



Tatneft Group

**IFRS CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)**

**AS OF AND FOR THE THREE AND
NINE MONTHS ENDED 30 SEPTEMBER 2014**

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Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of OAO Tatneft

Introduction

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

Scope of Review

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

Conclusion

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

A handwritten signature in black ink, appearing to read "ZAO PricewaterhouseCoopers Audit".

27 November 2014
Moscow, Russian Federation

TATNEFT
Consolidated Interim Condensed Statement of Financial Position (Unaudited)

(In millions of Russian Roubles)

	Note	30 September 2014	31 December 2013
Assets			
Cash and cash equivalents	4	32,714	29,535
Restricted cash		1,573	917
Accounts receivable, net	5	69,107	52,098
Short-term financial assets	6	28,266	16,693
Inventories	7	32,601	29,538
Prepaid expenses and other current assets	8	22,935	23,217
Total current assets		187,196	151,998
Long-term accounts receivable, net	5	1,079	1,016
Long-term financial assets	9	25,863	25,814
Investments in associates and joint ventures	10	7,895	7,778
Property, plant and equipment, net		502,885	481,883
Deferred income tax assets		2,898	2,049
Other long-term assets		3,134	3,551
Total non-current assets		543,754	522,091
Total assets		730,950	674,089
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	11	15,952	36,561
Accounts payable and accrued liabilities	12	38,664	28,444
Taxes payable	14	21,053	16,706
Income tax payable		2,892	1,462
Total current liabilities		78,561	83,173
Long-term debt, net of current portion	11	9,546	12,785
Other long-term liabilities	13	3,721	3,839
Decommissioning provision, net of current portion		57,808	54,511
Deferred income tax liability		18,107	15,799
Total non-current liabilities		89,182	86,934
Total liabilities		167,743	170,107
Shareholders' equity			
Preferred shares (authorized and issued at 30 September 2014 and 31 December 2013– 147,508,500 shares; nominal value at 30 September 2014 and 31 December 2013 – RR1.00)		746	746
Common shares (authorized and issued at 30 September 2014 and 31 December 2013– 2,178,690,700 shares; nominal value at 30 September 2014 and 31 December 2013 – RR1.00)		11,021	11,021
Additional paid-in capital		87,482	87,482
Accumulated other comprehensive income		1,770	889
Retained earnings		439,272	384,376
Less: Common shares held in treasury, at cost (55,538,000 shares and 55,592,000 shares at 30 September 2014 and 31 December 2013, respectively)		(3,092)	(3,102)
Total Group shareholders' equity		537,199	481,412
Non-controlling interest		26,008	22,570
Total shareholders' equity		563,207	503,982
Total liabilities and equity		730,950	674,089

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

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

(In millions of Russian Roubles)

	Note	Three months ended 30 September:		Nine months ended 30 September:	
		2014	2013	2014	2013
Sales and other operating revenues, net	16	126,953	123,389	371,815	334,639
Costs and other deductions					
Operating		(28,547)	(23,316)	(70,945)	(63,225)
Purchased oil and refined products		(15,490)	(12,572)	(41,769)	(37,623)
Exploration		(732)	(578)	(1,560)	(1,239)
Transportation		(5,882)	(7,920)	(17,527)	(23,366)
Selling, general and administrative		(10,826)	(11,247)	(30,890)	(31,816)
Depreciation, depletion and amortization		(5,111)	(3,679)	(15,343)	(12,894)
(Loss)/gain on disposals of property, plant and equipment, investments and impairments		(559)	567	(1,416)	1,040
Taxes other than income taxes	14	(30,397)	(29,191)	(92,109)	(82,051)
Maintenance of social infrastructure and transfer of social assets		(900)	(1,172)	(2,709)	(3,411)
Total costs and other deductions		(98,444)	(89,108)	(274,268)	(254,585)
Other income/(expenses)					
Foreign exchange gain/(loss)		1,359	117	556	(1,035)
Interest income		1,728	912	4,901	2,484
Interest expense, net of amounts capitalized		(1,420)	(1,476)	(4,293)	(4,614)
Earnings from equity investments	10	74	73	114	296
Other income/(expenses), net		26	181	(292)	610
Total other income/(expenses)		1,767	(193)	986	(2,259)
Profit before income taxes		30,276	34,088	98,533	77,795
Income taxes					
Current income tax expense		(6,722)	(6,632)	(19,064)	(16,601)
Deferred income tax expense		(202)	(1,461)	(1,510)	(1,285)
Total income tax expense	14	(6,924)	(8,093)	(20,574)	(17,886)
Profit for the period		23,352	25,995	77,959	59,909
Items that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustments		1,757	(76)	856	366
Actuarial gain on employee benefit plans		-	-	7	26
Unrealized holding (losses)/gains on available-for-sale securities, including share of associates, net of tax		(94)	15	18	(17)
Other comprehensive income/(loss)		1,663	(61)	881	375
Total comprehensive income for the period		25,015	25,934	78,840	60,284
Profit attributable to:					
- Group shareholders		22,019	23,232	73,584	55,141
- Non-controlling interest		1,333	2,763	4,375	4,768
		23,352	25,995	77,959	59,909
Total comprehensive income is attributable to:					
- Group shareholders		23,682	23,171	74,465	55,516
- Non-controlling interest		1,333	2,763	4,375	4,768
		25,015	25,934	78,840	60,284
Basic and diluted net earnings per share (RR)					
Common		9.70	10.23	32.40	24.28
Preferred		9.67	10.20	32.38	24.25
Weighted average shares outstanding (millions of shares)					
Common		2,123	2,123	2,123	2,123
Preferred		148	148	148	148

