RR 31.02 per US $, respectively.

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

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

Note 3: Adoption of new or revised standards and interpretations

A number of amendments to current IFRS and new IFRIC became effective for the periods beginning on or after 1 January 2014:

- amendments regarding offsetting rules to IAS 32 Financial Instruments,
- amendments to IAS 36 Impairment of Assets, regarding additional disclosure,
- IFRIC 21 – Levies.

The Group has initially applied amended standards and new IFRIC while preparing these consolidated interim condensed financial statements. It has no significant impact on the Group's consolidated interim condensed financial statements.

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

IFRS 9 Financial Instruments: Classification and Measurement. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

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

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Amendments to IFRS 11 – Joint Arrangements (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on accounting for acquisitions of interests in joint operations. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business.

Amendments to IAS 16 – Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014 and effective for annual periods beginning on or after January 1, 2016) on clarification of acceptable methods of depreciation and amortization. In this amendment the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.

IFRS 15 – Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after January 1, 2017). The new standard introduces the core principle that revenue must be recognized when the goods and services are transferred to the customer, at the transaction price. Any bundled goods and services that are distinct must be separately recognized, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognized if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalized and amortized over the period when the benefits of the contract are consumed.

(in millions of Russian Roubles)

Note 3: Adoption of new or revised standards and interpretations (continued)

The Group is currently assessing the impact of the amendments on its consolidated financial statements.

The amendments to IAS 19 – Employee Benefits (issued in November 2013 and effective for annual periods beginning on or after July 1, 2014) on contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service. The amendment has no significant impact on Group's consolidated interim condensed financial statements.

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

Note 4: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 30 June 2014	At 31 December 2013
Cash on hand and in banks	16,279	8,012
Term deposits with original maturity of less than three months	2,374	21,523
Total cash and cash equivalents	**18,653**	**29,535**

As of 30 June 2014 the majority of cash and cash equivalents are held in Bank Zenit and its subsidiaries. As of 31 December 2013 the majority of cash and cash equivalents were held in Bank Zenit and its subsidiaries, Ak Bars Bank, Credit Europe Bank and Sberbank. Bank deposits represent deposits with original maturities of less than three months. The fair value of cash and term deposits approximates their carrying value.

Note 5: Accounts receivable

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

	At 30 June 2014	At 31 December 2013
Short-term accounts receivable:		
Trade receivables	65,189	60,395
Other financial receivables	4,992	4,259
Less provision for impairment	(12,389)	(12,556)
Total short-term accounts receivable	**57,792**	**52,098**
Long-term accounts receivable:		
Trade receivables	344	251
Other financial receivables	694	835
Less provision for impairment	(71)	(70)
Total long-term accounts receivable	**967**	**1,016**
Total financial assets within trade and other receivables	**58,759**	**53,114**

In accordance with the Group's policies for recorded provision for impairment the Group fully provided for receivables from ChMPKP Avto of US $334 million as of 30 June 2014 and 31 December 2013, relating to the sale of crude oil to Ukraine (Kremenchug refinery).

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

(in millions of Russian Roubles)

Note 6: Short-term financial assets

Short-term financial assets comprise the following:

	At 30 June 2014	At 31 December 2013
Loans and receivables:		
Notes receivable	2,336	2,178
Other loans (net of provision for impairment of RR 23 million and RR 18 million as of 30 June 2014 and 31 December 2013)	4,187	2,026
Certificates of deposit	39,396	8,973
Financial assets at fair value through profit or loss:		
Held-for-trading	2,383	3,516
Total short-term financial assets	**48,302**	**16,693**

During the six months ended 30 June 2014 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 50,772 million and RR 20,349 million, respectively.

During the six months ended 30 June 2013 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 4,729 million and RR 317 million, respectively.

During the six months ended 30 June 2014 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 3,989 million and RR 2,677 million, respectively.

During the six months ended 30 June 2013 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 829 million and RR 2,476 million, respectively.

