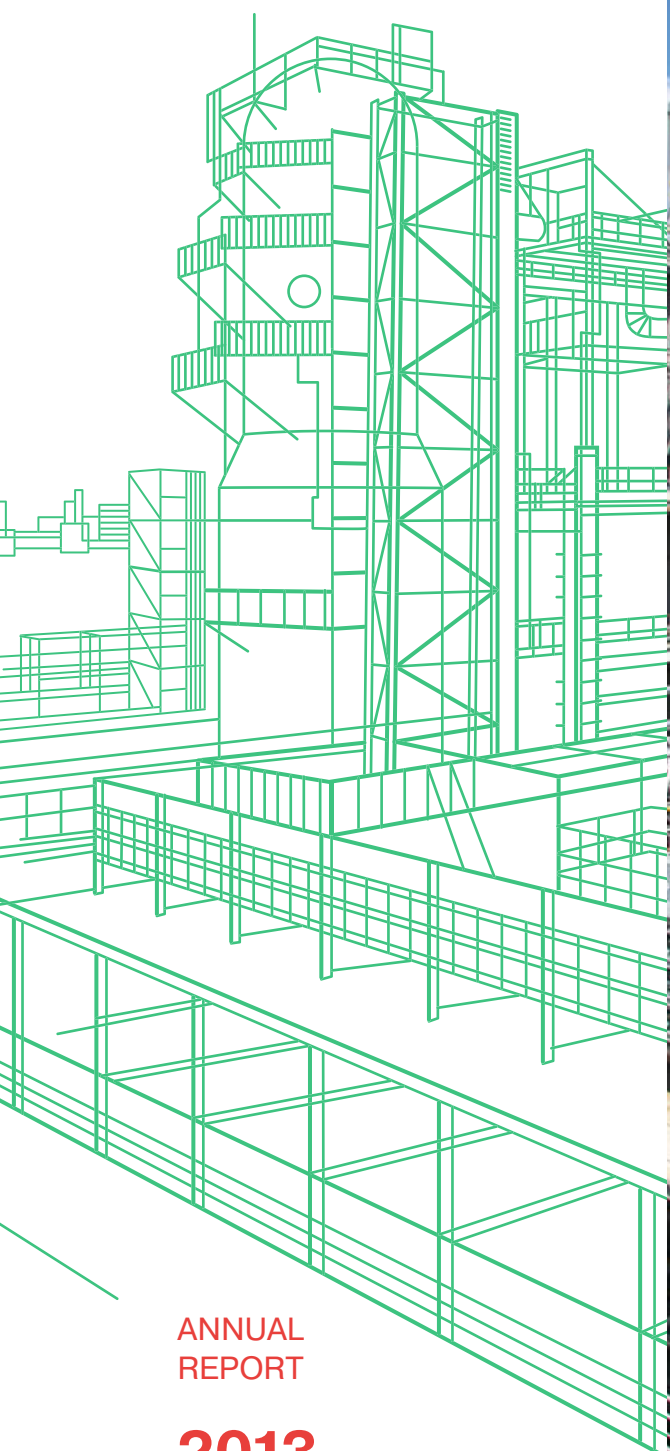




EXPLORING NEW HORIZONS



ANNUAL
REPORT

2013





2013 HAS BEEN A SUCCESSFUL YEAR FOR THE COMPANY IN ALL THE AREAS OF THE ACTIVITIES.

THE MAJOR EVENT WAS THE START OF THE SYSTEM OPERATION OF THE CORE PRODUCTION FACILITIES OF THE TANECO REFINING COMPLEX – THE KEY INVESTMENT PROJECT OF THE TATNEFT COMPANY WHICH HAS BEEN REALIZED FROM 2005 YEAR AND OF HIGH SIGNIFICANCE FOR THE WHOLE INDUSTRY

ATTAINMENT OF THE REFINING DESIGN CAPACITY BY THE TANECO COMPLEX BECAME A START OF THE NEW QUALITY PHASE OF THE COMPANY DEVELOPMENT IN THE STATUS OF THE FULL-SCALE VERTICALLY INTEGRATED OIL COMPANY.

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JOINT ADDRESS TO THE SHAREHOLDERS,
INVESTORS AND PARTNERS

DEAR SHAREHOLDERS, INVESTORS AND PARTNERS!

70
YEARS

from the beginning
of the development
of the oil fields of Tatarstan

TATNEFT Company is consistently and successfully implementing strategic initiatives to expand the resource base, stabilize the oil and gas production volumes, develop refining and petrochemicals production and output high quality products.

During the reporting year the Company produced over 26 million tons of crude oil. Full-scale development of Ashalchinskoye extra-viscous oil field is underway. These achievements have been promoted by widespread application of advanced technologies in drilling, crude oil production and workover operations.

The volume of primary processing was increased to 8 million tons of oil per year at the TANECO Refining and Petrochemical Plants Complex. The combined hydrocracking installation started operation in the comprehensive testing mode. The complete commercial commissioning of this installation will significantly increase the output of desired petroleum products and provide for the output of competitive Euro 5 standard products.

Considerable attention was paid last year to improving reliability of the power supply system and performance of resource-saving activities. One of the key aspects in this area is to increase the utilization level of associated petroleum gas through using gas powered electrical generators and microturbine units. In the frame of further TATNEFT's own generating complex development the reconstruction of Nizhnekamsk CHP was continued, which will allow doubling the generating plant capacity.

The innovative and advanced technologies and equipment widely applied at the Company are of great interest for the industry. Contracts were executed for provision of services and supply of equipment to our partners in Turkmenistan and Kazakhstan.

A large amount of work was performed by the Tire Complex enterprises to improve the quality and increase the competitive innovative products output. The factory for production of solid steel cord tires produced more than one million new generation tires for trucks and passenger motor transport.

The Company paid special attention in the reporting year to improve the production organization and management. There was a corporate Program developed to improve labor productivity in the whole Company profile by 2020. Introduction of new equipment and technologies, active application of lean production, methods of process management, effective organization and rationalization of jobsites were defined as main factors of the labor efficiency growth.

Successful solving of strategic tasks to stabilize crude oil production and expand the resource base, increase in the value and quality improvement of the assets involved in crude oil production and refining, petrochemicals production and thermal power generation ensured TATNEFT's high appraisal by rating agencies. The Moody's Rating Agency upgraded the Tatneft Group's rating to «Baa3» investment grade with "stable" outlook. The Interbrand Agency included TATNEFT's brand into the TOP 10 most expensive Russian brands.

Special attention is paid in the Company to the social aspects, environmental safety, environmental protection and environmental management. The Company ensures high environmental standards at all the production sites. Social programs include support for education, health, culture and sports, as well as improvement of the human settlements.

In 2013 we celebrated the 70th anniversary since the beginning of the Tatarstan's oil fields development. It was a milestone event for the whole industry of the Republic. This period witnessed establishment and successful development of the full-scale petrochemical complex, creation of the unique scientific and technical potential and accumulation of vast production experience. The oil industry veterans have made invaluable contribution to the petroleum industry development. Today, the result of all this is stable JSC TATNEFT's development and successful implementation of strategic plans along all the lines of the activities.

In 2014, the Company's staff faces a number of serious ongoing tasks to ensure the stabilization of crude oil production through application of advanced enhanced oil recovery technologies, increasing the volume of horizontal drilling and implementation of the extra-viscous oil field development project.

Dear Shareholders and Investors! Thank you for your confidence vested and fruitful cooperation! We express our sincere appreciation to all our partners and colleagues at the Republican, all-Russia and international levels, as well as to our staff: managers at all the levels, professionals and workers for the successful realization of the production and social programs of the Company!

Introduction of the innovative equipment and technologies, improvement of organization and management of the production processes, harmonious team work of all employees of the Company in the current year will ensure the implementation of the shaped plans. We are sure that 2014 will be a year of new achievements and further growth!

R.N. Minnikhanov
President
of the Republic of Tatarstan,
Chairman of the Board of
Directors of JSC TATNEFT

N.U. Maganov
General Director,
Chairman of the Management
Board of JSC TATNEFT

MEMBERS OF THE BOARD OF DIRECTORS
AND THE MANAGEMENT BOARD OF JSC TATNEFT

SHAFAGAT F. TAKHAUTDINOV

Member of the Board of Directors, Chairman of the Management Board (before November 2013), General Director of JSC TATNEFT (before November 2013), since November 2013 – Advisor to Chairman of the Board of Directors of JSC TATNEFT.

RAIS S.KHISAMOV

Member of the Board of Directors. Deputy General Director – Chief Geologist of JSC TATNEFT. Member of the Board of Directors' Corporate Management Committee of JSC TATNEFT.

RINAT K. SABIROV

Member of the Board of Directors. Assistant to the President of the Republic of Tatarstan. Member of the Board of Directors' Corporate Management Committee of JSC TATNEFT. Member of the Board of Directors' HR and Remuneration Committee of JSC TATNEFT.

AZAT K. KHAMAYEV

Member of the Board of Directors. Minister of Land and Property Relations of the Republic of Tatarstan.

MIRGAZIYAN Z. TAZIYEV

Member of the Board of Directors. Head of Almeteyevneft Oil and Gas Production Division of JSC TATNEFT.

MARIYA L. VOSKRESENSKAYA

Member of the Board of Directors. Independent Director. Director of Brentcross Co. LTD. Member of the Board of Directors' Audit Committee of JSC TATNEFT.

RENÉ STEINER

Member of the Board of Directors. Independent Director. Program Director of Private Equity in FIDES Business Partner AG. Member of the Board of Directors' Audit Committee and Chairman of the Board of Directors' HR and Remuneration Committee of JSC TATNEFT (since June 2013).



NAIL G. IBRAGIMOV

Member of the Board of Directors, Member of the Management Board. First Deputy General Director for Production - Chief Engineer of JSC TATNEFT.

VLADIMIR P. LAVUSHCHENKO

Member of the Board of Directors and Member of the Management Board. Deputy General Director of JSC TATNEFT for Economics. Chairman of the Board of Directors' Information Disclosure Committee of JSC TATNEFT.

RADIK R. GAIZATULLIN

Member of the Board of Directors. Minister of Finance of the Republic of Tatarstan. Member of the Board of Directors' Audit Committee of JSC TATNEFT.

RENAT KH. MUSLIMOV

Member of the Board of Directors. Advisor to the President of the Republic of Tatarstan on the issues of oil and oil/gas fields development.

GHOSH SUSHOVAN

Member of the Board of Directors. Independent Director. Managing Director of SGI Group LTD. Chairman of the Board of Directors' Audit Committee. Member of the Board of Directors' HR and Remuneration Committee of JSC TATNEFT.

VALERY YU. SOROKIN

Member of the Board of Directors. General Director of JSC Svyazinvestneftekhim.

FEDOR L. SHCHELKOV

Member of the Management Board. Deputy General Director for General Issues of JSC TATNEFT.

NIKOLAY M. GLAZKOV

Member of the Management Board. Deputy General Director for Capital Construction of JSC TATNEFT.

RUSTAM N. MUKHAMADEYEV

Member of the Management Board. Deputy General Director of JSC TATNEFT for HR and Social Development.

EVGENIY A. TIKHTUROV

Member of the Management Board. Head of Financial Department of JSC TATNEFT. Member of the Board of Directors' Information Disclosure Committee of JSC TATNEFT.

VALERIY D. YERSHOV

Member of the Management Board. Head of Legal Department of JSC TATNEFT. Member of the Board of Directors' Corporate Management Committee of JSC TATNEFT.

VLADLEN A. VOSKOBOINIKOV

Member of the Management Board. Head of Department for Consolidated Financial Statements of JSC TATNEFT. Member of the Board of Directors' Information Disclosure Committee of JSC TATNEFT.



RIFKAT M. RAKHMANOV

Member of the Management Board. Deputy General Director for Workover, Drilling and Oil Recovery Enhancement of JSC TATNEFT.

VIKTOR I. GORODNIY

Member of the Management Board. Deputy General Director of JSC TATNEFT – Head of Property Department. Chairman of the Board of Directors' Corporate Management Committee, Vice Chairman of the Board of Directors' Information Disclosure Committee.

ISKANDAR G. GARIFULLIN

Member of the Management Board. Head of Accounting and Reporting Department – Chief Accountant of JSC TATNEFT.

RAFAIL S. NURMUKHAMEDOV

Member of the Management Board. Head of Leninogorskneft Oil and Gas Production Division of JSC TATNEFT.

ZAGIT F. SHARAFEYEV

Member of the Management Board. Deputy General Director of JSC TATNEFT for Petrochemical Production – Director of UK OOO TATNEFT-Neftekhim.

ALEKSANDER T. YUKHIMETS

Member of the Management Board. Secretary of the Board of Directors of JSC TATNEFT. Member of the Board of Directors' Information Disclosure Committee of JSC TATNEFT.



MISSION OF THE COMPANY

THE COMPANY'S MISSION CONSISTS IN STRENGTHENING THE INTERNATIONALLY RECOGNIZED POSITIONS AND ENSURING THE COMPANY'S SUSTAINED DEVELOPMENT IN THE STATUS OF ONE OF THE LARGEST RUSSIAN VERTICALLY INTEGRATED COMPANIES PRODUCING OIL AND GAS, REFINED PRODUCTS, PETROCHEMICALS AND THERMAL AND ELECTRIC POWER BASED ON THE EFFICIENT ASSET MANAGEMENT OF THE SHAREHOLDERS, MANAGEMENT OF NATURAL RESOURCES AND CORPORATE SOCIAL RESPONSIBILITY.

JSC TATNEFT

STRATEGIC INITIATIVES AND OBJECTIVES OF THE COMPANY

INCREASE OF THE SHAREHOLDER'S EQUITY

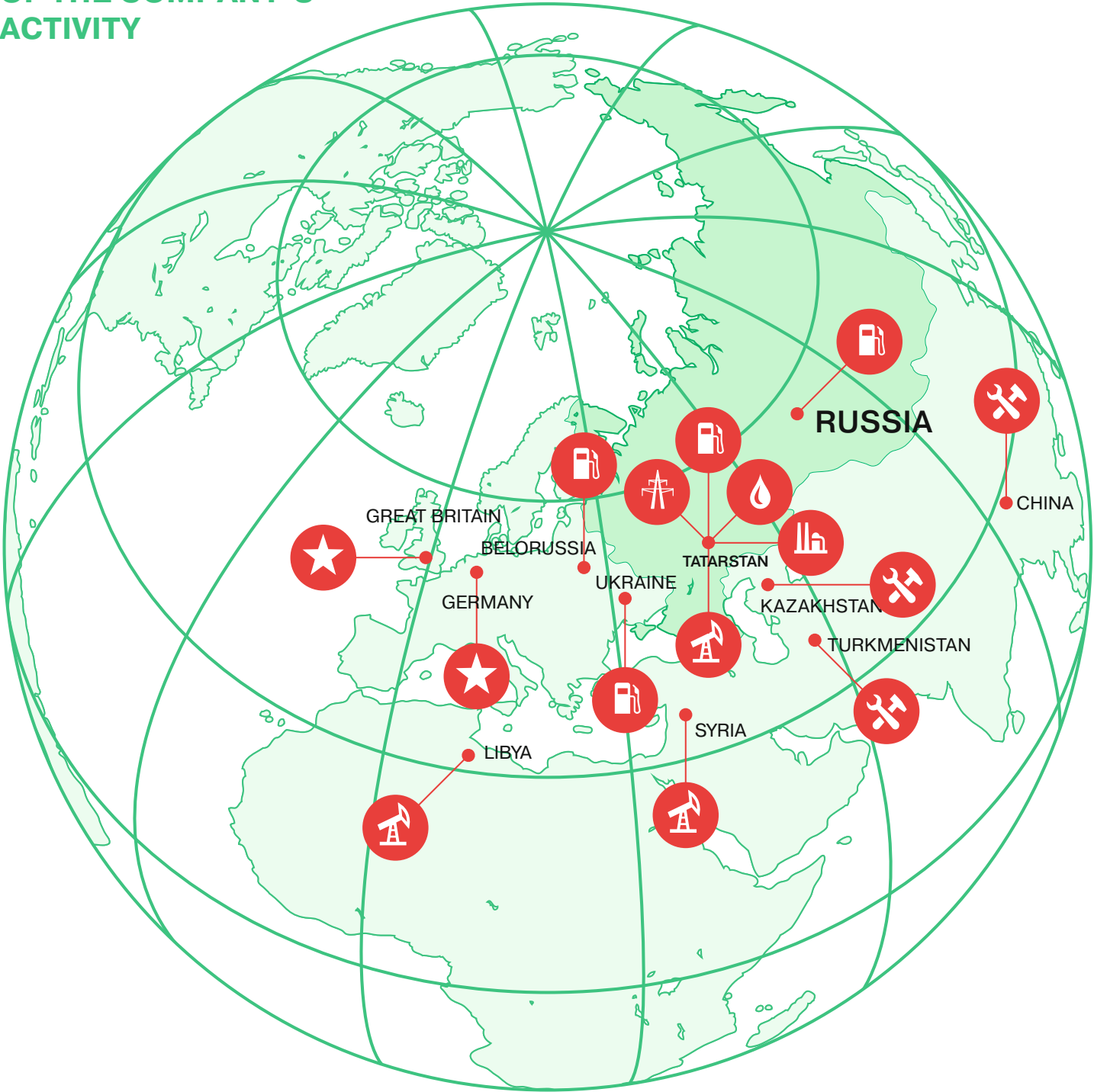
Ensure the increase of the long-term shareholder value and high dividend yield return on the shareholders invested capital on the basis of the efficient corporate management of natural, industrial, human, intellectual and professional assets and resources.

- ENSURE FINANCIAL STABILITY AND ECONOMIC STABILITY
- STABILIZE THE VOLUMES OF PROFITABLE OIL & GAS PRODUCTION ON THE DEVELOPED LICENSE FIELDS AND ACTIVE EXPLORATION OF NEW FIELDS INCLUDING HIGH VISCOSITY OIL AND HARD TO RECOVER OIL IN THE TERRITORY OF THE REPUBLIC OF TATARSTAN
- EXPAND THE LICENSE PORTFOLIO OUTSIDE THE REPUBLIC OF TATARSTAN AND RUSSIAN FEDERATION
- INCREASE THE PRODUCTION AND SALES VOLUMES OF HIGH COMPETITIVE FINISHED PRODUCTS THROUGH DEVELOPMENT OF REFINERIES AND PETROCHEMICAL PLANTS
- FORMULATE AND IMPLEMENT THE INNOVATIVE ENGINEERING POLICY
- ENSURE A HIGH LEVEL OF THE CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY








The corporate management of the Company covers all the aspects of the activities of the TATNEFT Group and is aimed at strengthening of the financial position of the joint stock company and sustained development in compliance with its strategic initiatives and objectives set by the shareholders.

In 2013 the Board of the Directors of JSC TATNEFT addressed the issues on prospective and current development plans of each business segment, implementation of the investment programs, provision of the internal audit, human resources, social and environmental policies, improvement of the productivity, as well as financial and business activities of subsidiaries and affiliates. The special attention was paid to the Company's capitalization and interaction with shareholders.

GEOGRAPHY
OF THE COMPANY’S
ACTIVITY



LEGEND

-  Field development
-  Oil refining
-  Petrochemicals production
-  Thermal electric power
-  Supply of equipment, technologies and services
-  Retail Distribution Network
-  International stock exchanges where the depositary receipts for shares of JSC TATNEFT are listed on

PROVED OIL RESEVES AMOUNT OF JSC TATNEFT

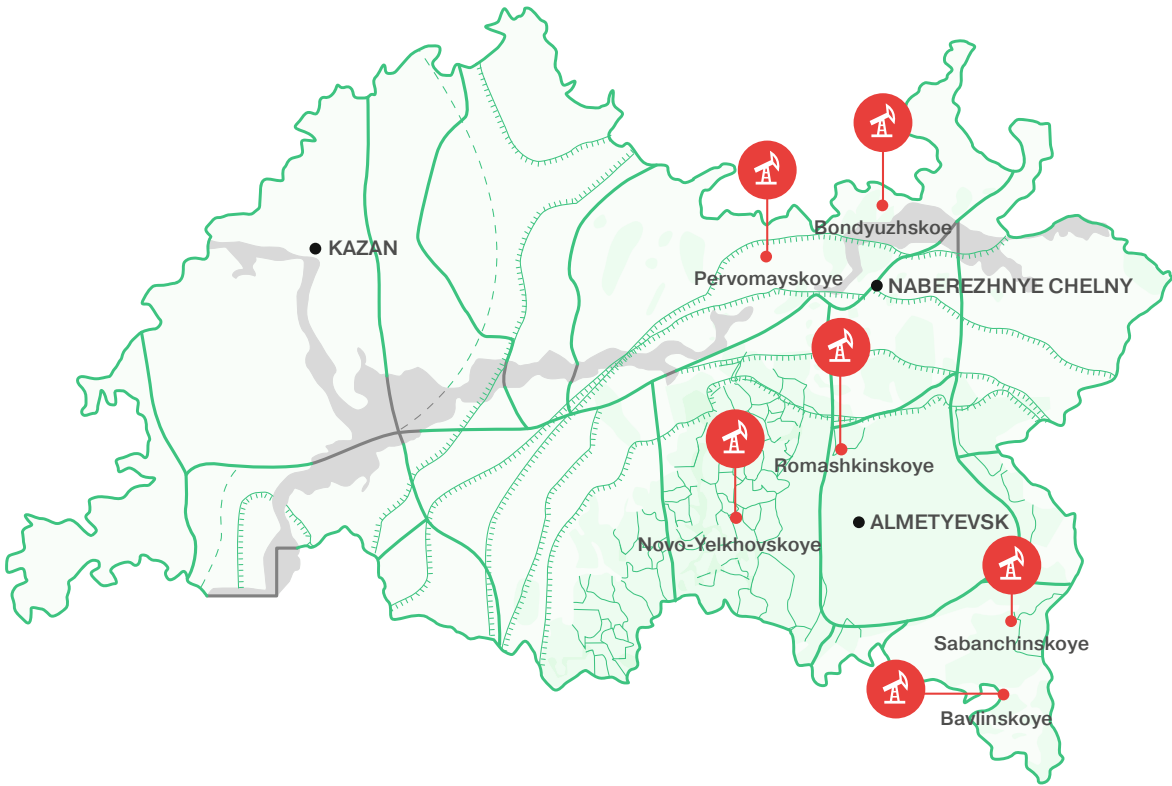
847.3
million tons of oil

According to Miller & Lentz, Ltd
independent consulting firm, as of beginning of 2014

IN TERMS OF AVAILABILITY OF HYDROCARBON RESOURCES (THE RATIO BETWEEN THE CURRENT ANNUAL PRODUCTION AND THE AMOUNT OF RESERVES) THE COMPANY IS A LEADER IN RUSSIA, AS WELL AS IN THE WORLD.

THE AVAILABLE RESOURCE BASE OF THE COMPANY ALLOWS IT TO MAINTAIN THE CURRENT PRODUCTION VOLUME FOR OVER 32 YEARS.

MAP OF MAJOR FIELDS OF JSC TATNEFT
WITHIN THE REPUBLIC OF TATARSTAN



THE MAIN RESOURCE PORTFOLIO AND PRODUCTION FACILITIES OF THE COMPANY HAVE HISTORICALLY BEEN PLACED IN THE TERRITORY OF THE REPUBLIC OF TATARSTAN.

THE SHARE OF THE TATNEFT GROUP ACCOUNTS FOR MORE THAN 80% OF THE OIL PRODUCED IN THE TERRITORY OF TATARSTAN, AND ABOUT 8% OF THE TOTAL OIL PRODUCED IN THE RUSSIAN FEDERATION

THE RETAIL BUSINESS OF THE COMPANY IS FORMED BY THE DEVELOPING NETWORK OF TATNEFT BRANDED FILLING STATION COMPLEXES IN THE TERRITORIES OF RUSSIA, BELORUSSIA AND UKRAINE.

THE RUSSIAN NETWORK OD THE FILLING STATIONS IS THE FORTH LARGEST RETAIL NETWORK AND REPRESENTED IN 22 REGIONS WITH HIGH POTENTIAL GROWTH INCLUDING THE CENTRAL FEDERAL DISTRICT AND VOLGA REGION.

KEY PERFORMANCE INDICATORS
OF THE COMPANY BASED ON THE RESULTS OF 2013

MAIN INDICES	NATIONAL UNITS OF MEASUREMENT
INDICATORS OF THE COMPANY'S SHAREHOLDER VALUE	
Market Capitalization as of December 31, 2013	RUR 471.5 bln
Cost of an ordinary share as of December 31, 2013	RUR 208.2
Planned dividends by results of the Company's activity in 2013*	RUR 19.155 bln
Total number of shares Including:	2,326,199,200
ordinary shares	2,178,690,700
preferred shares	147,508,500
Number of depositary receipts issued for shares of JSC TATNEFT (1 DR : 6 shares) as of December 31,2013	625,174,618
INDICATORS OF THE COMPANY'S PRODUCTION STATUS	
Oil and Gas Production Complex	
Amount of proved oil reserves as of January 1, 2014 (according to Miller & Lents Ltd. assessment) when using the average oil price for 12 months 2013	847.346 mln tons
TATNEFT Group Oil production volume	26.419 mln tons
JSC TATNEFT Oil production volume	26.107 mln tons
Average daily production	0.72 mln tons
Average oil production rate of active producing wells of JSC TATNEFT	3.8 tons/day
Average oil production rate of new wells of JSC TATNEFT	9.3 tons/day
Associated petroleum gas production (collection)	864.8 mln m³
Liquefied petroleum gas production	275.3 thousand tons
Operational stock of producing wells	22,289 wells
Active stock of producing wells	20,257 wells
Total penetration meterage for JSC TATNEFT Including:	450.1 thousand meters
production drilling	430.4 thousand meters
prospecting & exploratory drilling	19.747 thousand meters

MAIN INDICES	NATIONAL UNITS OF MEASUREMENT
Oil Refinery Complex	
Refining volume of TANECO Complex:	
Crude oil refining	7,621.6 thousand tons
Natural gas liquids refining	4.4 thousand tons
Daily refining throughput	167.6 thousand bbls
Level of capacity utilization	108.8% of designed capacity
Refining depth	73.54 % annual average depth of refining
Output of light petroleum products	48.16 %
Indicator of capabilities to process crude oil with sulfur content	Oil processing with 1.8 % sulfur content
Sulfur content in refined products - EURO-5 diesel fuel,	3 ppm
Refining at the refinery of NGDU Elkhovneft	
Total core products output	179.3 thousand tons
Tatneftgazpererabotka Administration	
Associated gas accepted for processing	773.9 mln m³
LPG processing	276.0 thousand tons
Sour gas delivered to sweetening	125.4 mln m³
Utilization coefficient of associated gas	95.1 %
Petrochemical Complex	
Commercial carbon black production volume of JSC Nizhnekamsktehuglerod	RUR 3,265 mln
Commercial commodity output of JSC Nizhnekamskshina	RUR 5,509.85 mln
Total volume of produced commodity petrochemical products	RUR 38,980.13 mln
Carbon black production volume	108.9 thousand tons

MAIN INDICES	NATIONAL UNITS OF MEASUREMENT
Retail Network of Filling Stations.	
Total number of filling stations, Including:	648
Number of filling stations in Russia	524
Number of filling stations in Ukraine	114
Number of filling stations in the Republic of Byelorussia	10
Indicators on the Property Complex	
Number of real estate assets registered on the ownership right	RUR 8.1 bln
Human Resources	
Number of employees of TATNEFT Group	77 thousand persons
Average headcount of the employees of JSC TATNEFT	20.78 thousand persons
PERFORMANCE INDICATORS OF THE COMMERCIAL ACTIVITY	
Supply of Oil and Gas products	
Oil export (far-abroad countries)	11.3 mln tons
Oil export (near-abroad countries)	1.054 mln tons
Supplies to the domestic market	13.408 mln tons
Gas products supply to the domestic market, export	7.506 mln tons
Sales of Oil and Gas Products	
Volume of oil products sold in the markets of Russia, Ukraine, Byelorussia	1.52 mln tons
Volume of gas products sold through TATNEFT retail networks of gas filling stations	145.6 thousand tons
Sales of Petrochemical Complex Products	
Total tires shipped, including:	11.81 mln pcs
Export	2.694 mln pcs
Domestic market	9.001 mln pcs
Tender shipments	0.116 mln pcs
FINANCIAL AND ECONOMIC PERFORMANCE INDICATORS	
Revenues	
Revenue of TATNEFT Group	RUR 454.983 bln
Sales revenue of JSC TATNEFT, total	RUR 363.531 bln
Oil sales revenues (incl. own and purchased oil)	RUR 205.030 bln
Oil & gas products sales revenues	RUR 133.112 bln
Other products sales revenues	RUR 5.389 bln
Profit	
Pre-tax profit of TATNEFT Group	RUR 101.291 bln
Pre-tax profit of JSC TATNEFT	RUR 83.485 bln
Net profit of JSC TATNEFT	RUR 63.850 bln
Taxes and Payments to the Budget	
Taxes and payments to the Budget from JSC TATNEFT: including:	RUR 319.260 bln
Minerals extraction tax (MET)	RUR 104.850 bln
Income tax	RUR 19.155 bln

MAIN INDICES	NATIONAL UNITS OF MEASUREMENT
Balance Sheet Data as of December 31, 2013	
Fixed assets and incomplete construction	RUR 105.624 bln
Long-term financial investments	RUR 52.026 bln
Current assets	RUR 301,405 bln
Equity capital	RUR 421,696 bln
Total liabilities	RUR 111,621 bln
FINANCIAL SOUNDNESS INDICATORS	
Equity capital level	0.791
Net assets	RUR 421.7 bln
Current liquidity (ratio)	4.434
INVESTMENT ACTIVITY INDICATORS	
Total volume of investments for TATNEFT Group	RUR 84,813 bln
Investments in the oil production in the territory of Tatarstan Republic	RUR 30,937 bln
drilling	RUR 12,996 bln
capital construction	RUR 7,477 bln
equipment not included in the construction estimate-sheets	RUR 2,485 bln
geological and technical activities	RUR 7,699 bln
redemption of property, land, etc.	RUR 0.280 bln
Investments into development of retail business	RUR 1,303 bln
Investments into non-production sphere	RUR 0.754 bln
Investments into oil production outside the Republic of Tatarstan	RUR 3,112 bln
Investments of the petrochemical complex enterprises	RUR 0.861 bln
Investments of service companies & other enterprises including:	RUR 4,682 bln
financing of Nizhnekamsk CHP reconstruction	RUR 1,837 bln
Investments into foreign projects	RUR 0.470 bln
Investments into construction of the Refining and Petrochemical complex	RUR 42,694 bln

* The Board of Directors of JSC TATNEFT made a decision to recommend to the Annual General Meeting of the Shareholders to approve payment of dividends for 2013 in the amount of 823% for preferred shares, and dividends for ordinary shares – in the amount of 823% of the nominal value.

Comments:

JSC TATNEFT considers that the use of the average oil price for 12 months fairly reflects its oil reserves in the current economic conditions, particularly in the environment of high volatility of the oil price that occurred during 2013.

ADDED VALUE

The volume of production of the value added of JSC TATNEFT increased by 0.9 billion rubles and amounted to 228 billion rubles in 2013. The share of the added value in the total volume of the Company's products output amounted to 66%.

In 2013 the added value in OJSC TANECO increased by 62% versus 2012 and amounted to 13.9 billion rubles. The share of the added value in the output of products increased from 54% in 2012 to 67% in 2013.

ABOUT THE COMPANY

471.6

BLN RUBLES

Market Capitalization
of the company
As of the end of 2013

In 2013 the Moody’s Investor Services rating agency announced the rating upgrade of the TATNEFT corporate group up to investment level “Baa3, with a stable outlook”.

STATUS OF THE COMPANY’S ACTIVITY IN 2013

JSC TATNEFT executes its business in the capital intensive industry of subsurface management and reproduction of power resources demanding increased corporate responsibility for all the activities.

The organizational structure of the Company vertically integrates business processes, resources, manufacturing facilities for exploration, production, refining, petroleum chemistry, thermal electric power industry, as well as sales of oil and petroleum products, providing diversification and quality interactions of all the business segments starting from extraction of reserves to production and marketing of high quality final petrochemical products.

The Company strategic actions are based on the macroeconomic data of forecasted consumption of hydrocarbons until 2030, prospects of development of the global and domestic markets, market trends and market potential of petrochemical products.

In 2013 the Company successfully solved the strategic objectives and present-day challenges aimed at strengthening the quality and profitability of corporate assets, stabilization of the production and ensuring replenishment of resources, development of refineries and petrochemical facilities, formation of a new value added by manufacturing high-quality and highly competitive products based on the integration of resource and production potentials of oil production, refining and petrochemicals. The Company implemented the activities in order to improve the operating efficiency of the business segments and create new points of revenue growth, strengthen the competitiveness and sustainable level of the investment attractiveness.

The Company realized the target production volumes and provided positive indicators of the financial and economic activity.

The consolidated assets of the TATNEFT Group form the following business segments: exploration and production, oil refining and sales of crude oil and petroleum products, petrochemicals, as well as the corporate segment.

By the end of 2013 in the asset structure of the TATNEFT Group the main shares are distributed between the business segments of exploration and production - 281.4 billion rubles, and oil refining and sales of crude oil and petroleum products - 259.9 billion rubles, indicating the high-quality proportion of the asset diversification. Over recent years within the framework of the vertical integration development of the Company together with a steady growth of the recovery segment there was an intensive growth of the assets value of refining and sales owing to the project of the construction of own refining facilities of the TANECO Complex. Before this large-scale project was started in 2005, the segment share was 5% of the all Company’s assets by the end of 2011, and with the completion of the main phase of this construction and testing of the Complex’ facilities, this segment share increased to 34%, and after the Complex reached its design capacity in 2013 the share became even 39%.

In total, over 10 years the consolidated assets grew more than in 2.5 times. (In 2003 - 262.7 billion rubles.) As a result of this restructuring period, creation of a high-tech oil refinery block, modernization of the petrochemical production, expansion of a distribution network of filling stations, acquisition of heat and power generating capacities the company achieved a high quality strengthening of the corporate business structure together with increased operating profitability.

The Revenue from sales of JSC TATNEFT in the reporting year was 363.5 billion rubles (net of VAT and export duties), which was by 5.5% more than in 2012. The main reason is a price factor for crude oil and petroleum products, as well as changes in the sales structure. The cost of sales in 2013 amounted to 228.5 billion rubles. This is 9.7% higher than last year and associated mainly with the increased tax burden for natural resources production (MET) and inflationary developments.

The revenue of the TATNEFT Group amounted to 455 billion rubles in 2013. There is the following distribution of shares in the consolidated revenue mix: the exploration and production - 45%, oil refining and sales of crude oil and petroleum products - 44%, petrochemicals - 8%.

JSC TATNEFT realized the profit before tax in the amount of 83.5 billion rubles. The after-tax profit of the parent company amounted to 63.85 billion rubles. The leverage ratio is 78% : 22% which is an indicator of the financial stability of the Company. The net assets increased by 11% to the level of 421.7 billion rubles by the end of 2013.

The consolidated profit before tax of the TATNEFT Group amounted to 101.3 billion rubles.

JSC TATNEFT provided timely payments to the budgets of all levels and off-budget funds. The total amount of accrued taxes and payments to the budgets of all levels was 323 billion rubles.

Payables on all types of loans and credits for 2013 were reduced by 22.9 billion rubles. The main part of the loans was previously engaged to meet the current production problems in connection with the direction of significant own funds for financing the construction of the TANECO Refining and Petrochemical Complex in Nizhnekamsk.

The financial and economic potential gained over the years by the Company allows to continue the implementation of major investment projects, both on account of the own funds and borrowed funds.

The total amount of investments by JSC TATNEFT and its subsidiaries and affiliated companies in 2013 amounted to 84.8 billion rubles. The top priority goals are as follows: strengthening of the oil and gas production assets, including overseas projects and the refining business unit. The most significant investments were allocated and spent in these areas in the reporting year, which amounted to 37.4 billion rubles in the production and 42.7 billion rubles in the construction of the Refining and Petrochemical Complex in Nizhnekamsk.

674

BLN RUBLES

Consolidated asset value
of the TATNEFT Group
As of the end of 2013

323

BLN RUBLES

Total amount of the tax
payments to the budgets
of all levels and non-budgetary
funds by JSC TATNEFT in 2013

26.4

MLN TONS

Oil production volume
of the TATNEFT
Group in 2013

*The Company provides
for a steady increase
of the annual production
which is 5.8 % for 10 years.
Despite the fact that most
of the deposits of the
Company are in their late
stage of development,
JSC TATNEFT is the only
oil company in Russia that
has managed to avoid any
significant decline in the
production since 2000.*

At the beginning of 2014 the proved developed, undeveloped and undrilled reserves of JSC TATNEFT according to the estimates of the international independent consulting firm Miller & Lentz amounted to 847.346 million tons of oil. In terms of availability of hydrocarbon resources (the ratio between the current annual production and the amount of reserves) the Company is a leader not only in Russia but also in the world.

The oil production of JSC TATNEFT totalled 26.419 million tons of oil in 2013, the Company reached the maximum level of hydrocarbons production over last 20 years. The enterprises of JSC TATNEFT in the Republic of Tatarstan and outside it produced 26 million 107 thousand tons of oil, the subsidiaries and affiliated companies produced 312 thousand tons of oil.

The main part of the current oil production accounts for the conventional large deposits of the Republic of Tatarstan. In accordance with the objectives on to expand the resource base and increase oil reserves the Company forms a diversified portfolio of oil and gas assets. Outside the Republic of Tatarstan JSC TATNEFT holds the prospecting licenses for geological exploration and development of oil, gas and condensate fields purchased through auctions as well as through the acquisition of the business parts of the oil companies in the Samara, Orenburg, Ulyanovsk Regions, Nenets Autonomous Okrug and the Republic of Kalmykia. In 2013 JSC TATNEFT jointly with its nine subsidiaries operating in the territory of the Russian Federation possessed 97 licenses for exploration and development of the hydrocarbons deposits. The Company continued the geological exploration programs in the territory of license sites in Libya and Syria, which had been suspended in 2011 due to the complicated political situation till the internal situation stabilization in these countries and guarantee the safety for the Company’s specialists.

In accordance with the extra viscous field development plans the EVO production amounted to 145.6 thousand tons in the Ashalchi oil field in 2013. The total production of extra viscous oil from the beginning of the commercial field development reached 325.7 thousand tons of extra viscous by the end of 2013. The total production rate for the site by the end of the year reached 480 tons per day.

In 2013 the Company started to implement the shale oil study program – there was a pilot well drilled at the depth of about 1700 m and it is in operation now.

The drilling complex companies penetrated 450.1 thousand meters of rocks in the fields of JSC TATNEFT in the reporting year and commissioned 266 new producing wells, The average flow rate of new wells amounted to 9.3 tons per day. 248 wells were completed for water injection.

In order to achieve maximum economic returns and increase profitability of the production assets, rational use of natural and material resources the Company implements the target program activities aimed at optimizing the infrastructure of mature fields, increasing the oil recovery factor, ensuring cost control, resource saving, development and implementation of innovative technologies and equipment.

JSC TATNEFT achieved one of the highest industry levels of associated gas utilization, which exceeds 95 %. Application of the gas powered electrical generators and microturbine units for utilization of associated petroleum gas contribute to increased reliability of the power supply systems of the Company.

Thanks to implementation of a comprehensive resource saving program TATNEFT saved over 55.6 thousand tons of equivalent fuel in 2013, which allowed to reduce the fuel and energy resources consumption of the Company by 4.9%. The main energy savings were obtained through energy saving.

The technological equipment and the level of implementation of innovative methods of operating companies of the Company conform to the international standards and are unique in some aspects. The Company actively develops the technology of dual completion production from two or more layers of one well to ensure effective operation of the oil fields. At the beginning of the current year the number of these dual completion and dual injection systems exceeded 1900 units, the cumulative oil production amounted to 7.7 mln tons of oil.

TATNEFT Company is an absolute industry's leader in terms of the average turnaround time for wells among the major oil companies the Russian oil industry. The overall average turnaround time in JSC TATNEFT was 1198 days in 2013. This has been achieved through the introduction of a large variety of innovative technologies, high quality and timely maintenance of the oilfield equipment.

TATNEFT Company is a supplier of the advanced technologies, equipment and oilfield services to external oil producing companies. The Company provided such supplies to Kazakhstan and provided EOR oilfield services in Turkmenistan in 2013.

The oil refining assets include TANECO Refining and Petrochemical Complex in Nizhnekamsk, the construction of which was started by the Company in 2005 in order to form the own facilities for oil advanced processing and the refining facility of NPU Elkhovneft.

In 2013 the total refining throughput was about 8 million tons, including 7.6 million tons of crude oil and 4.4 tons of gas condensate processed at TANECO. Main products are as follows: straight-run gasoline, stable natural gasoline, middle distillates, visbreaker tar, vacuum gas oil, commercial fuel oil. The level of the capacity utilization of TANECO reached a record level - 108.8 % of designed capacity (the average for Russia – 92.9 %). The processing volume amounted to about one-third of the Company’s annual production. The average annual oil refining efficiency was 73.54% (which is higher than the Russian average level of 71.5%) light petroleum products output – 48.16%. Most sections of the integrated hydrocracking unit are in the comprehensive testing mode.

In March 2014 OJSC TANECO completed commissioning works on the integrated hydrocracking unit and hydrogen generation unit, and obtained the Rostekhnadzor certificate of conformity with requirements of the technical regulations and design documentation. TANECO obtained permits for commissioning of these facilities and the state registration of OJSC TANECO ownership of real estate assets. Further plans for the current year are as follows: continue to increase the capacity utilization of the TANECO first stage, to exceed the achieved level which will enhance the positive effect for JSC TATNEFT as well as for the whole Russian economy. In 2014 it is planned to ensure the refining throughput volume of 8.5 million tons and to start the normal operation of the hydrocracking unit allowing production of high demand products – high quality light petroleum products EURO-5 diesel fuel, jet aviation fuel, base oils. The pilot batches of EURO-5 diesel fuel are characterized by a low sulfur content (3 ppm - this is significantly less than the upper limit for this emissions class which is 10 ppm).

TANECO Complex became the first large-scale refinery facilities built from scratch in the post-Soviet countries over the last 30 years. The project was financed by JSC TATNEFT on account of own and borrowed funds. The mechanism of public-private partnership was also used in the construction of transport infrastructure objects of the Complex. The commercial operation of the refinery commenced on December 2, 2011.

The sustainable development strategy of OJSC TANECO envisages further expansion of the volume and range of the products, a significant increase of the depth of processing, as well as the output of light petroleum products. The technological level of the Complex is consistent with international standards, both in the areas of ecological and industrial safety.

The production facilities of NPU Elkhovneft were operated at constant load.

95.1

%

level of associated
gas utilization

1.7

MLN TONS

of oil and gas products
have been sold through
TATNEFT retail network
of filling stations in 2013

7.6

MLN TONS

of crude oil processed
at TANECO Complex
in 2013

73.5

%

is the average annual
processing depth
at TANECO Complex

The development of the retail sales of petroleum products in 2013 was carried out in accordance with the current priority to improve profitability of filling stations complexes at high quality control and extension of additional services. As of the end of 2013 the number of TATNEFT branded filling stations totaled 648 units, among them 524 filling stations – in Russia, 114 filling stations – in Ukraine, 10 filling stations – in Belorussia).

1.7 million tons of oil and gas products have been sold through TATNEFT retail network of filling stations in the reporting year. In the coming years the retail network of JSC TATNEFT will be fully provided with its own high-quality oil products produced at the TANECO Complex, which will significantly increase the operating earnings and strengthen the competitive positions of this business segment.

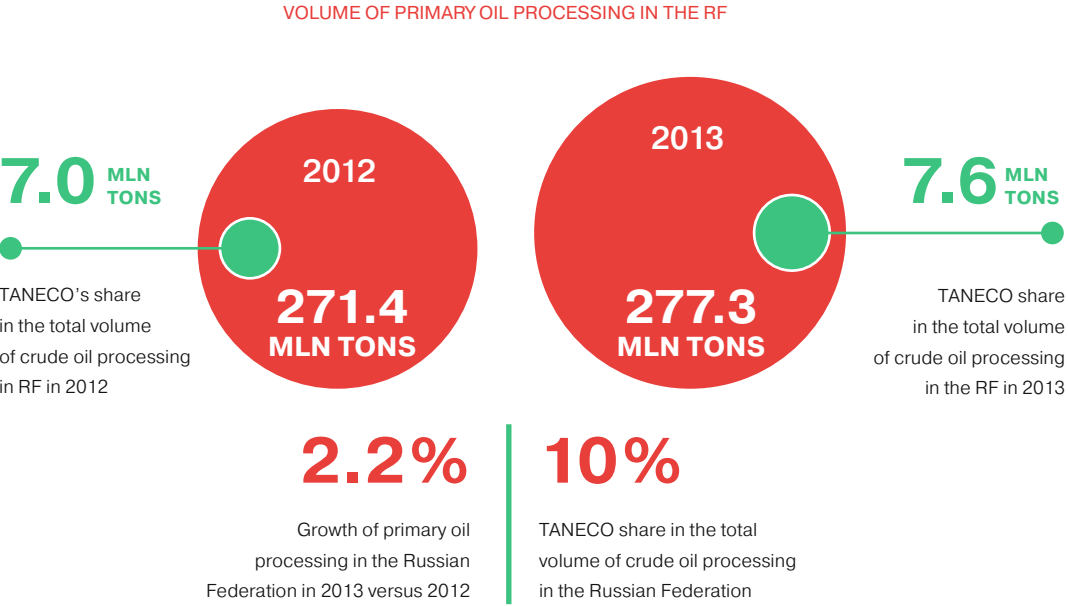
Power generating capacities of the Company supply the thermal electric power to the production facilities of the TATNEFT Group, as well as the large industrial enterprises and social infrastructure facilities in the South-East of the Republic of Tatarstan, providing JSC TATNEFT the status of a network, power generating and power supply company in the region of its core activity.

In 2013 the total electric power output by the Company's power generating enterprises was about 1.3 billion KWh. The total heat output increased by 15% owing to modernization of the facilities and totalled to 4.8 million Gcal. The Company continued works to double the production capacities of Nizhnekamsk CHP (Combined Heat & Power station) which provides the electric power to the largest petrochemical enterprises of Nizhnekamsk city, including TANECO Complex. The optimal load distribution and management of the most economical mode of operation at Nizhnekamsk thermal power station allowed to reduce the specific fuel consumption for electricity supplied by 3.5% down to 288 g/kWh in 2013, which is 11% less than the national average.

The Tire Manufacturing Complex of the Company covers 26% of this Russian industry segment in terms of production volumes; it is a supplier of the domestic car manufacturers KAMAZ, GAS, AVTOVAZ, as well as the car assembly plants of Volkswagen, Fiat and other foreign manufacturers.

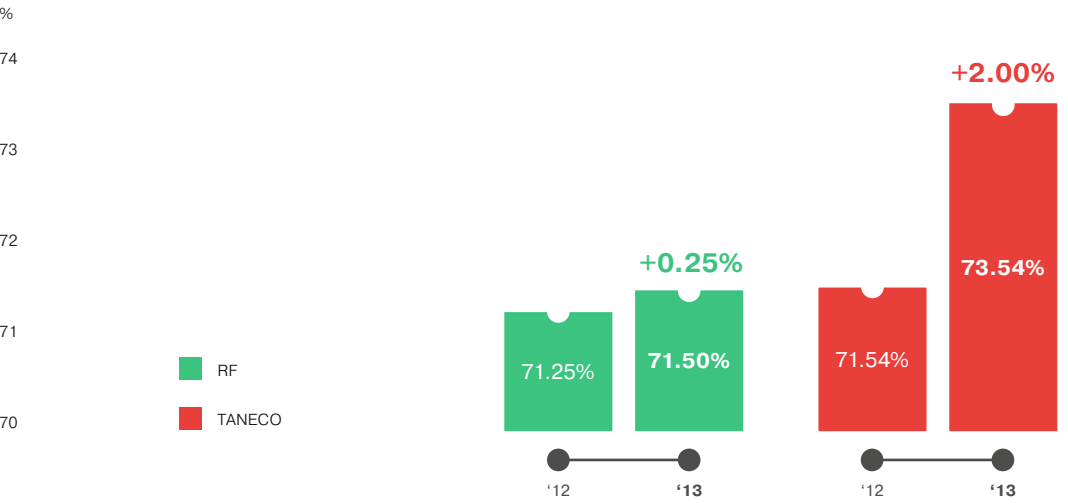
The cumulative tire production amounted to 12.5 million tires in 2013. At the end of 2013 a new Product & Marketing Strategy of the tire manufacturing complex was adopted for the period until 2018. The Company objective is to strengthen the position in the strategic group of the leaders of the Russian tire market and increase the Company's combined market share in the Russian market of tire products. The strategy is based on forming the growth in production and sales of the tire products with the maximum use of the potential of the market conditions and the market capacity of OEM & Aftermarket markets, especially in the markets of Russia and CIS countries ensuring the profitability of the tire business comparable to the level of the world manufacturers of tire products.

INCREASE OF THE RATIO OF VOLUMES OF PRIMARY OIL PROCESSING IN THE RF
AND AT TANECO COMPLEX IN 2012-2013



In 2013 after the commissioning of the own refining facilities of TANECO the Company sent more than 31% of the produced crude oil for refining.

RATIO OF AVERAGE ANNUAL PROCESSING DEPTH IN THE RF
AND AT TANECO COMPLEX IN 2012-2013



JSC TATNEFT EQUITY HOLDING STRUCTURE

As of December 31, 2013 according to the register of shareholders of JSC TATNEFT had 45,746 shareholders. Among them the largest owners (nominal holders) of the Company’s shares are as follows:

- Non-bank Credit Company, closed joint stock company National Settlement Depository owns 56.199649 % of shares;
- Joint Stock Company Central Depository of the Republic of Tatarstan owns 33.595570 % of shares.

The shares of JSC TATNEFT have been traded on the Russian and International stock markets 19 years, and they are among the most liquid and representative instruments in the securities markets. The geography of the shareholders covers the territory of Russia (the main share of the shareholders), America, Australia, Europe and Asia.

In terms of trading volumes on the Russian and London stock exchanges JSC TATNEFT ranks the sustainable fourth place among the Russian oil companies. The ordinary and preference shares are listed in the A1 Quotation List in the united JSC Moscow Stock Exchange. JSC TATNEFT shares are included in the index calculation base of RTS and MICEX, which are the main indicators of the Russian stock market. The current annual volume of trading on the Moscow stock exchange exceeds RUR 79 billion rubles (USD 2.4 billion).