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

TATNEFT
Consolidated Interim Condensed Statement of Changes in Equity (Unaudited)

(In millions of Russian Roubles)

	Attributable to Group shareholders									Non-controlling interest	Total equity
	Number of shares (thousands)	Share capital	Additional paid-in capital	Treasury shares	Actuarial (loss)/gain on employee benefit plans	Foreign currency translation adjustments	Unrealized holding gain/(losses) on available-for-sale securities, including share of associates, net of tax	Retained earnings	Total shareholders' equity		
At 1 January 2013	2,270,656	11,767	87,482	(3,093)	(494)	754	466	333,072	429,954	16,279	446,233
Profit for the nine months	-	-	-	-	-	-	-	55,141	55,141	4,768	59,909
Other comprehensive income/(loss) for the nine months	-	-	-	-	26	366	(17)	-	375	-	375
Total comprehensive income/(loss) for the nine months	-	-	-	-	26	366	(17)	55,141	55,516	4,768	60,284
Treasury shares:	3	-	-	1	-	-	-	-	1	-	1
- Acquisitions	(30)	-	-	(6)	-	-	-	-	(6)	-	(6)
- Disposals	33	-	-	7	-	-	-	-	7	-	7
Disposal of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	(201)	(201)
Dividends declared	-	-	-	-	-	-	-	(19,528)	(19,528)	(763)	(20,291)
Balance at 30 September 2013	2,270,659	11,767	87,482	(3,092)	(468)	1,120	449	368,685	465,943	20,083	486,026
At 1 January 2014	2,270,607	11,767	87,482	(3,102)	(818)	1,284	423	384,376	481,412	22,570	503,982
Profit for the nine months	-	-	-	-	-	-	-	73,584	73,584	4,375	77,959
Other comprehensive income for the nine months	-	-	-	-	7	856	18	-	881	-	881
Total comprehensive income for the nine months	-	-	-	-	7	856	18	73,584	74,465	4,375	78,840
Treasury shares:	54	-	-	10	-	-	-	-	10	-	10
- Acquisitions	(302)	-	-	(63)	-	-	-	-	(63)	-	(63)
- Disposals	356	-	-	73	-	-	-	-	73	-	73
Acquisition of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	145	145
Dividends declared	-	-	-	-	-	-	-	(18,688)	(18,688)	(1,082)	(19,770)
Balance at 30 September 2014	2,270,661	11,767	87,482	(3,092)	(811)	2,140	441	439,272	537,199	26,008	563,207

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

TATNEFT
Consolidated Interim Condensed Statement of Cash Flows (Unaudited)

(In millions of Russian Roubles)