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

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

	At 30 June 2014	At 31 December 2013
Held-for-trading:		
Equity securities	734	1,736
Corporate debt securities	1,649	1,762
Russian government debt securities	-	18
Total financial assets at fair value through profit and loss	**2,383**	**3,516**

Note 7: Inventories

	At 30 June 2014	At 31 December 2013
Materials and supplies	12,742	11,354
Crude oil	5,594	5,657
Refined oil products	7,876	6,495
Petrochemical supplies and finished goods	6,849	6,032
Total inventories	**33,061**	**29,538**

(in millions of Russian Roubles)

Note 8: Prepaid expenses and other current assets

Prepaid expenses and other current assets are as follows:

	At 30 June 2014	At 31 December 2013
VAT recoverable	4,151	5,728
Prepaid export duties	7,677	8,311
Advances	6,629	5,626
Prepaid transportation expenses	646	668
Other	3,190	2,884
Prepaid expenses and other current assets	**22,293**	**23,217**

Note 9: Long-term financial assets

Long-term financial assets comprise the following:

	At 30 June 2014	At 31 December 2013
Loans and receivables:		
Notes receivable (net of provision for impairment of RR 318 million as of 30 June 2014 and 31 December 2013)	1,309	1,019
Loans to employees	2,630	2,493
Other loans	3,018	3,197
Certificates of deposit	14,626	14,445
Available-for-sale investments	4,663	4,660
Total long-term financial assets	**26,246**	**25,814**

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

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

	Carrying amounts		Fair values	
	At 30 June 2014	At 31 December 2013	At 30 June 2014	At 31 December 2013
Notes receivable	1,309	1,019	1,439	1,122
Loans to employees	2,630	2,493	2,630	2,493
Other loans	3,018	3,197	2,979	3,156
Certificates of deposit	14,626	14,445	13,699	15,163
Total long-term financial assets	**21,583**	**21,154**	**20,747**	**21,934**

During the six months ended 30 June 2014 purchases of long-term certificates of deposit were RR 181 million.

During the six months ended 30 June 2013 purchases of long-term certificates of deposit were RR 264 million.

During the six months ended 30 June 2014 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 1,606 million and RR 380 million, respectively.

During the six months ended 30 June 2013 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 1,023 million and RR 736 million, respectively.

(in millions of Russian Roubles)

Note 10: Investments in associates and joint ventures

Investments in associates and joint ventures comprise the following:

Name of an investee	Ownership percentage at		Net book value at		Group's share of earnings/(losses) for the six months ended 30 June	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013	2014	2013
Associates and joint ventures:						
Bank Zenit	25	25	7,050	6,984	87	331
Other	20-75	20-75	746	794	(47)	(108)
Total			**7,796**	**7,778**	**40**	**223**

For all major associates and joint ventures the country of incorporation is the Russian Federation. The country of incorporation or registration is also their principal place of business.

Note 11: Debt

	At 30 June 2014	At 31 December 2013
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	12,712	31,595
Rouble denominated debt		
Current portion of long-term debt	75	36
Other Rouble denominated debt	4,491	4,930
Total short-term debt	**17,278**	**36,561**
Long-term debt		
Foreign currency denominated debt		
US $2.0 bln 2010 credit facility	10,677	14,771
US $1.5 bln 2009 credit facility	1,058	2,328
US $550 mln 2011 credit facility	-	17,961
US $75 mln 2011 credit facility	1,484	1,529
US $144.5 mln 2011 credit facility	2,696	2,762
EUR 55 mln 2013 credit facility	2,226	2,018
Other foreign currency denominated debt	2,135	2,122
Rouble denominated debt		
Other Rouble denominated debt	1,083	925
Total long-term debt	**21,359**	**44,416**
Less: current portion of long-term debt	(12,787)	(31,631)
Total long-term debt, net of current portion	**8,572**	**12,785**

Foreign currency debts are primarily denominated in US Dollars.