As of the end of 2013 the value of one ordinary share of JSC TATNEFT was RUR 208.2, the value of one preferred share was RUR 121.7. The dividend yield based on the calculation of the market value of the ordinary shares at the end of 2013 amounted to 4.13 %, the dividend yield of the preferred shares amounted to 7.07 %.

625,174,618 ordinary shares or 29.9 % of the shareholders equity have been deposited for conversion into global American Depositary Receipts (ADRs) (the conversion ratio of 1 DR = 20 shares, it was changed in 2009 to 1 DR = 6 shares).

The Depositary Receipts of the Company are listed on the London Stock Exchange (Ticker symbol: ATAD) and traded in the Xetra trading system of Deutsche Börse group. The annual trading volume of JSC TATNEFT Depositary Receipts exceeds 2.5 billion pounds in the London Stock Exchange; and 8 million Euros – in the Xetra trading system.

EQUITY HOLDING STRUCTURE OF THE COMPANY
AS OF DECEMBER 31, 2013

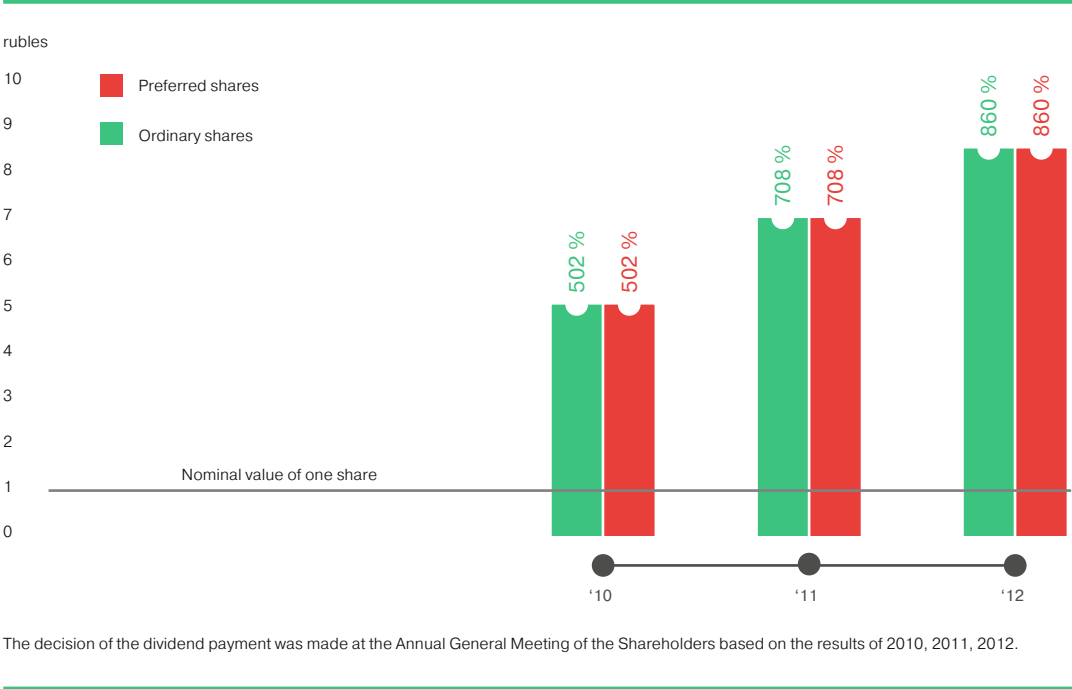
TOTAL NUMBER OF SHARES		2,326,199,200
Ordinary shares:		
JSC TATNEFT		2,178,690,700
Nonresident stockholders		541,160*
Russian stockholders		2,178,149,540
Preferred shares:		
JSC TATNEFT		147,508,500
Nonresident stockholders		101,800*
Russian stockholders		147,406,700

* without ownership through the Russian nominee holders

THE DIVIDEND POLICY

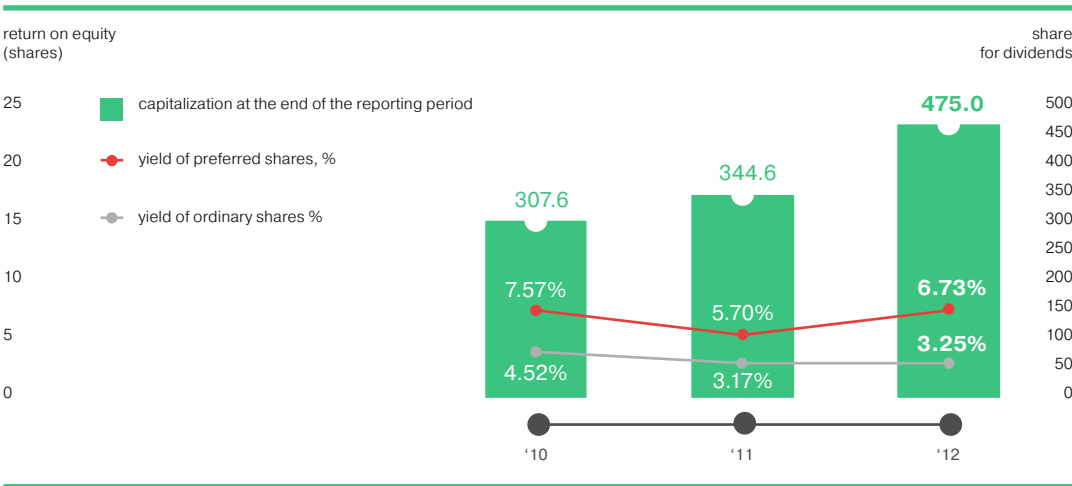
The Company successfully ensures sustainable growth of the market capitalization as the basis for high dividend yields on the capital invested by the shareholders. The Company invests in the production development and commits 30% for dividends payment.

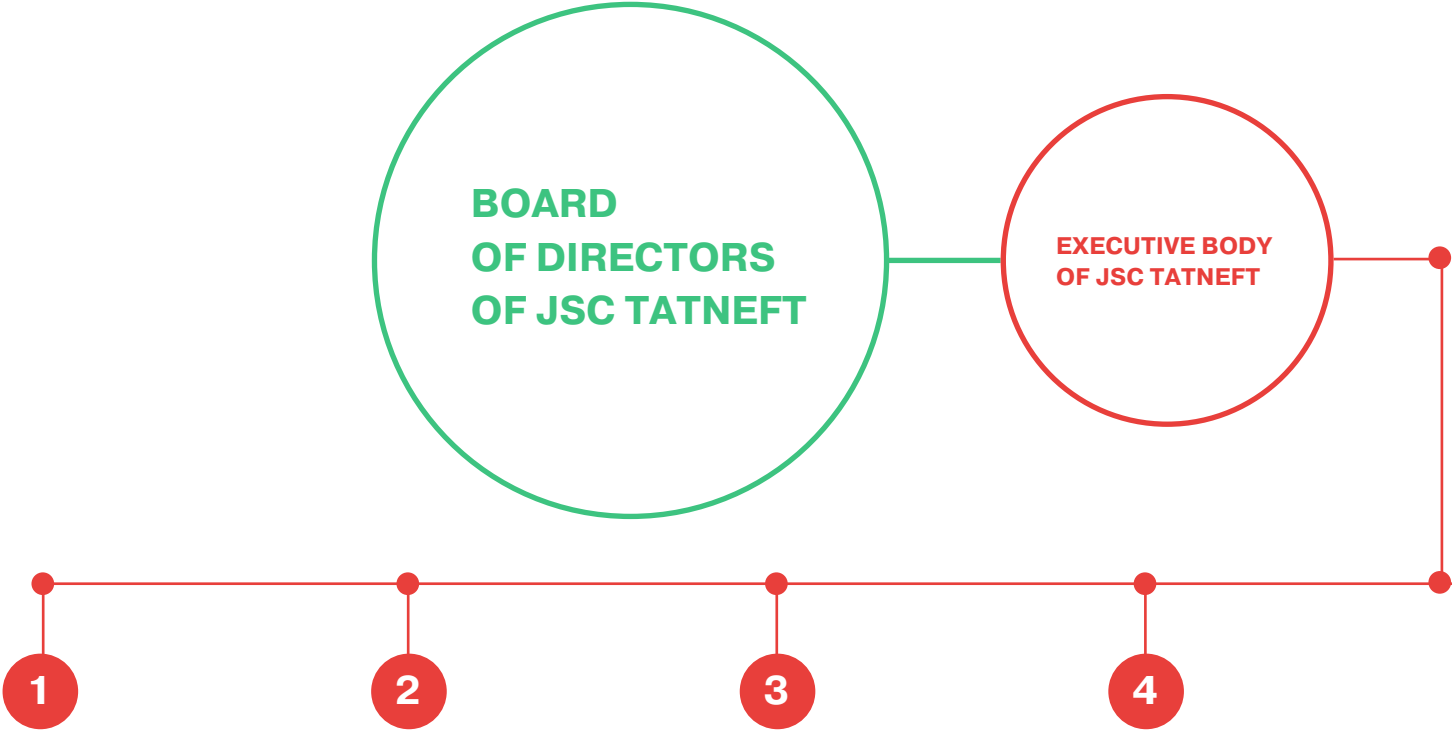
DIVIDEND HISTORY FOR 2010-2012



According to the 2013 results the Board of Directors of JSC TATNEFT proposed the Annual General Meeting of the Shareholders to approve the payment of dividends in the amount of 823 % for the ordinary and preferred shares of the nominal value (RUR 8.23 per share) and commit 30% of the net profits of the joint stock company, which in total exceeds RUR 19 bln.

DIVIDEND YIELD





OIL & GAS PRODUCTION

NGDU Almet'yevneft
NGDU Aznakaevskneft
NGDU Bavlyneft
NGDU Jalilneft
NGDU Yelkhovneft
NGDU Leninogorskneft
NGDU Nurlatneft
NGDU Prikamneft
NGDU Yamashneft

SUBSIDIARIES AND AFFILIATES FOR OIL PRODUCTION

OOO Tatneft-Abdullino
OOO Tatneft-Severny
OOO Tatneft-Samara
ZAO Abdulinskneftegaz
ZAO KalmTatneft*
JSC Kalmneftegaz
ZAO Severgeologiya*
ZAO Severgaznefteprom*
ZAO Yambuloil*

OIL REFINING AND CRUDE OIL & PETROLEUM PRODUCTS SALES

Crude Oil & Oil Products Sales Department
Construction Projects Management Department
Tatneftegazpererabotka Administration
OJSC TANECO
OOO Tatneft-AZS-Tzentr
OOO Tatneft-AZS-Zapad
OOO Tatneft-AZS-Sibir'
OOO Tatneft-AZS-Yug
OOO Tatneft-AZS Ukraina
OOO Tatneft-Trans
IOOO Tatbelnefteproduct
OOO Saymen
OOO Kharkov-Capital
OOO Poltava-Capital
OOO Processingovy Tzentr
OOO Tatneft-Tzentroresurs

PETROCHEMICAL WORKS

OOO TATNEFT-Neftekhim Management Company
JSC Nizhnekamskshina
JSC Nizhnekamsk Mechanical Plant
OOO Nizhnekamsk Truck Tire Plant
OOO Energoshinservis
OOO NZSh TzMK
ZAO Yarpolymermash-Tatneft
JSC Nizhnekamsktekhuglerod
OOO Tatneft-Neftekhimsnab
OOO Torgovy Dom Kama

THERMAL ELECTRIC POWER

OOO Nizhnekamsk CHP
OOO Tatneft-Energosbyt
JSC Almet'yevsk Heat Networks

TATNEFT GROUP STRUCTURE

MAIN ENTERPRISES CONSTITUTING THE TATNEFT GROUP

The Company implements its vertical integration strategy of the full production cycle including reservoir geology, field development, oil & gas production, oil & gas refining, sales of crude oil, petroleum and gas products, including through the retail network, production and sales of petrochemical raw materials and finished products, production and supply of thermal electric power.

MAIN PRODUCTION SERVICES

Tatneftesnab Department
OOO UPTZH dlya PPD
Tatar Geological Administration
Bugulma Mechanical Plant
Motor Transport Enterprise
OOO Tatneft-URS
OOO Torgovo-Tekhnichesky Dom Tatneft

SCIENTIFIC & TECHNICAL SUPPORT, ORGANIZATIONAL MAINTENANCE

TatNIPIneft R&D Institute
Normative Research Station
R&D Centre
OOO NTTz Tatneft (in Skolkovo)
OOO NPTz Neftegazovye Tekhnologiyi
JSC TatNIlneftemash

BRANCHES AND REPRESENTATIVE OFFICES

Representative Office in Moscow
Representative Office in Iraq
Representative Office in Ukraine
Branch Office in Libya
Branch Office in Turkmenistan

CORPORATE CENTER FOR ASSET AND PROPERTY CONSOLIDATION

Lease Relationship Department
OOO TATNEFT-Aktiv
OOO IPT Ideya Yugo-Vostok
OOO P-D Tatneft-AlabugaSteklovolokno

* Affiliates

THE BASIC TRENDS OF OIL & GAS INDUSTRY DEVELOPMENT

The crude oil production in Russia totalled 523.5 million tons in 2013, which is 1% more than in 2012 (518 million tons). The increase in oil production was the result of outpacing growth rates in the “new” oil-bearing areas as compared with the rates of oil production decline in the “old” fields.

In the near term it is expected to have a continuing global demand for liquid hydrocarbons at the average growth rate within 1.2%.

Russia continues to maintain the world’s top position in gas export and shares the 1-2 positions with Saudi Arabia in oil export.

The Russian oil companies with the support of the Government of the Russian Federation have established their three important directions for development of domestic oil production:

- Involvement in the production of hard-to-recover reserves;
- Increase of the share of recoverable hydrocarbons in offshore fields;
- Development of reserves in new fields in hard-to-reach regions.

The activities of the Government of the Russian Federation on tax incentives for companies in development of hard-to-recover reserves in 2013 resulted in increase of the base of economically recoverable oil reserves in Russia from 12 billion tons up to 20 billion tons.

The most important event of the industry became the closing of M&A transaction – between the Russian company ROSNEFT and TNK-BP, which resulted in the emergence of the largest public oil producing company in the world. It is expected that this event will influence the oil and gas sector of Russia and the trend towards consolidation and integration in the fuel and energy sector will increase and as a result the competition will be reduced.

In 2013 the Russian oil companies continued a large-scale modernization of refineries aimed at increasing the oil refining depth, increasing the yield of gasoline components and improving fuel environmental standards. Realization of many projects is performed in accordance with the quadripartite agreement concluded with the State in October 2011 and is subject to regular monitoring by the Russian Government.

Despite the development of projects aimed at reducing the output of fuel oil and other dark petroleum products in anticipation of increasing export duties on dark petroleum products, the reverse of the general trend of fuel oil production failed: - in 2013 its production increased by 4.3% (from 74.4 to 77 million tons). In many ways, this trend is due to the introduction of primary refining capacities and increase of primary distillation which increased by 7.3 million tonnes and reached 277.3 million tons per year in 2013.

Among the major development trends of the Russian retail market of petroleum products are the following:

- Ongoing consolidation of the retail networks by vertically integrated oil companies: construction of new filling stations and acquisition of the existing independent operators;
- Strengthening the role of the State that resulted from the acquisition of independent vertically integrated oil companies by the state-owned companies;
- Improved environmental quality requirements for petroleum products: ban on sales of fuels below EURO-3 grade.

THE EVENTS OCCURRED IN THE REPORTING YEAR THAT SIGNIFICANTLY AFFECTED THE INDUSTRY

In 2013, the activities of Company were carried out in the conditions of the industrial competition amid slowing growth rate of the industrial production index in all the sectors of the Russian Federation as compared to the previous year (0.3 % vs. 2.6 %), while the production index in mining operation slightly increased (1.2 % vs. 1.1 %). In 2013, the refining industries developed more slowly (up 0.1%) than the resource industries (up 0.3%).

The state budget was funded to 50% owing to the successful activity of the oil and gas production complex in 2013. The growth of oil production in Russia achieved in 2013 (523.5 million tons, 101% of 2012) has been provided mainly by commissioning of new fields in the Eastern Siberia – Vankorskoye, Talakanskoye and Verkhnechonskoye.

The appreciable quantity of tax innovations have been developed and adopted by the Government of the Russian Federation in 2010-2013 years, however, the bulk of oil revenues are taken in the form of taxes, which seriously hinders development of the innovation-oriented investment activity of oil-and-gas companies.

The Law on the use of incentives in production of extra viscous oil came into force in 2012: its volume is 90% of the export duty for 10 years period. The resulting benefit will be extended to dozens of licensed areas of the Company, which opens for JSC TATNEFT a real prospect of growth of oil production and involvement in development of previously uneconomic reserves, primarily in the Republic of Tatarstan.

In general the year of 2013 has proven to be challenging for the tire manufacturing complex of JSC TATNEFT. There is an observed trend of the demand shift of C-price segment products (low-price segment) in favor of the mid-price segment tires and premium tires in the Russian tire market. Reduction in demand for C-price segment products primarily affected the domestic manufacturers of tire products.

Whereas the long-term tire market prospects in all remain encouraging, the competition among the tire manufacturers in the market of the Customs Union is increasing year by year: the foreign producers increase their production capacities in Russia, and import duties under WTO commitments will gradually decrease.

As in previous years the State played a significant role in the thermal power industry. In 2013 there was continued consolidation of business entities by state-owned companies; the Government of the Russian Federation took measures to limit the growth of electricity rates for end consumers.

Further the energy demand growth rates in 2013 were significantly lower than those planned by the RF Government. The large-scale introduction of new and upgraded generating capacities against an overall economic slowdown in the Russian Federation and Republic of Tajikistan led to increased competition in the industry.

The social electricity rates for the population were introduced in sixteen regions. This action has the potential to reduce electricity consumption in case of expanded experience of social rates.

¹ The Federal Law No. 239-FZ dated 03.12.2012 introduced alterations in Article 3.1 of the RF Law No. 5003-1 “About Customs tariff” dated 21.05.1993.

The key event in the power generation market was the decision of the President of the Russian Federation to freeze electricity and heat tariffs in 2014 and limit their growth by the inflation rate in the next two years. In 2013, the Russian government paid attention to the problem of non-payments on the wholesale electricity market. To solve this problem the rules were adopted to simplify the procedure of withdrawing a status of the guaranteed power supplier, and introduce a mechanism of financial guarantees of payments for electricity through accredited banks. The measures taken will help to increase a fiscal discipline of the retail companies and reduce the overdue indebtedness of the utilities.

The world prices for hydrocarbons (especially oil) are the main external factor affecting the activity of JSC TATNEFT. A possible slowdown in the growth of the global economy, as well as development of the technologies for production of hard-to-recover reserves (bitumen, shales) and technologies for alternative energy production will inevitably lead to the decline in oil demand, and as a result, the decline in world prices.

Among the factors that can negatively affect the Russian oil and gas industry as a whole, is the ever-increasing importance of rapidly improving technologies for extracting shale hydrocarbons (especially oil), which could lead to an increase in their supply on the world energy market. The «Shale gas revolution» has already led to a decrease in prices and reduction of gas imports to the U.S., have an impact on the global energy market as a whole, causing the downward correction in commodity prices.

The main uncertainty factor for the oil refining block of the Company is a frequently changing legislation of the Russian Federation in the field of the export taxation of oil and petroleum products, as well as the lack of long-term plans or concepts of the Russian Government on the tax law changing. The annual changes to the taxation system make it difficult to effectively plan long-term investments in the refineries and reliable assessment of their prospective profitability.

Also in recent years in Russia there is a tendency of the tax burden shift from the oil production to the oil refining industry. At the same time it is not applicable in Russia to provide the investment protection practice of the Russian investments against unplanned and unfavorable changes in the tax legislation, and therefore these changes lead to worsening economic performances of the investment projects which have been already launched in the oil refining business.

Consolidation of the retail networks by the state-owned vertically integrated oil companies (JSC Rosneft and JSC GazpromNeft) can have the negative impact on the retail business of JSC TATNEFT. After JSC Rosneft purchased JSC TNK-BP, the market share (by sales volume) of the state-owned vertically integrated oil companies in the regions of JSC TATNEFT's region of operation has increased from 22% to 33%.

Another factor hindering the development of the tire business of JSC TATNEFT in the coming years can become the commitments adopted by Russia under the framework of the World Trade Organization (WTO) to mitigate a number of barriers on the supply of tires of foreign producers to the Russian market. This, in particular, concerns the reduction of import duties for passenger car tires from the current 20% to 10% by 2017, and import duties for truck and bus tires will be reduced from 15% to 10% by 2015. Therefore, it is expected a substantial growth of the foreign tire supply to the Russian tire market from the Asian region, whereas the Chinese manufacturers are already ready to supply their products to the car plants of Russia at prices below the production cost of some Russian automotive producers.

THE FACTORS AFFECTING THE COMPETITIVENESS OF JSC TATNEFT AND ITS SUBSIDIARIES AND THE BASIC STEPS OF THE COMPANY TO IMPROVE ITS FUTURE COMPETITIVENESS

In the segment of oil & gas production and sales the key competitive advantage of the Company is, above all, the highest hydrocarbon resource endowment in the industry: the available resource base of the Company allows it to maintain the current production volume for over 35 years.

Despite the significant depletion of reserves, the Company year after year increases the oil production volumes while maintaining a competitive cost level through the use of the advanced innovative technologies to improve oil recovery. With the general industrial trend of decrease in oil production rates, JSC TATNEFT is the only company among the Russian vertically integrated oil companies, which managed to avoid the decline in production over recent years.

JSC TATNEFT is a recognized leader in the field of development and application of EOR methods for development of hard to recover reserves. Through the application of tertiary recovery methods (enhanced oil recovery) Company produced 6 million 192 thousand tons of oil in 2013 or 23.7% of the total production. Achievement of such performance indicators is ensured by the scientific-technological support provided by the research and development divisions include in the Company structure. The Company's developments are praised at the governmental level. In 2013 the collective of authors was awarded the Prize of the Russian Federation Government in the field of science and technology for the scientific work «Creation and industrial introduction of the integrated technology for development of extra-viscous oil fields».

At present OOO NTC Tatneft runs three large projects related to the core production activity of the Company: development of Microbial Enhanced Oil Recovery methods (MEOR) for carbonate reservoirs, deep water processing for steam generation in extra viscous oil production, methods for determining the viscosity of heavy oils by NMR – relaxation. In order to achieve the objectives given to the R&D Centre there were three laboratories created and equipped with state-of-the-art equipment. The following experts are involved for working on the projects: the specialists of OOO NTC Tatneft, TatNIPIneft Petroleum Institute, as well as leading Russian scientific institutions: Institute of Microbiology, RAS (Russian Academy of Sciences), University of Chemical Technology of Russia (RKhTU), Kazan (Volga Region) Federal University (K(P)FU). Some foreign oil corporations (France, Kazakhstan) are already interested in the research and developments conducted in the R&D Centre, they are currently negotiating for possible cooperation.

The improvement of bituminous oil recovery technologies in the favorable conditions of the incentives given by the Government of the Russian Federation for development of extra-viscous oilfields provides the Company with a significant competitive advantage in terms of expanding the resource base and increasing the oil production volumes.

In order to ensure the production profitability the Company realizes has the comprehensive programs of the activities to improve the economic efficiency of the production processes of production, energy- and resource saving. JSC TATNEFT works on conservation of non-commercial producing wells which allows to allocate the released investments between the most promising production targets.

Another considerable advantage of JSC TATNEFT is the geographical proximity of the oil production center to the major regions of sales and refining of crude oil and petroleum products. The Company has the lowest average tariff of the crude oil transportation to the European markets among the major vertically integrated oil companies of Russia.

The key competitive advantage in the segment of oil & gas processing and petrochemical business is the technological level of a new refinery of the Company in Nizhnekamsk - TANECO built on the basis of application of the advanced proven international technologies and highest environmental standards, with a potential to achieve the processing depth up to 97% and production of high value added products after completion of the construction and commissioning in full production capacity.

Through the construction of this Complex the Company provided an opportunity of processing of the oil produced in the territory of the Republic of Tatarstan very close to the production sites that optimizes the operating costs and further logistics of refined products to the own network of filling stations located in the surrounding areas but not limited to. Another important factor of the TANECO Complex efficiency is an access to the Sever product pipeline, which will allow significantly to reduce the costs of diesel fuel transportation to the European markets.

The concept of the complex integrates the refining and petrochemical plants with the output of 18 kinds of products from European quality standards motor fuels to raw materials components for production of a wide range of high-demand petrochemicals, including import substituting products in compliance with the high environmental quality standards and perspective requirements of the market. It is scheduled from 2014 to start the market supplies of EURO-5 diesel fuel, base oils of II and III groups, jet fuel, and from 2017 it is planned to start market supplies of EURO-5 motor gasoline, aromatic hydrocarbons, etc. With the completion of the construction of the first stage of the refinery it is planned to completely stop the fuel oil production and to minimize the output of dark petroleum products. In circumstances when from January 1, 2015 it is planned to increase the export duties for dark petroleum products, this configuration of the refinery will allow to achieve high efficiency of oil refining.

Unlike the most Russian refineries the TANECO Complex has the capacity to process the oil with high sulfur content. The refinery currently processes the oil with 1.8% sulfur content which is higher than in the system of OJSC AK Transneft, where the sulfur content is 1.4- 1.6% (western directions). Therefore, the redirection of sour crude oil from the pipeline system of OJSC AK Transneft to the TANECO refining facilities improves the quality of the Urals export oil, as well as the oil supplied to other Russian refineries.

In this the conditions of quality deterioration of the oil supplied to the Russian refineries through the pipeline system of OJSC AK Transneft due to the industry-wide quality of raw materials stocks, the Company has the advantage to process the oil with high sulfur content, which will allow to adapt to new conditions with minimum investments.

The important aspect of the Company's development concept of the business segment of refining and sales of crude oil and petroleum products is the capacity building to replace oil export with the export and supplies of high-quality petroleum products to the domestic market, which correspond to the strategic objective of Russia.

The key realizable levers of improving the TANECO competitiveness are currently as follows: increasing the capacity utilization of primary oil processing and secondary refining processes at the refinery complex, which will allow to increase the labour productivity of the enterprise, as well as the approved program of energy saving and energy efficiency of TANECO, which aims at cost optimization and reduction of the processing cost.

The retail business of the Company is formed by a growing distribution network of service filling stations operating under the TATNEFT corporate brand in the territory of Russia, Byelorussia and Ukraine. The competitive advantage of the retail networks of JSC TATNEFT is its widespread scale and breadth covering virtually all the most attractive regions in Russia, first of all, the Volga region and the Central Federal District having high growth prospects and attractive retail margin. The retail networks of JSC TATNEFT is the fourth-largest fuel retailer ranked after Lukoil, Rosneft, GazpromNeft in terms of the number of filling stations.

The Company has formed the basic part of the retail network based on the prospects of strengthening its own power refining block and output of high standard motor fuels. The completion of the TANECO complex will fully satisfy the needs of the TATNEFT network of filling stations with high quality fuel of EURO-5 standard, which will significantly strengthen the competitive position of JSC TATNEFT in the retail market.

Generally successful logistics location of filling stations in the urban infrastructure highways provides a high potential of enhanced economic efficiency of the retail network. In order to improve the competitiveness of this business segment against the background of consolidation of the retail market by the state vertically integrated oil companies and strengthening of the positions of LUKOIL and other brands of retail networks, the Company with guaranteed fuel quality assurance will continue to modernize the retail filling stations extend and improve the quality of non-fuel offers, increase the service levels, develop the target loyalty programs. Along with this the work will be continued to improve the internal efficiency of the retail business – business process optimization, cost optimization, automation systems improvement.

The Tire Business of the Company has several competitive advantages, such as the proximity to the supply source of synthetic rubber, availability of the own carbon black production, a significant scale plants of passenger car, truck tires and solid metal core tires, availability of the up-to-date production lines meeting the highest market requirements and technical requirements, as well as geographical proximity to the large clusters of the car assembly plants and a developed dealer network.

In order to increase the competitiveness of the tire business the Company will continue the works on modernization of the tire production, improvement of the production efficiency, development of new innovative tire products and introduction of higher requirements for quality characteristics of the products. Particular attention will be focused on strengthening the sales and marketing system: product brand management, product range development and price positioning in the light of the necessity to respond quickly to changing marketing conditions.

Power generating assets of the Company allow to improve reliability and profitability of heat and power supply of the production enterprises, refineries and petrochemical facilities of the Company and promote the growth of competitiveness of the whole Group. In the future, the Company associates additional operating revenue with development of this business segment.

The implementation of the project of the Nizhnekamsk CHP modernization is continued with the plan of increasing its capacity from 380 to 730 MW. The commissioning of the state-of-the-art turbine units will allow using the excess thermal energy for generation of additional electric power. The project is expected to increase the Company's revenue, increase profits, as well as solve the problem of electric power shortage at the largest petrochemical plants in Nizhnekamsk, including TANECO Complex. Besides the power generating companies of JSC TATNEFT implement the activities on improvement of the heat and electric power reliability and cost reduction of the energy resources as part of the relevant corporate programs.

2005

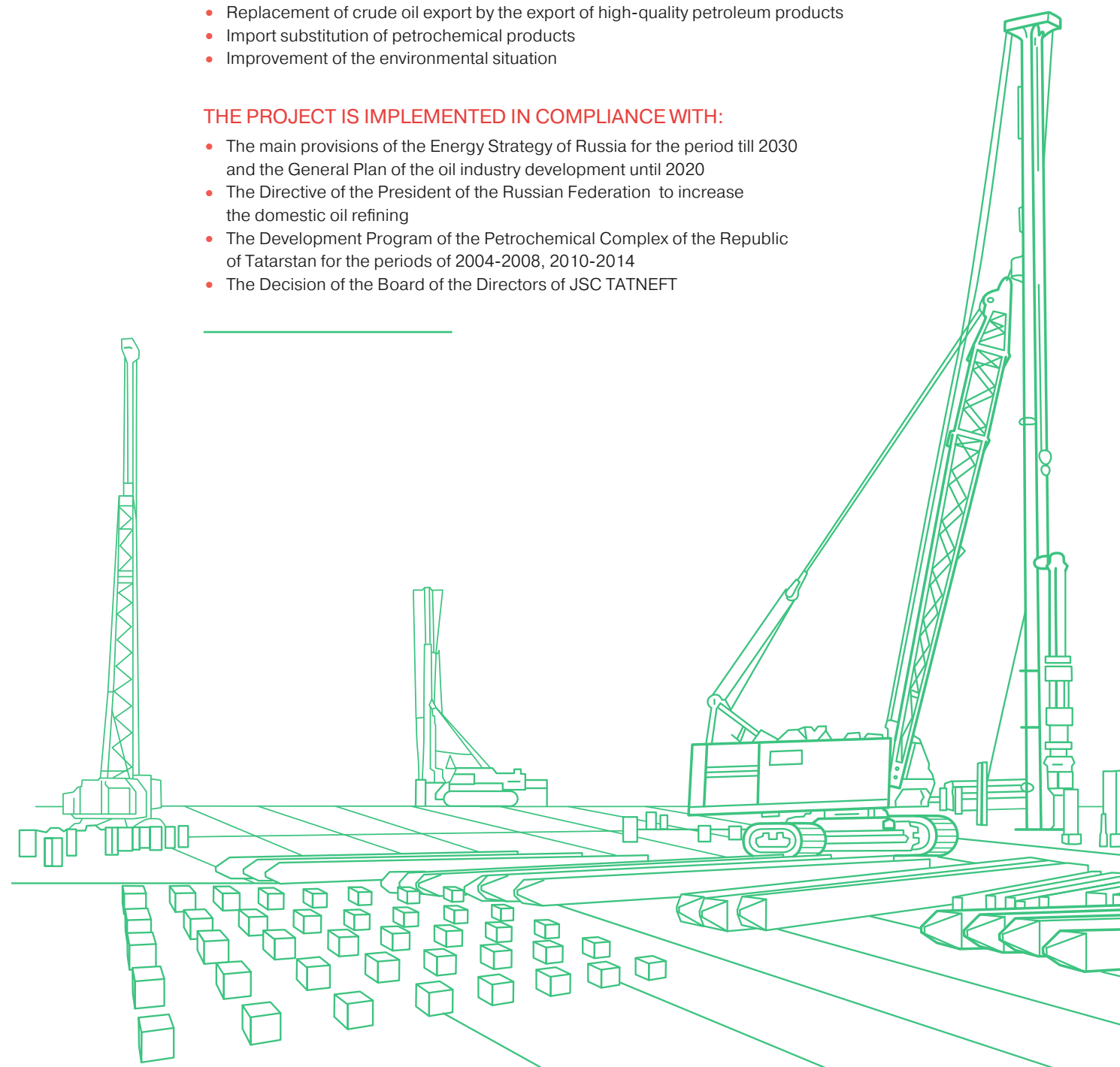
DECISION OF THE CONSTRUCTION OF THE TANECO REFINERY AND PETROCHEMICAL COMPLEX

PRINCIPAL OBJECTIVES:

- Heavy sulfur crude oil processing
- Replacement of crude oil export by the export of high-quality petroleum products
- Import substitution of petrochemical products
- Improvement of the environmental situation

THE PROJECT IS IMPLEMENTED IN COMPLIANCE WITH:

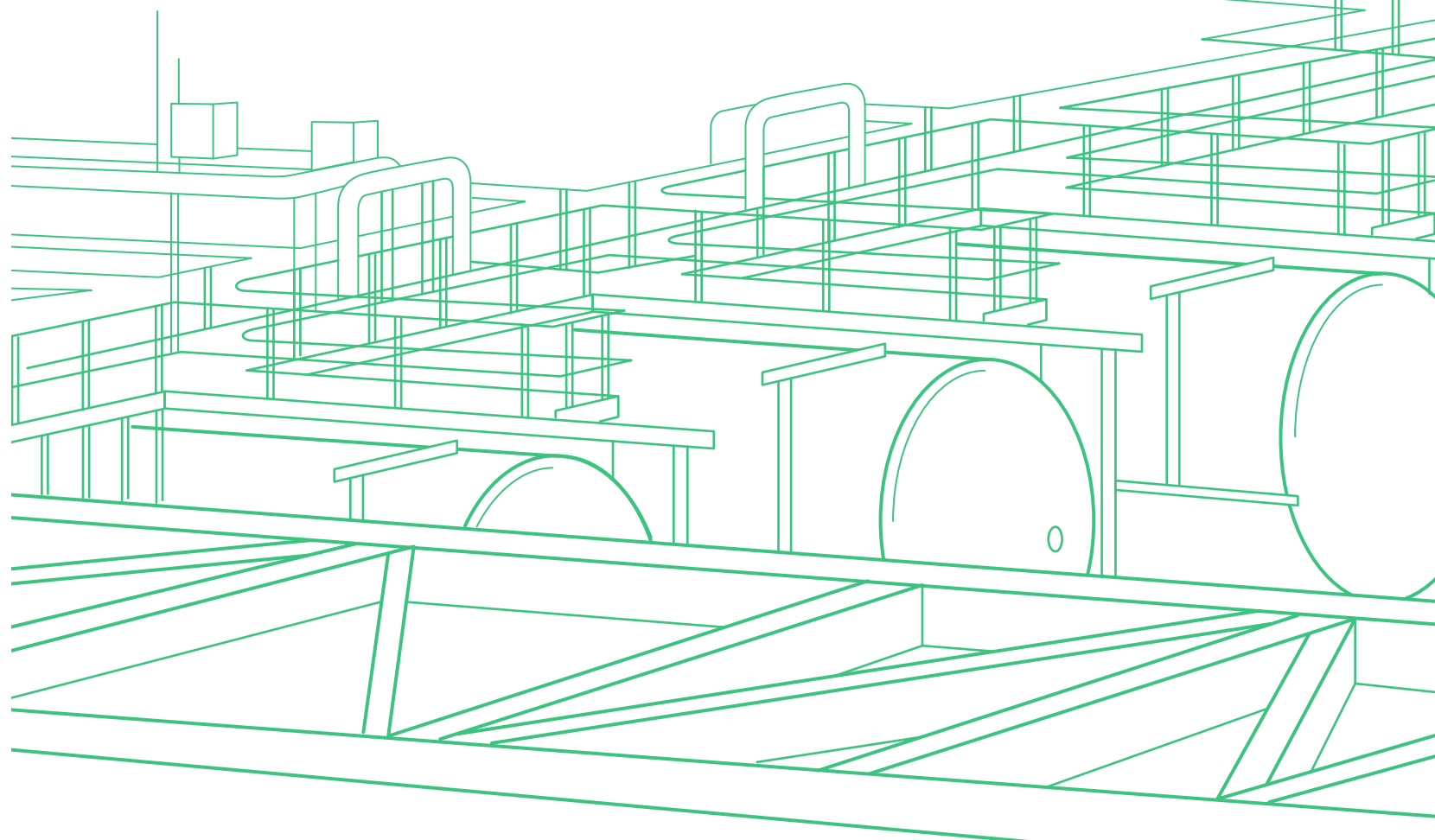
- The main provisions of the Energy Strategy of Russia for the period till 2030 and the General Plan of the oil industry development until 2020
- The Directive of the President of the Russian Federation to increase the domestic oil refining
- The Development Program of the Petrochemical Complex of the Republic of Tatarstan for the periods of 2004-2008, 2010-2014
- The Decision of the Board of the Directors of JSC TATNEFT



2011

COMPLETION OF INTEGRATED
COMPREHENSIVE TESTING OF
THE FIRST START-UP COMPLEX
CONSISTING OF THE PROCESSING
UNITS: ATMOSPHERIC
DISTILLATION UNIT CDU-AVT-7
AND NAPHTHA STABILIZATION UNIT.
TANECO OBTAINED THE PERMITS
FOR COMMISSIONING OF THESE
FACILITIES.

COMPLETION OF THE SUPPLY STAGE OF TANECO
WITH ALL THE NECESSARY ENERGY RESOURCES

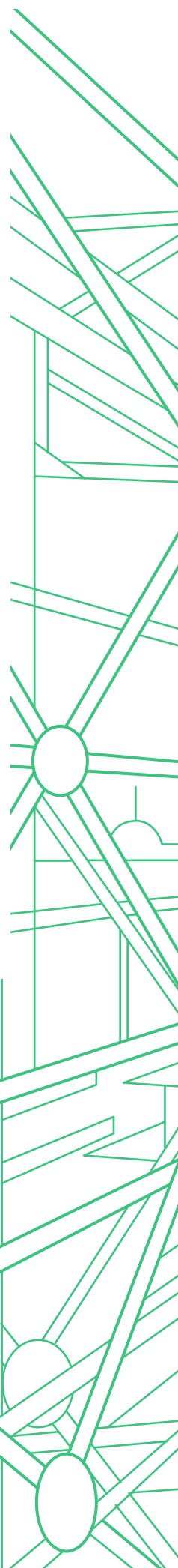
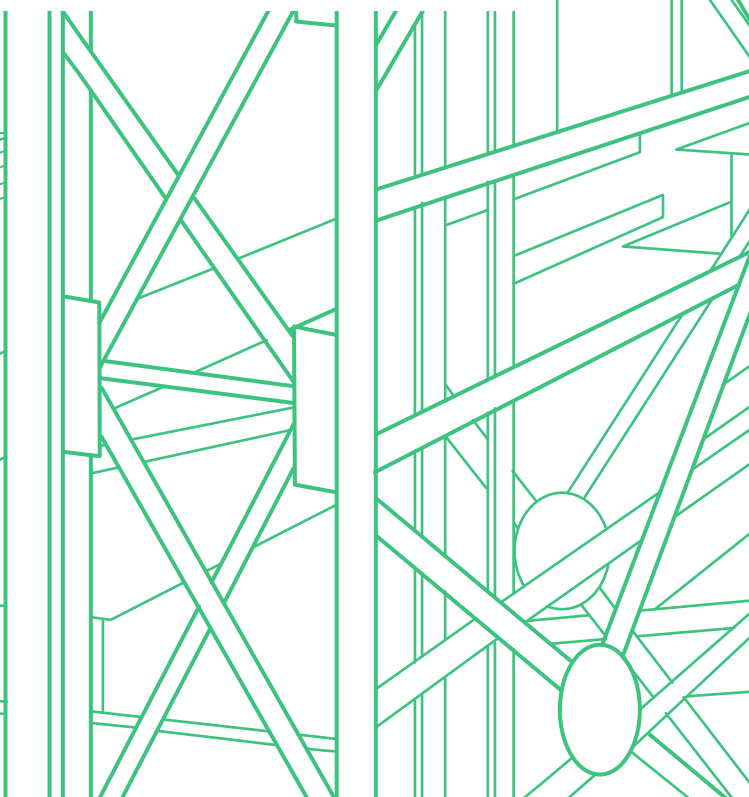
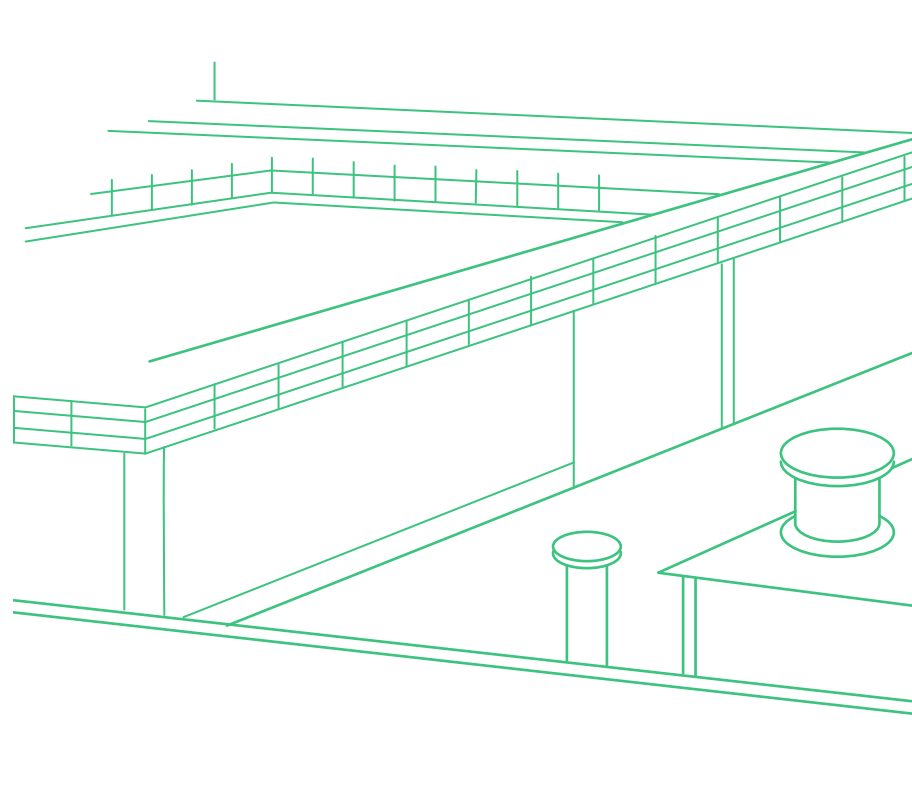


2013

HYDROCARBONS PROCESSING,
PRODUCTION AND SHIPMENT
OF PETROLEUM PRODUCTS,
PERFORMANCE OF WORKS
RELATED TO THE COMPLETION
OF CONSTRUCTION AND
COMMISSIONING OF THE PLANNED
FACILITIES OF STAGE 1A1
AND HYDROCRACKING UNIT.

THE CONCLUSION FOR MAIN CONSTRUCTION AND COMMISSIONING
FOR VISBREAKING AND SULFUR PRODUCTION UNITS WAS OBTAINED.
THE STATE REGISTRATION OF TANECO OWNERSHIP RIGHTS FOR
REAL ESTATE UNIT OF TOTAL VALUE OF RUR 27,8 BLN IN APRIL 2013.

- As part of the investment program implementation there were 9,5 bln rubles have been used in OJSC TANECO in 2013
 - Since the beginning of realization of the construction project of the Refining and Petrochemical Complex the investments amounted to 224 bln rubles.
-



Assets of THE TATNEFT GROUP at the end of 2013

EXPLORATION AND PRODUCTION

281,384 MLN RUBLES

42%

CRUDE OIL PROCESSING AND SALES OF CRUDE OIL & PETROLEUM PRODUCTS

259,879 MLN RUBLES

39%

OTHER BUSINESS SEGMENTS

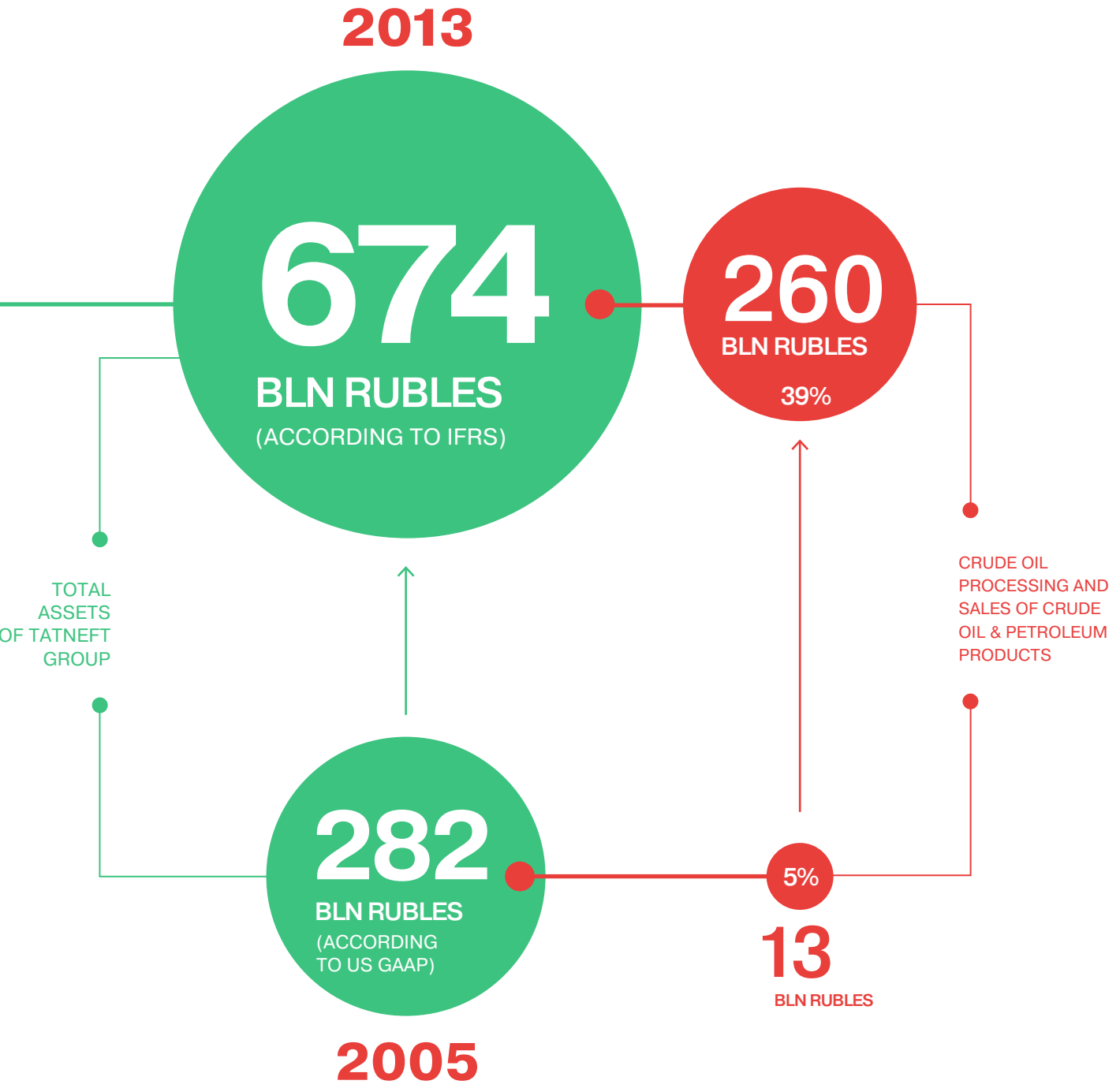
132,826 MLN RUBLES

19%



ASSETS OF THE TATNEFT GROUP

The consolidated assets value of Tatneft Group amounted to 674 billion rubles at the end of 2013. The main shares in the structure of the assets are formed by the following business segments: exploration and production accounts for 42%, crude oil processing and sales of crude oil & petroleum products account for 39%, providing the principal intensive growth of the consolidated assets. From 2005 (start of the construction of the TANECO Complex) the consolidated assets increased by 2.4 times.