	Nine months ended 30 September 2014	Nine months ended 30 September 2013
Operating activities		
Profit for the period	77,959	59,909
Adjustments:		
Depreciation, depletion and amortization	15,343	12,894
Income tax expense	20,574	17,886
Loss/(gain) on disposals of property, plant and equipment, investments and impairments	1,416	(1,040)
Transfer of social assets	1	26
Effects of foreign exchange	4,994	3,324
Equity investments earnings net of dividends received	(114)	(296)
Change in provision for impairment of financial assets	(357)	884
Change in fair value of trading securities	(142)	(234)
Interest income	(4,901)	(2,484)
Interest expense	4,293	4,614
Other	93	670
Changes in operational working capital, excluding cash:		
Accounts receivable	(14,981)	(10,004)
Inventories	(4,106)	(5,518)
Prepaid expenses and other current assets	(4)	9,136
Trading securities	1,326	32
Accounts payable and accrued liabilities	8,407	81
Taxes payable	4,513	2,322
Notes payable	(63)	255
Other non-current assets	392	750
Net cash provided by operating activities before income tax and interest	114,643	93,207
Income taxes paid	(17,521)	(14,146)
Interest paid	(1,213)	(2,194)
Interest received	4,290	2,442
Net cash provided by operating activities	100,199	79,309
Investing activities		
Additions to property, plant and equipment	(37,409)	(38,639)
Proceeds from disposal of property, plant and equipment	581	536
Proceeds from disposal of investments	98	368
Purchase of investments	(94)	(10)
(Purchase)/proceeds from certificates of deposit, net	(11,671)	737
(Issuance)/proceeds from loans and notes receivable, net	(419)	1,874
Change in restricted cash	(656)	632
Net cash used in investing activities	(49,570)	(34,502)
Financing activities		
Proceeds from issuance of debt	11,315	23,916
Repayment of debt	(39,704)	(44,549)
Dividends paid to shareholders	(18,660)	(19,493)
Dividends paid to non-controlling shareholders	(1,082)	(763)
Purchase of treasury shares	(37)	(6)
Proceeds from sale of treasury shares	37	6
Net cash used in financing activities	(48,131)	(40,889)
Net change in cash and cash equivalents	2,498	3,918
Effect of foreign exchange on cash and cash equivalents	681	233
Cash and cash equivalents at the beginning of the period	29,535	13,083
Cash and cash equivalents at the end of the period	32,714	17,234

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

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Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(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 16).

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

The Group does not have an ultimate controlling party.

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

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

Note 2: Basis of presentation

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

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

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

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

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

Note 2: Basis of presentation (continued)

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

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

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

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

Sensitivity analysis for changes in rates:

	Change in	Impact on decommissioning provision	
		At 30 September 2014	At 31 December 2013
Discount rate	+1%	(13,022)	(11,436)
	-1%	17,361	15,384

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

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

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US \$") at 30 September 2014 and 31 December 2013 was RR 39.39 and RR 32.73 to US \$, respectively. Average rate of exchange for the nine months ended 30 September 2014 and 2013 was RR 35.39 and RR 31.62 per US \$, respectively.

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

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

Note 3: Adoption of new or revised standards and interpretations

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

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

The amended standards and new IFRIC have no significant impact on the Group's consolidated interim condensed financial statements.

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

IFRS 9 Financial Instruments: Classification and Measurement (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). The standard reflects all phases of the financial instruments project and replaces all previous of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

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

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

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

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint ventures (issued in September 2014 and effective for annual periods beginning on or after January 1, 2016) on the accounting for acquisitions of an interest in a joint venture. Full gain or loss will be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor to the extent of the other investors' interests. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture, not to a joint operation.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report".

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

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

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

Defined Benefit Plans: Employee Contributions - Amendments to IAS 19 (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 amendment has no significant impact on Group's consolidated interim condensed financial statements.

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

Note 4: Cash and cash equivalents

Cash and cash equivalents comprise the following:

	At 30 September 2014	At 31 December 2013
Cash on hand and in banks	20,700	8,012
Term deposits with original maturity of less than three months	12,014	21,523
Total cash and cash equivalents	32,714	29,535

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

Note 5: Accounts receivable

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

	At 30 September 2014	At 31 December 2013
Short-term accounts receivable:		
Trade receivables	76,407	60,395
Other financial receivables	7,158	4,259
Less provision for impairment	(14,458)	(12,556)
Total short-term accounts receivable	69,107	52,098
Long-term accounts receivable:		
Trade receivables	432	251
Other financial receivables	684	835
Less provision for impairment	(37)	(70)
Total long-term accounts receivable	1,079	1,016
Total financial assets within trade and other receivables	70,186	53,114