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

Note 11: Debt (continued)

Short-term Russian Rouble denominated debt. Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 4,491 million and RR 4,930 million bear contractual interest rates of 8% to 10% per annum as of 30 June 2014 and 1.1% to 8.75% per annum as of 31 December 2013.

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

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

In June 2011, the Company entered into a US $550 million unsecured financing with a fixed rate of 3.50% per annum with bullet repayment in three years. The loan was arranged by BNP Paribas (Suisse) SA, The Bank of Tokyo Mitsubishi UFJ LTD., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis, Open Joint Stock Company Nordea Bank, Sumitomo Mitsui Banking Corporation and WestLB AG London Branch. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The loan was fully repaid in June 2014.

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

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

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

Management believes that for the periods ended 30 June 2014 and 31 December 2013 the Group was in compliance with all covenants required by the above loan agreements.

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

(in millions of Russian Roubles)

Note 12: Accounts payable and accrued liabilities

	At 30 June 2014	At 31 December 2013
Trade payables	17,180	14,260
Other payables	835	980
Total financial liabilities within trade and other payables	**18,015**	**15,240**
Salaries and wages payable	4,489	4,109
Advances received from customers	2,101	1,045
Current portion of decommissioning provisions	526	526
Other accounts payable and accrued liabilities	7,078	7,421
Total non-financial liabilities	**14,194**	**13,101**
Accounts payable and accrued liabilities	**32,209**	**28,341**

The fair value of each class of financial liabilities included in short-term trade and other payables at 30 June 2014 and 31 December 2013 approximates their carrying value.

Note 13: Other long-term liabilities

Other long-term liabilities are as follows:

	At 30 June 2014	At 31 December 2013
Pension liability	3,641	3,768
Other long-term liabilities	76	71
Total other long-term liabilities	**3,717**	**3,839**

Note 14: Taxes

Income tax expense comprises the following:

	Three months ended 30 June:		Six months ended 30 June:	
	2014	**2013**	**2014**	**2013**
Current income tax expense	(4,841)	(3,665)	(12,342)	(9,969)
Deferred income tax (expense)/benefit	(3,287)	(425)	(1,308)	176
Income tax expense for the period	**(8,128)**	**(4,090)**	**(13,650)**	**(9,793)**

(in millions of Russian Roubles)

Note 14: Taxes (continued)

Presented below is reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate 20% to income before income taxes:

	Three months ended 30 June:		Six months ended 30 June:	
	2014	**2013**	**2014**	**2013**
Income before income taxes and non-controlling interest	37,241	20,044	68,257	43,707
Theoretical income tax expense at statutory rate	(7,448)	(4,009)	(13,651)	(8,741)
Increase due to:				
Non-deductible expenses, net	(680)	(81)	(1,043)	(1,052)
Other	-	-	1,044	-
Income tax expense	**(8,128)**	**(4,090)**	**(13,650)**	**(9,793)**

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

	Three months ended 30 June:		Six months ended 30 June:	
	2014	**2013**	**2014**	**2013**
Mineral extraction tax	28,778	23,952	58,598	49,811
Property tax	1,261	1,161	2,501	2,316
Other	320	363	613	733
Total taxes other than income taxes	**30,359**	**25,476**	**61,712**	**52,860**

At 30 June 2014 and 31 December 2013 taxes payable were as follows:

	At 30 June 2014	**At 31 December 2013**
Mineral extraction tax	9,809	9,485
Value Added Tax on goods sold	5,403	2,205
Other	4,836	5,016
Total taxes payable	**20,048**	**16,706**

(in millions of Russian Roubles)

Note 15: Fair values

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

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

Fair value hierarchy

The different levels of fair value hierarchy have been defined as follows:

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

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

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Recurring fair value measurements