Revenue of THE TATNEFT GROUP in 2013

EXPLORATION AND PRODUCTION

206,114
MLN RUBLES

45%

CRUDE OIL PROCESSING AND SALES OF CRUDE OIL & PETROLEUM PRODUCTS

198,230
MLN RUBLES

44%

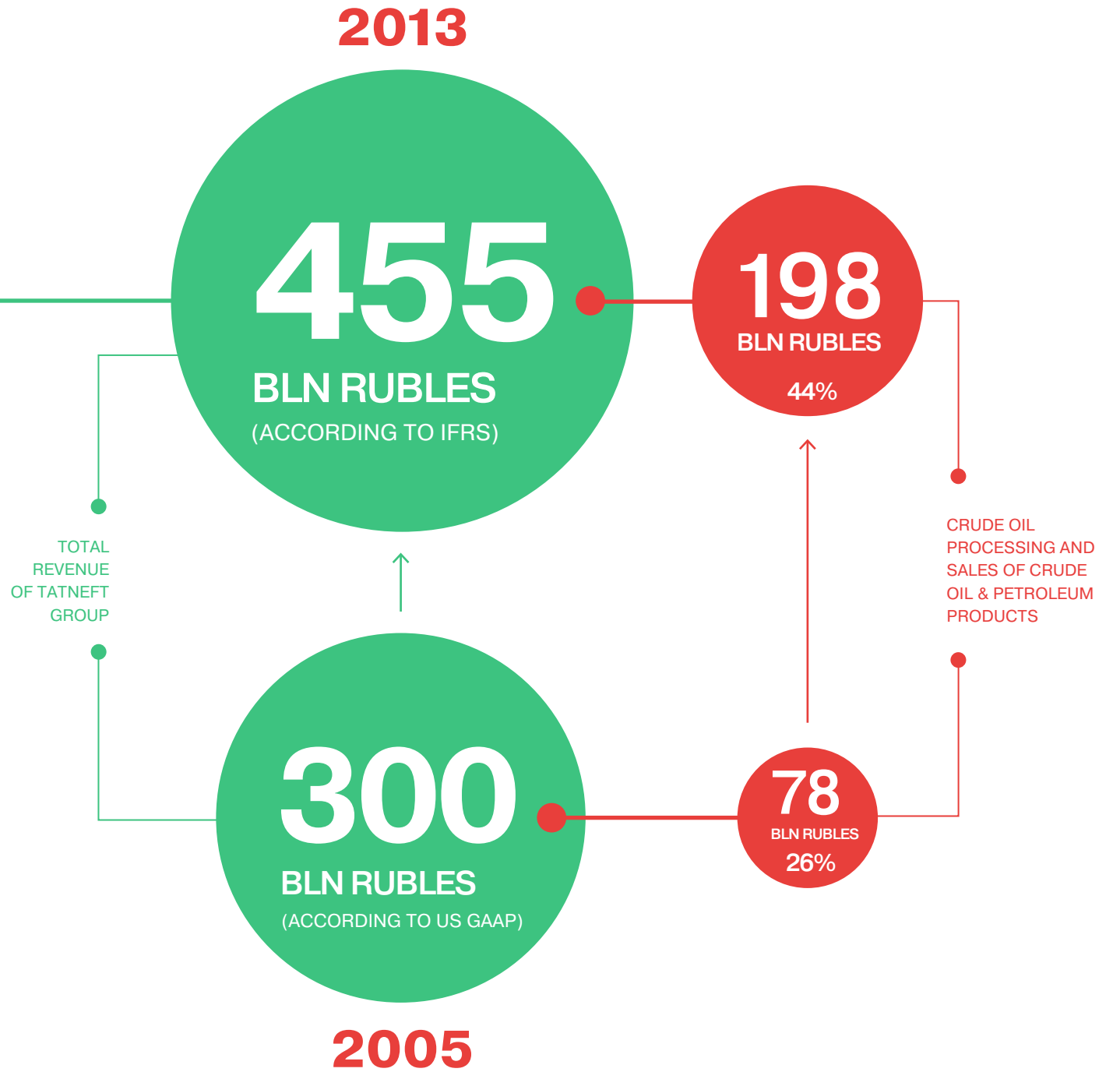
OTHER BUSINESS SEGMENTS

50,639
MLN RUBLES

11%

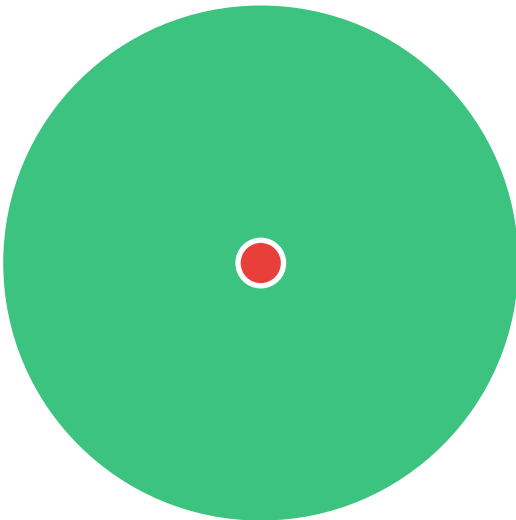
REVENUE OF THE TATNEFT GROUP

The Company implements a strategy for increasing the production and sales volumes of high quality competitive finished products, through development of segments of refining, petrochemicals, thermal energy, as well as tire manufacturing and retail sales of petroleum products. There was qualitative redistribution of revenues by the business segments. By the end of 2013 the proportion of shares of “the exploration and production” and “crude oil processing and sales of crude oil and petroleum products” was 45% and 44% respectively of the total revenue.



DYNAMICS OF OIL PRODUCTION-OUTPUT
OF PETROLEUM PRODUCTS RATIO OF TATNEFT GROUP

2010

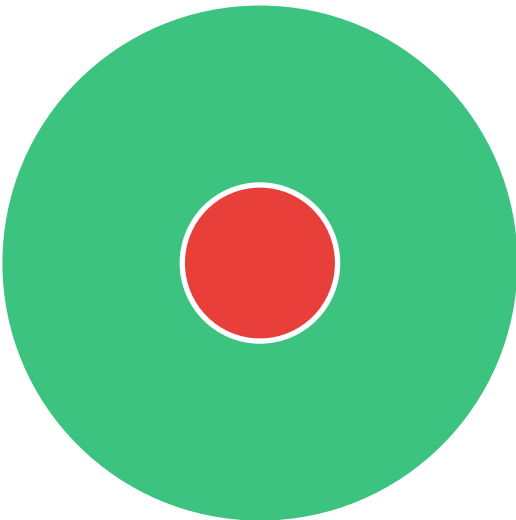


OIL PRODUCTION	OUTPUT OF PETROLEUM PRODUCTS
26.1	0.2
MLN TONS	MLN TONS

0.8%

OCTOBER 26, 2010 - THE OIL INTAKE MADE AND START-UP OF CDU/VDU-7 IN COMMISSIONING MODE

2011

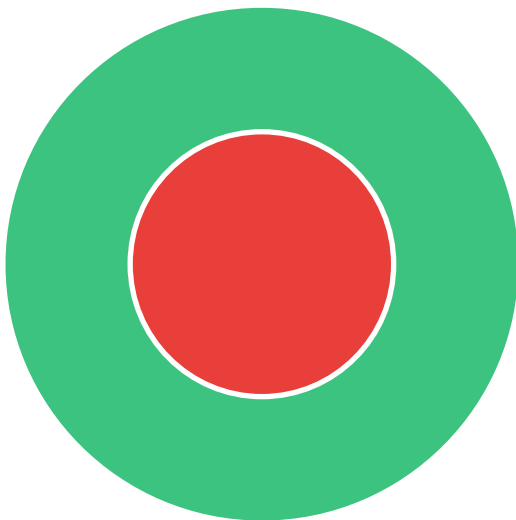


OIL PRODUCTION	OUTPUT OF PETROLEUM PRODUCTS
26.2	2.3
MLN TONS	MLN TONS

8.8%

NOVEMBER 01, 2011 – COMPLETION OF THE COMPREHENSIVE TESTING OF CDU-AVT-7 AND NAPHTHA STABILIZATION UNITS

2012

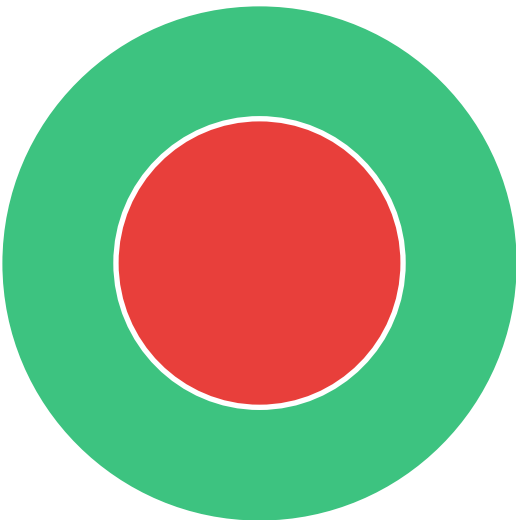


OIL PRODUCTION	OUTPUT OF PETROLEUM PRODUCTS
26.3	7.2
MLN TONS	MLN TONS

27.4%

IN 2012 THE COMPLEX REACHED ITS DESIGNED CAPACITY – 7 MILLION TONS PER YEAR

2013



OIL PRODUCTION	OUTPUT OF PETROLEUM PRODUCTS
26.4	8.2
MLN TONS	MLN TONS

31.0%

TANECO PROCESSED 7,621,631 TONS OF PETROLEUM FEEDSTOCKS. THE QUANTITY OF PROCESSED OIL – 108.8 % OF THE DESIGN CAPACITY



23.7
%

Of the total oil production was received through the application of enhanced oil recovery methods (EOR) in 2013

OIL & GAS EXPLORATION AND PRODUCTION

The Company provides for a steady increase of the production level. In 2013 JSC TATNEFT increased the crude oil production by 0.4% as compared with 2012 and produced 26.107 million tons of crude oil. 707 thousand tons of crude oil produced over the plan.

The maximum level of crude oil production was achieved over the last 20 years. The level of 2012 was exceeded by 102 thousand tons. In general, the oil production in the Republic increased to 32 million 869 thousand tons.

The bulk of the current crude oil production is accounted by six major fields: Romashkinskoye, Novo-Yelkhovskoye, Bavlinskoye, Bondyuzhskoe, Pervomaiskoye and Sabanchinskoye.

KEY OPERATING PERFORMANCE INDICATORS FOR 2013

KEY PERFORMANCE INDICATORS	UOM	2013
Oil production volume of JSC TATNEFT	million tons	26.107
Associated gas production volume	million cub.m	864.8
Liquefied Petroleum Gas production & delivery	thousand tons	275.3
Total meterage drilled for JSC TATNEFT, including		450.147
Production drilling by JSC TATNEFT	thousand m	430.4
Exploration drilling by JSC TATNEFT	thousand m	19.747

CRUDE OIL PRODUCTION FROM THE LARGEST FIELDS IN 2013 (THOUSAND TONS)

NAME	
Romashkinskoye	15,228
Novo-Yelkhovskoye	2,539
Bavlinskoye	1,085
Bondyuzhskoe	288
Pervomaiskoye	359
Sabanchinskoye	538

The average production rate of producing wells of JSC TATNEFT was 3.8 tons/day for 2013.

The aggregate oil production of TATNEFT Group amounted to 26.419 million tons in 2013 (26.307 million tons of oil in 2012). Incremental oil production was provided by geological and technical activities.

CRUDE OIL PRODUCTION BY JSC TATNEFT GROUP OF COMPANIES (MLN TONS)

COMPANIES	2011	2012	2013
JSC TATNEFT	25.928	26.005	26.107
Oil companies in the Russian Federation controlled companies by JSC TATNEFT	0.266	0.302	0.312
JSC TATNEFT Group of companies	26.194	26.307	26.419

The Company aims to provide oil reserves increment in volumes compensating the current oil production. According to Miller & Lents evaluation proven oil reserves amounted to 847,346 million tons as of the beginning of 2014.

As of 01.01.2014 jointly with nine subsidiaries operating in the territory of the Russian Federation possessed 97 licenses for exploration and development of hydrocarbon deposits.

In 2013 deep drilling was introduced in 8 structures in the Republic of Tatarstan, 4 structures in Samara region, 1 structure in Orenburg region and 1 structure in the Republic of Kalmykia.

33 structures in the Republic of Tatarstan, 4 structures in Samara region and 4 structures in Orenburg region were prepared for deep drilling.

The main volumes of geological exploration works carried out in the Russian Federation licensed territories in Tatarstan, Orenburg, Samara and Ulyanovsk regions as well as in the Republic of Kalmykia, and Nenets Autonomous Okrug.

There are 9 subsidiaries having 29 license areas with participation of JSC TATNEFT capital in the Russian Federation

Savings on the reduced energy consumption and rational use of material and natural resources amounted to 4.7 billion rubles based on the results of 2013. These funds were spent to compensate additional costs connected with maintaining the economic oil production of the Company in the conditions of high field depletion.

CONSTRUCTION OF WELLS AND GEOLOGICAL EXPLORATION TARGETS

289 producing wells were drilled and completed in 2013. 228 wells were brought into operation after drilling with oil production rate 9.3 tons per day.

PRODUCING WELLS STOCK AS OF JANUARY 01, 2014

STOCK CATEGORY	NUMBER OF WELLS
Active producing stock	20,257
Idle producing stock	2,023
Operating producing stock	22,289
Producing stock in completion stage and waiting for completion	9

OIL AND GAS PRODUCTION OUTSIDE TATARSTAN

Outside the Republic of Tatarstan JSC TATNEFT has prospecting licenses for exploration and field development of oil, gas and condensate in the Samara and Orenburg regions, Nenets Autonomous Okrug and the Republic of Kalmykia. In these regions 21 oil fields were in operation in 2013. Oil production is in 104 wells, including 98 wells in the Samara region and 6 wells in the Orenburg region.

In the Samara region the previously drilled stock was equipped for production and new wells were drilled. 18 new wells were brought into production. The average daily production rate of new drilled wells amounted to 8 tons/day.

OIL AND GAS PRODUCTION OUTSIDE THE RUSSIAN FEDERATION

JSC TATNEFT and State Company «Turkmenneft» have signed the service contract in 2010 for to enhanced oil recovery and crude oil production in the Goturdepe field in Turkmenistan. The work schedule of the contract execution have been developed and approved. Anticipated incremental oil production for the full-term of the Contract is 321 thousand tons. Currently, the certificate of JSC TATNEFT Branch registration in Turkmenistan has been received. A residential township for workers of the JSC TATNEFT Branch has been built. The budget of the JSC TATNEFT Branch in Turkmenistan has been approved for 2014.Works are started on a possible contract extension with subsequent conclusion of the Supplementary Agreement to expand JSC TATNEFT activities in Turkmenistan.

Performance of exploration programs has been suspended in the territory of JSC TATNEFT license blocks in Libya and Syria due to the political situation. On February 7, 2013 the force majeure period for implementation of contractual obligations in Libya was announced to

be terminated. Currently, the negotiations are underway to resume the works of the JSC Tatneft Branch in Libya.

OPERATIONS IN THE EXTRA-VISCOUS OIL FIELDS

In 2013 the pilot operations were carried out in the Sheshminsky horizon of the Ashalchi EVO field within the framework of the Company's plans for development of extra-viscous oil fields.

56 horizontal wells were drilled in the Ashalchi EVO field, including 5 single horizontal wells for huff-and-puff technology. 19 wells were completed in 2013. 19 well pairs are in operation at present.

The daily oil production reached 480 tons by the end of the year. 145,616 thousand tons of oil is produced in 2013 which is 2 times more than in the previous year. EVO total production from the beginning of commercial development amounted to 325,683 thousand tons.

Achievement of these results is supported by a broad range of administrative and technical measures on setting-up additional capacities for water and gas supply, steam generation, EVO production and processing, produced water injection. The boiler house was reconstructed with the increased capacity up to 150 tons of steam per hour, a new gas pipeline and water pipeline were put into operation.

ENHANCEMENT OF OIL & GAS RECOVERY AND ENERGY SAVING

The Company implements targeted program activities aimed at enhancing effectiveness of performance indicators and monitoring production profitability through application of modern technologies for optimization of the wells stock and field development systems.

Improving the data processing performance in the search of new deposits is provided by new technologies applied along with traditional seismic methods. Prediction of oil prospective targets is made with application of the artificial intelligence method, identification of prospective targets with application of field geophysics and geochemistry using a complex probability parameter for defining oil bearing prospectivity. Passive adsorption of hydrocarbons; low-frequency seismic sounding; geological and geophysical technology for optimization of well drilling location selection; electromagnetic sounding and a new 3D Stratimegic software package for processing 3D seismic data are used in application of geochemical method of oil and gas detection. NMR-tomography sounding method is applied for identification of extra-viscous oil saturated layers at small depths.

53 technologies were applied in drilling in 2013. The most effective technologies as related to cementing quality improvement are silicate-based mud treatment in the pay interval; application of grade G cement, collar cementing tools; and as related to high oil production rates – construction of horizontal and multilateral wells.

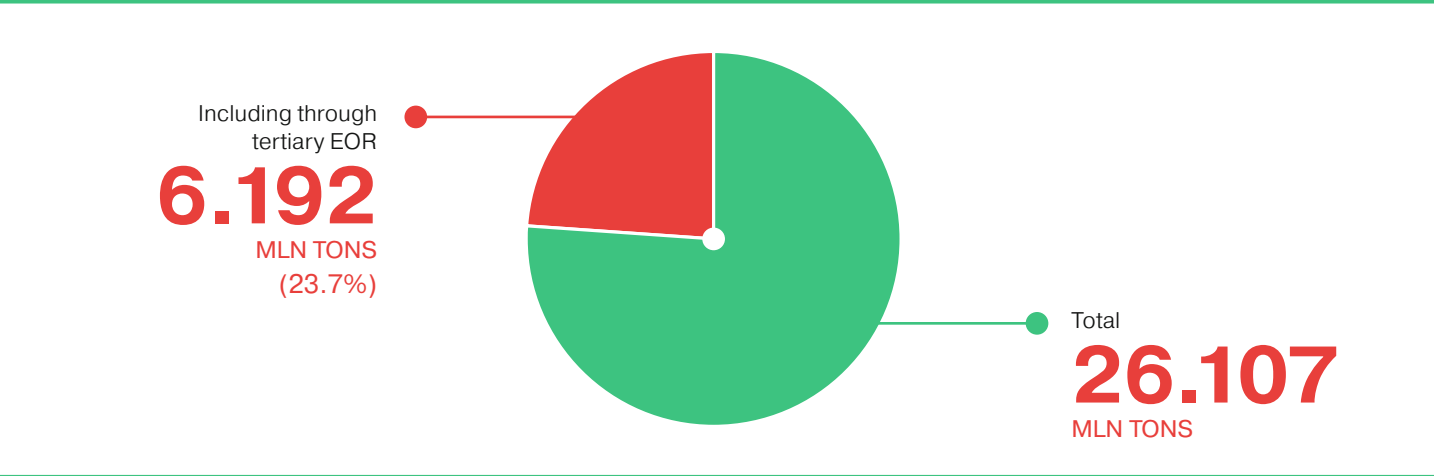
The technology of slim-hole drilling proved to be effective. 38 slim holes were drilled in JSC TATNEFT in 2013, among them 36 wells were put on oil production (produced oil volume amounted to 44.726 thousand tons). The average production rate was 6.2 tons per day. The total slim holes stock was 296 wells.

59 horizontal holes and 12 multilateral wells were drilled in this year, oil production on these wells amounted to 87.2 thousand tons. The total number of horizontal wells drilled from the beginning of activities amounted to 613 wells and the total number of multilateral wells amounted to 104 wells.

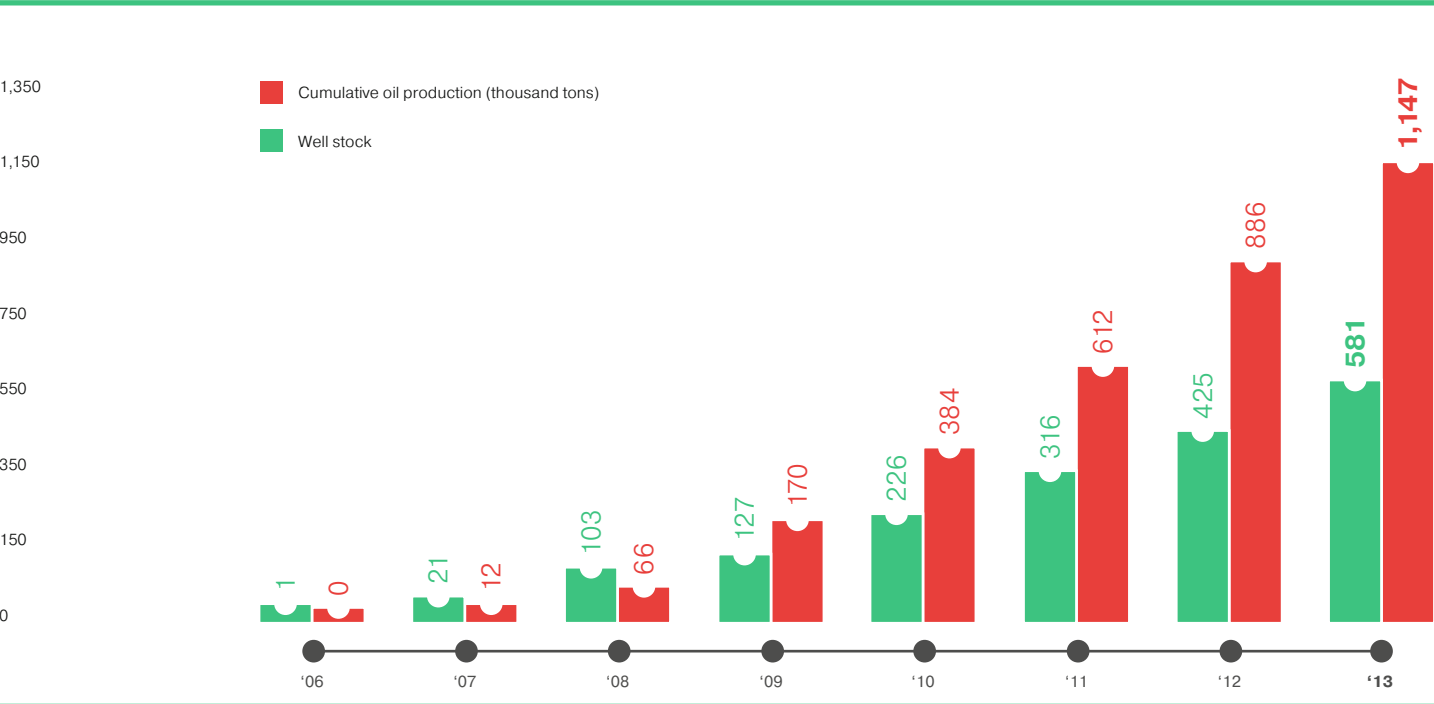
Application of advanced methods of enhanced oil recovery provided for the Company's incremental production of 6,192.5 thousand tons. The share of oil produced using EOR methods accounted for 23.7% of the total oil production in 2013.

TATNEFT Company actively employs the dual completion technology and oil production from two or several layers of one well. The average increase in oil production per 1 well achieved 4.4 tons per day resulting from dual completion production/injection, and 1.9 tons per day resulting from dual injection.

CRUDE OIL PRODUCTION OF JSC TATNEFT



DUAL INJECTION IN PAY BEDS



CRUDE OIL PROCESSING AND SALES OF CRUDE OIL & PETROLEUM PRODUCTS

The Company develops the block of crude oil processing and sales of crude oil and petroleum products, concentrating its efforts on creation of its own refining base by the construction of the TANECO Complex of the refining and petrochemical plants and modernization of the refinery facilities of «Yelkhovneft» in order to increase the production and sales volumes of highly competitive finished products.

The structure of the production facilities of the TANECO Complex consists of five core production units as of the end of 2013:

1. Production of primary oil refining.
2. Production of base oils and hydrocracking.
3. Production of elementary sulfur.
4. Production of commercial and raw materials.
5. Production unit of the industrial wastewater treatment, energy supply, water supply and sewage facilities.

Production of primary oil refining

- The CDU/VDU-7 unit is designed for crude oil processing of Devonian and Carboniferous and the blended crudes thereof to get the desired petroleum products and semi-finished products, which are commercial products or raw materials for other installations. The design capacity of CDU-VDU-7 is 7 million tons of oil per year.
- The Naphtha Stabilization unit is designed for stabilization of straight-run naphtha delivered from atmospheric distillation unit of CDU-VDU-7. The design capacity of the naphtha stabilization unit is 1.1 million tons of unstabilized naphtha per year.
- The Visbreaking unit is designed for processing of vacuum residue delivered from CDU-VDU-7 by primary thermal cracking. The design capacity of the visbreaking unit is 2.4 million tons of vacuum residue per year.

Production of base oils and hydrocracking

- The Integrated Hydrocracking plant is designed for hydrocracking of sulfur-containing products (a mixture of vacuum gasoil and heavy coker gasoil) to produce gasoline, kerosene and diesel fractions purified from sulfur and nitrogen compounds, followed by separation of the products obtained in the fractionation sections and production of lighter fractions.
- The design capacity is 2.9 million tons of raw materials per year. The base oil production unit is designed for output of base oils from the unconverted residue of the hydrocracker. The design capacity is 250 thousand tons of raw materials per year.
- Three processing units for hydrogen production: two hydrogen production units of 100 and 22 tons per year capacity and a treatment unit of hydrogen-containing gas of 7 tons per year capacity. The production is intended to produce hydrogen of 99.9% purity of natural gas and hydrogen-containing gases.

Combined Sulfur Recovery Unit

- The Dehydration & Amine Regeneration unit is designed for amine treatment and LPG dehydration, amine treatment of fuel gas and hydrogen-containing gas and hydrogen sulphide removal by MDEA solution. The amine saturated with hydrogen sulfide is regenerated with sulfurous gas release and again routed to purification of gas flows in a closed cycle.
- The Sour Water Stripper is designed for hydrogen sulfide stripping from sour water delivered the refinery installations. The stripped water is used by the Complex consumers for balance-of-plant needs, thus reducing the consumption of fresh river water.
- The Sulfur recovery plant is designed for processing of sulfurous gas by thermal catalytic Claus process, with production of elementary sulfur and its transfer into the sulfur pellets commodity form. The design capacity of the elementary sulfur recovery unit is 278.8 thousand tons of sulfur per year.
- The storage and liquid sulfur granulation facility is designed for block sulfur production, transportation and loading-unloading operations.
- The sulfur storage and discharge facility is designed for sulfur pellets bagging in big bags of 1000 kg and/or 50 kg bags, shipment by road and rail transport.

Operations of reception, storage of crude oil and petroleum products, pumping of raw materials and shipment of petroleum products are provided by the own infrastructure of the Complex.

The TANECO Complex provides a major share of the Company’s refining at the 108.8% level of capacity utilization in 2013. The fixed run of CDU / VDU -7, naphtha stabilization and visbreaking units at 115% of CDU / VDU -7 plant capacity allowed to increase the throughput of processed oil to 115% of design capacity.

The refinery facilities of NGDU Yelkhovneft were provided with the steady material supply and high load of the production capacities in 2013. Within the framework of modernization they replaced the catalyst of the hydrotreating unit which provided the change-over to output of EURO-5 diesel fuel.

Based on the results of 2013 the 180.4 tons of the petroleum products were sold, sales revenue amounted to 2.87 billion rubles with the cost of products sold - 2.65 billion rubles.

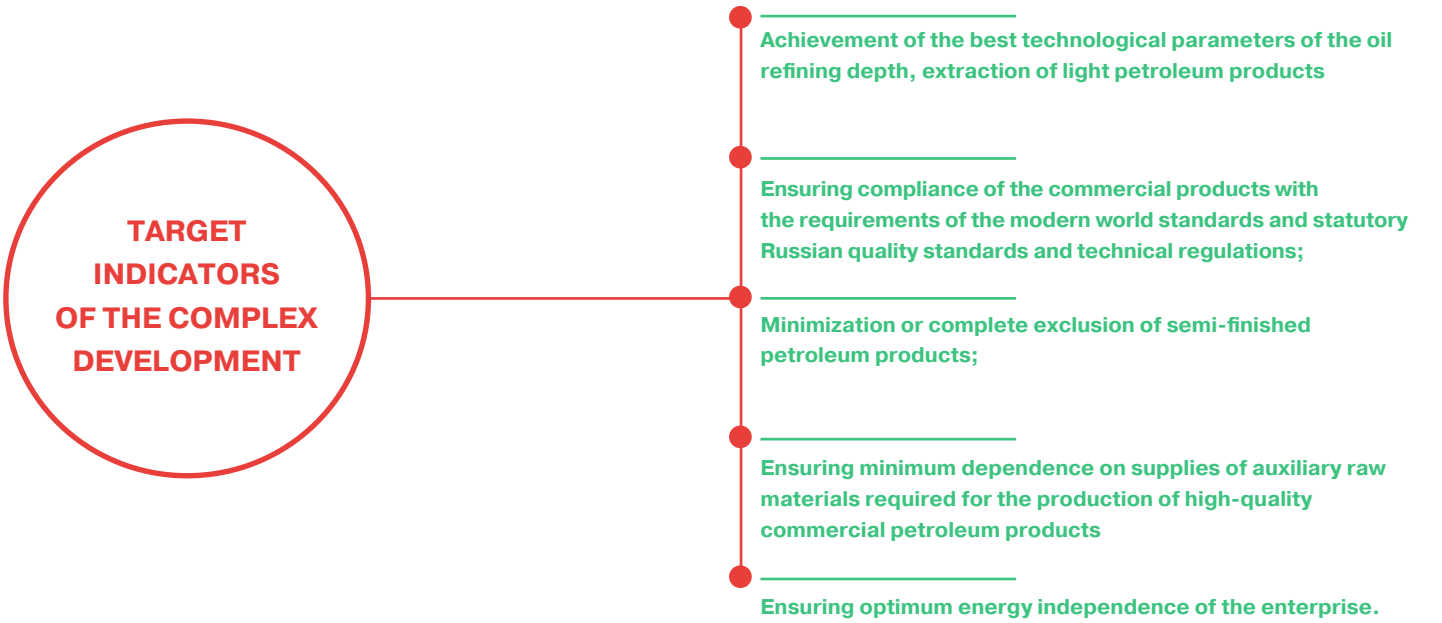
GAS PROCESSING FACILITIES

In 2013 the gas processing facilities of Tatneftegazpererabotka Administration collected 864.8 mln. m3 of associated petroleum gas, which was 21.2 mln. m³ more than in 2012.

Utilization coefficient of associated gas for the reporting period amounted to 95.1 %.

In 2013 there was about 773.9 mln. m3 of associated gas accepted for processing, that was 14.2 mln. m3 more than the associated gas throughput in the same period of the previous year. Processing of Liquefied Petroleum Gas from UKPN amounted to 276.0 thousand tons that was 9.6 thousand tons less than in 2012, which was connected with the growth of gas processing volumes.

TARGET INDICATORS OF THE COMPLEX DEVELOPMENT



OUTPUT OF PETROLEUM PRODUCTS IN 2013 (TONS)

PRODUCT DESCRIPTION	2013
TANECO COMPLEX	
Total volume of crude oil refining	7,621,631
Output of core products:	
Straight-run gasoline	561,975
Stable gas naphta	536,544
Middle distillates	2,344,146
Vacuum gas oil	1,926,530
Fuel oil. Mazut 100	1,912,558
Sulfur	7,684
Output of light petroleum products, %	48.16
Output of desired petroleum products, %	73.4
REFINERY OF NPU YELKHOVNEFT	
Total output of main products	179,306
Diesel fuel	86,787
Gasoline	81,539
Other middle distillates	10,582
Sulfur	373
Straight-run gasoline	25

OUTPUT OF FINISHED PRODUCTS BY TATNEFTEGAZPERERABOTKA ADMINISTRATION IN 2012-2013

PRODUCT DESCRIPTION	UOM	OUTPUT, 2013
Stripped gas	million m³	275.4
Liquid products, total	thousand tons	642.8
Liquefied gas, including:	thousand tons	414.4
propane fraction	thousand tons	245.7
isobutane fraction	thousand tons	46.3
normal butane fraction	thousand tons	122.5
isopentane fraction	thousand tons	22.4
stable gas naphtha	thousand tons	205.9
Ethane	thousand tons	160.7
Sulfur	thousand tons	4.9
Nitrogen	thousand m³	804.8
Oxygen	thousand m³	306.8

SUPPLIES OF CRUDE OIL AND OIL-AND-GAS PRODUCTS

In 2013 there were 25,638.2 thousand tons of resources treated and delivered to the transportation system, including the balance 25,762.6 thousand tons, which was by 166.1 thousand tons or 0.7% more than in 2012.

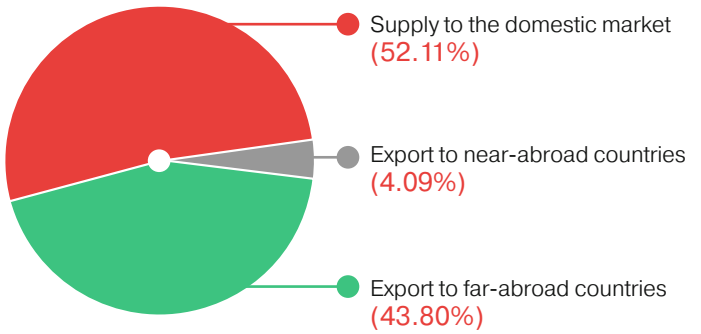
The oil crude produced by the Company was sold in three markets: the Russian domestic market, far-abroad and near abroad countries. One of the top delivery priorities in terms of efficiency remains the oil export to far-abroad countries, which amounted to 43.8% of the total oil sales of the Company. In the domestic market the oil was supplied to the Russian refineries, the bulk was delivered to the refineries of TANECO and TAIF-NK to ensure raw materials input and optimal loading of the production facilities.

In addition to its own resources the Company sold 1,106.0 thousand tons of oil to the independent oil companies, including: for export (far-abroad and near-abroad countries) - 734.7 thousand tons; domestic market - 371.3 thousand tons.

Outside the Republic of Tatarstan the resources of oil-production enterprises with participation of JSC TATNEFT in Orenburg region were sold in the amount of 16.9 thousand tons by-passing the AK Transneft system in 2013.

24.5 tons of liquefied gas was delivered for the needs of the population.

CRUDE OIL SUPPLY OF JSC TATNEFT



SUPPLY DISTRIBUTION OF JSC TATNEFT RESOURCES BY BASIC LINES OF SHIPMENT IN 2012-2013 (THOUSAND TONS)

NAME	2012	2013
Export to far-abroad countries	11,759.6	11,275.4
Export to near-abroad countries	618.1	1,053.8
Oil refineries in Russia: including:	13,184.7	13,408.9
JSC TAIF-NK Refinery	5,789.0	5,367.0
OJSC TANECO	7,000.0	7,674.8
JSC Moscow Refinery	50.0	81.0
ZAO Ryazan Refinery	99.9	23.5
JSC Slavneft-YANOS	79.9	–
JSC LUKOIL-NORSI	99.3	173.4
JSC Novoshakhtinsk Refinery	64.1	52.7
Other supplies	2.6	36.4

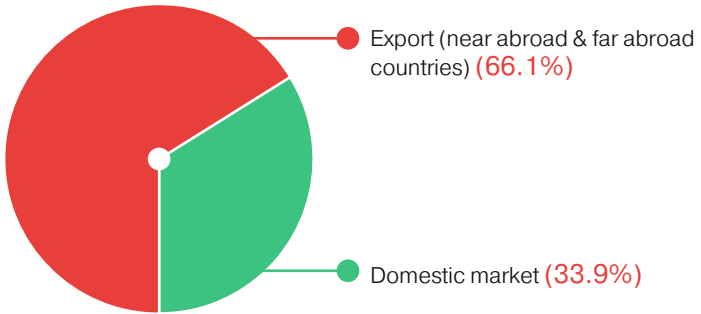
The following volumes of gas products were shipped to the enterprise of the gas-petrochemical complex of the Republic of Tatarstan in 2013:

PRODUCT DESCRIPTION	THOUSAND TONS
Isobutane	21.2
NGL from UTNGP	6.2
Ethane	160.7
LPG from OJSC TANECO	104.7
Propane	11.8

SALES OF PETROLEUM PRODUCTS OF THE TANECO REFINERY (THOUSAND TONS)

PRODUCT DESCRIPTION	EXPORT (NEAR-ABROAD, FAR-ABROAD COUNTRIES)	DOMESTIC MARKET
Liquefied Petroleum Gas	–	104.7
Straight-run gasoline	564.7	–
Stable gas naphtha	522.6	–
Visbreaking naphtha	83.5	–
Middle distillates	144.4	2,250.2
Vacuum gas oil	1,943.4	–
Furnace oil	1,759.8	229.5
Granulated sulfur	5.0	3.2

SUPPLIES OF PETROLEUM PRODUCTS OF THE TANECO COMPLEX



RETAIL NETWORK OF FILLING STATION COMPLEXES

The development program of the own retail network is realized by the construction of new filling stations, acquisition, modernization and reconstruction of the current filing stations.

The TATNEFT retail network of filling stations sells all the grades of gasoline and diesel fuels.

Guaranteed quality of the petroleum products at JSC TATNEFT filling stations is ensured by the multilevel control system. To keeping in pace with the current trend of vehicle conversion to gas fuel the Com-pany annually put into operation 10-15 gas units or install additional gas station dispensers at the gas filling stations.

The modern technologies and equipment (double-walled tanks, imported fuel dispensers, automated systems for parameter measure-ment of light petroleum products etc.) are applied during construction and reconstruction of filling station. Automatic filling stations are also put into operation.

Costs reduction of the retail distribution network is provided through introduction of energy-saving technologies at the retail network faci-lities. The pilot projects of vapor recovery units (VRU) are implemented the filling stations with application of engineering developments that will allow reducing the loss of petroleum products as a result of «natural in and out breathing» in the tanks and significantly improve the environmental friendliness of the filling stations.

The TATNEFT retail network of filling stations complexes includes 648 stations in the territory of the Russian Federation and CIS countries, 524 of them are located in Russia, 114 - in Ukraine, 10 - in Byelorussia.

SALES OF OIL-AND-GAS PRODUCTS THROUGH THE FILLING STATIONS NETWORK

DESCRIPTION	2013	
	TONS	THOUS.RUBLES*
Russian Federation, including:	1,590,321	57,755,966
oil products	1,454,099	55,161,430
gas products	136,222	2,594,536
Ukraine, including:	61,796	2,965,557
oil products	53,068	2,622,655
gas products	8,728	342,902
Byelorussia, including	12,367	425,215
oil products	11,668	403,129
gas products	699	22,086
Total	1,664,484	61,146,739

* including taxes

PETROCHEMICALS PRODUCTION

The segment of the petrochemical production activity of the Company is formed by «Tatneft-Neftekhim» Management Company and a complex of enterprises: «Nizhnekamskshina», Nizhnekamsk Truck Tire Factory, Nizhnekamsk SSC Tire Factory, «Tatneft - Neftekhimsnab», «Nizhnekamsktekhuglerod», Nizhnekamsk Mechanical Plant, «Yarpolimermash - Tatneft», «Energoshinservis», «Kama» Research & Development Center and «Kama» Trading House.

KEY PERFORMANCE INDICATORS OF PETROCHEMICAL COMPLEX ENTERPRISES OF JSC TATNEFT

PERFORMANCE INDICATORS	2013
Total Tire Production, thousand pieces	12,511.52
Carbon black output, thousand tons	108.9
Proceeds from sales, RUR bln	33.7

The Tire Manufacturing Complex of the Company covers 26% of this Russian industry segment in terms of production volumes; it is a supplier of the domestic car manufacturers KAMAZ, GAS, AVTOVAZ, as well as the car assembly plants of Volkswagen, Fiat and other foreign manufacturers.

JSC “Nizhnekamskshina” completed the project realization on increased production capacities of KAMA EURO and Viatti up to 1.3 mln pieces per year In 2013. The Nizhnekamsk Truck Tire Factory reconstructed the electric drive of the MX-7 rubber mixing line.

The KAMA Scientific & Technological Centre developed 97 designs of new tire sizes. The enterprise mastered the serial production of 30 sizes of tires. In 2014 it is planned to master the production of 78 tires.

One of the top priorities of JSC TATNEFT tire business is an environmental responsibility and environmental protection. The operating efficiency in the field of environmental safety of the production is certified by the results of the inspection environmental audits carried out in all the three tire plants: “Nizhnekamskshina», Nizhnekamsk Truck Tire Factory, Nizhnekamsk SSC Tire Factory,

THERMOELECTRIC POWER INDUSTRY

NIZHNEKAMSK COMBINED HEAT & POWER PLANT (CHP)
The Nizhnekamsk Combined Heat & Power Plant is one of the largest generating companies of electric and thermal energy in the Republic of Tatarstan. The current installed capacity is 380 MW for electricity and 1,580 Gcal/h for heat.

The thermal energy consumers are as follows: JSC «Nizhnekamskneftekhim», JSC TANECO and the city of Nizhnekamsk.

The Nizhnekamsk CHP produced 1,323 million kWh of electric power in 2013.

The internal electric power consumption amounted to 169 million kWh, while the power supply network released 1,154 million kWh of electric power.

The thermal energy was sold in the amount of 4,140 thousand Gcal in 2013. The total delivery of thermal energy increased by 15% as compared to 2012.

The enterprise achieved effective results on specific indicators in 2013:

- specific fuel consumption for the supplied electricity was 288.3 g/kWh, which was 1.3 g/kWh below the standard;
- specific fuel consumption for the supplied heat power was 140.4 kg/Gcal, which was 0.7 kg/Gcal below the standard.

The enterprise saved 2,740 TFOE owing to reduction of specific fuel consumption against the regulatory values of 2013.

Proceeds from sales of the core products amounted to 4,145.5 million rubles in 2013. Gross proceeds of thermal power sales amounted to 2,546.6 million rubles (61.4 % of core products sales), including:

- sales proceeds of thermal power – 2,293.1 million rubles.
- sales proceeds of heat-carrying agent – 253.5 million rubles.

Gross sales of electric energy and power exercised at the wholesale electricity and power market totalled 1,598.9 million rubles (38.6 % of the core product sales) including sales of the purchased electric power for securing execution of free contracts. Including:

- sales proceeds of electric energy — 1,426.4 million rubles,
- sales proceeds of power — 172.5 million rubles.

In 2013 OOO “Nizhnekamsk CHP” supplied to OJSC TANECO over 13 ata (technical atmosphere) steam – 578,126 Gcal, 140 ata (technical atmosphere) steam – 518,953 Gcal.

ALMETYEVSK HEAT SUPPLY NETWORKS (APTS)
The thermal power output amounted to 714.3 thousand Gcal as of the end of 2013. Sales of thermal power amounted to 603.0 thousand Gcal.

To improve the energy security the enterprise plans to commission independent power supply units (mini heat & power plants or co-generating plants) which will allow to improve energy efficiency and reduce the rise in tariffs of thermal energy.

In order to reduce thermal energy costs, reduce energy losses the frequency-regulated drives are installed on the draft equipment and pumping systems, and non-metallic pipes are actively applied to increase the service life and reduce energy losses in case of ruptures.

In 2013 the air emissions were reduced from 1,115 tons to 867 tons.

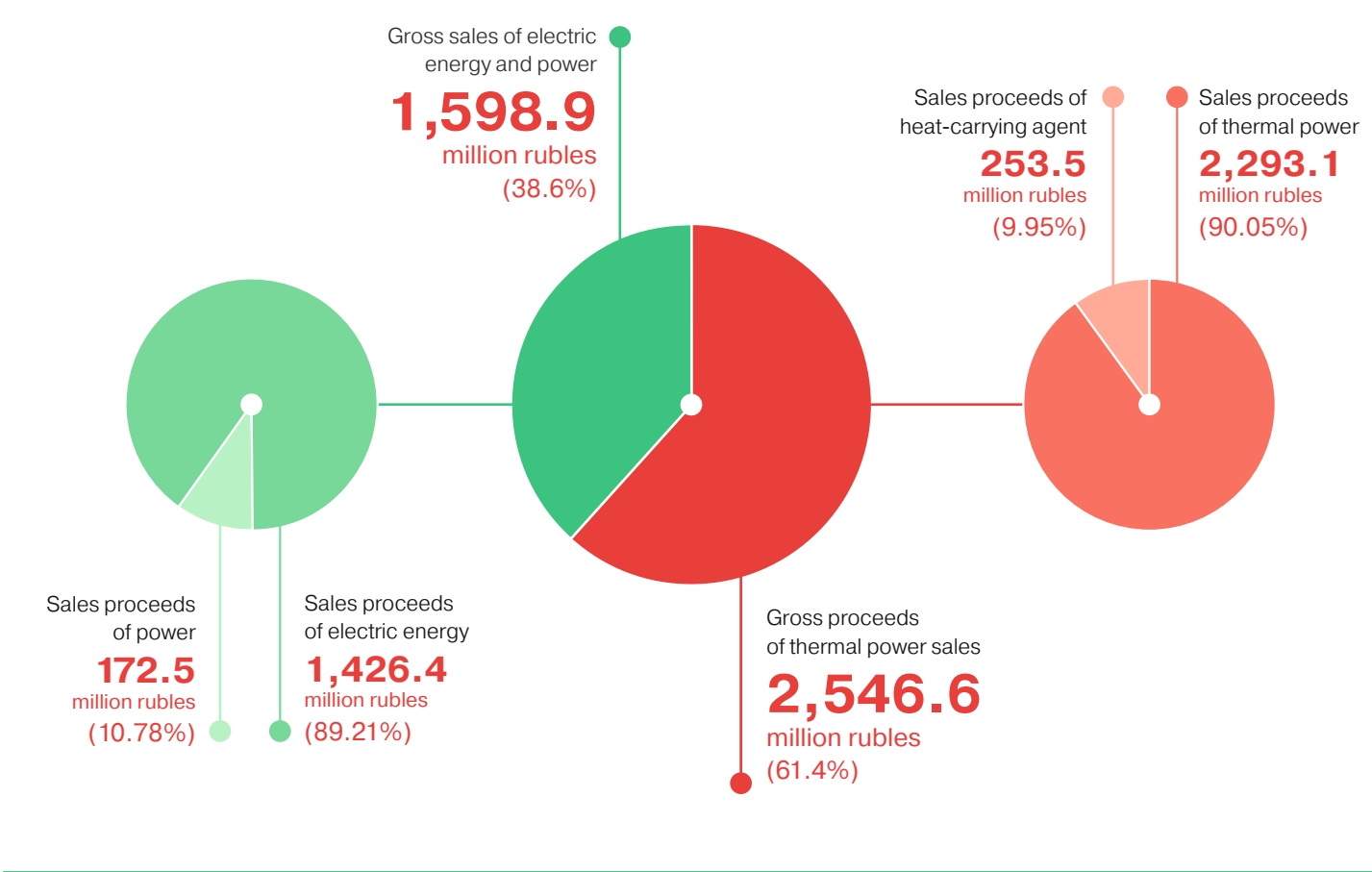
The current installed capacity is 537.79 Gcal/h.

In the current year:

- output of thermal energy – 714.3 thousand Gcal,
- supply of thermal energy to the network amounted to – 694.1 thousand Gcal,
- specific fuel consumption per supplied thermal energy amounted to 161.52 kg/ Gcal.

Pursuant to Federal Law No.261-FZ dtd 11.11.2009 «On Energy Saving and Improving Energy Efficiency» and for the purpose of implementing the uniform technological policy in the field of energy efficiency improvement of energy resources utilization the energy saving and energy efficiency improving program for 2010-2013 years was developed at OJSC «APTS». Business event costs of this program amounted to 7.7 million rubles in 2013. The economic effect of the realized program totalled to 10.8 million rubles.

THE REVENUE MIX FROM SALES OF CORE PRODUCTS OF THE NIZHNEKAMSK CHP



CORPORATE MANAGEMENT

THE COMPANY’S MANAGEMENT SYSTEM

The organizational structure of the Company integrates business-processes, resources and production facilities for oil exploration and production, refining, petrochemicals production, heat and power generation, as well as crude oil and petroleum products sale, providing for diversification and qualitative interaction of all business segments from recovering the reserves to obtaining an sale of desired petrochemical products.

The Company carries out its business in a capital-intensive industry of subsoil usage and reproduction of energy resources requiring greater corporate responsibility in all areas of activity, including social aspects.

The Company follows the highest standards of corporate management and consistently introduces all newly generated requirements and recommendations on corporate management, including the ones in the frame conditions integrating the Russian equity capital in the international financial and stock markets.

The Company’s corporate management is based on the constructive interaction of shareholders, the Board of Directors and executive bodies and are supported by appropriate distribution mechanisms of competence, authority and responsibility among the responsible officials.

The management principles are defined by the Articles of JSC TATNEFT, as well as regulated by the internal documents: Provision on the General Meeting of the Company’s Shareholders, Provision on the Board of Directors, Provision on the Management Board, Provision on the General Director, Provision on the Audit Commission and Provisions on the Committees of the Board of Directors, as well as the Corporate Governance Code.

The sole executive body (Chief Executive Officer) of the Company is General Director, who is. The collegial executive body of the Company is the Management Board headed by General Director. The General Director and the Management Board are accountable to the Board of Directors and the General Meeting of Shareholders. The Control of financial and economic activities of the Company is performed by the Audit Commission.

There are Committees under the Board of Directors on Corporate Management, Human Resources and Remuneration, Audit Committee and Information Disclosure. The Board of Directors also established the Insider Information Protection Committee in 2012. The Committees carry out their activities in close cooperation with the Board of Directors, Director General and the Company’s executive bodies: Management Board, Executive Directorate, Internal Audit, Department, Corporate Control and other departments and divisions of the Company.

JSC TATNEFT GROUP MANAGEMENT

JSC TATNEFT is a parent company of TATNEFT Group. Organization of the management of subsidiaries and affiliated companies is carried out with prevailing participation in the authorized and other capitals of the mentioned companies through managing bodies of the subsidiary with an appropriate indication in the founding documents; the Management Companies within the Group through the conclusion of agreements between these companies and other economic entities - members of the Group on the transfer of the Executive Management Board functions to the Management Companies, as well as through other ways provided by the legislation of the Russian Federation subject to equitable interests of all participants of the Group. The planning and control of business processes by segment of activities are provided for through uniform standards and regulations.

The Company publishes annual and quarterly consolidated financial statements in accordance with the international financial reporting standards (IFRS).

INFORMATION POLICY

JSC TATNEFT is in the top 10 highest ranking information openness Russian energy sector companies. The Company complies with all legal requirements and regulations on information disclosure, and ensures timely and complete information provision to all interested parties on all aspects of its activities (except when the information is commercially classified). Furthermore to ensure better understanding of the current situation and prospects by all stakeholders the Company additionally provides on a voluntary basis complete information in the format of press conferences, corporate media, and also through distribution of press releases via Russian and republican news agencies and the media.

The Company provides full and timely disclosure of information to the shareholders about all aspects of its business (except when the information is commercially classified).

The main channel of information disclosure is the site of JSC TATNEFT, which contains information about essential facts, events, the Company’s management structure, financial and economic activity. The portal displays founding documents, the Articles, provisions on the Company’s activities, annual reports and reports on sustainable development and social liability of the Company, quarterly reports, quarterly financial statements under IFRS, press releases about affiliates and other information that may essentially affect the value of securities, as well as other information.

The Company regularly organizes meetings of analysts and investors with top managers and specialists, as well as offering the opportunity to visit the facilities. The systematic meetings with shareholders and investors are arranged at international stock grounds.