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

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

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

Note 6: Short-term financial assets

Short-term financial assets comprise the following:

	At 30 September 2014	At 31 December 2013
Loans and receivables:		
Notes receivable	2,636	2,178
Other loans (net of provision for impairment of RR 23 million and RR 18 million as of 30 September 2014 and 31 December 2013)	2,819	2,026
Certificates of deposit	20,464	8,973
Financial assets at fair value through profit or loss:		
Held-for-trading	2,347	3,516
Total short-term financial assets	28,266	16,693

During the nine months ended 30 September 2014 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 62,772 million and RR 51,283 million, respectively.

During the nine months ended 30 September 2013 purchases of certificates of deposit and cash proceeds from certificates of deposit were RR 4,774 million and RR 5,729 million, respectively.

During the nine months ended 30 September 2014 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 4,330 million and RR 4,844 million, respectively.

During the nine months ended 30 September 2013 cash issuance of notes receivable and other loans and cash proceeds from notes receivable and other loans were RR 949 million and RR 3,354 million, respectively.

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

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

	At 30 September 2014	At 31 December 2013
Held-for-trading:		
Equity securities	588	1,736
Corporate debt securities	1,759	1,762
Russian government debt securities	-	18
Total financial assets at fair value through profit and loss	2,347	3,516

Note 7: Inventories

	At 30 September 2014	At 31 December 2013
Materials and supplies	12,339	11,354
Crude oil	6,051	5,657
Refined oil products	7,508	6,495
Petrochemical supplies and finished goods	6,703	6,032
Total inventories	32,601	29,538

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

Note 8: Prepaid expenses and other current assets

Prepaid expenses and other current assets are as follows:

	At 30 September 2014	At 31 December 2013
VAT recoverable	4,453	5,728
Prepaid export duties	8,211	8,311
Advances	6,634	5,626
Prepaid transportation expenses	572	668
Other	3,065	2,884
Prepaid expenses and other current assets	22,935	23,217

Note 9: Long-term financial assets

Long-term financial assets comprise the following:

	At 30 September 2014	At 31 December 2013
Loans and receivables:		
Notes receivable (net of provision for impairment of RR 318 million as of 30 September 2014 and 31 December 2013)	1,694	1,019
Loans to employees	2,601	2,493
Other loans	2,001	3,197
Certificates of deposit	14,904	14,445
Available-for-sale investments	4,663	4,660
Total long-term financial assets	25,863	25,814

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

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

	Carrying amounts		Fair values	
	At 30 September 2014	At 31 December 2013	At 30 September 2014	At 31 December 2013
Notes receivable	1,694	1,019	1,864	1,122
Loans to employees	2,601	2,493	2,601	2,493
Other loans	2,001	3,197	1,975	3,156
Certificates of deposit	14,904	14,445	13,901	15,163
Total long-term financial assets	21,200	21,154	20,341	21,934

During the nine months ended 30 September 2014 purchases of long-term certificates of deposit were RR 182 million.

During the nine months ended 30 September 2013 purchases of long-term certificates of deposit were RR 218 million.

During the nine months ended 30 September 2014 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 2,654 million and RR 1,721 million, respectively.

During the nine months ended 30 September 2013 cash issuance of long-term notes receivable and other loans and cash proceeds from long-term notes receivable and other loans were RR 1,454 million and RR 923 million, respectively.

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Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(in millions of Russian Roubles)

Note 10: Investments in associates and joint ventures

Investments in associates and joint ventures comprise the following:

Name of an investee	Ownership percentage at		Net book value at		Group's share of earnings/(losses) for the nine months ended	
	30 September	31 December	30 September	31 December	30 September	
	2014	2013	2014	2013	2014	2013
<i>Associates and joint ventures:</i>						
Bank Zenit	25	25	7,116	6,984	247	432
Other	20-75	20-75	779	794	(133)	(136)
Total			7,895	7,778	114	296