The levels in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	At 30 June 2014				At 31 December 2013			
	Level 1	Level 2	Level 3	**Total carrying value**	Level 1	Level 2	Level 3	**Total carrying value**
Held-for-trading investments	1,270	-	1,113	**2,383**	2,522	-	994	**3,516**
Available-for-sale investments	-	4,663	-	**4,663**	-	4,660	-	**4,660**
Total	**1,270**	**4,663**	**1,113**	**7,046**	**2,522**	**4,660**	**994**	**8,176**

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 30 June 2014:

	Fair value	Valuation technique	Inputs used
Held-for-trading investments	1,113	Net assets valuation	Publicly available IFRS Financial statements
Available-for-sale investments	4,663	Net assets valuation	Publicly available IFRS Financial statements
Total	**5,776**		

Available-for-sale financial assets comprise of RR 3,677 million (11.661%) Ak Bars Bank shares which are not quoted in any Stock Exchange and the fair value are measured on Ak Bars Bank Group per IFRS Financial Statements (Net assets value).

There were no changes in valuation technique for Level 2 and Level 3 recurring fair value measurements during the six months ended 30 June 2014 and the year ended 31 December 2013.

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

(in millions of Russian Roubles)

Note 15: Fair values (continued)

Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets and liabilities not measured at fair value are as follows:

	At 30 June 2014				At 31 December 2013			
	Level 1	Level 2	Level 3	**Total carrying value**	Level 1	Level 2	Level 3	**Total carrying value**
Assets								
Cash and cash equivalents	18,653	-	-	**18,653**	29,535	-	-	**29,535**
Restricted cash	1,077	-	-	**1,077**	917	-	-	**917**
Accounts receivable	-	-	58,759	**58,759**	-	-	53,114	**53,114**
Financial assets	-	-	66,666	**67,502**	-	-	35,112	**34,332**
Total assets	**19,730**	**-**	**125,425**	**145,991**	**30,452**	**-**	**88,226**	**117,898**
Liabilities								
Debt	-	-	(25,850)	**(25,850)**	-	-	(49,346)	**(49,346)**
Trade and other payable	-	-	(36,802)	**(36,802)**	-	-	(15,343)	**(15,343)**
Total liabilities	**-**	**-**	**(62,652)**	**(62,652)**	**-**	**-**	**(64,689)**	**(64,689)**

The fair values in Level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Note 16: Segment information

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

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

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

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

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

The Group evaluates performance of its reportable operating segments and allocates resources based on segment earnings, defined as profit before income taxes and non-controlling interest not including interest income, expense, and earnings from equity investments, other income (expenses) and foreign exchange loss or gain. Intersegment sales are at prices that approximate market. Group financing (including interest expense and interest income) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the three months ended 30 June 2014, revenues of RR 19,414 million or 15% and RR 13,426 million or 10% of the Group's total sales and operating revenues are derived from two external customers.

For the six months ended 30 June 2014, revenue of RR 35,826 million or 15% of the Group's total sales and operating revenues are derived from one external customer.

For the three months ended 30 June 2013, revenues of RR 22,873 million or 22%, RR 12,437 million or 12% and RR 7,607 million or 7% of the Group's total sales and operating revenues are derived from three external customers.

For the six months ended 30 June 2013, revenues of RR 45,825 million or 22%, RR 25,329 million or 12% and RR 21,025 million or 10% of the Group's total sales and operating revenues are derived from three external customers.

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

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

(in millions of Russian Roubles)

Note 16: Segment information (continued)