JSC TATNEFT BOARD OF DIRECTORS IN 2013

Rustam N. MINNIKHANOV, born in 1957. 1978 – graduated from Kazan Agricultural Institute, specialty – mechanical engineer. 1986 – graduated from the correspondence Institute of Soviet Trade. 1996-1998 – Minister of Finance of the Republic of Tatarstan. From July 1998 till March 2010 headed the Government of the Republic of Tatarstan. President of the Republic of Tatarstan since March 2010. Doctor of Science, Economics. Share in the Authorized Capital of the Company, % – none
Portion of ordinary shares of the Company, % – none

David W. WAYGOOD, born in 1950. He has an education certificate issued in the United Kingdom of Great Britain and Northern Ireland; graduated from the banking courses of the Bank Institute. Director of ICDS Ltd. since August 2001. Share in the Authorized Capital of the Company, % – none
Portion of ordinary shares of the Company, % – none

Mariya L. VOSKRESENSKAYA, born in 1955. 1977 – graduated from Moscow Financial Academy. Has a US CPA certificate, and she is a certified Russian auditor. Director of Brentcross Ltd. since 2004. Member of the Board of Association of Independent Directors of Russia. Share in the Authorized Capital of the Company, % – none
Portion of ordinary shares of the Company, % – none

Radik R. GAIZATULLIN, born in 1964. 1985 – graduated from Kazan Agricultural Institute, specialty – accounting and analysis of economic activity in agriculture. Head of the Ministry of Finance of the Republic of Tatarstan since June 2002. Doctor of Science, Economics. Share in the Authorized Capital of the Company, % – none
Portion of ordinary shares of the Company, % – none

Sushovan GOSH, born in 1957. Graduated from the college of Queen Maria, London University of Electric and Electronic Developments and Institute of Accountants-Experts in England and Wales. Managing Director of SGI Group Ltd. since 2002. Share in the Authorized Capital of the Company, % – none
Portion of ordinary shares of the Company, % – none

Nail G. IBRAGIMOV, born in 1955. 1977 – graduated with honors from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. First Deputy General Director for Production – Chief Engineer of JSC TATNEFT since 2000. Doctor of Science, Engineering. Share in the Authorized Capital of the Company, % – 0.019586
Portion of ordinary shares of the Company, % – 0.020673

Vladimir P. LAVUSHCHENKO, born in 1949, graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I. M. Gubkin in 1972, and the postgraduate course of VNIIOENG in 1984. 1997 – appointed Deputy General Director for Economics of JSC TATNEFT. Doctor of Science, Economics. Share in the Authorized Capital of the Company, % – 0.045465
Portion of ordinary shares of the Company, % – 0.048194

Nail U. MAGANOV, born in 1958. 1983 – graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. From July 2000 to November 2013 – the First Deputy General Director – Head of Crude Oil and Petroleum Products Sales Department of JSC TATNEFT. Appointed General Director of JSC TATNEFT in November 2013 Share in the Authorized Capital of the Company, % – 0.000176
Portion of ordinary shares of the Company, % – none

Renat Kh. MUSLIMOV, born in 1934. 1957 – graduated from Kazan State University, specialty – geology and exploration of oil and gas fields. From June 2007 – appointed State Consultant to President of the Republic of Tatarstan on development of crude oil and gas fields, Professor of the Crude Oil and Gas Geology Chair of Kazan State University. Doctor of Geological and Mineralogical Sciences. Share in the Authorized Capital of the Company, % – 0.065734
Portion of ordinary shares of the Company % – 0.069624

Rinat K. SABIROV, born in 1967. 1991 – graduated from the physics faculty of Kazan State University; 1994 – graduated from the postgraduate course of Kazan State Technological University. 1998 – had a training course under the President's program for managerial staff. In 2012 he completed the course in the program “Master of Business Administration” of Colorado State University (USA). Since 2006 headed the Division of Oil and Gas Complex of the Cabinet of Ministers of the Republic of Tatarstan. In June 2010 he was appointed Assistant to the President of the Republic of Tatarstan. PhD, Chemical Science. Share in the Authorized Capital of the Company, % – none
Portion of ordinary shares of the Company, % – none

Valery Yu. SOROKIN, born in 1964. 1986 – graduated from Kazan State University. General Director of JSC Svyazinvestneftekhim since 2003. Share in the Authorized Capital of the Company, % – none
Portion of ordinary shares of the Company, % – none

Mirgaziyan Z. TAZIYEV, born in 1947. 1972 – graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. Head of NGDU Almetyevneft since January 2005. PhD, Engineering. Share in the Authorized Capital of the Company, % – 0.006448
Portion of ordinary shares of the Company, % – 0.006541

Shafagat F. TAKHAUTDINOV, born in 1946. 1971 – graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. From 1999 to November 2013 – General Director of JSC TATNEFT. Starting November 2013 he performs the duties of Assistant to the President of the Republic of Tatarstan, Advisor to Chairman of JSC TATNEFT’s Board of Directors. Doctor of Science, Economics. Share in the Authorized Capital of the Company, % – 0.116503
Portion of ordinary shares of the Company, % – 0.123914

Azat K. KHAMAEV, born in 1956. Graduated from Kazan Aviation Institute, specialty – mechanical engineer. 2000 – graduated from the Law Faculty of Kazan State University. Appointed First Deputy Minister of Land and Property Relations of the Republic of Tatarstan in December 2008. Appointed Head of the Ministry of Land and Property Relations of the Republic of Tatarstan in March 2009. Share in the Authorized Capital of the Company, % – none
Portion of ordinary shares of the Company, % – none

Rais S. KHISAMOV, born in 1950. 1978 – graduated from the evening department of Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. Appointed Chief Geologist – Deputy General Director of JSC TATNEFT in October 1997. Doctor of Geological and Mineralogical Sciences, Professor. Share in the Authorized Capital of the Company, % – 0.01876
Portion of ordinary shares of the Company, % – 0.019746.

RENÉ STEINER, was born in 1964. He has a degree in economics and graduated from Technical High School in Zurich in 1989. Bachelor of Swiss Banking – Zurich, 1992. Since 2011, co-founder, Program Director of the Private Equity FIDES Business Partner AG, Switzerland. Share in the Authorized Capital of the Company, % – none
Portion of ordinary shares of the Company, % – none

JSC TATNEFT MANAGEMENT BOARD IN 2013

Nail U. MAGANOV, born in 1958. 1983 – graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. From July 2000 to November 2013 – the First Deputy General Director – Head of Crude Oil and Petroleum Products Sales Department of JSC TATNEFT. Appointed General Director of JSC TATNEFT in November 2013
Share in the Authorized Capital of the Company, % – 0.000176
Portion of ordinary shares of the Company, % – none

Shafagat F. TAKHAUTDINOV, born in 1946. 1971 – graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. From 1999 to November 2013 – General Director of JSC TATNEFT. Starting November 2013 he performs the duties of Assistant to the President of the Republic of Tatarstan, Advisor to Chairman of JSC TATNEFT's Board of Directors. Doctor of Science, Economics.
Share in the Authorized Capital of the Company, % – 0.116503
Portion of ordinary shares of the Company, % – 0.123914

Vladlen A. VOSKOBOYNIKOV, born in 1965, in 1993 he graduated from the Technical Institute of Southern Alberta Calgary. From 2005 to present time – Head of Consolidated Financial Accenting of JSC TATNEFT.
Share in the authorized capital of the Company% – none.
Portion of ordinary shares of the Company% – none.

Iskander G. GARIFULLIN, born in 1960 . In 1981 he graduated from Kazan Financial and Economic Institute named after V.V. Kuibyshev. 1997 to present time – Chief Accountant – Head of Accounting and Reporting Department, JSC TATNEFT.
Share in the Authorized Capital of the Company, % – 0.009806%.
Portion of ordinary shares of the Company, % – 0.010396%.

Victor I. GORODNY, born in1952. In 1978 he graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. 1995 to present time – Deputy General Director – Head of Property Department JSC TATNEFT. Doctor of Science, Economics.
Share in the Authorized Capital of the Company, % – 0.000254%.
Portion of ordinary shares of the Company, % – None.

Nikolay M. GLAZKOV, Born in1960. In 1988 he graduated from Kazan Institute of Civil Engineering. 2008 to 2010 – Head of Capital Construction JSC TATNEFT. 2010 to present time – Deputy General Director for Capital Construction, JSC TATNEFT.
Share in the Authorized Capital of the Company, % – None.
Portion of ordinary shares of the Company, % – None .

Valery D. ERSHOV, born in1949. In 1978 he graduated from Kazan State University named after V.I. Ulyanov-Lenin. 2002 to present time – Head of Legal Department, JSC TATNEFT.
Share in the Authorized Capital of the Company, % – None.
Portion of ordinary shares of the Company, % – None.

Nail G. IBRAGIMOV, born in 1955. 1977 – graduated with honors from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. First Deputy General Director for Production – Chief Engineer of JSC TATNEFT since 2000. Doctor of Science, Engineering.
Share in the Authorized Capital of the Company, % – 0.019586

Portion of ordinary shares of the Company, % – 0.020673

Vladimir P. LAVUSHCHENKO, born in 1949, graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I. M. Gubkin in 1972, and the postgraduate course of VNIIOENG in 1984. 1997 – appointed Deputy General Director for Economics of JSC TATNEFT. Doctor of Science, Economics.
Share in the Authorized Capital of the Company, % – 0.045465
Portion of ordinary shares of the Company, % – 0.048194

Rustam N. MUKHMADEEV, born in1952. In 1977 he graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. 2001 to present time – Deputy General Director of JSC TATNEFT for HR and Social Development.
Share in the Authorized Capital of the Company, % – 0.004204%.
Portion of ordinary shares of the Company, % – 0.004264%.

Rafael S. NURMUKHAMETOV, born in1949. In 1974 he graduated from Ufa Petroleum Institute. 1989 to present time – Head of NGDU «Leninogorskneft», JSC TATNEFT.
Share in the Authorized Capital of the Company, % – 0.010465%.
Portion of ordinary shares of the Company, % – 0.010107%.

Rifkat M. RAKHMANOV, born in1948. In1970 he graduated from Ufa Petroleum Institute. 2010 to present time – Deputy General Director of JSC TATNEFT for Workover and EOR.
Share in the Authorized Capital of the Company, % – 0.020604%.
Portion of ordinary shares of the Company, % – 0.021678%.

Yevgeny A. TIKHTUROV, born in1960. In 1982 he graduated from Moscow Institute of Management n.a. S. Ordzhonikidze. 1999 to present time – Head of Finance Department, JSC TATNEFT.
Share in the Authorized Capital of the Company, % – None.

Portion of ordinary shares of the Company, % – None.

Zagit F. SHARAFEEV, born in1956. In 1980 he graduated from Kazan Chemical Technological Institute named after S.M. Kirov. In 1991 he graduated from the All-Union Correspondence Financial and Economic Institute. From 2010 to April 2014 – Deputy General Director of JSC TATNEFT for Petrochemicals Production – Director of OOO «Tatneft-Neftekhim», Phd, Economics.
Share in the Authorized Capital of the Company, % – None.
Portion of ordinary shares of the Company % – None .

Fedor L. SHCHELKOV, born in1948. In 1972 he graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. 1996 to present time – Deputy General Director of JSC TATNEFT, General Issues.
Share in the Authorized Capital of the Company, % – 0,029929%.
Portion of ordinary shares of the Company, % – 0,031524%.

Alexander T. YUKHIMETS, born in1949. In 1972 he graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. From 1995 to present time – Board of Directors Secretary, JSC TATNEFT.
Share in the Authorized Capital of the Company, % – 0,000284%.
Portion of ordinary shares of the Company, % – None.

LIST OF MAIN ISSUES REVIEWED AT THE MEETINGS OF THE BOARD OF DIRECTORS IN 2013:

- 1. Financial performance of JSC TATNEFT in 2012.
- 2. Results of the Internal Audit Department operation for 2012 and approval of the Department work plan for 2013
- 3. Annual General Meeting of Shareholders of JSC TATNEFT on the results of 2012.
- 4. Candidates to the Board of Directors and the Audit Commission of JSC TATNEFT and proposals for the agenda of the annual general meeting of shareholders on the results of 2012.
- 5. Implementation of a business-project for development of Ashalchinskoye field.
- 6. About the program of improving reservoir pressure maintenance system in JSC TATNEFT.
- 7. Outcome of the labor collective conference of JSC TATNEFT in 2012 and the results of social programs implementation.
- 8. Results and objectives of the TATNEFT Production Group work on the growth of labor productivity.
- 9. Results of operations and development prospects of the «Heat Power» sector business enterprises of TATNEFT Group.
- 10. Progress in introducing new technologies for the development and production of JSC TATNEFT's fields.
- 11. Performance outcome of the JSC TATNEFT's petrochemical complex enterprises.
- 12. Plans for crude oil production and geological/technical activities of JSC TATNEFT in 2014-2015.
- 13. About Environmental Control system at JSC TATNEFT.
- 14. About the current system of personnel management at JSC TATNEFT.
- 15. Implementation progress and strategy and of the «TANECO» project further development
- 16. Application of modern technologies and equipment to improve efficiency in the construction of wells at OOO «Tatburneft» Management Company.
- 17. Condition and development of the corporate media at JSC TATNEFT.
- 18. Effectiveness of financial and economic activities of subsidiaries and affiliates of JSC TATNEFT.
- 19. Program of equipping filling stations with petroleum products hydrocarbon vapor recovery systems.
- 20. Support of small and medium-sized businesses in the south-eastern part of the Republic of Tatarstan.

LIST OF MAIN ISSUES REVIEWED AT THE MEETINGS OF THE MANAGEMENT BOARD IN 2013:

- 1. Crude oil production for December and twelve months of 2013.
- 2. Comparative evaluation of the JSC TATNEFT's Oil and Gas Production Divisions' operation for 2012.
- 3. On the status of using drilled wells stock by the Oil and Gas Production Divisions of JSC TATNEFT.
- 4. Implementation of the JSC TATNEFT's investment program in crude oil production in the territory of the Republic of Tatarstan for 2012.
- 5. Analysis of energy consumption and energy costs for the year 2012.
- 6. Current financial and economic condition and results of JSC TATNEFT fulfilling the indicators of Orders No. 1, 2 and 3 for 2012 and 9 months of 2013.
- 7. On the status of geological exploration works and reserves growth of the TATNEFT Group of Companies in 2012-2013.
- 8. Analysis of the formation pressure profile by the targets of operation. Measures aimed at improving the reservoir pressure maintenance system.
- 9. Progress in obtaining governmental authorities' permission for construction and commissioning of wells completed.
- 10. Implementation progress of the «Ashalchinskoye extra-viscous oil field development» project.
- 11. Application of the bottom-hole cleaning technology through self-flowing method at NGDU «Leninogorskneft» and NGDU «Aznakaevskneft».
- 12. Implementation progress of the JSC TATNEFT's program of chain drives operation.
- 13. Implementation progress of the «Reconstruction of OOO «Nizhnekamsk CHP» project with installation of low-grade steam turbines.
- 14. Operation results of NGDU «Nurlatlatneft» and NGDU «Prikamneft» to reduce the growth rate of individual tariffs for purchasing of electricity for the 1st quarter of 2013.
- 15. Organizing well repair and drilling at NGDU «Elkhovneft» and NGDU «Yamashneft»
- 16. Progress of the construction of «TANECO» facilities.
- 17. Progress of «TANECO» operation.
- 18. Implementation of the JSC TATNEFT's investment program of crude oil production in the territory of the Republic of Tatarstan for the 1st half of 2013.
- 19. Outcome of labor collectives' meetings and implementation progress of the Collective Agreement for the 1st half of 2013.
- 20. Status of reserves development and crude oil production rates from carbonate reservoirs.
- 21. Operation of intelligent wells at deposits 301-305 of NGDU «Leninogorskneft».
- 22. Work on improving the pipeline system reliability (oil and water pipelines) and increasing the period of their operation.
- 23. Financial and economic state of JSC TATNEFT and the credit market situation.
- 24. Work progress for the transfer of land areas from the category of agricultural land into the category of industrial land for well drilling.
- 25. Plans and norms of crude oil, liquid production and water injection for 2014 by the Oil and Gas Production Divisions. Results of selecting geological and technical measures to be included in the investment program.
- 26. Utilization of petroleum associated gas for electric power generation using Capstone microturbine plants at JSC TATNEFT's facilities.
- 27. Current industrial safety situation at JSC TATNEFT.
- 28. Work results of clearing power line routes to exclude possible damage resulting from trees' falling.

COMMITTEES OF THE BOARD OF DIRECTORS

CORPORATE MANAGEMENT COMMITTEE

The Corporate Management Committee has been a standing committee of the Board of Directors since 2004 and it is authorized to render assistance to the Board of Directors of JSC TATNEFT in improving the Corporate Management system and mechanisms in the Company and provide for interaction of the concerned parties on the corporate issues.

Composition of the Corporate Management Committee in 2013:

CHAIRMAN

Viktor I. Gorodny, member of the Management Board of JSC TATNEFT, Deputy General Director, - Head of Property Department of JSC TATNEFT, Deputy Chairman of the Information Disclosure Committee, Doctor of Economics.

MEMBERS OF THE COMMITTEE

Rais S. Khisamov, member of the Board of Directors of JSC TATNEFT, Deputy General Director – Chief Geologist of JSC TATNEFT, Doctor of Geological and Mineralogical Sciences;

Rinat K. Sabirov, member of the Board of Directors of JSC TATNEFT, Assistant to President of the Republic of Tatarstan, member of the HR and Remuneration Committee, Candidate of Chemical Sciences;

Valery D. Ershov, member of the Management Board, Head of Legal Department of JSC TATNEFT;

Rustam M. Khisamov, Head of Securities Office of the Property Department of JSC TATNEFT, PhD, Economics;

Vasiliy A. Mozgovoy, Assistant to General Director of JSC TATNEFT, Corporate Finances;

Denis V. Tsovma, Deputy Head of Securities Office of the Property Department, JSC TATNEFT.

Main Activity Areas of the Corporate Management Committee in 2013:

- 1. Stock market situation analysis.
- 2. Monitoring of JSC TATNEFT's market capitalization and analysis of the capitalization profile key factors.
- 3. Formation and coordination of implementation of the plan of works with shareholders and investors for 2013.
- 4. Control of use of the Insider Information.
- 5. Assistance to the Insider Information Protection Committee.
- 6. Monitoring adherence to the rights and interests of shareholders.
- 7. Control of the information disclosure.
- 8. Assistance to the Board of Directors and interaction with the Information Disclosure Committee to ensure the information disclosure in accordance with applicable law and the stock market regulators requirements.
- 9. Formulation of proposals to the Executive Bodies to improve the system of corporate standards.

HR AND REMUNERATION COMMITTEE

The HR and Remuneration Committee has been established since 2004 to assist the Board of Directors in creating conditions to attract highly skilled professionals to the management of the Company and ensure necessary incentives for their efficient work.

The Committee carries out its activities in close cooperation with the Committees of the Board of Directors: Audit Committee, Corporate Management Committee, Information Disclosure Committee and the Company's Executive Bodies: Management Board, Executive Directorate, Internal Audit Department, Corporate Control Department and others.

Composition of the HR and Remuneration Committee in 2013:

CHAIRMAN

David William Waygood, member of the Board of Directors of JSC TATNEFT, Independent Director, Director of ICDS Ltd. (till June 2013).

René Frederic STEINER, Member of the JSC TATNEFT's Board of Directors, Independent Director, Program Director of the Private Equity FIDES Business Partner AG, Switzerland (headed the Committee since June 2013).

MEMBERS OF THE COMMITTEE

Sushovan Ghosh, member of the Board of Directors of JSC TATNEFT, Managing Director of SGI Group LTD.

Rinat K. Sabirov, member of the Board of Directors of JSC TATNEFT, Assistant to President of the Republic of Tatarstan, member of the Corporate Management Committee.

Main Activity Areas of the HR and Remuneration Committee in 2013:

- 1. Consideration of the work results aimed at strengthening labor and production discipline at structural divisions of JSC TATNEFT.
- 2. Consideration of the professional standards development, such as the formation of the Company's personnel training and development, and the formation of the personnel reserve pool.
- 3. Preparation of recommendations on the personnel remuneration by the results of FY 2013.

AUDIT COMMITTEE

The Audit Committee has been a standing committee of the Board of Directors of JSC TATNEFT since 2004. The mission of the Committee is rendering assistance to the Board of Directors in exercising control of authenticity of JSC TATNEFT's financial statements, providing independent audit, functioning of the internal audit system of the Company, as well as compliance with regulatory and legal requirements.

Composition of the Audit Committee in 2013

CHAIRMAN

Sushovan Ghosh, member of the Board of Directors of JSC TATNEFT, Independent Director. Managing Director of SGI GROUP LTD. Member of the HR and Remuneration Committee of JSC TATNEFT.

MEMBERS OF THE COMMITTEE

René Frederic STEINER, Member of the JSC TATNEFT's Board of Directors, Independent Director, Program Director of the Private Equity FIDES Business Partner AG, Switzerland member of the Committee since June 2013

Mariya L. Voskresenskaya, member of the Board of Directors of JSC TATNEFT, Independent Director, Director of Brent Cross Ltd.

Radik R. Gayzatullin, member of the Board of Directors, Minister of Finance of the Republic of Tatarstan.

David William Waygood, member of the Board of Directors, Independent Director, Director of ICDS Ltd (till June 2013);

Main Activity Areas of the Audit Committee in 2013:

- 1. Activities coordination of external auditors and the Internal Audit Department, as well as regular review of their reports.
- 2. Review and analysis of quarterly financial statements.
- 3. Review and application of independent auditors' reports on the condition of the JSC TATNEFT's internal control systems.
- 4. Discussing the scope, areas of emphasis and timing of audits with the independent auditors and the Internal Audit Department.
- 5. Verification of the external auditors' independence.
- 6. Provision of recommendations to the Board of Directors regarding selection of the JSC TATNEFT auditors.
- 7. Issue of financial statements by the external auditors in accordance with IFRS.

INFORMATION DISCLOSURE COMMITTEE

The Information Disclosure Committee has been a standing committee of the Board of Directors since 2004.

Composition of the Information Disclosure Committee in 2013:

CHAIRMAN

Vladimir P. Lavushchenko, member of the Board of Directors, member of the Management Board, Deputy General Director of JSC TATNEFT on Economics, Doctor of Economics

DEPUTY CHAIRMAN

Viktor I. Gorodny, member of the Management Board, Deputy General Director, Head of the Property Department of JSC TATNEFT, Head of the Corporate Management Committee, Doctor of Science, Economics

MEMBERS OF THE COMMITTEE

Vladlen A. Voskoboynikov, member of the Management Board, Head of Consolidated Financial Reporting Department of JSC TATNEFT

Yevgeny A. Tikhturov, member of the Management Board, Head of the Financial Department of JSC TATNEFT

Vasiliy A. Mozgovoy, Assistant to General Director of JSC TATNEFT, Corporate Finances

Aleksander T. Yukhimets, member of the Management Board, Secretary of the Board of Directors of JSC TATNEFT

Nuriya Z. Valeyeva, Head of Technical and Economic Information and Advanced Experience Extension Office, JSC TATNEFT

Denis V. Tsovma - Securities Office Deputy Head, Property Department of JSC TATNEFT

Main Activity Areas of the Information Disclosure Committee in 2013:

- 1. Control of the information disclosure procedures.
- 2. Coordination of the activities on formulation of essential facts, quarterly and annual reports of the Company, as well as consolidated financial statements and RAS reports.
- 3. Coordination of the activities for information support of the current Company's activity
- 4. Control and coordination of the corporate mass media activity on development of web-resources of TATNEFT Group.
- 5. Ensuring a unified information policy of TATNEFT Group.

CORPORATE PRINCIPLES OF INTERACTION WITH SHAREHOLDERS AND INVESTORS

Guaranteed equal ensuring and observance of legal rights and interests of all the the Company's shareholders regardless of the number of shares they own, as set out by applicable laws of the Russian Federation, requirements and recommendations of stock markets regulators, where the shares of the Company circulate.

Continuous interaction of the Company's management with all the shareholders in order to manage the Company effectively and ensure its sustainable and dynamic development.

Continuous improvement of existing and development of new mechanisms and forms of interaction with the shareholders and potential investors, which would increase efficiency and quality of interaction with the shareholders, taking into account emergence of new shareholders and formulation of further goals by the shareholders.

Identification and resolution of all possible general and specific issues related to exercising of the shareholder rights.

Taking all necessary and possible measures in case of a conflict between the Company's bodies and its shareholder(s), as well as between the shareholders, if the conflict affects the interests of the Company, to fully settle the conflict and to create an environment that would prevent the conflict arising in the future.

PROCEDURE OF ENSURING INTERACTION WITH SHAREHOLDERS

The Company provides equal opportunities for shareholders through:

1. Procedure of holding the General Meeting of Shareholders, which guarantees equal opportunities to all the participants of the meeting to take part in discussing the meeting issues and expressing their opinions.
2. Developing and improving corporate mechanisms aimed at informing the shareholders of all significant events of the Company in full volume in accordance with all applicable requirements of the information disclosure.
3. Election of the Board of Directors members, General Director and the Company's Management Board members in accordance with the transparency policy stipulating provision of the relevant information on each nominee to the shareholders.
4. Prohibition of transactions with the use of insider and confidential information.
5. Providing the information to the Board of Directors members, General Director and members of the Management Board on transactions in which can be recognized as related party transactions.
6. Application of all available modern communicative means to ensure the most effective and efficient communication with all the shareholders, regardless of any remoteness of the shareholders from the Company's location.

The Company's shareholders exercise their rights and responsibilities and participate in the activities of the Company under the applicable law, as well as on the basis of voluntary initiatives aimed at improving the management and operations of the Company. The shareholders should proceed in their actions taking into account the interests of the Company and shall not take any actions that are contrary to the interests of the Company. Execution of all their duties in a timely manner and in full volume by the shareholders will enable the Company to ensure implementation of all legal rights of the shareholders.

The Company provides for prompt review of all the shareholders' appeals received in the written or electronic form or made personally and respond in a timely and appropriate manner.

In case of the shareholders' problems identification (violations of the shareholders' rights and conflict emergence), the Company shall take immediate measures to address these problems, analyze the circumstances that led to their emergence and organize efficient mechanisms to resolve them.

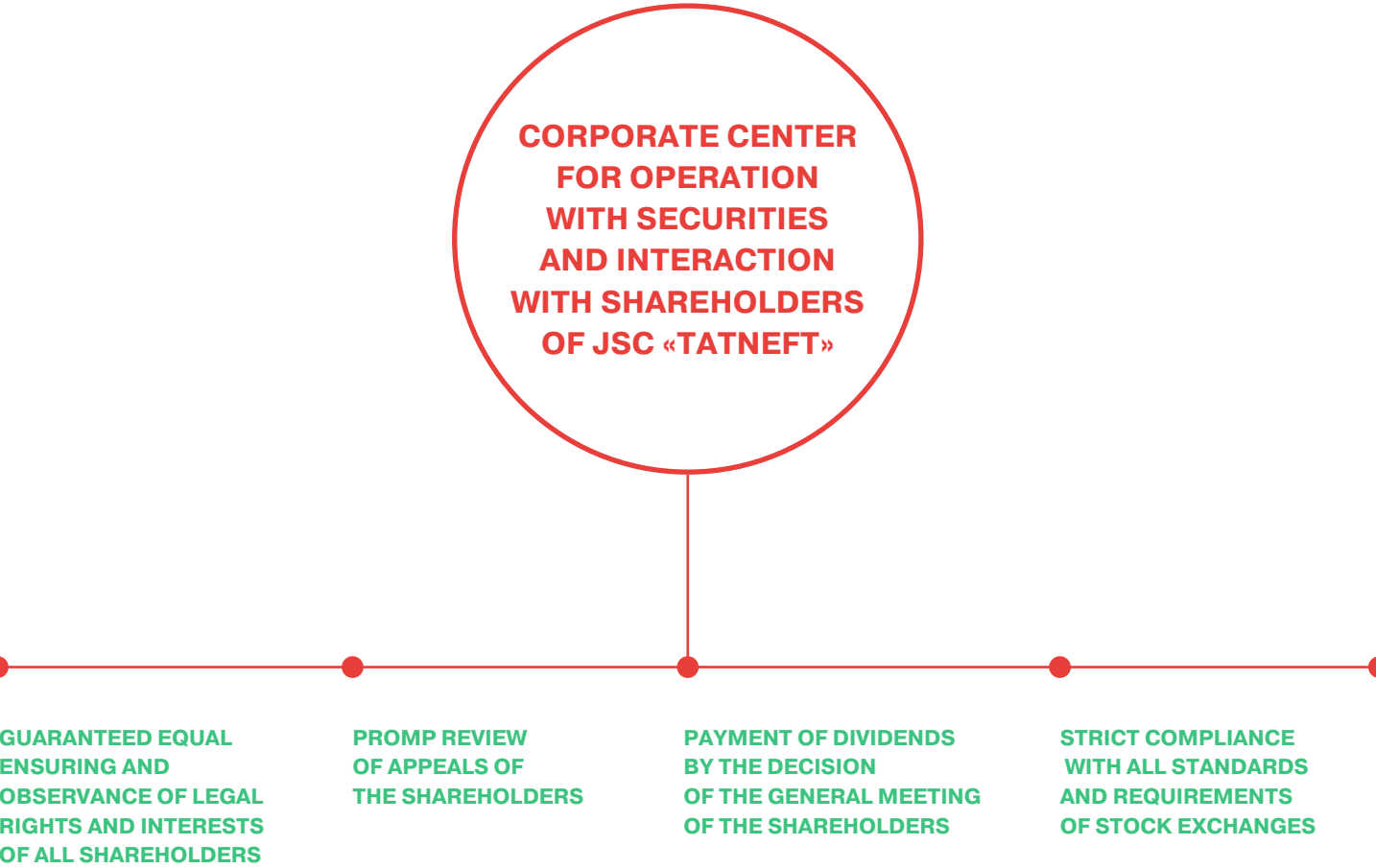
The Company makes no exceptions in reviewing all facts regarding violations of the shareholders' rights and taking necessary steps to address them, as well as measures to prevent re-emergence of such violations in the future.

The Company has an authorized unit that coordinates the whole system of JSC TATNEFT's interaction with its shareholders: the Securities Operation Office of the Company's Property Department.

The Company strives to ensure the most reliable and effective methods and forms of communication, including advanced information technologies application for reaching the highest possible quality of interaction with the shareholders.

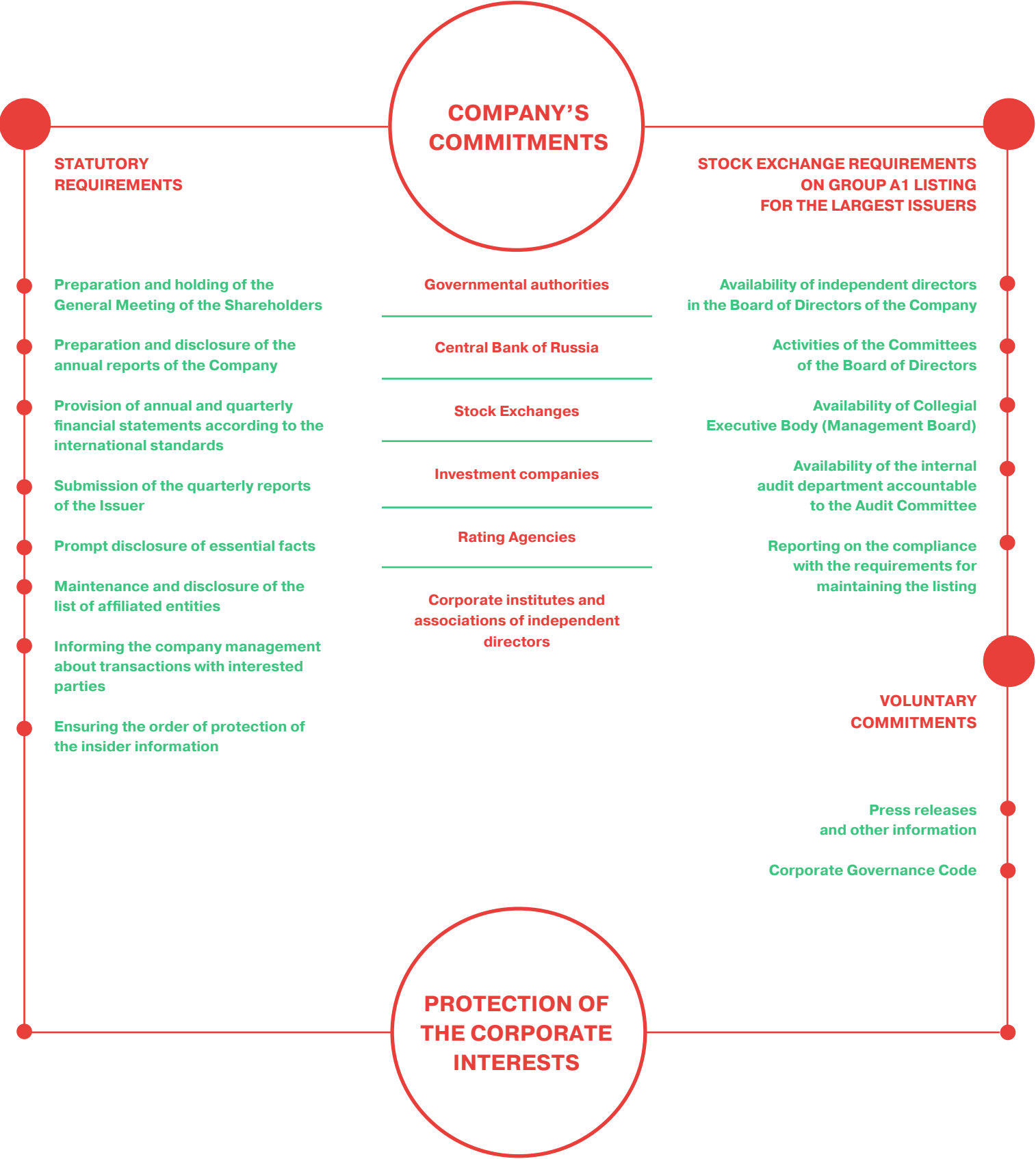
The Company provides the shareholders with an access to documents in accordance with the applicable law.

CORPORATE INTERACTION WITH SHAREHOLDERS OF JSC TATNEFT IN 2013



THE STABLE STRUCTURE OF JSC TATNEFT SHAREHOLDERS REFLECTS HIGH CONFIDENCE LEVEL OF THE KEY INVESTORS TO LONG-TERM DEVELOPMENT OF THE COMPANY

CORPORATE RESPONSIBILITY OF THE COMPANY ON THE STOCK MARKET



ENSURING THE INSIDER INFORMATION PROTECTION

The Company provides all the necessary procedures to protect the insider information by relevant internal regulatory documents, including the Rules of compliance monitoring on the insider information of JSC TATNEFT, the Practices governing access to the insider information and control rules of protection of its confidentiality based on the List of the information related to the insider information.

2,349 notifications of transactions with the Company's securities were received from the insiders during 2013.

INSIDER INFORMATION PROTECTION COMMITTEE

- CHAIRMAN**
Denis V. Tsovma, Deputy Head of Securities Office of the Property Department: person overseeing the implementation of the Law on the Prevention of Unlawful Use of Insider Information.
- MEMBERS OF THE COMMITTEE**
Valery D. Ershov, member of the Management Board, Head of Legal Department of JSC TATNEFT;
- Alexey P. Bespalov**, Head of the Information Technologies Department – Deputy Chief Engineer;
- Ildar A. Rakhmatullin**, Head of Internal Control Department;
- Rustam M. Khisamov**, Head of the Property Department Securities Office of JSC TATNEFT, PhD, Economics;
- Rimaz Sh. Yamilov**, Head of New Structures Office, Property Department of JSC TATNEFT;
- Vasily A. Mozgovoy**, Assistant to General Director of JSC TATNEFT, Corporate Finance;
- Petr A. Glushkov**, Head of International Law Office, Consolidated Statements Department;
- Rifdar R. Khamadyarov**, Head of Personnel Office.

CORPORATE MANAGEMENT STANDARDS

The most important component of the TATNEFT Company's corporate management is a system of uniform corporate standards aimed at ensuring the efficiency of business processes, their quality control, minimizing all types of corporate risks and generally maintaining transparent corporate relations between the parent Company, structural divisions, subsidiaries and affiliates.

The system of corporate standards includes 22 areas covering all components of the Company's activity, and applies to the parent Company, as well as its subsidiaries and affiliates.

The corporate standards are approved by General Director of JSC TATNEFT and registered under individual serial numbers in a special register. The register is updated annually. As of January 1, 2014 the register of corporate management standards included 77 entrees.

The current standards' performance is supported by taking appropriate management decisions and approval of additional regulations.

For the purpose of maintaining and developing a unified regulatory base of JSC TATNEFT there was a corporate information system of the unified regulatory base (KIS ERB) implemented. By the end of 2013 there were 2,024 internal regulatory documents and 35,584 external documents placed in the KIS ERB.

The major new corporate management standards of TATNEFT Group formed in 2013:

- Corporate management standard «On registration procedure of suppliers of goods (works, services) at JSC TATNEFT
- Tender regulations of for procurement of goods, works and services by the branch of JSC TATNEFT in Libya required for the implementation of agreements on exploration and production sharing between the National Oil Corporation of Libya and JSC TATNEFT
- Regulations of the contractual work organization at JSC TATNEFT n.a. V.D. Shashin
- Standard to ensure the performance efficiency of associated petroleum gas driven power generating plants at JSC TATNEFT

COMPANY’S INVESTMENT POLICY IN 2013

The investment activity of the Company is carried out in accordance with the development strategic plans and current priorities of decision of production and social tasks based on the principle of the maximum investment efficiency and increased profitability in each areas of the Company’s activity.

MAIN INVESTMENT PROJECTS OF 2013

Crude Oil Production Program

The actual performance of investments was 22% higher than the planned figure.

In order to enhance oil recovery the amount of RUR 637 million was invested in the technology of dual completion/operation and injection with development of various equipment modifications and combinations of installations.

The pilot project was continued at Ashalchinskoye natural bitumen field. Total investments for the project amounted to RUR 5.7 billion including RUR 2.8 billion in the reporting year.

There were projects implemented in the Company on the use of gas turbines to increase useful utilization of associated petroleum gas, as well as increase energy independence of production facilities at the expense of generating their own energy. The government support in the form of tax property tax exemptions was granted under these projects. In 2013, in the frame of associated petroleum gas utilization project the Company started to operate Capstone microturbine based power plants at four sites of JSC TATNEFT: UPS- 102k of Tat-Kandyzskoye oilfield, NGDU «Bavlyneft»; DNS-21 of Sokolkinskoye oilfield, NGDU «Elkhovneft»; GZNU-1331 of Yamashinskoye oilfield, NGDU «Yamashneft» and GZNU 206 Shegurchinskoye oilfield, NGDU «Yamashneft».

A strategic area for JSC TATNEFT is expansion of the resource base and crude oil production outside the Republic of Tatarstan. Assimilation of investment by companies and own areas of JSC TATNEFT, located outside the Russian Federation in the Republic of Tatarstan amounted to RUR 3.1 billion in 2013 with 70 % of this amount invested in drilling of production and exploration wells, 3% in capital construction, about 20% were spent for seismic exploration methods and case works under the field geological exploration program, while 4% of the amount were spent for geological production enhancement operations.

Construction of the TANECO Refining and Petrochemical Plants Complex in Nizhnekamsk

The investments in OJSC TANECO amounted to RUR 9.5 billion in 2013, including RUR 1.3 billion spent for engineering design, construction, commissioning and other works. RUR 8.2 billion was spent for acquisition of Phase 1B facilities. OJSC «TANECO» received the opinions of Rostekhnadzor of the Russian Federation on compliance with requirements and the following process facilities were commissioned: the visbreaking unit, combined sulfur recovery unit and sour gas flare.

During the reporting year, the construction projects management department carried out a significant amount of construction works at the hydrocracking installation site, completed delivery of basic technological equipment, including long lead items. Currently there are commissioning operations underway at the combined hydrocracking installation. The investments for the construction management department project totaled RUR 33.2 billion during 2013.

Reconstruction of Nizhnekamsk CHP with installation of Low-Grade Steam Turbines

Investments for reconstruction amounted to RUR 973 million in 2013. A significant amount of R&D and construction and installation works was performed. The infrastructure improvement of the new facility was completed, communications arrangement were made with laying new underground network. The works on sealing the main building were completed as well as the force plate and foundations for two new turbine units were also completed. Delivery of the turbine and generator for the first starting block was made.

Development of Petrochemical Complex

The amount of RUR 861 million was invested in 2013 for the development of the petrochemical complex. The project «Increasing the production of high-performance tires by 1.3 mln pieces per year» was completed at JSC «Nizhnekamskshina». This project is the first stage (stage 1A) of the project «Bringing production capacity to 18 million tires per year”. As a result of this project implementation the high-performance tires production volume will increase to 4.5 million tires per year. The project cost amounted to RUR 1.1 billion. The project «Modernization of carbon black production» is still underway at JSC “Nizhnekamsktekhuglerod». Implementation of the whole project will allow increasing the output volume to 134.0 thousand tons.

Glass Fiber and Glass Fiber Based Products Manufacturing

Implementation of the project is carried out on the basis of «PD Tatneft-Alabuga Steklovolokno» established by OOO «Tatneft-Aktiv» and German company PD Glasseiden GmbH Ochatz. In 2013, the company smelted 26.1 thousand tons of glass, produced 21.3 thousand tons of marketable products, including 54.2% of direct roving and multifilament yarn, 17.3% of the assembled roving, 13.7% - glass fiber mats, 4.1% - glass fiber mesh, 4.0% - roving fabrics and 6.7% - chopped glass fiber.

Retail Business Development

The JSC TATNEFT’s distribution infrastructure investment program amounted to RUR 1.3 billion. Sales of petroleum products in the Russian Federation for 2013 amounted to 1.59 million tons. 2013 witnessed commissioning of 18 filling stations, 1 automatic filling station, 7 automatic gas filling stations and 7 gas terminals at existing stations on the territory of the Russian Federation. In 2013, the works were continued on the implementation of energy saving technologies. Pellet boilers were installed at 36 filling stations.

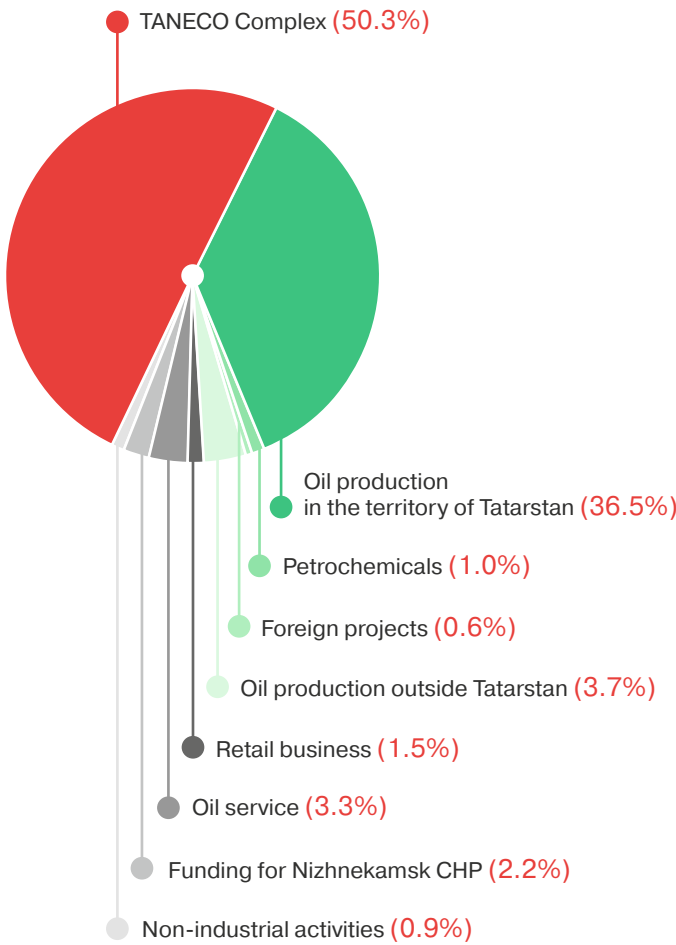
INVESTMENT PORTFOLIO STRUCTURE

In 2013, the total investment for the Group TATNEFT totaled RUR 84,813 million.

In accordance with the investment strategy of the Company:

- 50.3% of investments were sent to the construction of Refining and Petrochemical Complex in Nizhnekamsk;
- 39.8% of investments were sent to the maintenance and expansion of the production capacity in the oil fields of the Republic of Tatarstan;
- 4.3% of investments were sent to oil production outside the Republic of Tatarstan and Russia;
- 4.7% of investments were sent to the development of petrochemical complex, heat and power generation and retail business;
- 0.9% of investments were sent to social projects.

STRUCTURE OF INVESTMENT PORTFOLIO IN 2013 (%)



INVESTMENT COMMITTEE

The Investment Committee works under the leadership of the General Director of JSC TATNEFT and provides the procedures for the review, verification, risk assessment and decision-making on investment projects. According to the decision of the Investment Committee it appoints the leader, responsible for the effective execution of the project and the achievement of stated targets.

During the reporting year the Company’s investment committee reviewed more than 100 investment issues and assessed the results of 13 projects implementation.

MAIN FIELDS OF INVESTMENT ACTIVITIES IN 2013

NO.	DESCRIPTION	RUR MLN
1.	Investments into crude oil production in the territory of Tatarstan	30,937
	Drilling	12,996
	Capital construction	7,477
	Equipment not included in construction estimate-sheets	2,485
	Geological engineering activities	7,699
	Redemption of property, land, etc.	280
2.	Investments into crude oil production outside the Republic of Tatarstan	3,112
3.	Investments into construction of the Oil Refining and Petrochemical Complex in Nizhnekamsk	42,694
4.	Investments of the Petroleum Chemical Complex enterprises	861
5.	Investments into development of the retail business	1,303
6.	Investments of service companies and other enterprises	4,682
6.1	Funding for reconstruction of Nizhnekamsk CHP (net of VAT)	1,837
7.	Financing of the foreign projects	470
8.	Investments into development of the social area	754
TOTAL for the Company		84,813

FINANCIAL MANAGEMENT

The corporate policy priorities in financial management have to ensure financing of production, investment, and social activities of the Company and the effective use of financial resources.

All obligations to pay for works and services for the delivered products, payment of taxes and payments to non-budgetary funds were performed by JSC TATNEFT in full and in a timely manner. Activities of the Company in 2013 were carried out under conditions of considerable instability expressed by drastic fluctuations in oil prices and changes in the national currency exchange rate.

In 2013 JSC TATNEFT placed temporarily idle funds in the financial market. When placing the funds the Company prefers reliability, so investments are made only in the largest banks. Such placements resulted in the income from deposits and other placements in the amount of RUR 2.3 billion.

The work to reduce rates on loans raised, reduction of loans debt level, optimal placement of temporarily free funds, flexible policy of short-term debt management allowed the interest income exceed the interest expense by the results of work in 2013.

In 2013, the Company operated in the mode of repayment loans raised earlier. As a result, the debt was decreased by USD 522.4 million and three-year exchange bonds were promptly repaid in the amount of RUR 5.0 billion.

Taking into account the uneven nature of revenues and expenses during the month the Company, when it necessary to cover cash gaps uses short-term loan mechanism (1 to 30 days) with SDBO (e-banking system) with VTB Bank, Unicredit, Bank of Moscow, Rosbank and ZENIT Banking Group. In 2013, this group also included Sberbank with a limit of RUR 20 billion, while VTB increased the amount of the limit from RUR 10 to 20 billion and the period from 30 days to 1 year. A contract was concluded with the Agricultural Bank. Such a wide choice range of banks allows obtaining short financing at the best rates.

In November 2013, the Moody’s Investor Services rating agency announced that it upgraded the corporate group rating and the default probability of JSC TATNEFT n.a. V.D. Shashin to “Baa3” investment grade, forecast - “stable”. It was for the first time in history that JSC TATNEFT n.a. V.D. Shashin received an investment grade rating from a leading rating agency.

To prevent diversion of funds the Company actively uses bank guarantees for excise tax payments to the budget. During the year, the cost of providing guarantees was reduced from 0.15% to 0.12%.

To solve the problem of funds shortage the Financial Department carried out a large amount of work on optimizing payments to counterparties. This will be continued in future. In view of reducing distractions from the Company’s turnover and accelerating settlements with permanent counterparties reciprocal obligations are redeemed through the Mutual Claims Set-Off Center (MCSC).

BUDGET PLANNING SYSTEM
BUDGET ALLOCATION BY CCAS
(CENTERS OF CONTROL AND ACCOUNTABILITY)
Great importance is attached to improving the methodological framework. In order to improve the management of the Company’s cash flows new documents have developed and amendments have been introduce into the existing regulatory documentation.

The JSC TATNEFT's balanced budget of payment means movement was executed in 2013. The budget funds of the Company are planned and distributed between 13 Control and Accountability Centers. Each CCA is guided by a Deputy General Director or Head of Department for respective activity, which provides operative financial management and responsibility for purposeful and effective use of funds.

ALLOCATION OF THE COMPANY'S COSTS BY CENTERS OF CONTROL AND ACCOUNTABILITY (2012-2013)

NO.	CCA	ADMINISTRATOR	AREAS OF FUNDS SPENDING	2012,%	2013,%
1.	URNiN (Oil and Oil Products Sales Department)	Head of URNiN (Oil and Oil Products Sales Department)	Business expenses related to sale of oil, petroleum products, gas products and petrochemical products; funding of the investment program for development of selling infrastructure	42	42
2.	Service of Deputy General Director, Economics	Deputy General Director, Economics	Expenses for salaries; travel allowance; expenses for introduction of SAP R/3 and other information systems; expenses from profit	2	2
3.	Financial Department	Head of Financial Department	Repayment of credits and interests on credits, granting of loans, redemption of own bills, commissions of banks, expenses for investment activity (in terms of financing construction and revamping of the Petrochemical Complex, foreign projects and projects outside the Republic of Tatarstan), payments for services of monopolists in the power sector and other services	15	14
4.	Accounting & Reporting Department	Head of Accounting and Reporting Department – Chief Accountant	Tax payments	19	19
5.	Production Department	Head of Production Department	Expenses for the main production (in terms of capital repair of other fixed assets and services of production nature); other production payments (in terms of communication services, software, rational proposals and inventions, participation in exhibitions, etc.); research and development; ecological payments	3	4
6.	Capital Construction Department	Deputy General Director for Capital Construction	Expenses for capital construction of production and non-production facilities, capital repair, liquidation of facilities, landfill operations for temporary access roads, water lines and power lines (during drilling)	2	2
7.	Service of Logistics and Transport	Deputy General Director for General Issues	Purchase of materials and equipment; payment for transport services, maintenance of roads and roadsides	2	2
8.	Service of Chief Geologist	Deputy General Director – Chief Geologist	Geophysical services and hydrodynamic survey of wells, topographic and geodetic works, scientific and technical services and exploration works	1	1
9.	Property Department	Deputy General Director, Head of Property Department	Expenses for property matters, lease payments, securities servicing, participation in other organizations: contributions to authorized capitals of third companies, acquisition of shares	4	4
10.	Service of Deputy General Director for HR and Social Development	Deputy General Director for HR and Social Development	Expenses for social area issues and HR, expenses for mass media, image of the Company, advertizing	1	1
11.	Reserve of General Director	General Director	Distributed between other Centers of Control and Accountability acc. to the results of actual application of budget funds	1	1
12.	Structural Divisions	Managers of Structural Divisions	Decentralized expenses for current activities of structural divisions	5	4
13.	Service of Deputy General Director for Well Workover, Drilling and EOR	R.M. Rakhmanov, Deputy General Director for Well Workover, Drilling and EOR	Expenses for well workover and drilling and oil recovery enhancement, production services during well workover	3	4
				100	100

ASSETS MANAGEMENT

Formation of the Company's assets structure is made in accordance with the Company's development strategy in its capacity as a vertically integrated oil and heat/power generating holding with the priorities of consolidating production assets (expansion of the resource base), crude oil refining, petrochemical production and heat/power generating capacities.