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

Note 11: Debt

	At 30 September 2014	At 31 December 2013
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	11,561	31,595
Rouble denominated debt		
Current portion of long-term debt	75	36
Other Rouble denominated debt	4,316	4,930
Total short-term debt	15,952	36,561
Long-term debt		
Foreign currency denominated debt		
US \$2.0 bln 2010 credit facility	9,990	14,771
US \$1.5 bln 2009 credit facility	468	2,328
US \$550 mln 2011 credit facility	-	17,961
US \$75 mln 2011 credit facility	1,821	1,529
US \$144.5 mln 2011 credit facility	3,158	2,762
EUR 55 mln 2013 credit facility	2,607	2,018
Other foreign currency denominated debt	2,298	2,122
Rouble denominated debt		
Other Rouble denominated debt	840	925
Total long-term debt	21,182	44,416
Less: current portion of long-term debt	(11,636)	(31,631)
Total long-term debt, net of current portion	9,546	12,785

Foreign currency debts are primarily denominated in US Dollars.

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

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Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(in millions of Russian Roubles)

Note 11: Debt (continued)

Short-term Russian Rouble denominated debt. Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 4,316 million and RR 4,930 million bear contractual interest rates of 8% to 13.5% per annum as of 30 September 2014 and 1.1% to 8.75% per annum as of 31 December 2013.

Long-term foreign currency denominated debt. In October 2009, the Company entered into a dual (3 and 5 year) tranches secured syndicated pre-export facility for up to US \$1.5 billion arranged by WestLB AG, Bayerische Hypo-und Vereinsbank AG, ABN AMRO Bank N.V., OJSC Gazprombank, Bank of Moscow and Nordea Bank. This credit facility is collateralized with the contractual rights and receivables under an oil export contract between Tatneft and Tavit B.V. under which Tatneft supplies no less than 360,000 metric tons of oil and refined products in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth and interest coverage ratios. The 3-year tranche was fully repaid. The 5-year tranche bears interest at LIBOR plus 4.10%. The loan was fully repaid in October 2014.

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

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

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

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

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

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

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

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

Note 12: Accounts payable and accrued liabilities

	At 30 September 2014	At 31 December 2013
Trade payables	20,026	14,260
Dividends payable	131	103
Other payables	1,890	980
Total financial liabilities within trade and other payables	22,047	15,343
Salaries and wages payable	5,380	4,109
Advances received from customers	4,469	1,045
Current portion of decommissioning provisions	526	526
Other accounts payable and accrued liabilities	6,242	7,421
Total non-financial liabilities	16,617	13,101
Accounts payable and accrued liabilities	38,664	28,444

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

Note 13: Other long-term liabilities

Other long-term liabilities are as follows:

	At 30 September 2014	At 31 December 2013
Pension liability	3,641	3,768
Other long-term liabilities	80	71
Total other long-term liabilities	3,721	3,839

Note 14: Taxes

Income tax expense comprises the following:

	Three months ended 30 September:		Nine months ended 30 September:	
	2014	2013	2014	2013
Current income tax expense	(6,722)	(6,632)	(19,064)	(16,601)
Deferred income tax expense	(202)	(1,461)	(1,510)	(1,285)
Income tax expense for the period	(6,924)	(8,093)	(20,574)	(17,886)

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

Note 14: Taxes (continued)

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2014	2013	2014	2013
Income before income taxes and non-controlling interest	30,276	34,088	98,533	77,795
Theoretical income tax expense at statutory rate	(6,056)	(6,818)	(19,707)	(15,559)
Increase due to:				
Non-deductible expenses, net	(868)	(1,275)	(1,911)	(2,327)
Other	-	-	1,044	-
Income tax expense	(6,924)	(8,093)	(20,574)	(17,886)

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2014	2013	2014	2013
Mineral extraction tax	28,784	27,640	87,382	77,451
Property tax	1,276	1,150	3,777	3,466
Other	337	401	950	1,134
Total taxes other than income taxes	30,397	29,191	92,109	82,051

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

	At 30 September 2014	At 31 December 2013
Mineral extraction tax	9,227	9,485
Value Added Tax on goods sold	4,687	2,205
Export duties	3,859	1,765
Property tax	1,296	1,195
Other	1,984	2,056
Total taxes payable	21,053	16,706

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

Note 15: Fair values

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

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

Fair value hierarchy

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

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

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

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

Recurring fair value measurements

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

	At 30 September 2014				At 31 December 2013			
	Level 1	Level 2	Level 3	Total carrying value	Level 1	Level 2	Level 3	Total carrying value
Held-for-trading investments	1,100	-	1,247	2,347	2,522	-	994	3,516
Available-for-sale investments	-	4,663	-	4,663	-	4,660	-	4,660
Total	1,100	4,663	1,247	7,010	2,522	4,660	994	8,176

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

	Fair value	Valuation technique	Inputs used
Held-for-trading investments	1,247	Net assets valuation	Publicly available IFRS Financial statements
Available-for-sale investments	4,663	Net assets valuation	Publicly available IFRS Financial statements
Total	5,910		

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 nine months ended 30 September 2014 and the year ended 31 December 2013.