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

	Three months ended 30 June:		Six months ended 30 June:	
	2014	**2013**	**2014**	**2013**
Exploration and production				
Domestic own crude oil	22,468	14,617	43,219	28,019
CIS own crude oil	2,915	1,881	4,957	3,261
Non – CIS own crude oil	29,340	32,831	57,354	66,515
Other	1,060	992	2,125	2,003
Intersegment sales	28,095	18,565	54,051	39,522
Total exploration and production	**83,878**	**68,886**	**161,706**	**139,320**
Refining and marketing				
Domestic sales				
Crude oil purchased for resale	5,190	-	6,714	-
Refined products	33,032	22,724	57,369	41,075
Total Domestic sales	38,222	22,724	64,083	41,075
CIS sales				
Refined products	2,392	1,462	3,568	2,466
Total CIS sales[1]	2,392	1,462	3,568	2,466
Non – CIS sales				
Crude oil purchased for resale	2,613	4,316	5,900	9,008
Refined products	15,564	12,806	38,818	33,580
Total Non – CIS sales[2]	18,177	17,122	44,718	42,588
Other	1,153	1,025	2,163	1,973
Intersegment sales	738	1,004	1,642	1,747
Total refining and marketing	**60,682**	**43,337**	**116,174**	**89,849**
Petrochemicals				
Tires - domestic sales	6,242	6,666	10,437	11,621
Tires - CIS sales	1,440	1,588	2,507	3,030
Tires - non-CIS sales	304	226	582	458
Petrochemical products and other	681	487	1,281	1,083
Intersegment sales	239	202	417	381
Total petrochemicals	**8,906**	**9,169**	**15,224**	**16,573**
Total segment sales	**153,466**	**121,392**	**293,104**	**245,742**
Corporate and other sales	3,728	3,075	7,868	7,158
Elimination of intersegment sales	(29,072)	(19,771)	(56,110)	(41,650)
Total sales and other operating revenues	**128,122**	**104,696**	**244,862**	**211,250**

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

(in millions of Russian Roubles)

Note 16: Segment information (continued)

Segment earnings

	Three months ended 30 June:		Six months ended 30 June:	
	2014	**2013**	**2014**	**2013**
Segment earnings				
Exploration and production	31,900	21,633	58,260	44,665
Refining and marketing	6,402	1,376	14,076	3,135
Petrochemicals	(398)	318	(384)	496
Total segment earnings	**37,904**	**23,327**	**71,952**	**48,296**
Corporate and other	(1,857)	(1,486)	(2,914)	(2,523)
Other income/(expenses)	1,194	(1,797)	(781)	(2,066)
Profit before income tax	**37,241**	**20,044**	**68,257**	**43,707**

Segment assets

	At 30 June 2014	At 31 December 2013
Assets		
Exploration and production	291,675	281,384
Refining and marketing	270,219	259,879
Petrochemicals	31,263	29,830
Corporate and other	121,884	102,996
Total assets	**715,041**	**674,089**

As of 30 June 2014 and 31 December 2013 corporate and other segment comprised RR 7,796 million and RR 7,778 million, respectively, investments in associates and joint ventures.

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

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

	Three months ended 30 June:		Six months ended 30 June:	
	2014	**2013**	**2014**	**2013**
Depreciation, depletion and amortization				
Exploration and production	2,989	2,429	5,641	5,495
Refining and marketing	1,361	970	2,692	1,875
Petrochemicals	457	428	875	865
Corporate and other	482	342	1,024	980
Total segment depreciation, depletion and amortization	**5,289**	**4,169**	**10,232**	**9,215**
Additions to property, plant and equipment				
Exploration and production	4,428	7,303	7,933	13,224
Refining and marketing	4,872	5,592	10,685	10,889
Petrochemicals	117	98	886	172
Corporate and other	3,397	2,800	4,791	3,758
Total additions to property, plant and equipment	**12,814**	**15,793**	**24,295**	**28,043**

(in millions of Russian Roubles)

Note 17: Related party transactions

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

Associates, joint ventures and other related parties

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

	Three months ended 30 June:		**Six months ended 30 June:**	
	2014	**2013**	**2014**	**2013**
Revenues and income				
Sales of refined products	3	4	7	8
Other sales	73	51	156	113
Costs and expenses				
Purchases of crude oil	76	-	130	-
Other services	106	133	252	325
Other purchases	431	345	831	653

For the six months ended 30 June 2014 and 2013, the Group sold crude oil on a commission basis from related parties for RR 130 million and RR 72 million, respectively.