There is a unified corporate center functioning in the Company to consolidate the assets and manage the property within the Property Department of JSC TATNEFT, which ensures the functions of maintaining records, legal protection and control of movable and immovable property.

Ownership of registered immovable property was registered for 464 items amounting to RUR 8.1 billion in 2013.

In accordance with the corporate program of increasing the efficiency of the Company's assets package the structural divisions sold (including deferred payment deals) unclaimed property valued at RUR 690 million in the reporting year.

Selling of little used and non-used property provides for additional cash flow, helps reducing the cost of maintaining the property complex, and as a result reduces the production cost of products sold by JSC TATNEFT.

JSC TATNEFT has built a single, integral, flexible lease relations system that allows responding to the changing dynamics of the rent payments taking into account the economic situation and solvency of entities taking the property on lease. The rent payments in the amount of RUR 1.15 billion were received in 2013.

INTANGIBLE ASSETS, INTELLECTUAL PROPERTY
Intangible Assets Management System

As part of long-term corporate priorities for managing intangible assets and intellectual property of JSC TATNEFT the work was continued in the reporting year on the procedures for commercialization of intellectual property items, a commercial portfolio of the JSC TATNEFT's intellectual property and the most promising patents was built up to identify opportunities for their promotion on the Russian and international markets. During the period since 2004 the share of intangible assets in the currency balance sheet of the Company doubled.

The inventory of inventions and utility models useful service life, which are on the balance of the JSC TATNEFT's structural divisions is annually made according to the provisions of the accounting standard (PBU 14/2007) in order to optimize and reduce costs in the production area. Revision of useful service life and depreciation rates of intangible assets is related to the duration of the future profits receiving period and increasing the profitability of JSC TATNEFT in general.

To ensure efficient use of the intellectual property items the Company maintains on an ongoing basis a single register of intangible assets, the basis of which are technological assets that are essential for current operations.

Over
5,000
intellectual property items
are in the register of intangible
assets of the Company as
of the end of 2013

Being a high-tech company, JSC TATNEFT provides its research and development works and production technologies to outside companies on a commercial basis, and also makes the contribution of intangible assets to the authorized capital of the newly established enterprises.

The work was continued in 2013 on the management of the Company's trademark, as one of the property assets involved in production activities (crude oil production, processing, sale, promotion of technologies) that provide for additional income and strengthens the image of the Company. The major component of the program is the management the corporate brand (trademark) of TATNEFT registered in all areas of the Company's activity, including registration under the Madrid Agreement, and it is included in the international ranking of the most expensive brands. The program of strengthening the TATNEFT corporate brand is aimed at increasing its market value. As a result of this work TATNEFT brand joined the top 10 most valuable brands in the Russian rating of 2013 published by the International Agency, which is an authoritative expert in the management and evaluation of brands. The TATNEFT brand value was RUR 53.8 billion (RUR 17.6 billion in 2006).

2013 witnessed completion of the work to create a single intellectual property register of the JSC TATNEFT's subsidiaries.

The Unified Intellectual Property Register of TATNEFT Group is designed to consolidate intellectual property data at the disposal of the subsidiaries and affiliates of JSC TATNEFT, created and registered objects, their current use and the economic effect. Application of the unified register will allow the Company to handle the intellectual property in the most efficient way through intensive involvement in the internal economic turnover, as well as through its commercialization. The greater part of the TATNEFT Group intellectual property refers to segments of crude oil production, refining and related activities and is subject to protection under the patent law, copyright and confidentiality provisions (commercial confidentiality).

In the course of forming the unified intellectual property register of TATNEFT Group specifically selected items potentially attractive in terms of commercialization, i.e. possibility of rights transfer for their use. Their number amounted to 43% of the total number of scientific/technical activity results.

11,635 rationalization proposals, inventions, utility models were put into production in 2013 with the economic effect of introducing the inventions, utility models and rationalization proposals amounting to RUR 5,665.1 million and 200 patent applications were filed for inventions.

The Company carries out extensive work to ensure availability of advanced methods and equipment for the overall production, as well as high-performance information technologies of the Companies management and control processes. The company resorts to the world's best practices in technologies area, but the Company also is a supplier of technological services with high market demand for.

The corporate TatNIPlneft based Research Center is one of the most competent in the industry. The Company develops its own base of intangible assets, which include advanced technologies and know-how to strengthen the production/technology and information platforms of the Company and qualitatively involved in shaping the Company's value.

CORPORATE CONTROL
AND INTERNAL AUDIT

The operational system of the internal control audit of the Company provides for submission of independent and objective information aimed at improving economic activity to the Board of Directors and the Executive Directorate. The internal audit function helps achieving targets through application of a systematic and consistent approach to evaluating and improving the effectiveness of the risks management, control and the corporate management systems.

The audit is performed within the frame of the annual plan approved by the Board of Directors.

The internal control system for operational effectiveness of processes, legal compliance and property security are focus areas of the audit. The audit is performed based on the risk-oriented approach. Report on results of the internal audit is directed to the Company's management and to the Audit Committee.

Further on the Internal Audit Department monitors performance of all measures and informs the Company's management and the Audit Committee on the progress of revealed shortcomings elimination.

- Main functions of the internal audit are as follows:
- Evaluating the effectiveness of the internal control and the corporate management systems;
 - Advising the management of the Company on internal control, risk management and corporate management.
 - Evaluating the effectiveness of control over the completeness and authenticity of financial and managerial information.
 - Evaluating abidance by internal policies and procedures of the Company, as well as the ones of the legislation.
 - Elaboration of recommendations for improving the systems of internal control, risk management and corporate management.
 - Monitoring implementation of measures (corrective steps) elaborated by the management on the basis of the audit results.

11 audits were performed in 2013 as scheduled. In addition to this, as per the orders of the Company's management, 15 non-planned internal audits were carried out on various aspects of financial and economic activities.

In 2013, monitoring of the planned events execution was performed on the audit results of 2009-2013. The information on the implementation of the action plan was presented to the Audit Committee.

PROGRAM OF INCREASING PRODUCTION MANAGEMENT EFFICIENCY AND STRENGTHENING OF JSC TATNEFT FINANCIAL AND ECONOMIC STATUS FOR THE PERIOD OF 2008-2015

DESCRIPTION	RESULTS OF 2013
1. SOLVING THE TASK OF CRUDE OIL PRODUCTION INCREASE AND RESERVES STOCK GROWTH WAS ACHIEVED THROUGH THE FOLLOWING ACTIVITIES	
Maintaining the achieved crude oil production level	Volume of crude oil produced by JSC TATNEFT in 2013 amounted to 26,107 thousand tons accounting for an increase in the amount of 102 thousand tons versus the level of 2012.
Maintaining the annual meterage drilled	Volume of production and exploration drilling amounted to 450.1 thousand meters.
Geological survey and field development in new territories outside the Republic of Tatarstan	Volumes of crude oil production from deposits outside the Republic of Tatarstan in the Russian Federation amounted to 312 thousand tons in 2013, which was 3.4% above the level of 2012. 18 new wells were drilled. Crude oil production from new wells amounted to 410.8 thousand tons.
Production of bituminous oil (development of extra-viscous oil fields)	The amount of 145.6 thousand tons of extra-viscous oil was produced from Ashalchinskoye field in 2012. Total production rate for the area amounted to 480 tons of oil per day by the end of 2013. 325.7 thousand tons of oil were produced from the beginning of the pilot field development operations.
2. IMPLEMENTATION OF THE COMPLEX PROGRAM TO FURTHER INCREASE ASSOCIATED PETROLEUM GAS UTILIZATION	
Engineering design of associated petroleum gas gathering and utilization facilities	The volume of associated petroleum gas in the reporting period amounted to 865 million cubic meters.
Reconstruction of the Minnibaev Gas Refinery for the purpose of increasing the ethane production to 140 thousand tons per year	According to the «Action Program» of JSC TATNEFT for utilization of associated petroleum gas in 2009-2013» the following projects were implemented: <ul style="list-style-type: none">• putting in operation crude oil heating furnaces operated with associated petroleum gas at Bastryk and Novo-Suksinskaya crude oil treatment.• construction of gas engine generator plant at the Yelabuga crude oil treatment plant of NGDU Prikamneft.• reconstruction of Minibaev sulfur removal unit for expanding gas purification capacity• construction of the associated petroleum gas gathering system from the facilities of NGDU Almeteyevneft and NGDU Aznakaevskneft and NGDU Bavlyneft.
3. DEVELOPMENT AND APPLICATION OF NEW EQUIPMENT AND TECHNOLOGIES IN DRILLING AND CRUDE OIL PRODUCTION	
Drilling of horizontal wells, downhole splitters, side tracking jobs with drilling of laterals and horizontal wellbores, drilling of slim hole wells	266 new production wells were commissioned with an average rate of 9.3 tons/day. 73 side tracking jobs and horizontal wellbore side tracking jobs were performed with the average production rate amounting to 7.4 tons per day. 38 slim holes with an average production rate of 6.2 tons per day were drilled. 59 horizontal and 12 multilateral wells were commissioned. 16 horizontal wells were drilled in the target horizons «D0» and «D1A» with an average rate of 11.3 tons per day. 103 water/oil swellable TAM packers were installed in 68 wells.
Implementation of sucker-rod pumps chain drives and implementation of dual production of two and more layers system, implementation of M1-X packers, etc.	Well stock equipped with chain drives amounted to 1,786 wells as of the end of 2013. Over 1,900 wells are equipped with dual production systems. Additional oil production from the beginning of dual completion, production and injection units operation amounted to 7.7 million tons, the average increase in oil production per 1 well achieved 4.4 tons per day resulting from dual completion production/injection, and 1.9 tons per day resulting from dual injection. M1-X packers were installed in more than 4,000 injection wells. Hydraulic fracturing operations were performed in 605 wells. 20 hydraulic fracturing operations were performed at new wells just after drilling. 274 operations were performed using the new hydrofracking fleet. Resulting production rate increase from hydrofracking operations amounted to 4.9 tons per day. Well MTBF index reached 1,198 days.
4. STRATEGY OF MANAGING VERTICAL INTEGRATION AND DEVELOPMENT OF CRUDE OIL REFINING AND JSC TATNEFT'S FILLING STATIONS NETWORK	
Construction of the Refining and Petrochemical Plants Complex	The amount of 7.6 million tons of crude oil was refined at TANECO. The refining depth amounted to 73.5%, which is higher than the average all-Russia value (71.5 %).
Development of the filling stations network	Total number of filling stations amounted to 648 units.

DESCRIPTION	RESULTS OF 2013
5. PETROCHEMICALS PRODUCTION DEVELOPMENT PROGRAM	
Organization of the tire production	Total output is 12.5 million tires, including SSC tires – 653.7 thousand pieces. The production of 39 tire models were developed and accepted for serial production.
Carbon black production	Output of carbon black is 108.9 thousand tons, 14 grades.
6. INTRODUCTION OF INFORMATION TECHNOLOGIES	
Improvement of the integrated control system on the basis of SAP products	The following SAP product based systems were put into commercial operation in 2013: <ul style="list-style-type: none">• system of planning, adjusting and monitoring expenditures of JSC TATNEFT in all structural divisions;• program of structural divisions switchover to the integrated SAP system was completed as part of the TATNEFT's consolidated accounting statements system formation;• use of the electronic digital signature technology in the electronic system of planning applications for payment. Put to pilot operation: <ul style="list-style-type: none">• Generation of JSC TATNEFT's consolidated financial statements;• «Investment Management» system by activity areas;• TATNEFT's subsystem of projects monitoring and analysis for capital construction.
Development of the motor transport navigation system	Over 8.6 thousand motor transport vehicles were equipped with the satellite navigation system. Implementation of the navigation system on the motor transport provided for reducing the number of groundless machinery orders and reducing the average daily machinery run by 9%.
7. RESOURCE SAVING PROGRAM	
«Energy saving» program	Fulfillment of the “Energy saving program” in 2013 allowed saving about 56 thousand tons of reference fuel. Capstone microturbine plants operated with APG generated over 29 million kWh electricity.
Optimization of the electricity payment expenses resulting from switchover to hourly planning	Economic effect resulting from implementation of the hourly planning system for a day ahead amounted to RUR 385 million in 2013.
Implementation of corrosion-resistant tubing	Corrosion protected tubing with polymer coating was installed in 382 injection wells in 2013. Corrosion protection of injection wells since the tubing protection program start was implemented in 6,656 injection wells. Protection of the active well stock operating with effluent water reached the level of 87.4%.
8. ENVIRONMENTAL SAFETY	
Air protection	Emissions of harmful (polluting) substances into the air are within admissible limits.
Protection and rational use of land and water resources, conservation of mineral resources	923.9 km of corrosion protected pipes were manufactured. 25.9 thousand m2 of the vertical tanks and horizontal settlers internal surface were protected with application of paint and varnish. Casing string cathode protection was applied in 986 wells. The environment condition in the areas of new deposits development is consistently maintained at the standard acceptable level.
9. CAPITALIZATION INCREASE AND STRENGTHENING OF THE TRADEMARK	
Capitalization increase and strengthening of the trademark	The Company's market capitalization amounted to RUR 471.6 billion by the results of 2013. According to the Interbrand International Agency TATNEFT joined the TOP-10 most expensive brands. The Company's brand value amounted to RUR 53.8 billion.
10. INVESTMENT BUSINESS PROJECTS	
Implementation of projects in OEZ “Alabuga”.	The joint Russian-German venture “P-D TATNEFT-Alabuga Steklovolokno” produced 26.1 thousand tons of liquid glass melts, which was 12% above the level of 2012. 21.3 thousand tons of commercial products were produced.
Expertise of individual design and construction documents for well drilling and construction	Since 2012 the transition has been made to the contractual pricing of well construction on the basis of individual cost estimates for all areas. Such a transition allowed making settlements with drilling companies at a fixed price.
11. SOCIAL DEVELOPMENT PROGRAM	
Program of mortgage crediting	638 apartments with total area of 45.25 thousand square meters were built under the mortgage crediting system for the employees of TATNEFT Group of Companies in 2013.
Implementation of social projects	The seventh stage of the ponds cascade was commissioned in Almeteyvsk and a new school n.a. the 70th anniversary of oil in Tatarstan was opened in Almeteyvsk in 2013, as well a kindergarten and a «Tennis Hall» sports complex in Lenínogorsk. Water tower was built and water lines were repaired in Almeteyvsk and Lenínogorsk areas.

ENERGY AND RESOURCE EFFICIENCY PROGRAM OF JSC TATNEFT FOR THE PERIOD TILL 2020

JSC TATNEFT attaches particular importance to resource saving. In order to reduce production costs and, accordingly, the product cost, improve competitiveness in the situation of permanently escalating tariffs of natural monopolies (for energy resources, transport services) and increase hydrocarbon production costs resulting from complicating subsurface usage conditions the Company is taking integrated efforts to create a maximum allowance savings in all business areas, including energy conservation.

In 2011 the Company started the third phase execution of the resource saving program, which involved 25 entities of the TATNEFT Production Group of Companies. The main objective of the program is to reduce the absolute consumption of energy resources through the implementation of program activities by at least 7.4 % in the first stage (2015) and by 13.5% in the second stage (2020) versus 2007. In accordance with the approved resource conservation program there were 594 activities executed during the period considered with 232 of them aimed at saving electric energy. Implementation of the resource conservation program activities resulted saving more than 55,600 tons of reference fuel in 2013, which accounted for 4.9 % reduction in the Company's need for fuel and energy resources. The major part of the energy resources savings falls on the electric power consumption savings.

The savings from measures aimed at reducing the consumption and rational use of material and natural resources amounted to RUR 4.7 billion in 2013. These funds were spent for compensation of additional costs associated with maintaining economic Company's crude oil production under the conditions of high fields' depletion. Successful performance of TATNEFT Company in the field of resource saving and environment protection were distinguished by multiple awards of Republican «Resource Efficiency. Energy Saving» and «ECOleader» contests.

594
ACTIVITIES

were executed in accordance with the resource conservation program from 2011, among them

232
ACTIVITIES

aimed at saving electric energy

LOGISTICS AND PROCUREMENT DEPARTMENT (MTO)

The Logistics and Procurement Department to support production operates on the principles of transparency and maximum efficiency. In 2013, the Group continued centralization and further development of the consignment warehouses network, implementation of the Electronic Store project, and automation of procurement and supply processes.

CONSIGNMENT WAREHOUSING

Smooth logistics for the Companies and service entities is provided through consignment warehouses.

JSC TATNEFT operates 63 consignment warehouses. The volume of inventory items (inventory holdings) sales through consignment warehouses amounted to RUR 2,485 million in 2013 (2,315 million in 2012).

The inventory holdings cost at the Tatneftesnab storage remaining in the ownership of the consignee until the delivery of goods to a structural unit amounted to RUR 270 million in the reporting year (RUR 233 million in 2012), which prevented diversion of working capital for creation and storage of the Company's own reserves for this amount.

ELECTRONIC TRADING PLATFORM

In order to improve procurement activities of the TATNEFT Group of Companies, a complex electronic trading platform has been in operation since December 2009. Performance of procurement in the electronic form allows complying with fundamental principles of openness, transparency and equal competitive opportunities for suppliers, and selecting the winner for the best combined performance (quality, delivery terms and price). Starting from the second half of 2010, virtually all service subsidiaries of the TATNEFT Group of Companies carried out competitive bidding procedures through the electronic trading platform in terms of procurement. In future, the electronic trading platform will integrate all enterprises of the TATNEFT Group of Companies.

The Procurement and Logistics Department held 1,897 two-stage procurement procedures for a total of RUR 9,486 million in 2013 (1,508 procedures for RUR 8,779 in 2012). The first stage was the request for quotations, while the second stage was the auction for price reduction among participants who put the price on the whole lot. 1,237 auctions were held successfully for the amount of RUR 4,409 million (865 procedures for RUR 3,660 million in 2012) with additional savings on the price determined at the first stage in the amount of RUR 285.8 million (RUR 231 million in 2012).

During 2013 the Company's subsidiaries and oil service enterprises performed 2,678 procurement procedures in the amount of RUR 6,858 million (1,750 procedures for RUR 3,760 in 2012).

E-STORE

The fundamental solution for the Company's logistics management was establishment of the E-Store, which is a tool of implementing the corporate technological policy in organizing procurement within the allocated budgets and funding in accordance with the supply calendar.

More than 80,000 applications (goods' items) were placed through the E-Store from the structural divisions of the Company, its subsidiaries and affiliated companies in 2013.

CENTRALIZED SHIPMENT

The inventory worth RUR 19.5 billion (RUR 18.4 billion in 2012) was shipped according to the scheme of centralization in 2013, which was 6% more than in 2012.

The share of transport costs for centralized delivery in the cost of goods was reduced from 1.11% to 1.06%.

TRADE & TECHNICAL HOUSE OF JSC TATNEFT

The Company sells its production for external consumers via the TATNEFT Trade and Technical House. In 2013, these sales amounted to RUR 2,423 million, which was RUR 807 million more than in 2012.

Out of the total sales volume external companies purchased inventory for RUR 1,705 million (RUR 1,073 million in 2012), whereas "internal" group deliveries accounted for RUR 718 million (RUR 543 million in 2012).

- In the bulk sales structure the main areas were as follows:
- Pipes for various purposes: in the amount of RUR 804 million (RUR 421 million in 2012);
 - Chain drives: in the amount of RUR 378 million (RUR 382 million in 2012);
 - Oilfield equipment: in the amount of RUR 929 million (RUR 382 million in 2012);
 - Other products: in the amount of RUR 312 million.

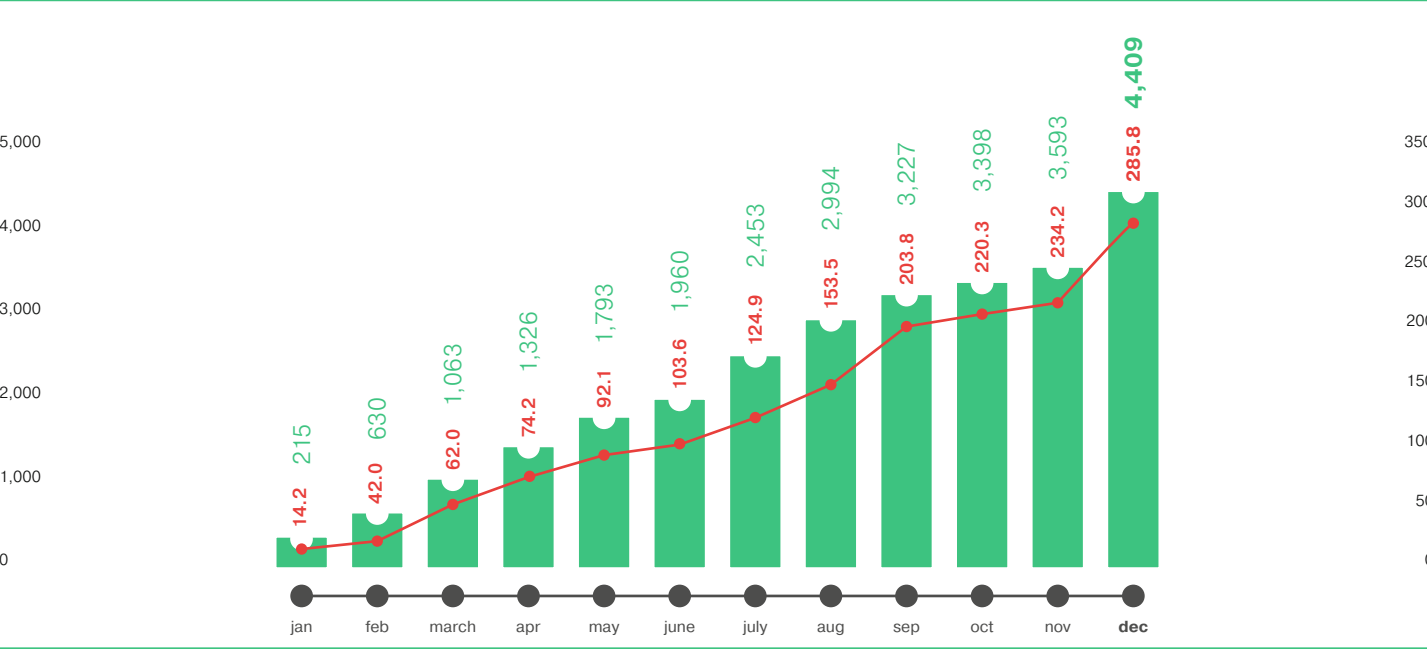
TATNEFTESNAB ADMINISTRATION

In 2013, it concluded more than 4.34 thousand of contracts and specifications in the amount of RUR 25.7 billion.

42 % of all orders were placed in the enterprises of the Republic of Tatarstan.

During 2013, work was conducted on the operational performance of the contract terms. Tatneftesnab Administration brought 422 claims against contractors for non-compliance with contractual obligations in the amount of RUR 1,802 million. RUR 1,536 million worth of products was collected or delivered as a result of the claiming procedure (including the remaining claims as of January 01.2014).

ACCUMULATED DYNAMICS OF VOLUMESPRESENTED FOR TENDERS AND EFFECT FROM ADDITIONAL REDUCTION (RUR MILLION)



RISK MANAGEMENT

There is an integrated system of risk management operating in the Company based on the analysis and evaluation of possible factors that could affect indicators of production, financial and economic activities of JSC TATNEFT and the Group’s enterprises, as well as cause direct or indirect impact on the current activity and/or strategic plans of the Company. The risk management also includes control over compliance with uniform corporate standards regulating the main processes of production and financial and economic activity of JSC TATNEFT and the Group’s enterprises

The corporate risk management system is designed to identify potential risks in order to take prompt measures to eliminate or minimize them, which allows adjusting business planning, investment activity and social policy of the Company. External, as well as internal factors are taken into account, when analyzing the risks. The internal corporate factors include management, production, HR, social, environmental and other aspects.

The external factors include market, industry, socio-economic, political, financial, as well as competitive and other environment of the Company, its subsidiaries and affiliates activity

INDUSTRY RISKS

The Company has a comprehensive program of measures to overcome adverse situations related to industry risks. This program provides for continuous monitoring, analysis and forecasting of oil prices with an appropriate adjustment of the strategic development plans, as well as it contains a range of technical and organizational measures that minimize the impact of technical and environmental risks.

Risk of oil and oil products prices:

Revenues, profitability and future growth rates largely depend on existing prices for crude petroleum products. In the past year, oil prices varied widely with respect to changes of many factors. The factors causing this swing in particular include:

- international and regional supply and demand (as well as expectations about future supply and demand) for oil and petroleum products;
- uncertainty of the market;
- weather conditions;
- macroeconomic policy;
- international and regional economic situation;
- national and foreign governmental regulation;
- prices and availability of alternative fuels;
- prices and availability of new technologies;
- ability of members of the Organization of Petroleum Exporting Countries (OPEC) and other oil-producing countries to establish and maintain certain levels of crude oil production and prices;
- political and economic developments in the oil producing regions and in particular in the Middle East;
- normative acts and actions of the governments of Russia and other countries and international organizations, including export restrictions and taxes;

Technical risks:

Exploration, development and equipping of new fields, maintenance of existing wells operational condition, drilling of new wells, as well as oil transportation are a very complex and capital-intensive processes. Enhanced oil recovery also requires additional investments. In the future, as the depletion of the old fields grows, the role of special methods of oil recovery will increase. Accordingly, the cost of the fields' development material and technical base the will also increase. The Company’s capability to maintain and increase crude oil production in the license areas are is dependent on the access to the technologies of oil recovery and technologies of enhanced oil recovery as well as success in their application. There is a Tatar Research and Design Institute of Oil (TatNIPIneft) in the composition of the Company, which is one of the leading scientific centers of Russia in the field of prospecting and exploration, technology development for oil and gas exploration, production, oil treatment, oil facilities protection against corrosion, design and construction of oil fields, as well as construction of wells. TatNIPIneft activity allows the Company maintaining and strengthening the Company’s technological potential in the field of crude oil production.

Environmental Risks:

The oil and gas sector of the economy is subject to a high degree of environmental risks. Even when operating under current environmental standards of the Russian Federation and the Republic of Tatarstan there is a risk of penalties due to their violation. In addition, there is a risk of possible revision of the federal and regional environmental standards in the direction of further tightening.

The Company has a comprehensive program of measures to overcome adverse situations related to industry risks. The Company successfully implements a set of environmental measures aimed at minimizing the impact of industrial activity on the environment, and is one of the recognized leaders in Russia in this area.

COUNTRY AND REGIONAL RISKS

The Company has been registered as a taxpayer and conducts its main business activity in the Russian Federation.

The main production assets of the Company are located in and the main production activities are carried out in the territory of the Republic of Tatarstan, which is a constituent of the Russian Federation.

The political situation in the Russian Federation and the Republic of Tatarstan in particular is stable.

The risks of a possible military conflict, a state of emergency or a major strike in the region of the Company are rated as low. At the same time, the Company approved procedures that may be applied in the case of an emergency to reduce the impact of this situation on the life, health and safety of workers as well as the production activity of the Company.

Geographical features of the region, major activities of the Company are not characterized by increased risk of natural disasters, which may have a significant impact on normal production activities. In planning and execution of production, treatment, transportation and storage of crude oil and gas production, oil and gas products, as well as the materials involved in the production thereof, the Company takes into account geographical, including climate, specifics in the region of activity. In case of a negative impact on the activities of the Company, which may be caused by natural disasters, such as floods, earthquakes, mudslides, etc., the Company approved procedures and policies aimed at the prompt remedy of such effects. The Company has established procedures for monitoring with the use of modern technologies to prevent the possibility of adverse effects of natural phenomena and to inform people of the Company’s region of activity about the possibility of such damages.

The Company’s region of core business is not remote from the viewpoint of transport and other infrastructure.

FINANCIAL RISKS

Significant changes of the foreign currency exchange rates affect the Company’s liabilities denominated in such foreign currency. Significant fluctuations in the foreign currency exchange rates may cause changes, including unfavorable ones, in the Company’s liquidity ratio.

The macroeconomic situation deterioration and the increase in interest rates may result in changing the value of the Company’s interest expense on debt obligations. In particular, in the case of borrowings in the form of bank loans with a «floating» interest the rate rise in the general level of interest rates at the international market will increase the amount of funds to be paid as the interest that will adversely affect the Company’s financial standing. Reduction of the interest rates, ceteris paribus, may reduce the effectiveness of the Company’s current borrowings at a fixed interest rate. The Company continuously monitors the macroeconomic situation and takes necessary decisions to reduce the adverse macroeconomic developments impact on the Company’s activity and financial standing.

Currency Risk:

The Company is exposed to risks of adverse changes in exchange rates, the main of which is the strengthening of the ruble fluctuation against the U.S. dollar. This is due to the fact that a significant share of the Company’s revenues is denominated in U.S. dollars, while most of its expenses are denominated in RUR. Therefore, strengthening of the ruble against the dollar leads to a decrease in revenues of the Company in ruble terms, while the RUR weakening with maintaining other macroeconomic parameters, implies an increase in revenues in ruble terms.

As a whole the Company’s currency ineptness structure reflects the structure of the Company’s revenues, which also reduces the dependence on the currency fluctuations.

Effects of Inflation:

The current inflation rate has no significant effect on the financial position of the Company. In line with predicted inflation, it should not have a material impact on the solvency of the Company, in particular, payments on the securities.

It is not possible to predict the critical rate of inflation for the Company since in addition to the consumer price level it is necessary to take into account changes in the real purchasing power of the ruble, the situation on the Russian and international oil markets and future government policy on tariffs.

In recent years, the prices of crude oil and petroleum products used to remain continuously high. Prices for crude oil and petroleum products may not further increase and even might decrease. Falling prices for oil and peroleum products could adversely affect the results of operations and financial condition of the Company. Falling prices may lead to a decrease in the volume of commercial oil produced by the Company, which will lead to a decrease in the effective development of the Company’s reserves and will reduce the cost-effectiveness of exploration programs.

It should be noted that at the moment, in the opinion of the Company, a significant deterioration of the situation in the industry is not expected, given the stable level of oil consumption and the lack of alternative fuel sources on a mid-term horizon that could replace crue oil and petroleum products to any significant extent. Therefore, the effect of possible deterioration of the situation in the industry on the financial statements of the Company and the fulfillment of obligations under the Company’s securities is unlikely.

LEGAL RISKS

The main activities of TATNEFT Group are performed within the Russian Federation. The legislation of the Russian Federation (including tax, corporate and use of natural resources) is undergoing changes, some of which may cause additional costs, diversion of resources, changes in the procedure of the Company’s and its divisions’ managing bodies formation and functioning. Responsible services of the Company carry out continuous monitoring of changes in the legislation, and take steps to comply with regulations and requirements, as well as take part in the consultative councils and other associations on legislative changes affecting the operations of TATNEFT Group of Companies. The Company is not a defendant in any action or claims, which proceedings could cause the Company to incur liability, which could have a material impact on the Company’s financial position or performance

INFORMATION TECHNOLOGY
MANAGEMENT

The strategy of JSC TATNEFT in field of IT is aimed at creating competitive advantages of the Company in the production, sales, administrative, economic, social and other Company’s activities.

As of today there are information systems at JSC TATNEFT provided for virtually at all levels and stages of production, starting with automation systems at the level of a crew and production shop to the Company’s corporate top management level. The existing complexes have been integrated into a unified information space.

The information systems provide for real time recording, acquisition and analysis of tens of thousands readings, including information for decision making at the highest level, as well as generation of accounting documents. Information/analytical and situational centers have been created to provide for such working conditions, having in its composition competitive telecommunications, high-quality information display facilities, multiple integrated data sources: from the remote control systems to analytical systems. Such centers have been established under the motto: Accurate information at the right time in the right place and in a convenient format.

The information technologies development level at JSC TATNEFT and the business maturity level allow speaking about an «intellectual field». Attributes of such a field include sufficient automation of oilfield equipment, real time acquisition and delivery of telemetry data, as well as complex of automated systems to maintain control over the field development based on monitoring key indicators and manage field development processes. The «intellectual field» development is always based on the ongoing hydrodynamic model.

Currently, there is a unique large-scale software and hardware solution applied at TATNEFT Group of Companies that provide for satellite technology based system of transport movement control. The problem was solved within this solution of monitoring the path, speed, mileage of vehicles.

The expert-analytical system based on the data analysis of the satellite monitoring system, geographic information systems, waybill data and the video surveillance system allowed solving the problem of misusing electronic fuel cards.

The information community and the current dynamics of business lead to hyper-growth of data volumes that are very difficult to process. Thousands of patents and hundreds of pilot projects lead to knowledge acquisition. The Company has started a project of generating a knowledge bank implementing the concept of «from data to knowledge».

CORPORATE INFORMATION SYSTEMS IN ENSURING
PRODUCTION AND MANAGEMENT SYSTEM:

Information Analysis Portal of Well Construction

The system ensures a single information space providing for consolidation of data required in the process of wells construction from different information systems used in production activities for the well construction ordering customer. The data provided from the corporate information and telemetry systems allow the monitoring of the well drilling process general parameters, drilling direction control (geonavigation), control of technological surface drilling parameters and cementation process control.

ASU «Production Drilling Performance»

Processes of preparing main sections in elaborating the design of cluster projects for well construction, supervision of implementing design solutions for drilling fluids, schedule maintenance for the preparation of design estimates, engineering calculations for bituminous and multilateral wells were automated last year.

Functionality of components «terms of reference», «well construction program”, “drilling work order”, «well construction cost estimates», «construction timing control», «cost estimate element administration standards» was extended and that allowed reducing the time of preparation of the design estimates and calculations, as well as the integration support.

The component «schedule for the preparation of drilling units” as well as the tool of preparing the actual order were upgraded.

Integration with CIS «ARMITS» was made in terms of the actual operation data, structuring and systematizing data for NGDU «Almetyevneft» were carried in terms of «well case» component

The TEP tool was developed for the comparative analysis of drilling during a period of time.

Intellectual Management Tools for Development of the
Bereзовskaya Area 3rd Block

Development of an analytical tool capable of identifying abnormal objects’ functionality of measurement systems and crude oil production facilities, as well as obtaining statistical similarity coefficient of processes at the well sites in order to increase the measurement coefficient accuracy.

Procedures of statistical and neural network analysis were implemented in 2013. The system web portal is capable of identifying substandard performance of measurement systems and oil facilities, calculate statistical similarity of measurement coefficients by wells and identify phenomena of date streams interrelation and interference on the basis of their analysis.

ARM «APG Accounting and Control»

An accounting system “APG Control” was developed and implemented for monitoring and reporting on APG with the possibility of obtaining an automated report for accounting and control the APG utilization with regard to payments for emissions of harmful substances formed during APG flaring at structural divisions’ installations of JSC TATNEFT. The system adaptation was carried out in accordance with the RF Government Decree No. 1154 in terms of calculation methods and algorithms applied.

Information Support and Automated Control of
Ashalchinskoye Field Process Facilities for Optimal
Development of Extra-Viscous Oil

An integrated information environment (IIE) was developed and put into commercial operation for the Ashalchinskoye extra-viscous oil project. Flowsheets presentation (web SCADA) were implemented for targets of Ashalchinskoye field allowing for process monitoring with display of operational information on wells and boiler rooms, as well as matrix information representation was implemented on daily production of the wells with indication of a well production share in the total production of by the wells according to the ICC USOI data and the telemetry system data. A spread of specialized graphical modules and representations was developed to display production processes information in the field to ensure prompt information for the interaction organization of the project participants.

Automation System Development
for Engineering Design Projects

Expansion of “SAPP” information system functionality intended for automation, accounting and control of the process of creation, execution and completion of the project development works carried out by structural divisions and external contractors.

In 2013, integration of «SAPP» with the CIS «Tatneft-Oil Production» completed in terms of implementing the possibility of transferring to «SAPP» the project status change information and project support of the wells, as well as a mechanism was worked out to connect to the «SAPP» third party general contractors and sub-project organizations. File storage was organized with access rights restriction and possibility to distribute by sections (projects).

SAP Products Based Integrated Corporate Management
System of JSC TATNEFT

Creation of a fully functional and integrated management SAP products based system is being carried out in accordance with the strategic initiatives and objectives of JSC TATNEFT. Active development and implementation of solutions is designed to provide the Company’s management with complete and reliable information to make effective management decisions, improve the planning quality, optimize and reduce operating costs, provide for reduce time required for data acquisition, processing, retrieval and transmission and minimize errors mobile access to corporate systems’ data.

In 2013, the works were completed on standardization of the system operation in all business units of the Company, including planning, monitoring and adjustment expenses of JSC TATNEFT, unification and standardization of reporting forms, variability of forecasting calculations for rapid response to changes in the internal and external factors.

In 2013, in order to implement recommendations for the formation of direct costs of production and sale of crude oil, associated gas, petroleum products, other finished goods (works, services) of JSC TATNEFT in the tax records in accordance with the Tax Code requirements changes were introduced into existing SAP solutions in terms of tax accounting. Cost calculations of finished products, works (services) taking into account the new scheme of closing of for tax purposes were made in the test system.

As part of automating labor protection processes and their integration with the process of maintaining the employment contract the solutions of medical examinations, accidents registration and occupational diseases were transferred in pilot operation category with arrangement of training activities on labor protection and industrial safety.

ENSURING INFORMATION SECURITY

Information security of all kinds of the Company’s resources is one of the main factors of stability and minimization of the various corporate risks.

Information systems’ security updates were incorporated in 2013. Digital certificates of 287 users of information resources were reissued. «Information Security Policy» document was updated. Monthly monitoring of TATNEFT KSPD end-user workstation anti-virus software media coverage was provided. From 69 to 123 million requests over HTTP are processed every month with 11 to 23 million queries locked, as the ones violating the information security policy. 10 to 21 thousand spam emails are monthly blocked.

Following the action plan the work was carried out in TATNEFT to maintain the protection level of personal data in accordance with the legislation requirements.

The work was carried out on the protection of JSC TATNEFT’s portal solution from threats in the form of cross-site scripting. The works were carried out to improve the information security level of network printers located in the structural divisions of JSC TATNEFT. The works were also carried out to improve the security level of certain JSC TATNEFT’s portal solutions.

HR MANAGEMENT

Ensuring a highly professional level of specialists and workers at all levels of the production and management personnel is realized by the HR policy of training, professional development and motivation of the employees. The social programs are aimed at improving the quality of life of the employees, as well as their families. In total this allows to provide the personnel responsibility and interest in high performance of the Company.

The Company has a comprehensive system of personnel management aimed at maintaining a high professional level of workers and professionals involved in all areas of the Company activities, including: maximally efficient involvement of human resources, development of the employees' skills on an ongoing basis, as well as strengthening motivation of the Company's employees in general and ensuring a decent standard of living of each employee. The Company's personnel management policy is aimed at maintaining the status of the best employer of choice at the regional market for workers with the skills and motivation to bring the maximum benefit to the Company.

STAFF HEADCOUNT

The average headcount of staff working in JSC TATNEFT amounted to 20.8 thousand persons in 2013. Total number of personnel for the Group amounted to 77 thousand persons.

The main income gained by the staff is formed by the salary and employment benefits. The salary includes a rated (permanent) part according to the uniform wage rate schedule, and a bonus (variable) part. The employment benefits provide workers with an appropriate volume of medical and other social guarantees.

Social payments accounted for 11% in the structure of the personnel's aggregate income in 2011.

RECRUITMENT, TRAINING, SKILL DEVELOPMENT AND RETRAINING OF STAFF

The Company considers its employees as a key resource in the implementation of the corporate strategy, therefore their development and training is the most important area of the personnel management policy aimed at creating an integrated system of ongoing education with continuous improvement and development of employees.

Training of workers for JSC TATNEFT is performed by the non-governmental educational institution TATNEFT Personnel Training Center and its eight branches located in the south-eastern part of the Republic of Tatarstan.

Training and professional development for mid-level managers is arranged in accordance with the program of training managers and professionals of JSC TATNEFT approved by General Director of JSC TATNEFT, as well as with skill development programs for divisions and it are conducted on the basis of specialized universities in the region and in the Russian Federation.

Training of the top management staff is performed by the non-state educational Institute of Oil and Gas Business (Moscow), where JSC TATNEFT annually sends prospective employees of TATNEFT Group Companies for training after competitive selection.

In 2013, the training at the TATNEFT Personnel Training Center and its branches was arranged for 307 occupations, including 140 occupations controlled by Rostekhnadzor of Russia. Experts of the Company have been for 15 years participating in the program of the management staff training for national economy of Russia («Presidential Program»). More than 150 persons got training during this time period.

CORPORATE UNIVERSITY

The Company continues developing an innovative resource in the field of personnel training and development: the Electronic Corporate University of JSC TATNEFT, which simulator trainings were attended by more than 7 thousand persons during the past year.

The «Lean Production» course was attended by 3,476 persons: heads of enterprises, their deputies, as well as heads of departments' offices and foremen.

The «Young Specialist Course» was attended by 895 newly hired workers, allowing them to adapt faster to the production process. The courses «Corporate Culture» and «Internal Labor Regulations for Employees of JSC TATNEFT" were attended and tested by 621 employees of the JSC TATNEFT's Executive Office.

In 2013, JSC TATNEFT commissioned the «Center of Excellence» simulator, which was used by 1,000 employees to train for working with the website.

An important event in the development of the ECU was launching of "V-FRD» training simulator, which may help the workers learning the techniques of safe work practices in the workplace, as well as to identify errors entailing loss of working time.

The project "Students' Labor Exchange" was actively developing in 2013. The "Students' Labor Exchange" site was visited by 47,069 persons, while 2,620 of them registered as job seekers, including 1,374 graduates with full higher education. 114 companies placed their vacancies with a total number of published vacancies amounting to 573. 553 applicants got employment based on the results of interviews with employers.

A large scope of work carried out by the Company in the field of personnel management has been highly commended by the Government of the Republic of Tatarstan.

SOCIAL POLICY

The corporate social policy is based on the principles of creating together with all the stakeholders the environment of the Company for maintaining favorable living conditions and development of the social infrastructure in the regions of the subsoil use and business activities of TATNEFT Group enterprises and implementation of targeted corporate programs to improve the quality of life of the local population, including support for health, education, culture, sports and children's creativity.

THE COLLECTIVE AGREEMENT

The Company's obligations to the staff are put on paper in the Collective Agreement of JSC TATNEFT. The Collective Agreement significantly expands safeguards established by law, and provides additional benefits for employees, social protection of young workers, and support for veterans and retirees. In 2013, all commitments stipulated by the Collective Agreement were completed. Salaries were paid on time twice a month in the full amount.

INFORMATION ABOUT THE STRUCTURE OF JSC TATNEFT'S EMPLOYEES' INCOME FOR 2013

DESCRIPTION	VALUE
JSC TATNEFT - for 2013	100%
Salary share including:	89%
permanent part	60%
variable part	40%
Share of social payments	11%

14.7 thousand EMPLOYEES OF THE COMPANY

went through professional training and skills development in 2013

Over 149 MILLION RUBLES

were spent for professional development of the Company' employees.

NON-GOVERNMENTAL PENSION FUND

One of the most important areas of the Company's social policy is provision of the non-governmental pension for its employees. A Non-Governmental Pension Provision Program has been run at the Company for more than 16 years covering practically all employees through application of various pension provision schemes.

VOLUNTARY HEALTH INSURANCE

The VHI program for the staff of JSC TATNEFT includes four areas: Outpatient Services, Inpatient Services, Rehabilitation and Remedial Treatment, and Integrated Health Care.

In accordance with the Voluntary Health Insurance of Employees Agreement concluded with "Chulpan" Insurance Company the number of insured employees amounted to 21,474. The total amount of the VHI contracts was RUR 223.9 million. The Company's employees are entitled to receive free medical care and spa vouchers through implementation of VHI programs. 3,898 employees improved their health during 2013, including 410 persons in spas and resorts of RT and RF.

The amount of RUR 69.9 million was allocated in 2013 for the sanatorium rehabilitation of retired pensioners of the Group of Companies divisions and enterprises. 2,741 non-working pensioners improved their health in the spas of JSC TATNEFT.

MORTGAGE CREDITING

The Company operates a social mortgage program aimed at improving living conditions through providing access to housing by purchasing housing units on the installment payment basis. Support is also provided for young families in obtaining housing.

In 2013, ten residential buildings were commissioned as part of this program in the cities of Almetyevsk, Nurlat, Nizhnekamsk and Yelabuga. Employees of the Company received 638 apartments with the total area of 45.2 thousand square meters, with young families receiving 30% of the commissioned apartments. TATNEFT allocated RUR 6.1 million for acquisition of furniture in these residential units.

In the year viewed JSC TATNEFT made the initial payment in the amount of RUR 89.7 million for the employees of structural divisions, which was 24.3% of the cost of allocated housing. The size of the lump-sum loan for young families was 30%.

SMALL AND MEDIUM-SIZED BUSINESS DEVELOPMENT SUPPORT PROGRAM

JSC TATNEFT continued implementation of a special corporate project of to support the development of small and medium sized businesses in the south-eastern part of the Republic of Tatarstan. This project aims at developing prospective production facilities and creating new jobs in the regions of TATNEFT activity.

INDUSTRIAL SAFETY AND LABOR PROTECTION

The industrial and ecological safety activities and the activities on the labor protection were performed at JSC TATNEFT according to ISO 14001:2004 international ecological safety standard and the standard of industrial safety and health OHSAS 18001:2007 under the integrated management system of industrial safety, labor and environmental protection.

The Company’s integrated system of industrial safety, labor and environmental protection management successfully passed the regular re-certification audit in August (September) of 2012 of and received new certificates and the Company successfully passed supervisory audit in 2013 for compliance with the international standards ISO 14001 and OHSAS 18001.

The Company continued elaboration of relevant industrial safety standards in 2013 for the purpose of establishing unified requirements to the components of the integrated management system of industrial, fire, electric power, radiation safety and labor protection such as «The system of personal liability of JSC TATNEFT’s employees for safety», «Regulation on industrial safety management at JSC TATNEFT”, “Procedure for participation in a panel of the scientific and technical council of the Federal Service for Ecological, Technological and Nuclear Supervision development and revision of normative-technical documents used in the field of industrial safety of the oil and gas industry», corporate management standard «Programs and lectures of induction training for workers and professionals coming to work in the divisions and subsidiaries of JSC TATNEFT.

In order to meet requirements of the international standard OHSAS 18001 the Company developed a «Program (action plan) of JSC TATNEFT in the field of industrial safety and labor protection to prevent injuries, reduce the risk of accidents and unplanned losses for 2013-2015», which aims at preserving life and health, as well as improving working conditions, reducing accidents, significant production risks, increasing equipment operation safety, improving the facilities fire safety. The plans provide for spending about RUR 7 billion to implement activities under the mentioned program. In 2013, structural divisions of TATNEFT spent over RUR 3.7 billion.

The Labor Safety Committee works in order to maintain the labor safety and preventive measures to reduce industrial accidents and injuries in the Company, its structural business units and subsidiaries. This Committee controls the compliance with the labor protection requirements, prevention of occupational accidents and diseases.

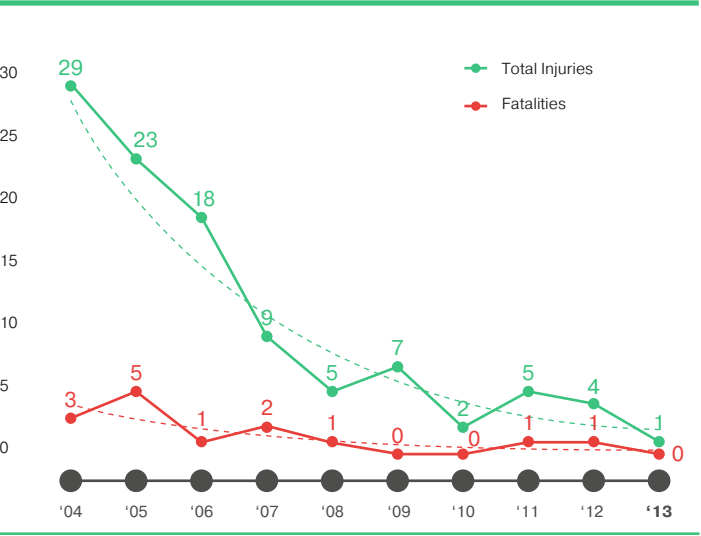
INDUSTRIAL INJURIES PROFILE IN 2006-2013

YEAR	NUMBER OF ACCIDENTS
2006	18
2007	9
2008	5
2009	7
2010	2
2011	5
2012	4
2013	1

PROFILE OF LABOR PROTECTION COST INCLUDING PER EMPLOYEE

YEAR	AMOUNTS SPENT FOR LABOR PROTECTION, RUR MILLION	SPENDING FOR LABOR PROTECTION ACTIVITIES PER EMPLOYEE, RUR THOUSAND
2006	313.7	7.4
2007	298.7	7.5
2008	212.4	8.0
2009	200.5	8.6
2010	207.1	9.7
2011	265.8	12.6
2012	319.8	15.1
2013	329.7	15.9

PROFILE OF INDUSTRIAL ACCIDENTS



ENVIRONMENTAL ACTIVITY

The environmental activities of the Company are performed in accordance with current laws and they meet all environmental regulations, and take into account international, federal and regional environmental standards. The Company passed certification of management systems ensuring environmental safety, labor protection and industrial safety in accordance with the requirements of ISO14001:2004 and OHSAS 18001:2007 international standards.

Environmental activities are based on:

- careful handling of natural resources and ensuring industrial and environmental safety;
- complying with all requirements and standards in the area of subsoil use, process safety of refining and petrochemical industries and control of possible risks associated with these activities, ensuring protection measures of water, land and atmospheric air resources in the Company’s activities territory;
- contributing to the preservation of the natural balance and strengthening of the eco system through reproduction and improving the quality of and natural resources: forests, water bodies, land areas and atmosphere protection;
- applying resource saving and environmentally friendly technologies, including sources of solar energy;
- expanding limits of the corporate environmental management at the level of interaction with partners, governmental agencies and public institutions, as well as with local communities.

The Company performs its activity in accordance with the JSC TATNEFT policy of industrial, occupational and environmental safety and in the framework of the special Environmental Corporate Program of JSC TATNEFT designed for the period from 2000 to 2015.

The program is aimed at supporting the environment of the TATNEFT region of activity at the regulatory acceptable level consistent with self-healing potential of natural ecosystems. The program envisages further improvement of process equipment reliability and reduction of production activities’ negative impact on the environment, lowering of stress based on the continuing renovation of the main assets, as well as construction of special nature protection facilities. As part of this program the Company provides for performance of complex organizational and technical measures, including introduction of a broad industrial environmental control in the area of the Company’s divisions operation.

INDICES OF ECOLOGICAL SAFETY AND ENVIRONMENTAL IMPACT

Air protection

39.4 km of gas pipelines were replaced in 2013, including 25.7 km after major repair and 23.7 km after patch repair. Diagnostics of 253 km of pipelines was performed.

The following works were performed at the facilities of crude oil gathering and crude oil treatment of the Oil and Gas Production Divisions: major repair of 29 tanks, 28 vessels, 13 heat exchangers, 1 process furnace, 13 km of process pipelines were renovated, 91 vertical steel tanks and 1 concrete tank were diagnosed were subjected to diagnostics/ as well as 148 horizontal settlers and vessels and 6 process furnaces.

As a result of carrying out air protection measures the total emissions in the Company over the last 20 years were reduced by 1.6 times. Specific emissions per one ton of produced oil amounted to 3.557 kg in 2013.

The introduction of the technology to trap light hydrocarbon fractions (LHF) allowed to reduce carbon emissions by more than 3.5 times in comparison with 1991. At present, the number of active LHF capturing units at JSC TATNEFT facilities is 44 units.

In order to comply with established standards of maximum permissible emissions (MPE) of pollutants into the air 1,281 tests were performed in 2013.

Monitoring of the air condition was done in 110 communities located in the area of the Company’s operations and buffer zones of 53 production facilities. When performing these tests, 11,749 analyses were made to determine the current condition of the atmospheric air.

Survey of the air basin was carried out for 33 ingredients (hydrocarbons, hydrogen sulfide, nitrogen dioxide, carbon monoxide, etc.) along with meteorological observations, such as measurements of wind speed and direction, temperature, and relative humidity.

Protection and Management of Water Resources

In 2013 the Company to ensure stable and uninterrupted operation of the oilfield facilities, and increase their industrial and environmental safety produced 923.9 km of corrosion resistant pipes (metal/plastic, polymer coated), 5,934.17 tons of corrosion inhibitors, 986 wells are equipped with cathodic casing protection and electrochemical protection (ECP) is provided for 662.17 km of oil pipelines and waterlines. Diagnostics of 2,915 km of pipelines and water conduits were performed. Diagnostic survey of 2,984.885 km of pipelines was carried out.

The inner surface of 22 process vessels (vertical steel tanks and horizontal settlers) were protected with application of paint/varnish coating at the facilities of crude oil gathering and crude oil treatment of the Oil and Gas Production Divisions with the total area of paint/varnish coating amounting to 25.9 thousand.

168.1 km of oil pipelines and 95.8 km of waterlines were overhauled with the purpose of protecting the land, surface water and groundwater. Works were carried out using corrosion resistant pipes.

A network of local observation points over water bodies operates within JSC TATNEFT's license areas.

The observation system currently consists of 2,688 sampling points. This includes 564 observation points of surface bodies (springs, rivers, water pools) and 2,124 observation points of underground water bodies (artesian boreholes and wells).

Water analysis is performed for the following parameters, which are characteristic for crude oil production: chloride ions, sulfate ions, total hardness, hydro-carbonates, pH, calcium, anionic surface-active agents (surfactants), oil and oil products in the dissolved and emulsified condition.

In 2013, the central chemical analytical laboratory of the Administration for Preparation of Process Liquid performed 11,094 tests of selected water samples.

Total number of natural water analyses performed in the Company amounted to more than 120,000 of in 2013.

According to the results of laboratory chemical analysis in 2013 the water quality in major rivers of the Company's operations area was stable. Chloride content, crude oil and petroleum products in the dissolved and emulsified condition in rivers and springs in the vast majority of cases did not exceed the approved standards of maximum permissible concentrations of harmful substances in the waters of fishery water bodies and sanitary standards for the maximum permissible concentration (MPC). Currently, there is a process of steady decline of their concentration in the groundwater.

Protection and Management of Land Resources

Optimal placement of oil facilities and prevention of violations in soil fertility are the top priorities for land conservation.

The Company performs scientific research, develops regulatory documentation, improves its equipment and technology, and takes special actions to reduce the anthropogenic impact on the soil.

During the year the Company applied extensive efforts to reduce the areas of agricultural land allocation for the construction of oil facilities and restore fertility of disturbed land that has been achieved through the introduction of cluster drilling and well construction

Treatment of Industrial Waste

The Company continuously applies a lot of effort to reduce and utilize the waste generated during oil production processes through recycling, reuse and disposal.

The total amount of waste generated by the production decreased by 11.9 thousand tons versus 2012 and amounted to 69.5 thousand tons. The specific waste generation per 1 ton of oil was 2.66 kg in 2013.

In 2013, JSC TATNEFT collected and sent for recycling 40.55 tons of metal scrap / which was 14.7 thousand tons more than in 2012.

KEY PERFORMANCE INDICATORS OF THE COMPANY
FOR ECOLOGICAL SAFETY AND REDUCTION OF ENVIRONMENTAL IMPACT

DESCRIPTION	MEASUREMENT UNIT	2013
Production volume	thousand tons	26,107
Gross emission of harmful substances into the air	thousand tons	92.9
Total harmful substances recovered and neutralized	tons	210.5
Associated petroleum gas utilization	million cubic meters	864.8
Associated petroleum gas utilization level	%	95.1
Fresh water intake for own needs	million cubic meters	28.1
Contaminated land area	hectare	0
Failure induced ecological damage	thousand RUR	0
Commissioning of facilities for recovery and neutralization of waste gas harmful substances	thous.cub.m/hour million RUR	0.4 404.6
Investments into the main capital, used for environmental protection purposes:		
Planned	million RUR	407.4
Actual, total: including	million RUR	407.4
water bodies protection	million RUR	3.5
atmospheric air protection	million RUR	289.4
land resources protection from production waste and consumption	million RUR	0
land recultivation	million RUR	114.5
Current environmental protection expenses	million RUR	4,338.2
Repair costs of fixed assets used for environmental protection, total	million RUR	1,677.6

INFORMATION ABOUT COMPLIANCE
WITH THE CODE OF CORPORATE CONDUCT IN 2013

NO.	CORPORATE CONDUCT CODE PROVISIONS	COMPLIANCE OR NON-COMPLIANCE	NOTE
GENERAL SHAREHOLDERS MEETING			
1	Informing shareholders on holding the General shareholders meeting at least 30 days prior to the meeting holding date regardless of the issues included in the agenda, unless the law provides for a longer period	Compliance	Section 5, i.i. 5.1, 5.3 of Provision on General Shareholders Meeting art.7 i.7.1 of Articles
2	Availability of the opportunity for shareholders to get familiarized with the list of persons entitled to participate in the General meeting of shareholders, starting from the notice date of the General shareholders meeting holding until closing of the General shareholders meeting, and in the case of an absentee General shareholders meeting: until the ballots acceptance deadline	Compliance	Section 4, i. 4.3 of Provision on General Shareholders Meeting
3	Availability of the opportunity for shareholders to get familiarized with the information (materials) to be provided in preparation for the General shareholders meeting through electronic communication means, including the Internet	Compliance	Section 5, i.i. 5.1, 5.4-5.8 of Provision on General Shareholders Meeting
4	Availability of the opportunity for shareholders to add an issue to the agenda of the General shareholders meeting or demand calling the General shareholders meeting without an extract from the shareholder register, if the shareholder's rights to shares are maintained in the register of shareholders, and if the mentioned rights to shares are maintained in the custody account, then the custody account extract is sufficient for the above rights execution	Compliance	
5	Availability of the requirement in the Articles or internal documents of the Joint Stock Company about obligatory attendance of General Director, Management Board members, Board of Directors members, members of the Audit Committee and the Company's Auditor at the General meeting of shareholders	Compliance	Section 9, i. 9.2 of Provision on General Shareholders Meeting
6	Obligatory attendance of the candidates at the General meeting of shareholders when considering the issues about election of Board of Directors members, General Director, Management Board members, Audit Committee members, as well as the issue of approving the Company's Auditor	Compliance	Section 9, i. 9.2 of Provision on General Shareholders Meeting
7	Availability in the internal documents of the Company of the registration procedure for the participants of the General shareholders meeting	Compliance	art. 10 i. 10.3 of Provision on General Shareholders Meeting of JSC TATNEFT
BOARD OF DIRECTORS			
8	Availability in the Articles of the Joint Stock Company of the Board of Directors authority to approve the annual financial and business plan of the Joint Stock Company	Compliance	art. 8.4, i. 25 of Articles
9	Availability in the Joint Stock Company of the risk management procedure approved by the Board of Directors		Being formed
10	Availability of the provision in the Company's Articles on the Board of Directors' right to decide on suspending the powers of General Director appointed by the General shareholders meeting	Compliance	art.8.4, i. 9 art.9, i. 9.2 of Articles
11	Availability of the provision in the Company's Articles on the Board of Directors' right to establish the requirements for qualification and the remuneration amount of General Director, Management Board members and heads of the main divisions of the Joint Stock Company	Compliance	art.8.4, i.23 of Articles

NO.	CORPORATE CONDUCT CODE PROVISIONS	COMPLIANCE OR NON-COMPLIANCE	NOTE
12	Availability in the Articles of the Joint Stock Company of the Board of Directors' right to approve terms of the contracts with General Director and Management Board members	Compliance	art. 9 i. 9.1. of Articles
13	Availability of the requirement in the Articles or internal documents of the Joint Stock Company that when approving the contracts with General Director (managing organization, manager) and Management Board members the votes of the Board of Directors members, who are General Director and Management Board members shall not be taken into consideration when counted		The relevant supplement to the Articles of Association is being prepared
14	Availability of at least three independent directors in the composition of the Company's Board of Directors, who meet the requirements of the Corporate Conduct Code	Compliance	art. 4.2 of Provision on the Board of Directors, art. 2.3, i.i. 2.3.9, 2.3.9.1, 2.3.9.2 of JSC TATNEFT Corporate Governance Code
15	Absence of the persons in the composition of the Board of Directors of the Joint Stock Company, who were found guilty for committing economic crimes or crimes against the State, interests of public service and local government service or persons subjected to administrative penalties for offenses in the field of entrepreneurial business or in the field of finance, taxes and dues and securities market	Compliance	
16	Absence of the persons in the composition of the Board of Directors of the Joint Stock Company, who are participants, General Director (manager), members of the managing body or employees of a legal entity competing with the Joint Stock Company	Compliance	
17	Availability of the requirement in the Joint Stock Company's Articles on the election of the Board of Directors by cumulative vote	Compliance	art. 8, i. 8.2, 8.3 of Articles art. 3, i. 3.7 of Provision on the Board of Directors
18	Availability of the provision in the internal documents of the Joint Stock Company on the members of the Board of Directors obligation to refrain from any action that will or may result in a conflict between their interests and those of the Company, and in the case of such a conflict arising the obligation to disclose information about this conflict to the Board of Directors	Compliance	art.3, i. 3.1.10, i. 3.1.11, art. 5, i. 5.2 of Provision on the Corporate Management Committee of JSC TATNEFT Board of Directors Ch. 4, i. 4.8 of JSC TATNEFT Corporate Governance Code
19	Availability of the provision in the internal documents of the Joint Stock Company about the members of the Board of Directors obligation to notify the Board of Directors in writing of their intention to perform transactions with the Company's securities, which members of the Board of Directors they are, or its subsidiary (affiliate) companies, and to disclose the information on transactions with such securities	Compliance	art. 4, i.4.1of Provision on the Board of Directors, art. 2.3, i. 2.3.11 of JSC TATNEFT Corporate Governance Code
20	Availability of the requirement in the Company's internal documents for holding meetings of the Board of Directors at least once every six weeks	Compliance	art. 8.5 of Articles, art. 5, i. 5.1 of Provision on the Board of Directors
21	Holding meetings of the Board of Directors of the Joint Stock Company during the year, for which the annual report of the Joint Stock Company is made, with frequency of at least once every six weeks	Compliance	art. 8.5of Articles, art. 5, i. 5.1 of Provision on the Board of Directors
22	Availability of the procedure for holding meetings of the Board of Directors in the internal documents of the Joint Stock Company	Compliance	art. 5 of Provision on the Board of Directors
23	Availability of the provision in the internal Company's documents on the necessity for approval by the Board of Directors of the Joint Stock Company the transactions in the amount of 10 or more percent of the Company's assets, except the transactions made in the normal course of business	Compliance	art. 8 i. 8.4, of i. 14 of Articles

NO.	CORPORATE CONDUCT CODE PROVISIONS	COMPLIANCE OR NON-COMPLIANCE	NOTE
24	Availability of the provisions in the Company's internal documents on the Board of Directors members' right to receive information from the Executive Bodies and heads of the main divisions of the Joint Stock Company needed to perform their functions, as well as the responsibility for the failure to provide such information	Compliance	
25	Availability of the Board of Directors' Committee on Strategic Planning or imposition of the mentioned Committee's functions on another Committee (except the Audit Committee and HR and Remuneration Committee)		The functions are exercised by the Strategic Planning Department
26	Availability of the Board of Directors' committee (Audit Committee), which recommends to the Board of Directors the Auditor of the Joint Stock Company and interacts with the Auditor and the Audit Commission of the Joint Stock Company	Compliance	art. 8 i. 8.4 of Articles, art. 5, i.5.1 of Provision on the Board of Directors art. 2.4 of JSC TATNEFT Corporate Governance Code
27	Availability of independent and non-executive directors only in the composition of the Audit Committee	Compliance	art. 2 of Provision on the Audit Committee of the JSC TATNEFT Board of Directors
28	Management of the Audit Committee shall be performed by an independent director	Compliance	art. 2 of Provision on the Audit Committee of the JSC TATNEFT Board of Directors
29	Availability of the provision in the Company's internal documents on the Audit Committee's all the members right of access to any documents and information of the Joint Stock Company provided that they shall not disclose confidential information	Compliance	
30	Establishment of the Board of Directors' Committee (HR and Remuneration Committee), which function shall be to determine the criteria for selecting candidates for the members of the Board of Directors and elaboration of the Joint Stock Company's remuneration policy	Compliance	art. 8. i. 8.4 of Articles, art. 5, i.5.1 of Provision on the Board of Directors art. 3 i. 3.1 of Provision on the HR and Remuneration Committee of the JSC TATNEFT Board of Directors
31	Management of the HR and Remuneration Committee shall be performed by an independent director	Compliance	art. 4 i. 4.2 of Provision on the HR and Remuneration Committee of the JSC TATNEFT Board of Directors
32	Absence of the Joint Stock Company's officials in the composition of the HR and Remuneration Committee	Compliance	art. 4 i. 4.2 of Provision on the HR and Remuneration Committee of the JSC TATNEFT Board of Directors
33	Establishment of the Board of Directors' Committee for risks management or delegation of the mentioned Committee's functions to another Committee (except the Audit Committee and the HR and Remuneration Committee)		The functions are exercised by the Corporate Management Committee
34	Establishment of the Board of Directors Committee for corporate conflicts settlement or delegation of the mentioned Committee's functions to another Committee (except Audit Committee and HR and Remuneration Committee)	Compliance	art. 3 i.i. 3.1.10, 3.1.11 of Provision on the Corporate Management Committee of the JSC TATNEFT Board of Directors
35	Absence of the Joint Stock Company's officials in the composition of the Corporate Conflicts Settlement Committee	Compliance	art. 4 i.i. 4.2 of Provision on the Corporate Management Committee of the JSC TATNEFT Board of Directors
36	Management of the Corporate Conflicts Settlement Committee shall be performed by an independent director		
37	Availability of the approved by the Board of Directors internal documents of the Joint Stock Company covering the procedure of establishment and function of the Board of Directors' Committees	Compliance	art. 2 of Provision on the Board of Directors, art. 8, i. 8.14 of Articles, Provision on Committees
38	Availability in the Joint Stock Company's Articles of the procedure for determining a quorum of the Board of Directors allowing for ensuring mandatory participation of independent directors in the Board of Directors meetings	Compliance	

NO.	CORPORATE CONDUCT CODE PROVISIONS	COMPLIANCE OR NON-COMPLIANCE	NOTE
EXECUTIVE BODIES			
39	Availability of the collegial executive body (Management Board) of the Joint Stock Company	Compliance	art. 9, i. 9.1 of Articles, art. 2.5 of the JSC TATNEFT Corporate Governance Code
40	Availability in the Articles or internal documents of the Joint Stock Company of provisions requiring the Management Board approval of real estate transactions, loans raised by the Joint Stock Company, if such transactions are not major transactions and they are not part of normal business activities of the Joint Stock Company	Compliance	It is provided by the internal regulations
41	Availability in the internal documents of the Joint Stock Company of procedures for approval of transactions that are beyond the financial and business plan of the Joint Stock Company	Compliance	It is provided by the internal regulations
42	Absence of the persons in the composition of the Executive Bodies, who are participants, General Director (manager), members of the Management Board or an employee of a legal entity competing with the Company	Compliance	
43	Absence in the composition of the Executive Bodies of the Joint Stock Company of the persons who were found guilty of committing economic crimes or crimes against the State, interests of public service and local government service or persons subjected to administrative penalties for offenses in the field of entrepreneurial business or in the field of finance, taxes and dues and securities market. If the functions of the sole executive body are performed by the managing organization or manager, then the General Director and the Management Board members of the managing organization or the manager shall comply with the requirements specified to General Director and members of the Management Board of the Joint Stock Company	Compliance	
44	Availability in the Company's Articles or internal documents of prohibition for the managing organization (manager) to perform similar functions in a competing joint stock company or to be in any other property relations with the Joint Stock Company, except providing services of the managing organization (manager)	Compliance	
45	Availability of the obligation in the Company's internal documents for the Executive Bodies to refrain from any actions that will or may result in a conflict between their interests and those of the Joint Stock Company, and in the event of such conflict arising the obligation to inform the Board of Directors	Compliance	art. 3, i. 3.1.10, i. 3.1.11, art. 5, i. 5.2 of Provision on the Corporate Management Committee of the JSC TATNEFT Board of Directors, Ch. 4 of JSC TATNEFT Corporate Governance Code
46	Availability of the eligibility criteria for the managing organization (manager) in the Articles or internal documents of the Company	Compliance	It is provided by the internal regulations
47	Presentation by the Executive Bodies of monthly reports on the work carried out by them to the Company's Board of Directors	Compliance	art. 2.5, i. 2.5.2 of JSC TATNEFT Corporate Governance Code
48	Determination of the liability for breach of the provisions on the use of confidential and proprietary information in the contracts concluded by the Company with General Director (managing organization, manager) and the Management Board members	Compliance	art. 3.9, art. 3.10 of JSC TATNEFT Corporate Governance Code
SECRETARY OF THE JOINT STOCK COMPANY			
49	Availability of a special officer (Joint Stock Company Secretary) in the Company, whose task is to ensure that Executive Bodies and officials of the Joint Stock Company comply with the procedural requirements guaranteeing the rights and legitimate interests of the Company's shareholders		It is provided by the interaction of the Secretary of the Board of Directors and Securities Office of the property Department
50	Availability of the procedure for appointment (election) of the Joint Stock Company's Secretary and the Secretary's duties in the Company's Articles or internal documents		It is provided by the interaction of the Secretary of the Board of Directors and Securities Office of the property Department
51	Availability of the requirements to the candidate for the Company's Secretary position in the Articles of the Joint Stock Company		It is provided by the interaction of the Secretary of the Board of Directors and Securities Office of the property Department

NO.	CORPORATE CONDUCT CODE PROVISIONS	COMPLIANCE OR NON-COMPLIANCE	NOTE
ESSENTIAL CORPORATE ACTIONS			
52	Availability of the requirement to approve any major transaction prior to its carrying out in the Company's Articles or internal documents	Compliance	art. 7 i. 7.3 of Articles
53	Mandatory involvement of an independent appraiser to determine the market value of the property that is the subject of a major transaction	Compliance	
54	Availability in the Articles of the Joint Stock Company of the ban to take any actions during acquisition of large blocks of shares of the Joint Stock Company (takeover), aimed at protecting the interests of the Executive Bodies (their members) and members of the Board of Directors of the Joint stock Company, as well as worsening the position of the shareholders as compared to the existing one (in particular, the prohibition for the Board of Directors to make a decision to issue additional shares and to issue securities convertible into shares or securities granting the right to acquire the Company's shares before the end of the expected deadline of the shares acquisition, even if such right of making a decision is granted by the Articles)	Compliance	
55	Availability of the requirement in the Articles of the Company for mandatory involvement of an independent appraiser to determine the current market value of shares and possible changes in their market value as a result of a take-over		The relevant supplement to the Articles of Association is being prepared
56	Lack of the provision in the Company's Articles to release the purchaser from the obligation of proposing to the shareholders to sell their ordinary shares of the Company (issuance securities convertible into ordinary shares) in event of a take-over	Compliance	
57	Availability of the requirement in the Articles or internal documents of the Joint Stock Company for mandatory involvement of an independent appraiser to determine the share conversion ratio in the event of reorganization	Compliance	
INFORMATION DISCLOSURE			
58	Availability of the internal document approved by the Board of Directors determining the policies and procedures of the information disclosure by the Joint Stock Company (Provisions on Information Policy)	Compliance	Ch. 3 of JSC TATNEFT Corporate Management Code
59	Availability of the requirement in the internal documents of the Company to disclose the information about the purpose of placing shares and the persons who are going to buy these shares, including a large parcel of shares, as well as whether senior officials of the Joint Stock Company will participate in the acquisition of the shares being placed	Compliance	Ch. 3 of JSC TATNEFT Corporate Management Code
60	Availability in the internal documents of the Joint Stock Company of the list of information, documents and materials that must be provided to the shareholders to address the issues brought to the General shareholders meeting	Compliance	art. 5, i.i. 5.1, 5.2., 5.4 of Provision on JSC TATNEFT General Shareholders Meeting, art. 5.4 of Provision on JSC TATNEFT Information Policy
61	Availability of the Joint Stock Company's Internet web site and regular information disclosure about the Joint Stock Company on this website	Compliance	http://www.tatneft.ru , http://disclosure.skrin.ru/disclosure/1644003838
62	Availability of the requirement in the Company's internal documents to disclose the information about the transactions of the Joint Stock Company with persons that are in accordance with the Articles top officials of the Joint Stock Company, as well as the transactions of the Joint Stock Company with organizations, in which top officials of the Joint Stock Company directly or indirectly own 20 percent and more of the Company's authorized capital or which such persons may otherwise have a material impact on	Compliance	art. 4, i. 4.1, 4.2 of Provision on the JSC TATNEFT Board of Directors
63	Availability of the requirement in the internal documents of the Company to disclose the information about all the transactions that may affect the market value of the Joint Stock Company's shares	Compliance	art. 3, of JSC TATNEFT Information Policy Provision, Order No. 70 of Feb. 27, 2012

NO.	CORPORATE CONDUCT CODE PROVISIONS	COMPLIANCE OR NON-COMPLIANCE	NOTE
CONTROL OVER FINANCIAL AND ECONOMIC ACTIVITIES			
65	Availability of the approved by the Board of Directors the procedures of internal control over the financial and economic activities of the Joint Stock Company	Compliance	art. 12, i.i. 12.1 of Articles
66	Availability of the Joint Stock Company's special division ensuring compliance with the internal control procedures (supervision and auditing service)	Compliance	art. 12, i.i. 12.1 of Articles
67	Availability of the requirement in the internal documents of the Joint Stock Company that the structure and composition of the supervision and auditing service of the Joint Stock Company shall be defined by the Board of Directors	Compliance	art. 12, 12.2. of Articles
68	Absence in the composition of the supervision and auditing service of the persons who were found guilty of committing economic crimes or crimes against the State, interests of public service and local government service or persons subjected to administrative penalties for offenses in the field of entrepreneurial business or in the field of finance, taxes and dues and securities market	Compliance	art. 12, 12.3. of Articles
69	Absence in the composition of the supervision and auditing service of the persons, who are members of the Company's Executive Bodies, as well as the persons, who are participants, General Director (manager), members of the Management Board or employees of the entity competing with the Joint Stock Company	Compliance	art. 12, 12.2. of Articles
70	Availability in the internal documents of the Joint Stock Company of the deadline for submission of documents and materials for assessment of the financial and business operations to the supervision and auditing service, as well as the liability of the officers and employees of the Joint Stock Company for failure to submit them within the specified period	Compliance	art. 12, 12.5. of Articles
71	Availability in the internal documents of the Joint Stock Company of the duty of the supervision and auditing service to report the detected violations to the Audit Committee, and in case of its absence, to the Board of Directors of the Joint Stock Company	Compliance	art. 12, 12.5. of Articles
72	Availability in the Articles of the Joint Stock Company of the requirement for preliminary assessment by the supervision and auditing service of the practicality of performing operations not envisaged by the financial and economic plan of the Joint Stock Company (non-standard transactions)	Compliance	
73	Availability in the internal documents of the Joint Stock Company of the procedure of coordinating non-standard transactions with the Board of Directors	Compliance	
74	Availability of the internal document approved by the Board of Directors describing the procedure of performing audits of the Company's financial and economic activities by the Audit Commission	Compliance	
75	Assessment of the Auditors' Opinion by the Audit Committee prior to its presentation to the shareholders at the General shareholders meeting	Compliance	
DIVIDENDS			
76	Availability of the internal document approved by the Board of Directors, which the Board of Directors is guided by in accepting recommendations on the amount of dividends (Dividend Policy Provision)	Compliance	Ch. 2, i. 2.1.6, Ch. 6. of TATNEFT Company Corporate Governance Code
77	Availability in the Dividend Policy Provision of the procedure for determining the minimum portion of the net profit of the Joint Stock Company, allocated to the payment of dividends, and the conditions under which the dividends are not paid or not paid in full on the preferred shares with the amount of dividends thereon determined in the Articles of the Joint Stock Company	Partial Compliance	Ch. 6. of TATNEFT Company Corporate Governance Code
78	Publication of the information on the dividend policy of the Joint Stock Company and any amendments thereto in a periodical prescribed by the Articles of the Joint Stock Company for publication of the notices on holding general meetings of shareholders, as well as placing this information on the Joint Stock Company's Internet website	Compliance	

REGISTER OF COMPULSORILY DISCLOSED INFORMATION IN 2013*

ITEM #	CONTENT OF MESSAGE	DATE OF DISCLOSED INFORMATION
ACCORDING TO RUSSIAN STANDARDS(IN THE FORM OF A MESSAGE ABOUT AN ESSENTIAL FACT OR MESSAGES ABOUT THE INFORMATION WHICH CAN ESSENTIALLY AFFECT THE COST OF THE JOINT-STOCK COMPANY’S SECURITIES) ACCORDING TO ORDER OF FFMS OF RUSSIA 11-46/PZ-N DTD OCTOBER 04, 2011		
1.	Notice of the date of preparing a list of holders of Issuer’s equity securities or documentary Company’s equity securities with mandatory centralized custody for the purposes of implementation (realization) of the rights vested by such equity securities	February 28, 2013
2.	Message about the procedure of accessing the information contained in the quarterly report.	By the 15-th day of the month following the quarter under review
3.	Message about disclosure of affiliated entities list of the Joint Stock Company on the Internet site.	By the 2-nd day of the month following the quarter under review
4.	Notice on the meeting of the Board of Directors (Supervisory Board) of the Company and its agenda, as well as about individual decisions taken by the Board of Directors (Supervisory Board) of the Company.	Monthly
5.	On the General Meeting of Participants (Shareholders) of the Company and its agenda, as well as on decisions taken by the General Meeting of Participants (Shareholders) of the Company.	February 28, 2013
6.	Notice of the date of compiling a list of holders of equity securities of the Company or documentary Company’s equity securities with mandatory centralized custody for the purposes of implementation (realization) of the rights vested by such equity securities	March 13, 2013, September 11, 2013
7.	Notice on accrued and/or paid revenues for the Company’s securities	March 22, 2013 September, 20, 2013
8.	Notice of disclosure of the annual (interim) accounting (financial) reporting of the Joint-Stock Company	March 28, 2013, April 30, 2013 July 29, 2013, October 30, 2013
9.	Notice of making an interested party transaction by the issuer	April 30, 2013, May 30, 2013, September 02, 2013, October 01, 2013, November 01, 2013,
10.	Notice on decisions taken by the General Meeting of participants (shareholders) of the Issuer	July 02, 2013
11.	Notice on the procedure of accessing information contained in the Annual Report for 2012.	July 02, 2013
12.	Notice of the quarterly report text changes	August 15, 2013
13.	Information about redemption of the issuer’s securities	September 20, 2013
14.	Notice on paid revenues for the Company’s securities	September 25, 2013
15.	Notice on default of the Issuer fulfilling the commitments to the Issuer’s securities holders	September 25, 2013
16.	On refutation or correction of information previously published in the News Line	October 01, 2013
17.	Notice on awarding the rating for the Company’s securities and (or) for the Company or on changes of the rating by a rating agency based on the contract signed with the Company	November 25, 2013,
19.	Notice of the Joint Stock Company’s acquisition of more than 20 percent of the voting stock belonging to another joint stock company	December 27, 2013
ACCORDING TO INTERNATIONAL STANDARDS (IN THE FORM OF PRESS RELEASES AND PUBLICATION OF REPORTS AS PER THE LONDON STOCK EXCHANGE REGULATIONS)		
19.	Publication of the annual consolidated financial statements of JSC TATNEFT in accordance with IFRS for 2012.	April 08, 2013
20.	Publication of the consolidated interim financial statements of JSC TATNEFT in accordance with IFRS for the first quarter of 2013 (unaudited).	June 25, 2013
21.	Publication of consolidated interim financial statements of JSC TATNEFT in accordance with IFRS for the six months of 2013 (unaudited).	September 09, 2013
22.	Publication of the consolidated interim financial statements of JSC TATNEFT in accordance with IFRS for the nine months of 2013 (unaudited).	November 29, 2013

* main facts and events, including major interested party transactions performed by the Company during the year

As part of the voluntary provision of information the Company published on a systematic and regular basis the detailed information of the current production, corporate and social activity of enterprises of JSC TATNEFT and the Group in 2013. Total number of press releases on the ongoing activities of the Company distributed as voluntarily disclosed information amounted to 225 messages in 2013.

CRITERIA FOR DETERMINING THE AMOUNT OF REMUNERATION PAID TO THE MEMBERS OF THE COMPANY’S MANAGEMENT BODIES IN 2013

The remuneration to the members of the Board of Directors of JSC TATNEFT is paid on the basis of «Regulations on payment of remuneration to members of the Board of Directors and the Audit Commission of JSC TATNEFT”.

The remuneration amount is formed of a fixed and a variable part.

The fixed part of the remuneration is defined by the Regulations and indexed simultaneously with the change in tariffs and salaries of JSC TATNEFT employees.

The variable part of the remuneration of the Board of Directors members is formed according to the following key indicators: the ratio of the Company’s capitalization level by the year end results versus the previous year, the ratio of the expenses for dividends to net income (as compared to the previous year) and the additional profit margin amount in relation to the baseline profitability.

The total remuneration amount paid out by the results of the reporting year to the Members of the Company’s Collegial Executive Body and to the Board of Directors Members paid out by the results of the year under review*

The total remuneration amount of all members of the Board of Directors for 2013 was RUR 522,529,119.53.

Remuneration of all other persons belonging to the Board of Directors and the Collegial Executive Body (Management Board) is taken into account in the amount of remuneration of all members of the Board of Directors.

The total remuneration sum paid out to all the members of the Collegial Executive Body for 2013 amounted to RUR 201,512,503.66.

MAIN CORPORATE
EVENTS OF 2013

JANUARY

JSC TATNEFT's labour collective conference summed up the results of financial and economic activities of the TATNEFT Production Group in 2012.

The Collective Agreement was signed between the Company's management and employees of JSC TATNEFT for 2013.

The tire manufacturing plants of JSC TATNEFT successfully passed the compliance audit with requirements of ISO 9001 and ISO/TS 16949.

Active implementation of the program to improve environmental safety at oil production facilities is continued at JSC TATNEFT.

The 13 millionth tire rolled off the conveyor of JSC «Nizhnekamskshina» .

FEBRUARY

The Research and Development Center of JSC TATNEFT was assigned the full-fledged resident status of the «Skolkovo» Innovation Center.

The specialists of JSC TATNEFT took part in the end-of-year board meeting of the Ministry of Ecology and Natural Resources of the Republic of Tatarstan.

Two new models of solid steel cord tires for long-haul tractors and buses were brought to the market by Nizhnekamsk SSC Tire Factory.

The specialists of JSC TATNEFT were named winners of the XIth «Engineer of the Year» All-Russian contest.

MARCH

Shafagat Takhautdinov, General Director of JSC TATNEFT (current Adviser to the Chairman of the Board of Directors of JSC TATNEFT), and Nikolay Merkushkin, Governor of the Samara Region, signed an additional agreement on close cooperation development.

The Company completed a project to modernize the corporate information system (ARMITS) architecture based on Microsoft SQL Server.

200,000 tons of extra-viscous oil (EVO) were produced at Ashalchinskoye field.

The on-site meeting of JSC TATNEFT's Council of Veterans was held.

The TANECO Refining and Petrochemical Plants Complex received certificates of the integrated management system compliance with requirements of international standards ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007.

The Tire manufacturers of TATNEFT supplied the millionth KAMA EURO tire to the assembly conveyor of Volkswagen Group factory in Kaluga.

APRIL

Rustam Minnikhanov, President of the Republic of Tatarstan, visited entities of JSC TATNEFT Production Group of Companies in Nizhnekamsk

Scientific and practical conference «History and prospects of oil fields development in Tatarstan» was held.

A meeting of RAN (Russian Academy of Natural Science) discussing prospects of extra-viscous oil (EVO) development was held at the premises of NGDU «Aznakaevskneft».

MAY

NGDU «Almetyevneft» of JSC TATNEFT was visited by representatives of Accenture International Company providing services to companies in the area of managerial consulting and information technologies implementation.

NGDU «Almetyevneft» of JSC TATNEFT produced the 600 millionth ton of oil.

The representatives of the Committee on Environment, Natural Resources and Agrarian Affairs of the RT State Council visited the Company's sites.

The first in the Company's history multistage interval acid fracturing in the horizontal section of Yaurkinskoye field well No. 15 was performed.

JUNE

TatNIPIneft innovative project «Method of oilfields development via wells communicating through the producing formation» was included in the state order of the Republic of Tatarstan.

The training seminar on new drilling technologies and workover was held.

Representatives of the production enterprises of JSC TATNEFT Group took part in the Olympic torch relay in Almetyevsk.

The Bugulma Mechanical Plant started coating works on 73»E»-tubing intended for delivery to Turkmenistan, at the corrosion–resistance coating shop No. 2.

Unique multilevel «Tatneft-Ak Bars» Euro-class car parking was opened in Kazan.

JULY

JSC TATNEFT hosted the Traditional Oil Summit in the Karabash working township.

The delegation of the Ministry of Energy of the Russian Federation visited the production facilities of JSC TATNEFT.

The Supervisory audit of the integrated industrial safety, labor and environmental management system for compliance with international standards ISO 14001:2004 and OHSAS 18001:2007 was started at JSC TATNEFT.

AUGUST

Integrated industrial safety, labor and environmental management system audit for compliance with international standards ISO 14001:2004 and OHSAS 18001:2007 was completed at JSC TATNEFT.

The first professional Tyre & Service Center was opened in Tatarstan.

The Rostekhnadzor carried out a comprehensive scheduled inspection of particularly hazardous production facilities of the Company.

Traditional professional skills contest was held at JSC TATNEFT.

SEPTEMBER

The Delegation of the Ministry of Energy of the Russian Federation headed by the Kirill Molodtsov, Deputy Minister, visited the production facilities of JSC TATNEFT.

The Environmental audit was successfully completed at Nizhnekamsk Truck Tire Plant. The Environmental management system was declared compliant with the requirements of GOST R ISO 14001-2007.

JSC TATNEFT presented a large-scale composition dedicated to the 70th anniversary of Tatarstan oil at the Tatarstan Petrochemical Forum.

There was a press briefing held at the Cabinet of Ministers of the Republic of Tatarstan on implementation of the comprehensive action plan timed to the 70th anniversary since the beginning of the commercial oil fields development in the Republic of Tatarstan.

OCTOBER

XIIth Annual International Exhibition «Oil. Gas. Energy. Ecology» and «Industrial safety» was held in Almetyevsk.

Meeting of the JSC TATNEFT's Board of Directors and meeting with heads of small oil companies with participation of Rustam Minnikhanov, President of Tatarstan, were held in Almetyevsk.

NOVEMBER

Workers of the Kazan Branch of OOO «Tatneft-AZS Center» and NGDU «Almetyevneft» took part in the Republican «Green record» environmental action.

300,000 tons of extra-viscous oil were produced at Ashalchinskoye heavy oil field.

The Delegation of leading experts from JSC «Ozemunaygas» visited JSC TATNEFT.

Results of springs' contest were summed up. The winners among the structural steel divisions were NGDU «Jalilneft», NGDU «Elkhovneft» and NGDU «Aznakaevskneft».

Bugulma mechanical plant started manufacturing a new product: scrubber unit (DK1007).

The ninth filling station under the brand of JSC TATNEFT was open in the Republic of Belarus.

JSC TATNEFT participated in the XVIIIth International Specialized Exhibition «Oil & Gas of Turkmenistan-2013».

The Government delegation of the Republic of Tatarstan visited the Petrochemical and Refining facilities of JSC TATNEFT in Nizhnekamsk.

DECEMBER

The specialists of the Normative Research Station of JSC TATNEFT actively participated in the conference «Process Management: Today and Tomorrow» (Moscow).

The professionals of JSC TATNEFT participated in the IVth All-Russian Congress of Environmental Protection at the «Crocus City Hall» International Exhibition Centre in Moscow.

XIVth Report and Election Conference of JSC TATNEFT's young employees was held.

AWARDS AND NOMINATIONS OF JSC TATNEFT IN 2013

INTERNATIONAL AWARDS AND NOMINATIONS

1. The International Conference of students, post-graduates and scientists «Lomonosov-2013» awarded the silver medals for engineering developments: «Well construction method» (NGDU «Almetyevneft»), «Method of monitoring the oil field through listening to inter-well intervals» NGDU «Aznakaevskneft»), «Method of developing a multi-target oil field» (NGDU «Jalilneft»), «Method of well operation» (NGDU «Nurlatneft»), «Method of controlling oil reservoirs flood front» (TatNIPIneft). Bronze medals were awarded for engineer- ing developments «Method of well cluster construction» (NGDU «Almetyevneft»), «Process of limiting the formation water flow to the production well» NGDU «Aznakaevskneft»), «Well development with application of «OSMUD» controlled depression method” NGDU «Bavlyneft») «Method of equipment delivery to horizon- tal or inclined wellbores» (NGDU «Nurlatneft»), «Solid-phase composition to neutralize hydrogen sulfide» (NGDU «Yamashneft») and «Water separation and treatment unit for water produced with oil» (TatNIPIneft).

2. TATNEFT Company was honored appreciation of the organizing committee and diplomas for relevancy and professionalism of the provided exposure at the exhibition «Oil and Gas” MIOGE in Moscow.

3. TATNEFT Company was awarded the Grand Prix at the XXth International Exhibition “Oil, Gas, Petrochemicals - 2013”:

- for development and introduction into production of acid stimulation compositions «KSK-Tatneft» in the category «Enhanced Oil recovery»;
- for development and introduction into production of technologies to improve production of oil reservoirs through application of silica gel based compositions (SSG-VUKSZHS technology) in the category of “Innovative environmentally sound technologies”.

4. The first prize of the «PEGAZ» International Media Contest Moscow in the category «Internet edition premium» was awarded to the electronic publication «Oil newspaper», Honorary Diploma in the nomination «A series of TV programs/films» was conferred to the «Time of TATNEFT» studio.

ALL-RUSSIAN AWARDS AND NOMINATIONS

1. Awards named after Academician I.M. Gubkin were presented to TATNEFT Company for four engineering developments in the field of oil and gas industry.

2. Honorary badge «Environmentalist of the Year» was awarded to R.F. Burganov, Executive Director of «Nizhnekamskshina», A.S. Belyaev, Head of Environmental Service of «Nizhnekamskshina», was recognized as the best environmental service manager in the category and A.M. Akhmetzyanova, environmental practices expert engineer of «Nizhnekamskshina» was recognized the best in the contest «100 Best Russian organizations. Ecology and Environmental Management».

Diploma of the contest winner in the additional category was awarded «For disposal and processing of accumulated waste and achievements in the field of production and consumption wastes handling» was received by ООО «Nizhnekamsk Truck Tire Factory» in the contest «100 Best Russian organizations. Ecology and Environmental Management»,.

3. N.G. Ibragimov, First General Director Deputy for Production - Chief Engineer of JSC TATNEFT, joined “Top 100 industrial managers - 2013» in the «Top 100» ranking in the «Industrial Elite of Russia: top 100 industrial managers in 2013».

4. High level of JSC TATNEFT’s information transparency in April 2013 was marked by the information openness rating of the Russian fuel and energy sector companies.

5. Corporate electronic publication «Oil newspaper» ranked the third in the VIth All-Russian contest BEST INTRANET RUSSIA - 2013.

6. TATNEFT Brand joined the top 10 valuable Russian 2013 brands of the rating of the International INTERBRAND agency.

7. «Nizhnekamskshina» was named an excellent manufacturer and ООО «Trade House» - an excellent supplier in the ranking of suppliers and manufacturers in Togliatti.

8. Managers of JSC TATNEFT were included in the list of the top managers of Russia in the XIVth annual ranking «Top - 1000 Russian Managers».

Shafagat Takhautdinov, General Director of JSC TATNEFT (from November, 2013 - Advisor to the Chairman of the JSC TATNEFT’s Board of Directors) joined the Top Ten business leaders of the fuel sector.

Nail Maganov, First Deputy General Director of JSC TATNEFT - Head of Crude Oil and Petroleum Products Sales Department (from November, 2013 - General Director of JSC TATNEFT) was named among the Top Three Commercial Directors of energy and fuel sector.

Vladimir Lavushchenko, Deputy General Director of JSC TATNEFT for Economics was named the Best CFO of the rating.

Victor Gorodny, Deputy General Director - Head of JSC TATNEFT Property Department: the Best Corporate Management Director of the energy and fuel sector.

Fedor Schelkov, Deputy General Director for General Affairs, joined the Top Three Marketing Directors.

Rustam Mukhamadeyev, Deputy General Director for Human Resources and Social Development: the Best HR Director.

Azat Yagafarov, Deputy General Director - Director of JSC TATNEFT Representation Office in Moscow was among the Best Directors of the energy and fuel sector for interaction with authorities.

9. JSC TATNEFT Annual Report for 2012 was awarded a diploma of the «Sochi - 2013» at the XIIth International Investment Forum.

JSC TATNEFT Annual Report for 2012 was the winner of the contest in the nomination «For contribution to the development and implementation of best practices in corporate management and accountability» of the XVth Annual Reports’ contest.

10. JSC TATNEFT was a prize winner of the «Leader of competitive procurement - 2013». JSC TATNEFT was awarded a diploma and commemorative sign in the nomination «The Best system of working with suppliers» at the Second Annual Conference «Corporate procurement».

11. OJSC TANECO was awarded the honorary title of the environmentally responsible company in the region of the All-Russia contest «The Best Environmentally Responsible Company of the region».

12. JSC TATNEFT was awarded the Certificate of Merit for the contribution to the sustainable development of the country and the high social and environmental responsibility in the environment protection (The National Environmental Prize of Russia).

Vladimir Fadeev, Head of Production Department - Deputy Chief Engineer of JSC TATNEFT, was awarded the badge of «V.I. Vernadsky Order».

Ravil Gareev, Head of Technical Corrosion and Nature Protection Office of the Production Department of JSC TATNEFT; Radik Mukhametgaleev, Chief Technologist - Head of Oil and Gas Treatment Office; Ravil Ibatullin, Director of «TatNIPIneft»; Z. Valisheva, Head of «TANECO» Environment Office, and Renat Nugaybekov, Director of ООО «TMS Group», were awarded commemorative medals for the 150th anniversary of V.I. Vernadsky.

13. The Collective Agreement of JSC TATNEFT named among the Top Ten Best Collective Agreements of Neftegazstroy Trade Union of Russia in the contest «Best NGCP of Russian Collective Agreement».

AWARDS AND NOMINATIONS OF THE REPUBLIC OF TATARSTAN

1. Ten projects of JSC TATNEFT were recognized as the best at the VIIIth Republican contest «50 best innovative ideas for the Republic of Tatarstan».
2. Specialists of JSC TATNEFT were awarded the 1st degree diploma for technology of water dumping and cleaning water produced at the well cluster and the 11nd degree diploma in the category «Energy efficient production» for the hot separation technology providing fuel gas for own installations of the contest «Resource Efficiency. Energy saving» in the nomination «Fuel industry», Kazan.
3. Collectives of NGDU «Almetyevneft» and TatNIPIneft were awarded small cups of the Innovators and Inventors Society of the Republic of Tatarstan of the review contest for the best arrangement of invention, rationalization and patent/licensing work among enterprises, organizations and institutions of the Republic of Tatarstan.
4. Nine projects of JSC TATNEFT became winners of the VIIIth Republican contest «50 Best Innovative ideas for the Republic of Tatarstan».
6. Shafagat Takhautdinov, General Director of JSC TATNEFT (from November, 2013 - Advisor to the Chairman of the JSC TATNEFT's Board of Directors) topped the rating of the business elite of the Republic of Tatarstan.
7. OOO CHOP «Tatneft-Security» was awarded prizes in the Republican contest «Territory of the Law».
8. The specialists of JSC TATNEFT won the first place in invention and 12 winning places for innovative activities in the contest «Young Innovator and Inventor of the Republic of Tatarstan».
9. 13 employees of JSC TATNEFT became winners in the nominations of the 50 Best innovative ideas for the Republic of Tatarstan» in the Annual Republican contest.
10. OOO «Tatneft-AZS Center», OOO «Tatspetstransport» Management Company, «NOU «CPC - Tatneft» were named the prize winners of the IXth Republican contest for the quality award of the Government of Tatarstan.
11. The following representatives of JSC TATNEFT were recognized as winners of the «Manager of the Year - 2013» contest:
- Nail Ibragimov, First Deputy General Director for Production - Chief Engineer of JSC TATNEFT in the category «High Competitiveness»;
 - Rustam Khalimov, Head of NGDU «Elkhovneft» in the nomination «For high social responsibility»;
 - I. Sattarov, Director of «PD Tatneft - AlabugaSteklovolokno» in the nomination «For achievements in innovation activities».
- Shafagat Takhautdinov, President of «Ak Bars» Hockey Club, was awarded the title «The Honored Physical Culture Worker of the Republic of Tatarstan» for public activities and support.
12. «Oil News» Newspaper was awarded the first place in the nomination «The Best Publication in periodicals» of the «Companies' media group», «Time of Tatneft» TV studio was awarded the second place in the category «Best TV story» of the «Companies' media» group of the Republican «Man and Nature» journalist contest.
13. «Oil and Life» corporate magazine joined the top 10 in the rating of corporate industrial companies in Russia and ranked No. 7 in the rating of «Production Management» Business Portal.

GOVERNMENT AWARDS OF TOP MANAGERS AND PROFESSIONALS OF JSC TATNEFT

1. In accordance with the RF Government Decree the following top managers of JSC TATNEFT were awarded the Prize of the Russian Federation Government in the field of science and technology and «RF Government Prize Laureate in Science and Technology» titles for creation and implementation commercial of the integrated technology for development of extra-viscous oil fields:
- Shafagat Takhautdinov, General Director (from November, 2013 - Adviser to the Chairman of the JSC TATNEFT's Board of Directors);
 - Nail Ibragimov, First Deputy General Director for Production - Chief Engineer;
 - Rais Khisamov, Chief Geologist - Deputy General Director;
 - Ravil Ibatullin, Director of TatNIPIneft;
 - Nakip Gatiyatullin, Head of TGRU, JSC TATNEFT;
 - Ilgiz Salikhov, Head of NGDU «Nurlatneft»;
 - Azat Zaripov, Deputy Office Head - Head of the Laboratory, TatNIPIneft,
 - Rinat Sabirov, Assistant to President of the Republic of Tatarstan.
2. Raphael Nurmukhametov, Head of NGDU «Leninogorskneft» was awarded the Badge of Honor Order.
3. The group of authors of JSC TATNEFT was awarded the Government of the Russian Federation prize in the field of science and technology for the work «Creation and commercial implementation of the integrated technology for development of extra-viscous oil fields».
4. Boris Kashcheev, oil & gas production foreman of NGDU «Jalilneft» was awarded the Order of Friendship by the Presidential Decree.
5. Ramil Magasumov, oil, gas & condensate production foreman was conferred Gratitude of the Government of the Russian Federation.
6. TATNEFT awarded the Top departmental awards of the building complex of the Russian Federation instituted by the Russian Union of Builders. JSC TATNEFT was awarded a diploma of the Russian Union of Builders. Shafagat Takhautdinov, General Director (from November, 2013 - Advisor to the JSC TATNEFT's Chairman of the Board of Directors), Mirgaziyan Taziev, Head of NGDU «Almetyevneft», Ghali Ganiev, General Director of OOO «TagraS Holding» were awarded the Order «For Merit in construction».
7. Sirin Gubaidullin, manual electric welder was awarded the medal «For Valorous Labor».
8. The collective of authors-oilmen was awarded the State Prize of the Republic of Tatarstan in the field of science and technology for the work «Scientific basis and commercial implementation of methods and technologies complex for the development of the resource base of JSC TATNEFT».

FINANCIAL RESULTS

AUDIT OPINION

AUDIT OPINION OF ACCOUNTING (FINANCIAL) STATEMENTS
for the period from January 01 till December 31, 2013

AUDIT OPINION

To Shareholders of Open Joint Stock CompanyTATNEFT named after V.D.Shashin

Audited Entity

Full name: Open Joint Stock Company TATNEFT named after V.D. Shashin (hereinafter referred to as the Company).
Abbreviated name: JSC TATNEFT n.a. V.D. Shashin.
State Registration Number 1021601623702.
Location: 75, Lenin Street, Almet'yevsk 423450, Republic of Tatarstan, Russian Federation

Auditor

Name: ZAO ENERGY CONSULTING/Audit
State Registration Number: 1047717034640.
Location: 7 Pavlovskaya Street, Moscow 115093, Russia.
Postal address: 7 Pavlovskaya Street, Moscow 115093, Russia.
Member of NP "Institute of Professional Auditors of Russia" (IPAR)
Basic State Registration Number: 10202014620.