For the six months ended 30 June 2014 and 2013 the Group has entered into transactions with related parties for purchases of equipment in the amount of RR 0 million and RR 1,454 million, respectively, which is included in our property, plant and equipment.

At 30 June 2014 and 31 December 2013 the outstanding balances with related parties were as follows:

	At 30 June 2014	**At 31 December 2013**
Assets		
Cash and cash equivalents	14,717	11,342
Accounts receivable	526	332
Notes receivable	2,130	2,164
Short-term certificates of deposit	8,954	4,300
Trading securities	7	7
Loans receivable	499	310
Prepaid expenses and other current assets	490	107
Due from related parties short-term	**27,323**	**18,562**
Long-term certificates of deposit	14,448	14,341
Long-term loans receivable	2,692	2,366
Due from related parties long-term	**17,140**	**16,707**
Liabilities		
Accounts payable and accrued liabilities	(454)	(162)
Short-term debt	(2,782)	(1,991)
Due to related parties short-term	**(3,236)**	**(2,153)**
Long-term debt	-	(66)
Due to related parties long-term	**-**	**(66)**

At 30 June 2014 and 31 December 2013, the Group had RR 4,134 million and RR 3,879 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2014 and 2022, bearing interest between 2.9% and 8.5%. As of 30 June 2014 and 31 December 2013, the Group has short and long-term certificates of deposit of RR 23,402 million and RR 18,641 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

(in millions of Russian Roubles)

Note 17: Related party transactions (continued)

In March 2009 the Group placed a long-term deposit with Bank Zenit for RR 2,140 million payable in 10 years bearing interest 10.85%. In February 2014 an additional agreement was signed, as result of which this deposit will be payable in 15 years with a new interest rate of 9.35% per annum. The Group entered into a subordinated deposit agreement with Bank Zenit in January 2013 in the amount of RR 3,600 million payable in 10 years bearing interest of 9% per year. In February 2014 an additional agreement was signed, as result of which this deposit will be payable in 15 years without a change of interest rate.

Russian Government bodies and state organizations

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

	Three months ended 30 June:		Six months ended 30 June:	
	2014	**2013**	**2014**	**2013**
Sales of crude oil	807	-	807	-
Sales of refined products	1,207	243	1,449	532
Other sales	57	59	158	145
Purchases of refined products	4,939	761	8,611	3,388
Purchases of electricity	2,680	2,274	5,497	4,800
Purchases of transportation services	3,759	5,538	7,412	12,432
Other services	792	-	1,584	-
Other purchases	-	-	52	-

Note 18: Contingencies and commitments

Operating Environment of the Group

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

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

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

Capital commitments. As of 30 June 2014 and 31 December 2013 the Group has outstanding capital commitments of approximately RR 34,439 million and RR 23,180 million, respectively, for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2014 and 2016.

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

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

Note 18: Contingencies and commitments (continued)

Tax authorities are currently reviewing the operations of the Company and its subsidiaries for the years ended December 31, 2011 and 2012. While the results of that review have not been finalized, management expects the ultimate outcome will not have a material effect on the Group's results of operations or cash flows.

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

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

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

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

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

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

Guarantees. The Group has no outstanding guarantees at 30 June 2014 and 31 December 2013.

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

Ukrtatnafta. In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 (“Russia-Ukraine BIT”) in connection with the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US$ 112 million plus interest.

Libya. As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations there and evacuate all its personnel. From February 2013 the Group has started the process of resuming its activities in Libya, including the return of some of its personnel to a branch in Tripoli and recommencement of some exploration activities. As of 30 June 2014 the Group had approximately RR 5,693 million of assets associated with its Libyan operations of which RR 5,477 million is related to capitalized exploration costs, RR 210 million of inventories and RR 6 million of cash. As of 31 December 2013 the company had approximately RR 5,673 million of assets associated with its Libyan operations of which RR 5,455 million is related to capitalized exploration costs, RR 210 million of inventories and RR 8 million of cash.