We have audited the enclosed financial statements of the Company comprising the balance sheet as of December 31, 2013, profit and loss statement, attachments to the balance sheet and profit and loss statement (the statement of changes in equity and cash flow statement for the year of 2013), other attachments to the balance sheet and profit and loss statement (notes to the accounts) for 2013.

Responsibility of the Audited Entity for Financial Statement

The Company management is responsible for accounting and authenticity of the specified financial statements in accordance with the accounting rules in the Russian Federation and for the internal control system necessary for preparation of financial statements free of material misstatement due to fraud or errors.

Responsibility of the Auditor

Our responsibility is to express an opinion on authenticity of the financial statements based on our audit results. We have carried out the audit in accordance with the federal auditing standards of the Russian Federation. These standards require that we comply with relevant ethical requirements and perform the audit to obtain reasonable assurance that the financial statements are free of any material misstatement.

ENERGY CONSULTING

JSC TATNEFT named after V.D. Shashin

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AUDIT OPINION OF ACCOUNTING (FINANCIAL) STATEMENTS
for the period from January 01 till December 31, 2013

The audit included performance of audit procedures aimed at obtaining audit evidence supporting the numerical indicators of the financial statements and disclosure of the information contained therein. The choice of the audit procedures is the subject of our judgment, which is based on the assessment of the risk of material misstatements, made due to fraud or errors. In assessing this risk, we considered the system of internal control, providing for compiling and authenticity of the financial statements in order to select the relevant conditions for setting the auditing procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control system.

The audit also included the assessment of appropriateness of the accounting policies applied and the reasonableness of the estimated figures received by the management of the audited entity as well as the overall assessment of the financial statements presentation in general.

We believe that the audit evidence provides a reasonable basis for expressing an opinion on the authenticity of the financial statements.

Opinion

In our opinion, the financial statements authentically present in all material respects the financial position of JSC TATNEFT named after V.D. Shashin as of December 31, 2013, the results of its financial and business performance and cash flows for the year 2013 in accordance with the established rules of compiling financial statements in the Russian Federation.

March 28, 2014
General Director
ZAO ENERGY CONSULTING/Audit

ENERGY CONSULTING

L.A. Antonenko

Auditor's qualification certificate of Sept.08, 2011
No. 02-000014, ORNZ 29702011544

ENERGY CONSULTING

JSC TATNEFT named after V.D. Shashin

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BALANCE SHEET (RUR THOUSAND)

INDICATOR DESCRIPTION	LINE CODE	AS OF DECEMBER 31, 2013	AS OF DECEMBER 31, 2012	AS OF DECEMBER 31, 2011
ASSETS				
I. FIXED ASSETS				
Intangible assets	1110	209,755	199,857	201,468
Research and development results	1120	183168	140,440	90,875
Intangible exploration assets	1130	4,254,890	4,239,122	4,275,474
Tangible exploration assets	1140	749,309	765,985	868,591
Fixed assets	1150	105,623,595	84,545,165	71,612,606
incl. incomplete capital investments	1151	24,089,675	13,059177	6,344,080
Income-bearing investments in tangible assets	1160	2,346,536	6,170,187	6,418,316
Financial investments	1170	52,026,776	41,341,354	41,567,542
Deferred tax assets	1180	–	–	–
Other non-current assets	1190	66,517,371	58,667,903	41,518,025
incl. advance payments given for procurement and construction of fixed assets	1191	12,236,117	17,222,336	7,063,062
Assets retirement obligations	1192	29,507,230	30,057,677	30,624,585
TOTAL for section I	1100	231,911400	196,070,013	166,552,897
II. CURRENT ASSETS				
Reserves	1210	27,532,219	25,967,668	20,095,622
incl. raw materials and supplies	1211	1,691,393	1,196,405	1,379,951
Work in progress costs	1212	7,124,819	7,038,008	6,836,399
Finished products and goods for resale	1213	15,449,610	15,259,334	10,003,092
Goods shipped	1214	2,546,366	1,673,416	986,580
Other reserves and expenses	1215	720,031	800,505	889,600
Input value added tax on acquired assets	1220	4,209,301	3,667,200	3,830,658
Accounts receivable	1230	78,283,414	75,807,078	85,864,316
incl. noncurrent nondelinquent accountsreceivable(that are due beyond 12 monthsafter the reporting date)	1231	3,500,446	5,091,597	9,700,501
incl. buyers and customers	1232	1,535,471	2,952,290	6,276,669
Advances paid	1233	–	539	2,825
Other debtors	1234	1,964,975	2,138,768	3,421,007
incl. current nondelinquent accounts receivable (that are due in the next 12 months after the reporting date)	1235	74,782,968	70,715,481	76,163,815
incl. buyers and customers	1236	51,062,327	44,701,410	53,598,749
Advances paid	1237	13,427,574	14,980,295	12,368,493
Other debtors	1238	10,293,067	11,033,776	10,196,573
Financial assets (except for cash equivalents)	1240	170,528,846	195,409,775	208,374,862
Cash and cash equivalents	1250	20,649,731	7,396,963	7,817,038
Other current assets	1260	202,354	301,640	332,158
TOTAL for section II	1200	301,405,865	308,550,324	326,314,654
BALANCE	1600	533,317,265	504,620,337	492,867,551

BALANCE SHEET (RUR THOUSAND)

INDICATOR DESCRIPTION	LINE CODE	AS OF DECEMBER31, 2013	AS OF DECEMBER 31, 2012	AS OF DECEMBER 31, 2011
LIABILITIES				
III. CAPITAL AND RESERVES				
Authorized capital (share capital, registered fund, contributions of partners)	1310	2,326,199	2,326,199	2,326,199
Repurchased shares	1320	()	()	()
Revaluation of noncurrent assets	1340	8,753,243	9,548,876	9,638,151
Capital surplus (without revaluation)	1350	30,813	10,353	(9,231)
Reserve capital	1360	1,144,326	1,265,940	1,197,142
Undistributed profit (uncovered loss)	1370	409,441,456	365,305,770	315,721,541
TOTAL for Section III	1300	421,696,037	378,457,138	328,873,802
IV. LONG-TERM LIABILITIES				
Borrowings	1410	7,067,728	34,026,859	58,831,609
Deferred tax liabilities	1420	7,808,535	7,433,542	6,865,859
Estimated liabilities	1430	29,554,090	29,854,065	30,409,912
Other liabilities	1450	–	17,931	121,813
TOTAL for Section IV	1400	44,430,353	71,332,397	96,229,193
V. SHORT-TERM LIABILITIES				
Borrowings	1510	29,855,108	25,831,964	37,977,561
Accounts payable	1520	33,729,497	25,390,863	27,947,958
incl. suppliers and contractors	1521	11,027,550	9,903,302	8,138,832
Liabilities to the state non-budgetary fund	1522	294,098	276,771	220,044
Taxes and dues payable	1523	11,295,169	9,106,492	9,657,722
Advances received	1524	3,222,161	1,859,202	3,727,482
Dividends payable	1525	102,707	101,477	95,551
Other creditors	1526	7,787,812	4,143,619	6,108,327
Deferred revenues	1530	5,389	6,433	7,714
Estimated liabilities	1540	1,494,557	1,625,372	1,439,204
Other liabilities	1550	2,106,324	1,976,170	392,119
TOTAL for Section V	1500	67,190,875	54,830,802	67,764,556
BALANCE	1700	533,317,265	504,620,337	492,867,551

PROFIT AND LOSS STATEMENT FY 2013 (THOUSAND RUR)

INDICATOR DESCRIPTION	LINE CODE	JANUARY-DECEMBER 2013	JANUARY-DECEMBER 2012
Revenues	2110	363,531,273	344,563,268
Cost of goods sold	2120	(228,539,354)	(208,369,224)
Gross profit (loss)	2100	134,991,919	136,194,044
Selling expenses	2210	(37,252,177)	(35,083,893)
Administrative expenses	2220	–	–
Mineral exploration and evaluation expenses	2230	(2,026)	(59,806)
Profit (loss) on sales	2200	97,737,716	101,050,345
Participation capital	2310	179,295	214,560
Interest receivable	2320	3,282,143	3,891,121
Interest payable	2330	(4,337,004)	(5,386,623)
Other income	2340	26,372,397	10,489,195
Other expenses	2350	(39,749,600)	(23,367,851)
Profit (loss) before taxation	2300	83,484,947	86,890,747
Current income tax	2410	(19,712,285)	(20,606,585)
incl. permanent tax liabilities (assets)	2421	(3,390,289)	(3,796,119)
Changes in deferred tax liabilities	2430	(374,993)	(567,683)
Changes in deferred tax assets	2450		
Miscellaneous	2460	(117,095)	693,426
Adjusted tax on the profit for the consolidated group of taxpayers	2465	569,566	254,783
Net profit (loss)	2400	63,850,140	66,664,688
INFORMATIONAL			
Surplus on revaluation of fixed assets not included in the net income (loss) for the period	2510	423,247	405,484
Result from other operations not included in the net income (loss) for theperiod	2520	20,460	19,584
Total profit/loss for the period	2500	64,293,847	67,089,756
Basic earnings (loss) per share	2900	28.75	30.02
Diluted earnings (loss) per share	2910	–	–

ESSENTIAL ASPECTS OF THE ACCOUNTING POLICY AND PRESENTATION OF FINANCIAL STATEMENTS FOR 2013

MAIN APPROACHES TO PREPARATION OF ANNUAL FINANCIAL STATEMENTS
Financial accounting in the Company is performed in accordance withFederal Law No.402-FZ of December 06, 2011 “On Accounting”, Provision on Accounting and Reporting in the Russian Federation approved by Order of the Russian Federation Ministry of Finance No.34n dated July 29, 1998,current accounting regulations (RAS), as well as the accounting policy of the Company.Financial statements of the Company for 2013were prepared in compliance with mentioned Law, accounting regulations and policy, as well as the assumption of the organization activity continuity. Annual financial statements for 2013 were compiled according to the forms developed and approved by the Company in accordance with the Order of the Ministry of Finance No. 66n of July 02, 2010 «About formats for corporate financial statements». The data in financial statements is presented in thousands of rubles.

ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

Accounting for assets and liabilities denominated in foreign currencies is carried out in accordance withRAS 3/2006, «Accounting of Assets and Liabilities Denominated in Foreign Currencies», and approved by Order No. 154n of November 27, 2006of the FinanceMinistry of the Russian Federation.

The exchange rate difference is reflected in the accounting and financial statements for the concerned reporting period with the due date of payment or which the financial statements were executed for.

The exchange rate difference arising from conversion of the organization's assets and liabilities denominated in foreign currency used for performing activities outside the Russian Federation into rubles is credited to the organization's capital surplus.

The exchange rate difference on other activitiesis credited to financial results of the organization as other income and expenses. The currency exchange rate gains and losses are recognized in the Profit and Loss account in the «Other income» or «Other expenses».

For accounting business transactions in foreign currencies there was the official exchange rateappliedof the foreign currency to the ruble valid on the date of transaction. Cash on foreign currency accounts in banks and on hand, financial investments (except shares), and settlement funds in foreign currencies (except the funds received and paid advances and pre-payment or earnest money) are reflected in the financial statements as amounts calculated on the basis of the currency official exchange rates valid on December 31, 2013. The currency exchange rates on this date amounted to RUR 32.7292to USD 1.00 (RUR 30.3727 as of December 31, 2012;RUB 32.1961 as of December 31, 2011); RUR 44.9699to EURO1.00(RUR 40.2286 as of December 31, 2012, RUR 41.6714as of December 31, 2011).

INTANGIBLE ASSETS
As a part of intangible assets there are software programs for computersreflected; inventions; useful models; production secrets (know-how); trademarks and service marks, licenses for mineral geological exploration and production, and licenses for mineral production.

Intangible assets are reflected in the accounting records at historic cost in that reporting period when received the documents confirming the Company's exclusive rights to the results of intellectual activity or means of individualization irrespective of intangible assets used in production, performance of works or rendering of services, for administrative purposes.

The original cost of intangible assets acquired under the contracts providing for execution of non-monetary obligations, is determined based on the value of the assets transferred or subject to transfer by the organization. The cost of the assets transferred or subject to transfer is set on the basis of the price, at which the value of similar assets is usually determined in comparable circumstances.

If it is impossible to establish the value of assets transferred or subject to transfer by the organization, then the value of obtained intangible assets is determined based on the price, at which similar intangible assets are usually purchased.

The value of intangible assets shall be repaid by the straight-line depreciation method at the rates specified on the basis of the due date of the useful life.

Depreciation is not charged for intangible assets with an indefinite period of the useful life.

Depreciation charging is performed through accumulation of appropriate amounts in a separate account. Depreciation on intangible assets is reflected in the accounting period, which they refer to and is charged regardless of the organization'soperating results in the reporting period.

The useful life of intangible assets is annually verified for the purpose of clarification. In case of substantial change of the period duration (by more than twenty percent) within which the asset is intended to be used, its useful life is defined. The resulting adjustments are reflected in the accounting and financial reporting at the beginning of the year as changes in the estimated values.

Value adjustment of intangible assets of homogeneous groups is not performed.

EXPENSES FOR RESEARCH& DEVELOPMENT, DEVELOPMENT AND ENGINEERING WORKS
Expenses for the research & development, development and engineering worksare accounted in the amount of actual expenses incurred during performance of these works.

The expenses for the research & development, development and engineering works which have produced positive results and started to be used in the work are expensed written off as expenses of ordinary activities starting with the month following the month when the company started the actual application of the mentioned works results in the production manufacturing (work performance, service rendering) or for administrative needs of the organization.

Writing off the costs of each performed research & development, development and engineering workwhich have produced positive results is made during the useful life of R & D results (which should not exceed 5 years).

The expenses for the research & development, development and engineering workswhich have not produced positive results are written off to the financial result as miscellaneous expenses in the reporting period.

EXPLORATION ASSETS

The Company considers the following to be exploration assets as a part of tangible exploration assets:

- expenses for acquisition and construction of prospecting, exploration and advance producing wells, as well as other oilfield facilities;
- expenses for acquisition and rig-up of the equipment for prospecting, exploration and advance producing operation wells.

According to the Company the intangible exploration assets include the following types of exploration costs:

- acquisition costs of licenses for geological study of subsurface, licenses for geological exploration and production of mineral resources;
- costs of prospecting, evaluation and exploration of mineral resources: expenses for geological, geochemical, geophysical works, as well as expenses for acquiring geological information on the subsurface from the third parties, including state authorities, and expenses for drilling key, appraisal and structure wells.

The Company considers the following exploration costs as expenses for regular types of activity: expenses for maintenance of the structural divisions organized solely for or performance and coordination of works on exploration, evaluation and prospecting of mineral resources, as well as expenses for maintenance and repair of tangible exploration assets.

Tangible exploration assets are depreciated by straight-line depreciation method during the period of their useful life.

Depreciation costs for targets of tangible exploratory assets are included in the costs of prospecting, evaluation and exploration of mineral resources for relevant license blocks.

Intangible exploration assets as licenses for geological subsurface study are depreciated by straight-linemethod during the period of their useful application.Depreciation costs for aforementioned targets are included in the costs of prospecting, evaluation and exploration of mineral resources for relevant subsurface areas.

Acquisition costs incurred for exploration and mininglicenses, as well as the costs of prospecting, evaluation and exploration of mineral resources are not depreciated until the commercial feasibility of oil production is confirmed in the relevant license block of mineral resources and approval of the order of commercialfield development.

The commercial feasibility of oil production is considered to be confirmed at the moment of approval of the reservoir management plan in the license area of mineral resources.

The Company performs annual verification of exploration assets depreciation as of December 31 of the calendar year, as well as in the case of cessation of their recognition when confirming commercial feasibility of oil production in the relevant license block.

For the purposes of verifying exploration assets for depreciation the aforementioned assets are categorized by mineral resource blocks indicated in the licenses.

Impairment loss of exploration assetsis reflected in the profit-and-loss statement in line code «Other expenses». Furthermore the Company applies the reversal of impairment lossto exploration assets.

The Company ceases recognition of exploration assets in relation to a certain licensed block of mineral resources when confirming commercial feasibility of oil production in the relevant licensed block or recognizing lack of prospects of mineral resources production in this area.

When confirming the commercial feasibility of oil production in the licensed block of mineral resources the Company performs reclassification of exploration assets:

- tangible exploration assets are included in the category of fixed assets at residual value;
- intangible exploration assets are included in the category of intangible assets at residual value.

JSC TATNEFT writes off the exploration assets to other expenses,if they are not able to provide economic benefits in the future.

FIXED ASSETS

Land plots, buildings, facilities, machinery, equipment, transport vehicles and other relevant assets of over 12 months asset life and cost over 40,000 rubles are reflected in the fixed assets.

The Company annually reevaluates fixed assets based on the current value (replacement asset value) at the end of the reporting period.

Fixed assets put into operation before January 1, 2002 are depreciated at uniform depreciation rates approved by Decree No.1072 of the USSRCouncil of Ministers dated October 22, 1990 «On Uniform Depreciation Rates of Full Cost Recovery of Fixed Assets of the USSR National Economy»; and those assets put into operation from January 1, 2002 are depreciated at the rates calculated on the basis of useful life. The classification of fixed assets included in depreciation groups approved by the Order No. 1 of the Government of Russian Federation dated January 01, 2002 is used as one of the informationsources about the useful life periods.

Forthispurpose the following usefullife periodsare specified forfixedassets (put into operation starting from January 1, 2002) by depreciation groups:

1 group	13 months
2 group	30 months
3 group	48 months
4 group	72 months
5 group	96 months
6 group	132 months
7 group	192 months
8 group	252 months
9 group	312 months
10 group	372 months

The straight line depreciation method is used for depreciation calculations.

Depreciation is not charged on land plots and natural resources sites.

Changingthe original value offixed assets as they were included for accounting purposes is allowed in cases of completion, retrofit, renovation, modernization, partial liquidation and revaluation of the fixed assets.

In accordance with Article 11 of RAS 6/01 «Accounting of Fixed Assets» there are the following methods of estimation of objects of fixed assets received under contracts providing for execution of obligations (payment) by non-monetary assets:

- at the cost of goods (values) transferred or transferable. The cost of goods (values) transferred or transferableis determined on the basis of the price, which under comparable circumstances usually determines the cost of similar goods (values);
- if impossible to establish the cost of goods (values) transferred or transferable, then the cost of fixed assets received under contracts providingfor execution of obligations (payment) by non-monetary assetsis determined on the basis of the price, which is paid to acquire similar fixed assetsunder comparable circumstances.

Repair expenses of fixed assets items are included at actual costs and referred to the reporting period in which they were done.

The line of «Construction in progress» includes the costs of construction and erection works, acquisition of buildings, facilities, equipment and other tangible objects of long-term use, other capital works and expenses. This line reflects the cost of capital construction projects before their putting into operation, after which the structures are transferred into fixed assets.

In addition to this, the «Construction in progress» line reflects the costs associated with the lease of land for construction of future wells.

Leased fixed assets are reflected in the line «Income-bearing Investments in Tangible Assets».

FINANCIAL INVESTMENTS

Financial investments are accepted for accounting at original cost.

Financial investments defining the fair market value are reflected in the financial statements as of the end of the reporting year at current market value by adjusting their evaluation on the previous reporting date.

Financial investments for which there is no definition of the fair market value are reflected in financial statements as of the reporting date at original cost after deduction of the reserve amount formed for their depreciation.

Financial investments are reflected as part of the current assets if the expected duration of their possession is less than 12 months after the reporting date. Other financial investments are included in fixed assets.

The costs of information, advisory services, valuation services and other similar services related to taking a decision on acquisition of financial investments made prior to the acquisition of financial investments are recorded in the line of «Other Current Assets» (if the decision to acquire the investments is made within 12 months from the date of the expenditure). In other cases they are included in the line of «Other Non-Current Assets».

On disposal of financial investments for which the current market value cannot be determined, their value is formed on the basis of the assessment determined by:

- on disposal of shares or bonds - at original cost of the first-time financial investments acquisition (FIFO method);
- on disposal of bills - at original cost of each unit of financial investments accounting.

The cost of information, advisory services, valuation services and other similar services related to the disposal of financial investments made prior to the financial investments disposal are reflected in the line of «Other Current Assets».

On disposal of financial investments, for which the current market value is not determined, their value is determined by the organization on the basis of the last assessment.

Gains and losses of financial investments disposal are reflected in the profit and loss statement as part of other income and expenses.

REPO transactions are reflected in the financial statements as giving or receiving a loan against securities.

INVENTORIES

«Raw Materials and Supplies» line of the balance sheet reflects raw materials, basic and auxiliary materials, purchased semi-finished products and components, fuel, packaging, spare parts, construction and other materials.

The line of the inventories also reflects the assets, which meet the conditions necessary for the recognizing them as fixed assets of the cost no more than 40,000 rubles per unit.

The inventories are recorded at the actual cost of their acquisition with the exception of VAT and other recoverable taxes (except as provided by the legislation of the Russian Federation). Disposal of the inventories is carried at the average cost.

The inventories, which are obsolete, wholly or partially have lost their original quality, or which current market value is decreased, are reflected in the balance sheet less the reserve provision for impairment of the material values.

WORK IN PROGRESS, FINISHED PRODUCTS, GOODS AND SALES EXPENSES

Expenditures incurred for performance of activities under the Agreement for the exploration and production sharing with Libya during the exploration period are reflected as part of the production in progress. The plans provide that the mentioned expenditures for petroleum operations will be offset through delivery of finished products (crude oil, liquid hydrocarbon by-products and natural gas), which JSC TATNEFT will receive as a result of production sharing during the operational period.

Finished products are reflected in the balance-sheet at the full actual production cost (including management expenses).

In shipment of oil, petroleum products and gas products assessment is carried out by the average cost method for each group of products.

Sales expenditures are written off to the results of the Company’s financial and economic activities without differentiating between the sold and unsold products.

GOODS SHIPPED

The accounting item “Goods Shipped” reflects shipped products, the title for which was not transferred to buyers.

This line also reflects the real estate property transferred to the buyer by the delivery-acceptance act before the moment of state registration of the transfer ownership.

ACCOUNTS RECEIVABLES

Indebtedness of buyers and customers is determined on the ground of prices established by contracts concluded between the Company and buyers (customers) taking into account all discounts (extra charges). Indebtedness unrealistic to be recovered is written off from the balance if it is proved to be such.

The indebtedness not paid within the time limits stipulated in contracts and not secured with respective guarantees is shown after deduction of accrued reserves for bad debts. These reserves constitute a conservative assessment carried out by the Company with regard to the part of debts which is likely not to be paid. The reserve is created for each doubtful debt outstanding (depending on the financial condition (solvency) of the debtor and an estimated probability of debt repayment in whole or in part) on the basis of the receivables inventory, made for the last day of the reporting month.

Income and expenses generated in the creation and recovery of allowance for doubtful debts in one financial year are reflected in the profit and loss statement in the lines «Other Income» or «Other Expenses».

CASH AND CASH EQUIVALENTS

In accordance with the regulations on accounting, «Report of Cash Flows,» approved by Order No. 11n of the Ministry of Finance of Russia dated February 02, 2011 the cash equivalents include highly liquid investments that can easily be converted into the known in advance amount of cash and are subject to an insignificant risk of value change.

The Company refers the bank deposits placed for maximum 3 months period under the contracts the terms of which provide for acceleration possibility to the cash equivalents.

In the Statement of Cash Flows:

- cash balances and cash equivalent balances in a foreign currency at the beginning and at the end of the reporting period are reflected in the rubles amount, which is determined in accordance with RAS 3/2006. Differences arising in connection with the conversion of the organization's cash flows and cash equivalents in foreign currency exchange rates on different dates are reflected in the cash flows statement as the impact of foreign currency exchange rate changes against the ruble.
- indirect taxes (VAT and excise duties) as part of the proceeds from buyers and customers, payments to suppliers and contractors and payments to the budget system of the Russian Federation or reimbursement of out of it are reflected as balanced result in the line of «Other Income» («Other Payments»).

AUTHORIZED CAPITAL AND CAPITAL SURPLUS

The authorized capital is reflected in the amount of the face value of ordinary and preferred shares purchased by the shareholders.

The surplus capital of the Company includes exchange differences arising from the conversion of the organization’s assets and liabilities value expressed in foreign currency used to perform activities outside the Russian Federation into rubles. In addition, the revaluation surplus of fixed assets resulting from revaluation classified in the additional capital is reflected in the «Revaluation of Fixed Assets» line. Revaluation surplus in case of the fixed asset item disposal is transferred from the capital surplus to the undistributed profit of the Company.

In accordance with the legislation the Company established a reserve fund in the amount to 5% of the authorized capital formed out of net profits of the Company. The reserve fund is intended to cover the losses of the Company for bonds redemption and repurchase of the Company's shares if unavailable other funds.

In accordance with the constituent documents the Company establishes the Employee share ownership fund which is formed out of net profits of the. Contributions to this fund are made in accordance with the methodology approved by “Regulations on Bonus Certificates of JSC TATNEFT”.

ESTIMATED LIABILITIES

The Company acknowledges its estimated liability for remuneration payment based on the results of the year.

The amount of monthly payments under the estimated liability is determined based on the monthly deduction payments and the actual expenses amount of the labor costs. Percentage of contributions under the estimated liability is calculated by the ratio of the annual planned expenditure for the labor payment to the planned total labor costs.

Based on the Provision «Estimated Liabilities, Contingent Liabilities and Contingent Assets (RAS 8/2010)» becoming effective the Company introduced amendments in terms of recognizing estimated liabilities to the employees for unused vacations.

The estimated liability value of unused employees' vacation for accrual of relevant allowance is determined based on the total number of days of the unused vacation for each employee of the average daily earnings and insurance premiums accrued on the specified reserve.

The actual amount of the vacation allowance (including the compensation amount for unused vacation) accrued to the employee in the accounting is ascribed due to the acknowledged amount of the estimated liability to the unused vacation payment.

An inventory of the estimated liability for unused vacation payment is carried out as of the last day of each quarter, which results are reflected by the estimated liability adjustments.

LOANS AND BORROWINGS

In accordance with RAS 15/01 «Accounting of expenses on loans and borrowings» approved by Order No. 107n of the Ministry of Finance of Russia dated October 06, 2008 the principal amount of the loan (credit) received from the lender is accounted in accordance with the terms of the loan agreement (credit agreement) in the amount of actually received monetary assets or in cost estimate of other items stipulated by the contract.

Indebtedness under received loans and borrowings as well as accrued interest is reflected in the balance sheet line of «Borrowings».

Indebtedness under received loans and borrowings as well as accrued interest for accounting is divided into short-term indebtedness (which repayment period does not exceed 12 months under the terms of contract) and long-term indebtedness (the repayment period of which is over 12 months under the terms of contract).

The long-term indebtedness is transferred to short-term indebtedness at the moment when there are 365 days left before repayment of the principal amount.

Interest on received loans and borrowings is recognized as other expenses of that period in which they were made, except for the part to be included in the value of the investment asset.

Expenses of received loans and credits directly attributable to acquisition and/or creation of the investment asset are included in the cost of the asset and are repaid through depreciation except where charging of the asset depreciation is not provided by the accounting rules.

Inclusion of expenses on received loans and borrowings in the original value of the investment asset is terminated on the first day of the month following the month of accepting the asset for accounting as a fixed asset, intangible asset or R & D expenses.

SALES REVENUE RECOGNITION

Revenue from sales of goods, products and service rendering (execution of works) is recognized when the products are shipped to the buyers (services are rendered to customers).

Revenue from the sales under contracts providing for fulfillment of obligations (payment) by non-monetary assets is determined at the cost of the values received or receivable by the Company calculated on the basis of the prices which are usually used by the Company in comparable circumstances to determine the cost of similar values.

According to hydrocarbons sales contracts the settlement documents should be mainly submitted to the buyers no later than 15 days after the month of shipment, while the price of raw materials is determined by the settlement method based on the market quotations or it is fixed in the contract as agreed by the parties.

EXPENSES

Administrative expenses are written off for production in full on a monthly basis.

Administrative expenses in the oil-and-gas production divisions are distributed between the calculation items for production of oil, associated petroleum gas, production of other goods (works, services) on a pro rata basis to their total production expenses net of deductions, taxes and other obligatory payments. Administrative expenses in other structural divisions are distributed on a pro rata basis to the actual expenses of the direct labor costs.

ACCOUNTING OF PROFIT TAX CALCULATIONS

In preparation of the financial statements the balanced (net) amounts of deferred tax asset and deferred tax liability are reflected in the balance sheet reflects.

CORRECTION OF ERRORS IN THE ACCOUNTING AND REPORTING

An error identified in the accounting and financial statements is recognized to be essential if the ratio of the error to the numerical indicator of the relevant group of balance sheet items of JSC TATNEFT, or item of the financial statement of JSC TATNEFT for the reporting period is minimum five percent. Otherwise the error is insignificant.

IFRS CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2013



Independent Auditor's Report

To the Shareholders and Board of Directors of OAO Tatneft

We have audited the accompanying consolidated financial statements of OAO Tatneft and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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. 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 consolidated 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 consolidated financial statements.

ZAO PricewaterhouseCoopers Audit, 10 Butyrsky Val, Moscow, Russian Federation, 125047
T: +7 495 967 6000, F: +7 495 967 6001, www.pwc.ru

(i)



Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

I.E. Ereemeva

31 March 2014

Moscow, Russian Federation



I.E. Ereemeva, Moscow (license no. 01-000058), ZAO PricewaterhouseCoopers Audit

Audited entity: OAO Tatneft

State registration certificate № 632, issued by Ministry of Finance of the Republic of Tatarstan on 21 January 1994

Certificate of inclusion in the Unified State Register of Legal Entities issued on 18 July 2003 under registration № 1021600523702

75, Lenina St., Almet'yevsk, Tatarstan, Russia, 423400

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1999

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2003 under registration № 102770048431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 876. OKRZ 10201003583 in the register of auditors and audit organisations

(ii)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(IN MILLIONS OF RUSSIAN ROUBLES)

	NOTE	31 DECEMBER 2013	31 DECEMBER 2012
ASSETS			
Cash and cash equivalents	6	29,535	13,083
Restricted cash		917	1,369
Accounts receivable, net	7	52,098	53,553
Short-term financial assets	8	16,693	14,931
Inventories	9	29,538	28,590
Prepaid expenses and other current assets	10	23,217	28,806
Total current assets		151,998	140,332
Long-term accounts receivable, net	7	1,016	1,530
Long-term financial assets	11	25,814	25,782
Investments in associates and joint ventures	12	7,778	6,711
Property, plant and equipment, net	13	481,883	448,903
Deferred income tax assets	18	2,049	2,633
Other long-term assets	14	3,551	4,716
Total non-current assets		522,091	490,275
Total assets		674,089	630,607
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term debt and current portion of long-term debt	15	36,561	32,096
Accounts payable and accrued liabilities	16	28,444	31,019
Taxes payable	18	16,706	13,234
Income tax payable		1,462	201
Total current liabilities		83,173	76,550
Long-term debt, net of current portion	15	12,785	37,991
Other long-term liabilities	17	3,839	3,710
Decommissioning provision, net of current portion	13	54,511	51,089
Deferred income tax liability	18	15,799	15,034
Total non-current liabilities		86,934	107,824
Total liabilities		170,107	184,374
SHAREHOLDERS' EQUITY			
Preferred shares (authorized and issued at 31 December 2013 and 2012 – 147,508,500 shares; nominal value at 31 December 2013 and 2012 – RR1.00)	19	746	746
Common shares (authorized and issued at 31 December 2013 and 2012 – 2,178,690,700 shares; nominal value at 31 December 2013 and 2012 – RR1.00)	19	11,021	11,021
Additional paid-in capital		87,482	87,482
Accumulated other comprehensive income		889	726
Retained earnings		384,376	333,072
Less: Common shares held in treasury, at cost (55,592,000 shares and 55,543,000 shares at 31 December 2013 and 2012, respectively)		(3,102)	(3,093)
Total Group shareholders' equity		481,412	429,954
Non-controlling interest	19	22,570	16,279
Total shareholders' equity		503,982	446,233
Total liabilities and equity		674,089	630,607

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME

(IN MILLIONS OF RUSSIAN ROUBLES)

	NOTE	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Sales and other operating revenues, net	22	454,983	444,099
COSTS AND OTHER DEDUCTIONS			
Operating	20	(89,634)	(86,675)
Purchased oil and refined products		(50,312)	(53,900)
Exploration		(1,839)	(1,740)
Transportation		(30,388)	(29,108)
Selling, general and administrative	20	(44,123)	(40,910)
Depreciation, depletion and amortization	13	(19,323)	(17,770)
Gain/(loss) on disposals of property, plant and equipment, investments and impairments		1,209	(1,997)
Taxes other than income taxes	18	(111,336)	(106,293)
Maintenance of social infrastructure and transfer of social assets		(4,828)	(4,031)
Total costs and other deductions		(350,574)	(342,424)
OTHER INCOME/(EXPENSES)			
Foreign exchange (loss)/gain		(438)	1,665
Interest income	21	3,365	3,872
Interest expense, net of amounts capitalized	21	(6,924)	(6,978)
Earnings from equity investments	12	350	739
Other income, net		529	845
Total other (expenses)/income		(3,118)	143
Profit before income taxes		101,291	101,818
INCOME TAXES			
Current income tax expense		(21,645)	(21,816)
Deferred income tax expense		(1,302)	(1,554)
Total income tax expense	18	(22,947)	(23,370)
Profit for the year		78,344	78,448
OTHER COMPREHENSIVE INCOME:			
Items to be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments		530	(430)
Unrealized holding (losses)/gains on available-for-sale securities, including share of associates, net of tax		(43)	151
Items that will not be reclassified to profit or loss:			
Actuarial loss on employee benefit plans		(324)	(990)
Other comprehensive income/(expenses)		163	(1,269)
Total comprehensive income for the year		78,507	77,179
Profit attributable to:			
Group shareholders		70,832	73,473
Non-controlling interest		7,512	4,975
		78,344	78,448
Total comprehensive income is attributable to:			
Group shareholders		70,995	72,204
Non-controlling interest		7,512	4,975
		78,507	77,179
Basic and diluted net earnings per share (RR)			
Common	19	31.19	32.35
Preferred		31.16	32.33
Weighted average shares outstanding (millions of shares)			
Common		2,123	2,123
Preferred		148	148

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (IN MILLIONS OF RUSSIAN ROUBLES)

	ATTRIBUTABLE TO GROUP SHAREHOLDERS										
	NUMBER OF SHARES (THOUSANDS)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	TREASURY SHARES	ACTUARIAL LOSS ON EMPLOYEE BENEFIT PLANS	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	UNREALIZED HOLD-ING GAIN/(LOSSES) ON AVAILABLE-FOR-SALE SECURITIES, INCLUDING SHARE OF ASSOCIATES, NET OF TAX	RETAINED EARNINGS	TOTAL SHARE-HOLDERS' EQUITY	NON-CON-TROLLING INTEREST	TOTAL EQUITY
Balance at 1 January 2012	2,270,643	11,767	87,482	(3,094)	496	1,184	315	275,675	373,825	11,602	385,427
Profit for the year	–	–	–	–	–	–	–	73,473	73,473	4,975	78,448
Other comprehensive (loss)/income for the year	–	–	–	–	(990)	(430)	151	–	(1,269)	–	(1,269)
Total comprehensive (loss)/income for the year	–	–	–	–	(990)	(430)	151	73,473	72,204	4,975	77,179
Treasury shares	13	–	–	1	–	–	–	–	1	–	1
Acquisitions	(80)	–	–	(15)	–	–	–	–	(15)	–	(15)
Disposals	93	–	–	16	–	–	–	–	16	–	16
Acquisition of non-controlling interest in subsidiaries	–	–	–	–	–	–	–	–	–	267	267
Dividends declared	–	–	–	–	–	–	–	(16,076)	(16,076)	(565)	(16,641)
Balance at 31 December 2012	2,270,656	11,767	87,482	(3,093)	(494)	754	466	333,072	429,954	16,279	446,233
Profit for the year	–	–	–	–	–	–	–	70,832	70,832	7,512	78,344
Other comprehensive (loss)/income for the year	–	–	–	–	(324)	530	(43)	–	163	–	163
Total comprehensive (loss)/income for the year	–	–	–	–	(324)	530	(43)	70,832	70,995	7,512	78,507
Treasury shares	(49)	–	–	(9)	–	–	–	–	(9)	–	(9)
Acquisitions	(175)	–	–	(36)	–	–	–	–	(36)	–	(36)
Disposals	126	–	–	27	–	–	–	–	27	–	27
Disposal of non-controlling interest in subsidiaries	–	–	–	–	–	–	–	–	–	(237)	(237)
Dividends declared	–	–	–	–	–	–	–	(19,528)	(19,528)	(984)	(20,512)
Balance at 31 December 2013	2,270,607	11,767	87,482	(3,102)	(818)	1,284	423	384,376	481,412	22,570	503,982

CONSOLIDATED STATEMENT OF CASH FLOWS (IN MILLIONS OF RUSSIAN ROUBLES)

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
OPERATING ACTIVITIES		
Profit for the year	78,344	78,448
Adjustments:		
Depreciation, depletion and amortization	19,323	17,770
Income tax expense	22,947	23,370
(Gain)/loss on disposals of property, plant and equipment, investments and impairments	(1,209)	1,997
Transfer of social assets	23	4
Effects of foreign exchange	3,282	(4,830)
Equity investments earnings net of dividends received	(350)	(724)
Change in provision for impairment of financial assets	633	655
Change in fair value of trading securities	(351)	(392)
Interest income	(3,365)	(3,872)
Interest expense	6,924	6,978
Other	736	461
Changes in operational working capital, excluding cash:		
Accounts receivable	1,094	8,550
Inventories	(1,630)	(6,929)
Prepaid expenses and other current assets	4,733	(684)
Trading securities	3,159	37
Accounts payable and accrued liabilities	(1,659)	(6,397)
Taxes payable	3,490	(439)
Notes payable	256	(78)
Other non-current assets	674	(399)
Net cash provided by operating activities before income tax and interest	137,054	113,526
Income taxes paid	(19,634)	(23,503)
Interest paid	(2,636)	(3,258)
Interest received	3,365	3,872
Net cash provided by operating activities	118,149	90,637
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(56,827)	(50,795)
Proceeds from disposal of property, plant and equipment	1,539	1,798
Proceeds from disposal of investments	564	1,809
Purchase of investments	(17)	(2,192)
(Purchase)/proceeds from certificates of deposit, net	(5,034)	1,554
Repayment/(issuance) of loans and notes receivable, net	1,457	(502)
Change in restricted cash	452	(191)
Net cash used in investing activities	(57,866)	(48,519)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	30,258	42,278
Repayment of debt	(53,820)	(71,458)
Dividends paid to shareholders	(19,526)	(16,070)
Dividends paid to non-controlling shareholders	(984)	(565)
Purchase of treasury shares	(27)	(15)
Proceeds from sale of treasury shares	27	16
Proceeds from issuance of shares by subsidiaries	–	9
Net cash used in financing activities	(44,072)	(45,805)
Net change in cash and cash equivalents	16,211	(3,687)
Effect of foreign exchange on cash and cash equivalents	241	(131)
Cash and cash equivalents at the beginning of the period	13,083	16,901
Cash and cash equivalents at the end of the period	29,535	13,083

NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS
(in millions of Russian Roubles)

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 22).

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 31 December 2013 and 2012 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, holds approximately 36% of the Company’s voting stock. These shares were contributed to 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 (see Note 19). The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and “major” and “interested party” transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through OAO Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company’s suppliers and contractors.

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

NOTE 2:
BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Group first adopted IFRS for the fiscal year ended 31 December 2012, with a date of transition to IFRS on 1 January 2011.

These consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities measured at fair value.

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 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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

RECLASSIFICATIONS

Certain reclassifications have been made to previously reported balances to conform to the current year presentation; such reclassifications had no effect on net income profit for the year, shareholders’ equity or cash flows.

NOTE 3:
SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

FUNCTIONAL AND PRESENTATION CURRENCY.

The presentation currency of the Group is the Russian rouble.

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.

Under IAS 21 revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the reporting date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in Russian Roubles are recognized in the profit or loss for the year.

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 31 December 2013 and 2012 was RR 32.73 and RR 30.37 to US \$, respectively. Average rate of exchange for the years ended 31 December 2013 and 2012 were RR 31.85 and RR 31.09 per US \$, respectively.

CONSOLIDATION

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group 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.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition – related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest’s proportionate share of the acquiree’s net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit and loss for the year.

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. Dividends received from associates and joint ventures reduce the carrying value of the investment in associates and joint ventures. Other post-acquisition changes in Group’s share of net assets of an associate and joint ventures are recognised as follows: (i) the Group’s share of profits or losses of associates or joint ventures is recorded in the consolidated profit or loss for the year as share of result of associates or joint ventures, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates or joint ventures are recognised in profit or loss within the share of result of associates or joint ventures.

However, when the Group’s share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group’s interest in the associates and joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that the carrying value exceeds the recoverable amount.

CURRENT/NON-CURRENT PRESENTATION

Group presents current and non-current assets, and current and non-current liabilities, as separate classifications in its Consolidated Statement of Financial Position.

Group discloses for each asset and liability line item that combines amounts expected to be recovered or settled in period no more than 12 months after the reporting period are disclosed as current; and more than 12 months after the reporting period as non-current.

CASH AND CASH EQUIVALENTS

Cash represents cash on hand and in bank accounts, which can be effectively withdrawn at any time without prior notice. Cash equivalents include highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are recognized based on the cost of acquisition which approximates fair value.

RESTRICTED CASH

Restricted cash represents cash deposited under letter of credit arrangements, which are restricted under various contractual agreements. Letters of credit are used to pay contractors for materials, equipment and services provided. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statements of financial position and of the consolidated statement of cash flows and disclosed separately.

FINANCIAL ASSETS

All financial assets are initially recognised when an entity becomes a party to the contract, they recognised at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group’s financial assets include cash and cash equivalents, deposits, securities, trade and other receivables, loans issued.

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss.

LOANS AND RECEIVABLES

Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. The accrued interest is included in the profit and losses for the year.

Allowances are provided for estimated losses and for doubtful debts based on estimates of uncollectible amounts. These estimates require the exercise of judgment and the use of assumptions.

The losses arising from impairment are recognized as selling, general and administrative expenses in the consolidated statements of profit or loss and other comprehensive income.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit and loss for the year.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses. When an investment is derecognized the cumulative gain or loss in equity is also reclassified to profit and loss for the year.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the other comprehensive income) is recognized in the profit and loss for the year as a reclassification adjustment from other comprehensive income.

FINANCIAL LIABILITIES

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Group’s financial liabilities include trade and other payables, loans and borrowings.

Financial liabilities are recognised initially at fair value. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss for the year.

The Group does not use derivative financial instruments.

The Group does not offset assets and liabilities unless required or permitted to by an IFRS.

INVENTORIES

Inventories of crude oil, refined oil products, materials and supplies, and finished goods are valued at the lower of cost or net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. The Group uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

PREPAID EXPENSES

Prepaid expenses include advances for purchases of products and services, insurance fees, prepayments for export duties, VAT and other taxes. Prepayments are carried at cost less provision for impairment.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments for services such as insurance, transportation and others are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the profit or loss for the year.

MINERAL EXTRACTION TAX

Mineral extraction tax (MET) on crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 470 and RR 446 per ton in 2013 and 2012, respectively) adjusted depending on the monthly average market prices of the Urals blend and the RR/US \$ exchange rate for the preceding month. The base tax rate formula for MET is modified by benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. The Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold.

The ultimate amount of the MET on crude oil depends also on geographic location of the oil field (for certain regions zero tax rate may be applied depending on the volume of crude oil produced and period of field development). Also a zero MET tax rate applies to the production of highly viscous crude oil (defined as crude oil of more than 200 Megapascal second in reservoir conditions).

MET is recorded within Taxes other than income tax in the Consolidated Statements of Profit or Loss and Other Comprehensive Income.

VALUE ADDED TAX

Value added tax (VAT) at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT can be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

Export of goods and rendering certain services related to exported goods are subject to 0% VAT rate upon the submission of confirmation documents to the tax authorities.

VAT related to sales and purchases is recognized in the Consolidated Statements of Financial Position on a gross basis and disclosed separately as Prepaid expenses and other current assets and Taxes payable.

OIL AND GAS EXPLORATION AND DEVELOPMENT COST

Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry holes, and related production facilities are capitalized.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized as exploration and evaluation assets on a “field by field” basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at historical cost of acquisition or construction less accumulated depreciation, depletion, amortization and impairment.

Proved oil and gas properties include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of maintenance, repairs and replacement of minor items of property are expensed when incurred within operating expenses; renewals and improvements of assets are capitalised and depreciated during the remaining useful life. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Advances made on property, plant and equipment and construction in progress are accounted for within Construction in progress.

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with IAS 36 Impairment of assets, which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to their recoverable amount which is the higher of fair value less costs to sell and value-in-use.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for service stations. Impairment losses are recognised in the profit or loss for the year.

Impairments are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. The reversal of impairment would be limited to the original carrying value less depreciation which would have been otherwise charged had the impairment not been recorded.

Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale, are accounted for at the lower of amortized cost or fair value, less cost to sell. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

The Group calculates depreciation expense for oil and gas proved properties using the units-of-production method for each field based upon proved developed oil and gas reserves, except in the case of significant asset components whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Oil and gas licenses for exploration of unproved reserves are capitalised within property, plant and equipment; they are depreciated on straight-line basis over the period of each license validity.

Depreciation of all other property, plant and equipment is determined on the straight-line method based on estimated useful lives which are as follows:

	YEARS
Buildings and constructions	30-50
Machinery and equipment	10-35

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds, if any, with the carrying amount. Gains and losses are recorded in Gain/(loss) on disposals of property, plant and equipment, investments and impairments in the Consolidated Statements of Profit or Loss and Other Comprehensive Income.

CAPITALISATION OF BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings.

The portion of the foreign exchange movements is estimated based on interest rates on similar borrowing in the Group’s functional currency. The foreign exchange gains and losses eligible for capitalisation are assessed on a cumulative basis.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

EMPLOYEE BENEFITS, PENSION AND OTHER POST-RETIREMENT BENEFITS

Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has various pension plans covering substantially all eligible employees and members of management. The pension liabilities are measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the same currency and terms to maturity approximating the terms of the related liability. Pension costs are recognised using the projected unit credit method.

The cost of providing pensions is accrued and charged to staff expense within operating expenses in the Consolidated Statements of Profit or Loss and Other Comprehensive Income reflecting the cost of benefits as they are earned over the service lives of employees.

Actuarial gains and losses with regard to post employment benefit plans are recognised immediately in other comprehensive income. Actuarial gains and losses related to other long-term benefits are recognised immediately in the profit or loss for the year.

Past service costs are recognised as an expense immediately.

Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

STOCK-BASED COMPENSATION

The Company has a share-based compensation plan (the “Plan”) for senior management and directors of the Company. Under the provisions of the Plan, share-based bonus awards (“Awards”) are issued on an annual basis to the Company’s directors and senior management as approved by the Board of Directors. Each Award provides a cash payment at the settlement date equal to one of the Company’s common shares multiplied by the difference between the lowest share price for the preceding three years as of the grant date and the highest share price for the preceding three years as of each year-end. Share prices are measured based on the weighted average daily trading price as reported on the Moscow Exchange MICEX-RTS (MOEX). Awards are subject to individual annual performance conditions and are generally settled within 90 days after the Company’s Management Committee approval.

The liability at 31 December 2013 and 2012 is determined based on the final expected bonus payments. The Awards are recognized as expense over the annual service period, net of forfeitures, with a corresponding liability to accounts payable and accrued liabilities.

DECOMMISSIONING PROVISIONS

The Group recognizes a liability for the fair value of legally required or constructive decommissioning provisions associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group’s field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group’s licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group’s estimates of future abandonment costs consider present regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal.

The Group capitalizes the associated decommissioning costs as part of the carrying amount of the long-lived assets. Changes in obligation, reassessed regularly, related to new circumstances or changes in law or technology, or in the estimated amount of the obligation, or in the pre-tax discount rates, are recognised as an increase or decrease of the cost of the relevant asset to the extent of the carrying amount of the asset; the excess is recognised immediately in profit and loss.

The Group’s petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

INCOME TAXES

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognised for all deductible or taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Where it is not probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Income tax penalties expense and income tax penalties payable are included in Taxes other than income tax in the Consolidated Statements of Profit or Loss and Other Comprehensive Income and Taxes payable in the Consolidated Statement of Financial Position, respectively. Income tax interest expense and payable are included in Interest expense in the Consolidated Statements of Profit or Loss and Other Comprehensive Income and other accounts payable and accrued expenses in the Consolidated Statement of Financial Position, respectively.

SHARE CAPITAL

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity.

Dividends paid to shareholders are determined by the Board of directors and approved at the annual shareholders’ meeting.

TREASURY SHARES

Common shares of the Company owned by the Group at the reporting date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

EARNINGS PER SHARE

Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference share holders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

REVENUE RECOGNITION

Revenues from the production and sale of crude oil, petroleum and petrochemical products and other products are recognized when title has transferred and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and other incentives. Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the Consolidated Statements of Profit or Loss and Other Comprehensive Income. Revenue includes only economic benefits which flow to the Group. Taxes and duties arising on the sale of goods to third parties do not form part of revenue.

TRANSPORTATION EXPENSES

Transportation expenses recognised in the Consolidated Statements of Profit or Loss and Other Comprehensive Income represent all expenses incurred by the Group to transport crude oil and other products to end customers (they may include pipeline tariffs and any additional railroad costs, handling costs, port fees, sea freight and other costs). Compounding fees are included in Selling, General and administrative expenses.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated 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.

Management of the Group also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Estimation of oil and gas reserves;
- Useful life of property, plant and equipment;
- Decommissioning provisions;
- Impairment of long-lived assets;
- Consolidation.

ESTIMATION OF OIL AND GAS RESERVES

Oil and gas development and production assets are depreciated on a unit-of-production (UOP) basis for each field or group of fields with similar characteristics at a rate calculated by reference to proved or proved developed reserves. Estimates of proved reserves are also used in the determination of whether impairments have arisen or should be reversed. Also, exploration drilling costs are capitalized pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved and proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reasonable certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, observation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. The Group estimates its oil and gas reserves in accordance with rules promulgated by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) for proved reserves.

Changes to the Group’s estimates of proved and proved developed reserves affect prospectively the amounts of depreciation, depletion and amortization charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business the diversity of the Group’s portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalized exploration drilling costs being written off in the profit and loss for the year.

USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT

Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. As a result of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a material impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Other property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

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.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group's operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The Group's petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

SENSITIVITY ANALYSIS FOR CHANGES IN RATES, AND OTHER ESTIMATES

	CHANGE IN	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Discount rate	+1%	(11,436)	(22,437)
	-1%	15,384	4,814

Information about decommissioning provision is presented in Note 13.

IMPAIRMENT OF LONG-LIVED ASSETS

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions, including future oil prices, expected production volumes and refining margins appropriate to the local circumstances and environment. It is reasonably possible that these assumptions may change and may then require a material adjustment to the carrying value of the Group's assets.

CONSOLIDATION

The Company made significant judgements related to significant subsidiaries which are controlled by the Group, even though the Group holds less than half of the voting rights of these subsidiaries.

The Company considers that the Group has control over several entities even though it has less than 50% of the voting rights. This is because the Company has power over the investee, has rights to variable returns of the investee, and has the power to affect variable returns.

Additional information is disclosed in Note 25.

NOTE 5:
ADOPTION OF NEW OR REVISED
STANDARDS AND INTERPRETATIONS

The following new standards and interpretations became effective for the Group from 1 January 2013:

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

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

- IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.
- Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.
- Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7, Financial Instruments: Disclosures (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's consolidated financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.
- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013) - IAS 16, Property, Plant and Equipment, was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory.

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

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.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

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.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRIC 21 - Levies (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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

Amendments to IAS 19 – Defined benefit plans: Employee contributions (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to standards:

- IFRS 2 was amended to clarify the definition of a "vesting condition" and to define separately "performance condition" and "service condition";
- IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.
- IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.
- The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.
- IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ("the management entity"), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

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

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to standards:

- IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.
- The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.
- IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

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

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

NOTE 6:
CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Cash on hand and in banks	8,012	7,814
Term deposits with original maturity of less than three months	21,523	5,269
Total cash and cash equivalents	29,535	13,083

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

The credit quality of cash and cash equivalents balances may be summarised as follows:

	AT 31 DECEMBER 2013		AT 31 DECEMBER 2012	
	CASH ON HAND AND IN BANKS	TERM DEPOSITS	CASH ON HAND AND IN BANKS	TERM DEPOSITS
Investment grade rating	1,056	4,825	496	2,862
Non-investment grade rating	5,026	15,537	4,470	2,039
No external rating	1,930	1,161	2,848	368
Total	8,012	21,523	7,814	5,269

Investment grade ratings classification referred to as Aaa to Baa3 for Moody's Investment Services, as AAA to BBB- for Fitch Rating and as AAA to BBB for Standard and Poor's Rating, respectively.

NOTE 7:
ACCOUNTS RECEIVABLE

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

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
SHORT-TERM ACCOUNTS RECEIVABLE:		
Trade receivables	60,395	60,940
Other financial receivables	4,259	3,813
Less provision for impairment	(12,556)	(11,200)
Total short-term accounts receivable	52,098	53,553

LONG-TERM ACCOUNTS RECEIVABLE:		
Trade receivables	251	757
Other financial receivables	835	777
Less provision for impairment	(70)	(4)
Total long-term accounts receivable	1,016	1,530
Total financial assets within trade and other receivables	53,114	55,083

In accordance with the Group's policies for recorded provision for impairment the Group fully provided for receivables from ChMPKP Avto of US \$334 million as of 31 December 2013 and 2012, relating to the sale of crude oil to Ukraine (Kremenchug refinery) (Note 24).

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

Analysis by credit quality of trade and other receivables is as follows:

	AT 31 DECEMBER 2013		AT 31 DECEMBER 2012	
	TRADE RECEIVABLES	OTHER FINANCIAL RECEIVABLES	TRADE RECEIVABLES	OTHER FINANCIAL RECEIVABLES
Not over due and not impaired	46,686	4,484	50,582	3,714
PAST DUE BUT NOT IMPAIRED				
less than 90 days overdue	1,652	19	296	158
91 to 180 days overdue	200	26	156	106
over 180 days overdue	–	47	13	58
Total past due but not impaired	1,852	92	465	322
INDIVIDUALLY DETERMINED TO BE IMPAIRED (GROSS)				
less than 90 days overdue	–	–	–	–
91 to 180 days overdue	–	–	–	–
over 180 days overdue	12,110	517	10,637	567
Total individually impaired	12,110	517	10,637	567
Less provision for impairment	(12,110)	(517)	(10,637)	(567)
Total	48,538	4,576	51,047	4,036

Movements in the provision for impairment for trade and other receivables are as follows:

	2013		2012	
	TRADE RECEIVABLES	OTHER FINANCIAL RECEIVABLES	TRADE RECEIVABLES	OTHER FINANCIAL RECEIVABLES
Provision for impairment at 1 January	(10,637)	(567)	(10,998)	(161)
Provision for impairment	(850)	(13)	(358)	(431)
Amounts written off during the year as uncollectible	–	–	109	25
Foreign exchange (loss)/gain	(788)	–	610	–
Change in Group structure	165	63	–	–
Provision for impairment at 31 December	(12,110)	(517)	(10,637)	(567)

NOTE 8:
SHORT-TERM FINANCIAL ASSETS

Short-term financial assets comprise the following:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
LOANS AND RECEIVABLES:		
Notes receivable	2,178	2,564
Other loans (net of provision for impairment of RR 18 million and RR 24 million as of 31 December 2013 and 2012)	2,026	1,752
Certificates of deposit	8,973	4,251
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:		
Held-for-trading	3,516	6,364
Total short-term financial assets	16,693	14,931

During the year ended 31 December 2013 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 13,024 million and RR 8,302 million, respectively.

During the year ended 31 December 2012 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 21,542 million and RR 29,738 million, respectively.

During the year ended 31 December 2013 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 2,569 million and RR 5,213 million, respectively.

During the year ended 31 December 2012 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 1,878 million and RR 2,954 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 31 DECEMBER 2013	AT 31 DECEMBER 2012
HELD-FOR-TRADING		
Russian government debt securities	18	185
Corporate debt securities	1,762	2,315
Equity securities	1,736	3,864
Total financial assets at fair value through profit and loss	3,516	6,364

Information on trading securities issued by related parties is disclosed in Note 23.

NOTE 9:
INVENTORIES

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Materials and supplies	11,354	12,152
Crude oil	5,657	5,332
Refined oil products	6,495	6,291
Petrochemical supplies and finished goods	6,032	4,815
Total inventories	29,538	28,590

NOTE 10:
PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets are as follows:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Prepaid export duties	8,311	11,729
VAT recoverable	5,728	7,536
Advances	5,626	5,613
Prepaid transportation expenses	668	551
Other	2,884	3,377
Prepaid expenses and other current assets	23,217	28,806

NOTE 11:
LONG-TERM FINANCIAL ASSETS

Long-term financial assets comprise the following:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
LOANS AND RECEIVABLES		
Notes receivable (net of provision for impairment of RR 318 million as of 31 December 2013 and 2012)	1,019	1,909
Loans to employees	2,493	2,305
Other loans	3,197	2,749
Certificates of deposit	14,445	14,133
Available-for-sale investments	4,660	4,686
Total long-term financial assets	25,814	25,782

The fair value of long-term financial assets is estimated by discounting the future contractual cash outflows 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 31 DECEMBER 2013	AT 31 DECEMBER 2012	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Notes receivable	1,019	1,909	1,122	2,100
Loans to employees	2,493	2,305	2,493	2,305
Other loans	3,197	2,749	3,156	2,713
Certificates of deposit	14,445	14,133	15,163	14,835
Total long-term financial assets	21,154	21,096	21,934	21,953

During the year ended 31 December 2013 purchases of long-term certificates of deposit were RR 312 million.

During the year ended 31 December 2012 purchases of long-term certificates of deposit were RR 6,642 million.

During the year ended 31 December 2013 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 2,582 million and RR 1,395 million, respectively.

During the year ended 31 December 2012 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 2,077 million and RR 499 million, respectively.

NOTE 12:
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 AS		GROUP'S SHARE OF PROFIT/(LOSS) FOR	
	31 DECEMBER		31 DECEMBER			
	2013	2012	2013	2012	2013	2012
ASSOCIATES AND JOINT VENTURES						
Bank Zenit	25	25	6,984	6,455	555	653
Other	20-75	20-50	794	256	(205)	86
Total			7,778	6,711	350	739

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

The table below summarises the movements in the carrying amount of the Group's investment in associates and joint ventures:

	2013	2012
Net book value at 1 January	6,711	7,419
Share of profit of associates and joint ventures	350	739
Share of result of associates and joint ventures	350	739
Share of other comprehensive income of associates and joint ventures	(21)	106
Dividends received from associates and joint ventures	–	(15)
Reclassification on loss of control/disposal of associates (reclassification on obtaining control)	801	(1,660)
Others	(63)	122
Net book value at 31 December	7,778	6,711

The condensed financial information of the Group's equity basis investments is as follows:

	YEAR ENDED 31 DECEMBER 2013		YEAR ENDED 31 DECEMBER 2012	
	BANK ZENIT	OTHER	BANK ZENIT	OTHER
Sales/interest income	23,425	3,107	20,738	3,412
Net income	2,258	(473)	2,659	(208)
Total assets	299,856	7,736	260,902	3,028
Total liabilities	270,685	7,060	233,918	966

NOTE 13:
PROPERTY, PLANT AND EQUIPMENT

	OIL AND GAS PROPERTIES	BUILDINGS AND CONSTRUCTIONS	MACHINERY AND EQUIPMENT	CONSTRUC-TION IN PROGRESS	TOTAL
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COST

As of 31 December 2011	311,999	134,582	95,842	82,970	625,393
Additions	51	315	386	56,396	57,148
Disposals	(2,143)	(829)	(2,776)	(2,742)	(8,490)
Changes in Group structure	–	1,176	1,949	–	3,125
Transfers	18,717	12,926	12,815	(44,458)	–
Changes in decommissioning provision	(5,995)	–	–	–	(5,995)
As of 31 December 2012	322,629	148,170	108,216	92,166	671,181

DEPRECIATION, DEPLETION
AND AMORTISATION

As of 31 December 2011	146,013	16,089	45,418	–	207,520
Depreciation charge	7,763	4,640	5,367	–	17,770
Disposals	(2,053)	(252)	(707)	–	(3,012)
As of 31 December 2012	151,723	20,477	50,078	–	222,278

NET BOOK VALUE

As of 31 December 2011	165,986	118,493	50,424	82,970	417,873
As of 31 December 2012	170,906	127,693	58,138	92,166	448,903

COST

As of 31 December 2012	322,629	148,170	108,216	92,166	671,181
Additions	163	1	1	59,730	59,895
Disposals	(1,990)	(596)	(1,078)	(1,835)	(5,499)
Changes in Group structure	–	(1,574)	(2,193)	(241)	(4,008)
Transfers	21,674	7,769	13,568	(43,011)	–
Changes in decommissioning provision	(1,751)	–	–	–	(1,751)
As of 31 December 2013	340,725	153,770	118,514	106,809	719,818

DEPRECIATION, DEPLETION AND
AMORTISATION

As of 31 December 2012	151,723	20,477	50,078	–	222,278
Depreciation charge	8,437	3,898	7,164	–	19,499
Disposals	(1,633)	(355)	(1,045)	–	(3,033)
Changes in Group structure	–	(361)	(448)	–	(809)
As of 31 December 2013	158,527	23,659	55,749	–	237,935

NET BOOK VALUE

As of 31 December 2012	170,906	127,693	58,138	92,166	448,903
As of 31 December 2013	182,198	130,111	62,765	106,809	481,883

For the years ended 31 December 2013 and 2012 the Group recorded RR 1,248 million and RR 606 million of capitalized borrowing cost as property, plant and equipment additions, respectively. The capitalisation rate was 3.5% (2012: 3.5%).

As stated in Note 3, the Group calculates depreciation, depletion and amortization for oil and gas properties using the units-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the units-of-production method assume the extension of the Group’s production license beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Group’s oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group’s existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2014 and 2043. The economic lives of many of the Group’s licensed fields extend beyond these dates. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a license to use a field “shall be” extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production in the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term “shall” replaced the term “may” in August 2004, clarifying that the subsoil user has the right to extend the license term so long as it has not violated the conditions of the license. In August 2006, the term of the Group’s license to produce oil and gas from the Group’s largest field, Romashkinskoye, was extended through 2038. And the license to produce oil and gas from the Group’s second largest field, Novo-Elkhovskoe, was extended through 2026. The Group’s right to extend licenses is, however, dependent on the Group continuing to comply with the terms of the licenses, and management has the ability and intent to do so.

Management plans to request the extension of the licenses that have not yet been extended. The Group’s current production plans are based on the assumption, which management considers to be reasonably certain, that the Group will be able to extend all existing licenses.

These plans have been designed on the basis that the Group will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Group’s reserves to maximum effect only through the license expiration dates.

Management is reasonably certain that the Group will be allowed to produce oil from the Group’s reserves after the expiration of existing production licenses and until the end of the economic lives of the fields. “Reasonable certainty” is the applicable standard for defining proved reserves under the SEC’s Regulation S-X, Rule 4-10.

Exploration and evaluation assets included in Oil and Gas assets above, net book value:

At 31 December 2013	12,230
Additions	1,363
Reclassification to development assets	(351)
Charged to expense	(67)
At 31 December 2012	11,285
Additions	1,764
Reclassification to development assets	(1,108)
At 1 January 2012	10,629

For the years ended 31 December 2013 and 2012, operating and investing cash flows used for exploration and evaluation activities amounted to RR 1,839 million and RR 1,363 million and RR 1,740 million and RR 1,764 million, respectively.

SOCIAL ASSETS

During the years ended 31 December 2013 and 2012 the Group transferred social assets with a net book value of RR 23 million and RR 4 million, respectively, to local authorities. At 31 December 2013 and 2012 the Group held social assets with a net book value of RR 5,276 million and RR 3,700 million, respectively, all of which were constructed after the privatization date.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 4,805 million and RR 4,027 million for the years ended 31 December 2013 and 2012, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

DECOMMISSIONING PROVISIONS.

The following tables summarize the Group’s decommissioning provisions and decommissioning costs activities:

	2013	2012
Balance, beginning of period	52,450	55,098
Unwinding discount	4,503	4,790
New obligations	350	439
Release of existing obligations	(166)	(1,443)
Changes in estimates	(2,100)	(6,434)
Balance, end of period	55,037	52,450
Less: current portion of decommissioning provisions (Note 16)	(526)	(1,361)
Long-term balance, end of period	54,511	51,089

Key assumptions used for evaluation of decommissioning provision were as follows:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Discount rate	7.99%	7.88%
Inflation rate	4.70%	4.83%

NOTE 14:
OTHER LONG-TERM ASSETS

Other long-term assets are as follows:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Prepaid computer programs	2,347	2,544
Prepaid license agreements	124	379
Other long-term assets	1,080	1,793
Total other long-term assets	3,551	4,716

NOTE 15:
DEBT

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
SHORT-TERM DEBT		
Foreign currency denominated debt		
Current portion of long-term debt	31,595	18,259
Other foreign currency denominated debt	–	2,328
Rouble denominated debt		
Current portion of long-term debt	36	5,002
Other rouble denominated debt	4,930	6,507
Total short-term debt	36,561	32,096
LONG-TERM DEBT		
Foreign currency denominated debt		
US \$2.0 bln 2010 credit facility	14,771	27,619
US \$1.5 bln 2009 credit facility	2,328	4,551
US \$550 mln 2011 credit facility	17,961	16,582
US \$75 mln 2011 credit facility	1,529	1,562
US \$144.5 mln 2011 credit facility	2,762	2,165
EUR 55 mln 2013 credit facility	2,018	–
Other foreign currency denominated debt	2,122	3,167
Rouble denominated debt		
Bonds	–	4,941
Other rouble denominated debt	925	665
Total long-term debt	44,416	61,252
Less: current portion of long-term debt	(31,631)	(23,261)
Total long-term debt, net of current portion	12,785	37,991

Foreign currency debts are primarily denominated in US Dollars.
Long-term debt had the following maturity profile (based on the discounted contractual cash flows):

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Due for repayment:		
Between one and two years	5,535	27,728
Between two and five years	3,554	7,486
After five years	3,696	2,777
Total long-term debt, net of current portion	12,785	37,991

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

SHORT-TERM FOREIGN CURRENCY DENOMINATED DEBT

In December 2003 the Group entered into a US \$35 million one month revolving credit facility with Credit Suisse Zurich. In December 2011 this agreement was replaced with a new loan agreement totalling up to the US \$70 million under the same conditions. The monthly revolving loan bears interest at one month LIBOR plus varying margin of about 1.8% per annum and is collateralized by crude oil sales.

SHORT-TERM RUSSIAN ROUBLE DENOMINATED DEBT

Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 4,930 million and RR 6,507 million bear contractual interest rates of 1.1% to 9.25% per annum as of 31 December 2013 and 2012.

LONG-TERM FOREIGN CURRENCY DENOMINATED DEBT

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

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

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

In November 2011, TANECO entered into a US \$75 million credit facility with equal semi-annual 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.

LONG-TERM RUSSIAN ROUBLE DENOMINATED DEBT

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

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

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

	CARRYING AMOUNTS	
	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
US\$ denominated fixed rate	20,083	20,350
US\$ denominated floating rate	21,390	35,296
EUR denominated floating rate	2,018	–
RR denominated fixed rate	925	5,606
Total long-term debt	44,416	61,252

NOTE 16:
ACCOUNTS PAYABLE
AND ACCRUED LIABILITIES

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Trade payables	14,260	16,715
Dividends payable	103	101
Other payables	980	1,071
Total financial liabilities within trade and other payables	15,343	17,887
Salaries and wages payable	4,109	4,093
Advances received from customers	1,045	1,109
Current portion of decommissioning provisions (Note 13)	526	1,361
Other accounts payable and accrued liabilities	7,421	6,569
Total non-financial liabilities	13,101	13,132
Accounts payable and accrued liabilities	28,444	31,019

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

NOTE 17:
OTHER LONG-TERM LIABILITIES

Other long-term liabilities are as follows:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Pension liability	3,768	3,622
Other long-term liabilities	71	88
Total other long-term liabilities	3,839	3,710

PENSION LIABILITIES

The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the “Statement of Organization of Non-Governmental Pension Benefits for OAO Tatneft Employees” and the contracts concluded between the Company or its subsidiaries, management, and the non-profit organization “National Non-Governmental Pension Fund”. In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years until official retirement age (age 60 for men and 55 for women), and in the case of management are based upon years of service. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement.

Principal actuarial assumptions (expressed as weighted averages) are as follows:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Discount rate	8.0%	7.2%
Rate of increase in salary levels	7.2%	6.2%
Actuarial rate of NPF	3.0%	3.0%
Statutory insurance contributions rate	30.85%	30.20%

Management has assessed that reasonable changes in the principal significant actuarial assumptions will not have a significant impact on the consolidated statements of profit of loss and other comprehensive income or the liability recognized in the consolidated statement of financial position.

Amounts recognized in the consolidated statement of financial position:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Present value of defined benefit obligation (DBO)	5,598	5,441
Less: Fair value of plan assets	(1,830)	(1,819)
Net defined benefit liability	3,768	3,622

Change in the defined benefit obligation amount:

	2013	2012
Defined benefit obligation (DBO) at beginning year	5,441	4,054
Effect of exchange rate changes	8	(7)
Current service cost	181	128
Interest cost	392	342
Benefits paid	(487)	(399)
Remeasurement (gains)/losses:		
Actuarial losses arising from changes in financial assumptions	58	328
Actuarial losses/(gains) arising from changes in demographic assumptions	6	(6)
Actuarial (gains)/losses - Experience	(3)	744
Past service cost	-	47
Curtailment/settlement gain	-	(5)
Other	2	215
Defined benefit obligation at the end of the year	5,598	5,441

The amounts recognized in profit or loss are as follows:

	2013	2012
Service cost	181	175
Net interest expense	261	227
Remeasurement (gains)/losses:		
Actuarial losses arising from changes in financial assumptions	17	-
Actuarial losses arising from changes in demographic assumptions	2	-
Actuarial gains – Experience	(91)	-
Other	2	207
Total included in ‘employee benefits expense’	372	609

The amounts recognized in other comprehensive income are as follows:

	2013	2012
Remeasurement losses:		
Actuarial losses arising from changes in financial assumptions	224	252
Actuarial losses/(gains) arising from changes in demographic assumptions	4	(6)
Actuarial losses – Experience	88	744
Effect of exchange rate changes	8	-
Total included in other comprehensive income	324	990

Reconciliation of the opening and closing balances of plan assets’ fair value:

	2013	2012
Plan assets at beginning of year	1,819	1,531
Interest income	131	115
Contributions	230	220
Benefits paid	(167)	(131)
Actuarial (loss)/gain	(183)	76
Other	-	8
Plan assets at year end	1,830	1,819

The annual contributions made by the Group are managed by the Fund. The primary investment objectives of the Fund are to achieve the highest rate of total return within prudent levels of risk and liquidity, to diversify and mitigate potential downside risk associated with the investments, and to provide adequate liquidity for benefit payments and portfolio management.

Plan assets structure:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Russian corporate bonds and equity securities of Russian issuers	51.74%	46.22%
Russian government and regions bonds	11.61%	19.01%
Bank deposits	33.12%	30.91%
Other	3.53%	3.86%
Total plan assets	100%	100%

Expected contributions to be paid during the next annual reporting period are RR 434 million.

NOTE 18: TAXES

Income tax expense comprises the following:

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Current income tax expense	21,645	21,816
Deferred income tax expense	1,302	1,554
Income tax expense for the year	22,947	23,370

Presented below is reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate 20% (for the year ended 31 December 2012: 20%) to income before income taxes:

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Profit before income taxes and non-controlling interest	101,291	101,818
Theoretical income tax expense at statutory rate	20,258	20,364
Increase due to:		
Non-deductible expenses, net	2,689	3,006
Income tax expense	22,947	23,370

No provision has been made for additional income taxes of RR 17,958 million on undistributed earnings of certain subsidiaries. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 1,161 million if they were remitted as dividends.

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Accounts receivable	-	155
Tax loss carry forward	3,824	3,924
Decommissioning provision	11,007	10,490
Other	624	547
Deferred income tax assets	15,455	15,116
Property, plant and equipment	(24,146)	(22,690)
Inventories	(1,847)	(2,152)
Accounts receivable	(152)	-
Long-term investments	(95)	(238)
Undistributed Earnings	(1,044)	(862)
Other liabilities	(1,921)	(1,575)
Deferred income tax liabilities	(29,205)	(27,517)
Net deferred tax liability	(13,750)	(12,401)

Deferred income taxes are reflected in the consolidated statement of financial position as follows:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Deferred income tax asset	2,049	2,633
Deferred income tax liability	(15,799)	(15,034)
Net deferred tax liability	(13,750)	(12,401)

Deferred tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilized.

TAX LOSSES CARRY FORWARD

At 31 December 2013, the Group had recognized deferred income tax assets of RR 3,824 million (RR 3,924 million at 31 December 2012) in respect of unused tax loss carry forwards of RR 19,119 million (RR 19,620 million at 31 December 2012). Tax losses can be carried forward for relief against taxable profits for 10 years after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group’s ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

The Group doesn’t have any unrecognised potential deferred tax assets in respect of deductible temporary differences.

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

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Mineral extraction tax	105,302	102,813
Property tax	4,518	2,248
Penalties and interest	40	(214)
Other	1,476	1,446
Total taxes other than income taxes	111,336	106,293

For mineral extraction tax for fields whose depletion rate exceeds a certain threshold the Group received a benefit of approximately RR 24.4 billion and RR 21.4 billion for the years ended 31 December 2013 and 2012, respectively.

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

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
Mineral extraction tax	9,485	8,457
Value Added Tax on goods sold	2,205	2,107
Other	5,016	2,670
Total taxes payable	16,706	13,234

NOTE 19: SHAREHOLDERS’ EQUITY

AUTHORIZED SHARE CAPITAL

At 31 December 2013 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share. The nominal value of authorised share capital differs from its carrying value due to effect of the hyperinflation of capital contributions made before 2003.

GOLDEN SHARE

ОАО Связинвестнеftekhim, a company wholly owned by the government of Tatarstan, as of 31 December 2013 holds approximately 33.59% of the Company’s capital stock (approximately 36% of voting stock). These shares were contributed to Связинвестнеftekhim 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 Revision Commission of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and “major” and “interested party” transactions as defined under Russian law.

The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company’s suppliers, contractors and customers (see also Note 1).

RIGHTS ATTRIBUTABLE TO PREFERRED SHARES

Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share. Preferred shareholders may vote at meetings only on the following decisions:

- the amendment of the dividends payable per preferred share;
- the issuance of additional shares with rights greater than the current rights of preferred shareholders; and
- the liquidation or reorganization of the Company.

The decisions listed above can be made only if approved by 75% of preferred shareholders.

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that dividends are either not declared, or declared but not paid, on preferred shares. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies Law and the Company’s charter in case of liquidation, preferred shareholders have priority over shareholders holding common shares to be paid declared but unpaid dividends on preferred shares and the liquidation value of preferred shares, if any.

AMOUNTS AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS

Amounts available for distribution to shareholders are based on the Company’s non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from IFRS (see Note 2). The statutory accounts are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended 31 December 2013 and 2012, the Company had a statutory current profit of RR 63,850 million and RR 66,707 million, respectively.

EARNINGS PER SHARE

Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Profit attributable to Group shareholders	70,832	73,473
Common share dividends	(18,260)	(15,032)
Preferred share dividends	(1,268)	(1,044)
Income available to common and preferred shareholders, net of dividends	51,304	57,397

Basic and diluted:

Weighted average number of shares outstanding (millions of shares):		
Common	2,123	2,123
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,271	2,271

Basic and diluted earnings per share (RR)

Common	31.19	32.35
Preferred	31.16	32.33

NON-CONTROLLING INTEREST

Non-controlling interest is adjusted by dividends paid by the Group’s subsidiaries amounting to RR 984 million and RR 565 million at 31 December 2013 and 2012, respectively.

NOTE 20: EMPLOYEE BENEFIT EXPENSES

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Wages and salaries	32,479	28,635
Statutory insurance contributions	9,045	8,142
Bonus certificates granted to directors and employees	1,038	1,107
Pension costs – defined benefit plans (Note 17)	372	609
Other employee benefits	2,655	2,257
Total employee benefit expense	45,589	40,750

Employee benefit expenses are included in operating expenses, selling, general and administrative expenses and Maintenance of social infrastructure and transfer of social assets and other expenses in the Consolidated Statements of Profit or Loss and Other Comprehensive Income.

NOTE 21:
INTEREST INCOME AND INTEREST EXPENSE

Interest income comprises the following:

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Interest income from loans and receivables	3,315	3,807
Unwinding of the present value discount of long-term financial assets	50	65
Total interest income	3,365	3,872

Interest expense comprises the following:

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Bank loans	2,204	3,063
RR denominated non-convertible bonds	261	362
Unwinding of the present value discount of decommissioning provision	4,494	4,159
Unwinding of the present value discount of long-term financial assets	590	-
Total interest expense	7,549	7,584
Less capitalised interest costs	(625)	(606)
Total interest costs recognised in profit or loss	6,924	6,978

NOTE 22:
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 year ended 31 December 2013, revenues of RR 88,807 million or 20% and RR 51,424 million or 11% of the Group's total sales and operating revenues are derived from two external customers, respectively.

For the year ended 31 December 2012, revenues of RR 93,877 million or 21% and RR 55,960 million or 13% of the Group's total sales and operating revenues are derived from two external customers, respectively.

These revenues represent sales of crude oil 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.

SEGMENT SALES AND OTHER OPERATING REVENUES

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

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
EXPLORATION AND PRODUCTION		
Domestic own crude oil	57,262	61,748
CIS own crude oil	7,057	6,783
Non – CIS own crude oil	137,495	141,743
Other	4,300	3,952
Intersegment sales	90,628	77,189
Total exploration and production	296,742	291,415
REFINING AND MARKETING		
Domestic sales		
Crude oil purchased for resale	394	1,313
Refined products	98,623	73,637
Total Domestic sales	99,017	74,950
CIS sales		
Crude oil purchased for resale	-	-
Refined products	7,176	28,114
Total CIS sales⁽¹⁾	7,176	28,114
Non – CIS sales		
Crude oil purchased for resale	14,999	17,578
Refined products	73,542	51,473
Total Non – CIS sales⁽²⁾	88,541	69,051
Other	3,496	4,058
Intersegment sales	3,487	3,547
Total refining and marketing	201,717	179,720
PETROCHEMICALS		
Tires - domestic sales	24,395	27,910
Tires - CIS sales	6,714	7,388
Tires - non-CIS sales	1,321	1,185
Petrochemical products and other	2,359	2,412
Intersegment sales	846	880
Total petrochemicals	35,635	39,775
Total segment sales	534,094	510,910
Corporate and other sales	15,850	14,804
Elimination of intersegment sales	(94,961)	(81,615)
Total sales and other operating revenues	454,983	444,099

(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, the Netherlands and the United Kingdom based traders.

SEGMENT EARNINGS

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
SEGMENT EARNINGS		
Exploration and production	92,746	96,955
Refining and marketing	16,321	9,110
Petrochemicals	338	2,105
Total segment earnings	109,405	108,170
Corporate and other	(4,996)	(6,495)
Other (expenses)/income	(3,118)	143
Profit before income tax	101,291	101,818

SEGMENT ASSETS

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
ASSETS		
Exploration and production	281,384	271,998
Refining and marketing	259,879	233,994
Petrochemicals	29,830	29,912
Corporate and other	102,996	94,703
Total assets	674,089	630,607

As of 31 December 2013 and 2012 corporate and other segment comprised RR 7,778 million and RR 6,711 million, respectively, investments in associates and joint ventures.

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

SEGMENT DEPRECIATION, DEPLETION AND AMORTISATION AND ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT.

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
DEPRECIATION, DEPLETION AND AMORTIZATION		
Exploration and production	11,424	11,022
Refining and marketing	4,203	3,397
Petrochemicals	1,682	1,300
Corporate and other	2,014	2,051
Total segment depreciation, depletion and amortization	19,323	17,770
ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT		
Exploration and production	25,696	19,689
Refining and marketing	23,791	24,428
Petrochemicals	942	317
Corporate and other	7,715	6,719
Total additions to property, plant and equipment	58,144	51,153

For the years ended 31 December 2013 and 2012 additions to property, plant and equipment of exploration and production segment include a reduction of RR 1,751 million and RR 5,995 million, respectively, associated with changes in the decommissioning provision.

NOTE 23:
RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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 year and the outstanding balances at each year end with affiliates and other related parties are as follows:

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
REVENUES AND INCOME		
Sales of refined products	15	17
Other sales	226	461
COSTS AND EXPENSES		
Purchases of crude oil	124	4,687
Other services	629	1,194
Other purchases	1,105	1,567

For the years ended 31 December 2013 and 2012, the Group sold crude oil on a commission basis from related parties for RR 124 million and RR 5,075 million, respectively.

For the year ended 31 December 2013 and 2012 the Group has entered into transactions with related parties for purchases of equipment in the amount of RR 1,986 million and RR 0 million, respectively, which is included in our property, plant and equipment.

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

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
ASSETS		
Cash and cash equivalents	11,342	8,605
Accounts receivable	332	222
Notes receivable	2,164	1,973
Short-term certificates of deposit	4,300	550
Trading securities	7	307
Loans receivable	310	8
Prepaid expenses and other current assets	107	83
Due from related parties short-term	18,562	11,748
Long-term accounts receivable	-	2
Long-term certificates of deposit	14,341	14,132
Long-term loans receivable	2,366	2,569
Due from related parties long-term	16,707	16,703
LIABILITIES		
Accounts payable and accrued liabilities	(162)	(503)
Short-term debt	(1,991)	(2,130)
Due to related parties short-term	(2,153)	(2,633)
Long-term debt	(66)	(23)
Due to related parties long-term	(66)	(23)

As of 31 December 2013 and 2012, the Group had RR 3,879 million and RR 4,542 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2014 and 2017, bearing interest between 2.9% and 8.5%. As of 31 December 2013 and 2012, the Group has short and long-term certificates of deposit of RR 18,641 million and RR 14,682 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

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

RUSSIAN GOVERNMENT BODIES AND STATE ORGANIZATIONS

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

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Sales of refined products	1,848	3,486
Other sales	304	267
Purchases of refined products	8,771	8,349
Purchases of electricity	10,115	9,232
Purchases of transportation services	22,489	21,623
Other services	4,067	3,271
Other purchases	136	-

COMPENSATION TO KEY MANAGEMENT PERSONNEL

As of 31 December 2013 and 2012 total remuneration, including pension cost, for key management personnel was RR 1,625 million and RR 1,339 million, respectively.

For the year ended 31 December 2013, the Company issued 10,138,230 Awards to senior management and directors, all of which are expected to be settled at a price of RR 102.4 per Award. Final settlement is subject to approval at the Company’s Management Committee meeting in July-September 2014. For the year ended 31 December 2012, the Company issued 6,740,800 Awards to senior management and directors, all of which were settled at a price of RR 168.19 per Award. The amount of related compensation expense recognized in Selling, General and administrative expenses of the Consolidated Statements of Profit or Loss and Other Comprehensive Income for the years ended 31 December 2013 and 2012 was RR 1,038 million and RR 1,107 million, respectively.

NOTE 24: 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 31 December 2013 and 2012 the Group has outstanding capital commitments of approximately RR 23,180 million and RR 16,823 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 (Note 15). 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.

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 the Group’s 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 31 December 2013 and 2012.

TRANSPORTATION OF CRUDE OIL

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

UKRTATNAFTA

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

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

In October 2007 the existing management of Ukratnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently, individuals who obtained the ability to manage Ukratnafta took certain actions effectively assisting MFEU in taking control over the shares in Ukratnafta owned by SeaGroup and AmRUZ. In addition, Ukratnafta subsequently refused to settle its payables to ChMPKP Avto (Note 3), a Ukrainian intermediary that previously purchased crude from the Group for deliveries to Ukratnafta. Following this forced change of control of Ukratnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its crude oil deliveries to Ukratnafta.

Subsequently, the Ukrainian courts also invalidated direct purchase of the shares in Ukratnafta by Tatneft.

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 (“Russia-Ukraine BIT”). The arbitration concerns losses suffered by Tatneft as a consequence of the forcible takeover of Ukratnafta and seizure of shares of the Group in Ukratnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russian-Ukraine BIT and to order Ukraine to pay compensation in excess of US\$ 2.4 billion. In March 2013 the arbitral tribunal held the hearing on the merits with the award expected in the course of 2014.

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

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 carrying out negotiations with subcontractors. As of the date of this report the Group expects to return to operational activity in Libya in the course of 2014. 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. As of 31 December 2012 the company had approximately RR 5,681 million of assets associated with its Libyan operations, correspondingly, of which RR 5,451 million are related to capitalized exploration costs, RR 208 million of inventories and RR 22 million of cash.

NOTE 25:
PRINCIPAL SUBSIDIARIES

Set out below are the Group’s principal subsidiaries at 31 December 2013. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by Group. The country of incorporation or registration is also their principal place of business. For all principal subsidiaries the country of incorporation is the Russian Federation, except for Tatneft Europe AG, which is incorporated in Switzerland.

NAME OF ENTITY	PRINCIPAL ACTIVITY	AT 31 DECEMBER 2013		AT 31 DECEMBER 2012	
		% OF OWNERSHIP INTEREST HELD BY THE GROUP	% OF OWNERSHIP INTEREST HELD BY THE NCI	% OF OWNERSHIP INTEREST HELD BY THE GROUP	% OF OWNERSHIP INTEREST HELD BY THE NCI
Tatneft Europe AG	Export oil sales	100	-	100	-
Taneco OAO	Oil refinery	91	9	91	9
TMS group UK OOO	Oil lifting services	-	100	-	100
Burenie OOO	Drilling services	-	100	-	100
Nizhnekamskshina OAO	Tires production	61	39	76	24
Nizhnekamskiy zavod shin CMK OOO	Tires production	100	-	100	-
Trade House Kama OOO	Tires sales	100	-	100	-
Tatneft AZS-Centr OOO	Oil products sales	100	-	100	-
Tatneft AZS-Zapad OOO	Oil products sales	100	-	100	-

The total non-controlling interest for the year ended 31 December 2013 is RR 7,512 million, of which RR 3,167 million is attributed to TMS group UK OOO and Burenie OOO. The total non-controlling interest for the year ended 31 December 2012 is RR 4,975 million, of which RR 2,091 million is attributed to TMS group UK OOO and Burenie OOO. As of 31 December 2013 and 2012 accumulated non-controlling interest in TMS group UK OOO and Burenie OOO was RR 8,571 million and RR 5,770 million, respectively.

The summarised financial information relating to the subsidiaries with material non-controlling interest was as follows:

	CURRENT ASSETS	NON-CURRENT ASSETS	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	REVENUE	PROFIT/ LOSS
Year ended 31 December 2013						
Taneco OAO	8,920	144,521	148,193	6,779	20,620	3,607
TMS group UK OOO	380	28,302	1,384	4,225	23,862	2,060
Nizhnekamskshina OAO	2,500	2,891	5,692	751	16,256	218
Burenie OOO	499	797	1,144	1	14,943	1,329
Total	12,299	176,511	156,413	11,756	75,681	7,214
Year ended 31 December 2012						
Taneco OAO	9,617	149,888	160,905	4,464	16,217	703
TMS group UK OOO	3,537	27,121	5,026	3,470	21,952	1,274
Nizhnekamskshina OAO	2,112	2,479	5,451	329	17,763	200
Burenie OOO	2,808	1,227	5,205	-	13,403	1,014
Total	18,074	180,715	176,587	8,263	69,335	3,191

NOTE 26:
FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The accounting policies for financial instruments, as described in Note 3, have been applied to the financial statements line items below:

	AT 31 DECEMBER 2013	AT 31 DECEMBER 2012
FINANCIAL ASSETS		
Current		
Cash and cash equivalents	29,535	13,083
Restricted cash	917	1,369
Accounts receivable	52,098	53,553
Short-term financial assets	16,693	14,931
Non-current		
Long-term accounts receivable	1,016	1,530
Long-term financial assets	25,814	25,782
Total financial assets	126,073	110,248
FINANCIAL LIABILITIES		
Current		
Trade and other payable	(15,343)	(17,887)
Short-term debt and current portion of long-term debt	(36,561)	(32,096)
Non-current		
Long-term debt, net of current portion	(12,785)	(37,991)
Total financial liabilities	(64,689)	(87,974)

The Group’s activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group’s financial performance. The Group has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

MARKET RISK

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business.

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest rate risk and (c) commodity price risk.

a) Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The table below summarises the Group’s exposure to foreign currency exchange rate risk at the end of the reporting period:

AT 31 DECEMBER 2013	RUSSIAN ROUBLE	US DOLLAR	OTHER	TOTAL
FINANCIAL ASSETS				
Current				
Cash and cash equivalents	26,121	3,346	68	29,535
Restricted cash	20	106	791	917
Accounts receivable	24,443	25,841	1,814	52,098
Short-term financial assets	13,934	2,759	-	16,693
Non-current				
Long-term accounts receivable	1,016	-	-	1,016
Long-term financial assets	22,305	3,509	-	25,814
Total financial assets	87,839	35,561	2,673	126,073
FINANCIAL LIABILITIES				
Current				
Trade and other payable	(13,450)	(1,798)	(95)	(15,343)
Short-term debt and current portion of long-term debt	(4,966)	(31,387)	(208)	(36,561)
Non-current				
Long-term debt, net of current portion	(890)	(10,086)	(1,809)	(12,785)
Total financial liabilities	(19,306)	(43,271)	(2,112)	(64,689)

AT 31 DECEMBER 2012	RUSSIAN ROUBLE	US DOLLAR	OTHER	TOTAL
FINANCIAL ASSETS				
Current				
Cash and cash equivalents	9,400	3,585	98	13,083
Restricted cash	941	113	315	1,369
Accounts receivable	19,729	33,091	733	53,553
Short-term financial assets	12,389	2,542	-	14,931
Non-current				
Long-term accounts receivable	1,052	-	478	1,530
Long-term financial assets	22,755	3,027	-	25,782
Total financial assets	66,266	42,358	1,624	110,248
FINANCIAL LIABILITIES				
Current				
Trade and other payable	(14,096)	(3,549)	(242)	(17,887)
Short-term debt and current portion of long-term debt	(11,509)	(20,355)	(232)	(32,096)
Non-current				
Long-term debt, net of current portion	(605)	(36,150)	(1,236)	(37,991)
Total financial liabilities	(26,210)	(60,054)	(1,710)	(87,974)

	INCREASE/DECREASE IN EXCHANGE RATE	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
EFFECT ON PRE-TAX PROFIT			
US \$/RR loss	+10%	(771)	(1,770)
US \$/RR gain	-10%	771	1,770

b) Interest rate risk

The majority of the Group’s borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group’s treasury function performs periodic analysis of the interest rate environment. The Group does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether to obtain financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
EFFECT ON PRE-TAX PROFIT		
Increase by 100 basis points	(372)	(617)
Decrease by 100 basis points*	25	115

* - floating rate decrease capped at zero.

The sensitivity analysis is limited only to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared assuming the amount of variable rate liability outstanding at the reporting date was outstanding for the whole year. Interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions, which may accompany the relevant changes in market interest rates.

c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group’s future performance and results of the Group’s operations. A decline in the prices could result in a decrease in net income and cash flows. The Group’s overall strategy in production and sales of crude oil and related products is centrally managed. Substantially all the Group’s crude oil export sales to Europe are sold under long-term contracts.

The Group assesses on a regular basis potential scenarios for future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group’s financial position. Actual results, and the impact on the Group’s operations and financial position, may differ from management’s estimates of potential scenarios.

CREDIT RISK

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The Group’s exposure to credit risk is limited to the carrying amount of financial assets recognized in the Consolidated Statement of Financial Position.

Credit risk arises from cash and cash equivalents, certificates of deposits, loans and notes receivables, as well as credit exposures to customers including outstanding trade and other receivables.

Credit risks related to accounts receivable are systematically monitored taking into account the customer’s financial position, past experience and other factors. Management systematically reviews ageing analysis of receivables and uses this information for calculation of provision for impairment. A significant portion of the Group’s accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters

of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. The Group operates with various customers and a substantial part of its sales relate to major customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The Company performs an ongoing assessment and monitoring of the risk of default.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash.

The Group deposits available cash mostly with financial institutions in the Russian Federation. To manage this credit risk, the Group allocates its available cash to a variety of Russian banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash. As of 31 December 2013 and 2012 the majority of loans and receivables (Note 8, Note 11) are held in Bank Zenit which is related party to the Group (Note 23) and other non-investment grade entities with credit rating not less than BB- according to Standard and Poor’s.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has

sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

All of the Group’s financial liabilities represent non-derivative financial instruments.

The following tables summarise the maturity profile of the Group’s financial liabilities based on contractual undiscounted payments, including interest payments:

AT 31 DECEMBER 2013	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS	TOTAL
Short-term debt, current portion of long-term and long-term debt	37,971	6,174	4,506	4,271	52,922
Trade and other payable	15,343	-	-	-	15,343

AT 31 DECEMBER 2012	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS	TOTAL
Short-term debt, current portion of long-term and long-term debt	34,509	29,001	8,654	3,643	75,807
Trade and other payable	17,887	-	-	-	17,887

As the amounts included in the table are contractual undiscounted cash flows which include future interest payments, these amounts will not reconcile to the amounts disclosed in the consolidated statement of financial position for borrowings.

FAIR VALUE HIERARCHY

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate.

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 31 DECEMBER 2013				AT 31 DECEMBER 2012			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL CARRYING VALUE
Held-for-trading investments	2,522	-	994	3,516	6,067	-	297	6,364
Available-for-sale investments	-	4,660	-	4,660	-	4,686	-	4,686
Total	2,522	4,660	994	8,176	6,067	4,686	297	11,050

The description of valuation technique and description of inputs used in the fair value measurement for Level 2 and Level 3 measurements at 31 December 2013:

	FAIR VALUE	VALUATION TECHNIQUE	INPUTS USED
Held-for-trading investments	994	Net assets valuation	Publicly available IFRS Financial statements
Available-for-sale investments	4,660	Net assets valuation	Publicly available IFRS Financial statements
Total	5,654		

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 year ended 31 December 2013 (2012: none).

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

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 31 DECEMBER 2013				AT 31 DECEMBER 2012			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL CARRYING VALUE	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL CARRYING VALUE
ASSETS								
Cash and cash equivalents	29,535	-	-	29,535	13,083	-	-	13,083
Restricted cash	917	-	-	917	1,369	-	-	1,369
Accounts receivable	-	-	53,114	53,114	-	-	55,083	55,083
Financial assets	-	-	35,112	34,332	-	-	30,521	29,663
Total assets	30,452	-	88,226	117,898	14,452	-	85,604	99,198
LIABILITIES								
Debt	-	-	(49,346)	(49,346)	-	-	(70,087)	(70,087)
Trade and other payable	-	-	(15,343)	(15,343)	-	-	(17,887)	(17,887)
Total liabilities	-	-	(64,689)	(64,689)	-	-	(87,974)	(87,974)

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.

MANAGEMENT OF CAPITAL

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and increase shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group considers equity and debt to be the principal elements of capital management. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, revise its investment program, attract new or settle existing debt or sell certain non-core businesses.

The Group monitors capital on the basis of its gearing ratio.

DESCRIPTION	YEAR ENDED 31 DECEMBER 2013	YEAR ENDED 31 DECEMBER 2012
Consolidated total borrowings:	49,607	70,092
Short-term debt and current portion of long-term debt	36,561	32,096
Long-term debt, net of current portion	12,785	37,991
Notes payable	261	5
Consolidated shareholders’ equity	481,412	429,954
Debt to capital employed ratio, % (Consolidated total borrowings / Consolidated shareholders’ equity)	10%	16%

LIST OF ABBREVIATIONS

JSC TATNEFT	Open Joint Stock Company named after V. D. Shashin
ZAO	Close Joint Stock Company
OOO	Limited Liability Company
NGDU	Oil and Gas Production Division (structural division of JSC TATNEFT)
PNP	Oil recovery enhancement
MUN	Oil recovery enhancement methods
GTM	Geological and engineering measures
RNO	Oil field equipment repair
EPU	Electrical submergible unit
NIOKR	Scientific research and design works
OPR	Pilot operations
PPD	Reservoir pressure maintenance
TatNIPIneft	Tatar R&D Institute of Petroleum Industry (structural division of JSC TATNEFT)
DZO	Subsidiaries and affiliated companies
UTT	Technological transport administration
ST	Specialized vehicles
UPTZh dlya PPD	Administration of process liquid treatment for reservoir pressure maintenance (structural division of JSC TATNEFT)
NIS	Standardizing Research Station (structural division of JSC TATNEFT)
TGRU	Tatar geological exploration Administration
ASK	Joint stock insurance Company
TNG	Tatneftegeophysika Company
TsDNG	Oil and gas production shop
BMZ	Bugulma Mechanical Plant
UKPN	Integrated crude oil treatment plant
AZS	Filling station

RTS	Russian Trading System
MMVB	Moscow Inter-Banc Currency Exchange (MICEX)
UK	Management Company
NPZ	Crude oil refinery
NOU	Non-governmental educational establishment
IT	Information technologies
KIS	Corporate information system
BZ	Near-abroad countries
DZ	Far-abroad countries
ONVSS	Equipment not included in the construction estimate
UTNS	Tatnettesnab Administration
TMTs	Commodity stocks and supplies
TTD	Trade and technical house of JSC TATNEFT
NDPI	Minerals extraction tax
NPU	Crude oil refining plant
MPT	Metal/plastic pipes
NS	Accidents
GIS	Geological information systems
ASU TP i PSP	Automated process control system of delivery and acceptance point
SPE	Society of Petroleum Engineers of the USA
LKS	Local well casing equipment
KPE	Key performance indicators
TsOD	Data processing center
T.u.t	Ton of reference fuel
TsKO	Control and Accountability Center
TsZVT	Claims Set-Off Center

FORECAST COMMENTS

All the statements, other than the actual data for the period reported in this document, are forward-looking statements with regard to the future results. Such forward-looking statements include:

- statements of plans, goals and objectives of the Company
- statements about future results of operations

The forward looking statements may also include information on projected or anticipated income, profit (loss), net profit (loss) in respect of shares, dividends, capital structure and other financial matters.

By its nature the forward-looking statements involve risks and uncertainties, both general and specific. There is a risk that predictions, forecasts, plans and other forward-looking statements will not match the reality. It should be borne in mind that due to a number of important factors the actual results may materially differ from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. Such factors include the following:

- inflation, fluctuation of interest rates and currency exchange rates;
- price of oil;
- impact of contest in the geographic territories and in the areas of the Company's activities;
- effects of changes in laws, standard-setting instruments, standards or taxation and accounting procedures;
- technological changes;
- weather conditions, etc.

This list of factors is not an exhaustive one. Simultaneously with the above factors it is necessary to take into account political, economic, social and legal environment, which the Company operates in. The forward looking statements are relevant only as of the date, which they are made on and subject to any continuing obligations under the listing rules of the UK Listing Authority and other applicable laws. The Company assumes no obligation with regard to updating or introduction of amendments into any of these statements, whether on the basis of new information, future events or otherwise.

The forward-looking statements presented in this document shall not be construed as inducement to engage in investment activity and as a basis for making investment decisions.

ANNOTATION TO THE REPORT ON SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY OF JSC TATNEFT FOR 2013

The Report on Sustainable Development and Social Responsibility of JSC TATNEFT for 2013 is the tenth report prepared in order to inform a wide range of stakeholders about the Company's contribution to sustainable development. The Report provides information on the Company's activities in the field of securing economic stability, improving environmental protection and maintaining of social welfare of the Company's staff and residents of the Company's activity regions.

This Report of the Company has been prepared on the basis of the Guide to reporting on sustainable development of the Global Reporting Initiative (GRI), version G 3. 1 and the Standard of interaction with concerned parties AA1000 taking into account the principles of International standard ISO 26000 «Guidance on social responsibility» and the Social Charter of Russia's Business (RSPP).

The report has been certified by an independent party ZAO «Bureau Veritas Certification Rus» and passed the procedure of public assurance by the RSPP Board of non-financial reporting.

The Report on Sustainable Development and Social Responsibility complements the Company's Annual Report detailing the Company's social aspects and areas of its corporate activities. The Report on Sustainable Development and Social Responsibility and Annual Report offer to the interested parties complete information for in-depth and comprehensive analysis of the Company's activities taking into account long-term prospects.

Electronic versions of the Report on Sustainable Development and Social Responsibility are available on the Company's Internet portal www.tatneft.ru.

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