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

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

Note 15: Fair values (continued)**Assets and liabilities not measured at fair value but for which fair value is disclosed**

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

	At 30 September 2014				At 31 December 2013			
	Level 1	Level 2	Level 3	Total carrying value	Level 1	Level 2	Level 3	Total carrying value
Assets								
Cash and cash equivalents	32,714	-	-	32,714	29,535	-	-	29,535
Restricted cash	1,573	-	-	1,573	917	-	-	917
Accounts receivable	-	-	70,186	70,186	-	-	53,114	53,114
Financial assets	-	-	46,259	47,119	-	-	35,112	34,332
Total assets	34,287	-	116,445	151,592	30,452	-	88,226	117,898
Liabilities								
Debt	-	-	(25,498)	(25,498)	-	-	(49,346)	(49,346)
Trade and other payable	-	-	(22,047)	(22,047)	-	-	(15,343)	(15,343)
Total liabilities	-	-	(47,545)	(47,545)	-	-	(64,689)	(64,689)

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

Note 16: Segment information

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

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

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

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

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

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

For the three months ended 30 September 2014, revenues of RR 14,859 million or 12% and RR 13,084 million or 10% of the Group's total sales and operating revenues are derived from two external customers.

For the nine months ended 30 September 2014, revenue of RR 48,910 million or 13% of the Group's total sales and operating revenues are derived from one external customer.

For the three months ended 30 September 2013, revenues of RR 24,671 million or 20%, RR 12,282 million or 10% and RR 11,993 million or 10% of the Group's total sales and operating revenues are derived from three external customers.

For the nine months ended 30 September 2013, revenues of RR 70,496 million or 21%, RR 37,611 million or 11% and RR 33,018 million or 10% of the Group's total sales and operating revenues are derived from three external customers.

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

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

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Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(in millions of Russian Roubles)

Note 16: Segment information (continued)

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2014	2013	2014	2013
Exploration and production				
Domestic own crude oil	17,037	12,813	60,256	40,832
CIS own crude oil	1,986	2,050	6,943	5,311
Non-CIS own crude oil	29,352	38,324	86,706	104,839
Other	1,078	1,138	3,203	3,141
Intersegment sales	27,250	27,129	81,301	66,651
Total exploration and production	76,703	81,454	238,409	220,774
Refining and marketing				
<i>Domestic sales</i>				
Crude oil purchased for resale	3,306	-	10,020	-
Refined products	36,825	28,991	94,194	70,066
Total Domestic sales	40,131	28,991	104,214	70,066
<i>CIS sales</i>				
Refined products	3,454	1,830	7,022	4,296
Total CIS sales ⁽¹⁾	3,454	1,830	7,022	4,296
<i>Non-CIS sales</i>				
Crude oil purchased for resale	2,482	3,546	8,382	12,554
Refined products	15,294	20,579	54,112	54,159
Total non-CIS sales ⁽²⁾	17,776	24,125	62,494	66,713
Other	1,848	1,024	4,011	2,997
Intersegment sales	834	833	2,476	2,580
Total refining and marketing	64,043	56,803	180,217	146,652
Petrochemicals				
Tires – domestic sales	6,613	6,214	17,050	17,835
Tires – CIS sales	2,298	1,995	4,805	5,025
Tires – non-CIS sales	412	331	994	789
Petrochemical products and other	719	665	2,000	1,748
Intersegment sales	253	238	670	619
Total petrochemicals	10,295	9,443	25,519	26,016
Total segment sales	151,041	147,700	444,145	393,442
Corporate and other sales	4,249	3,889	12,117	11,047
Elimination of intersegment sales	(28,337)	(28,200)	(84,447)	(69,850)
Total sales and other operating revenues	126,953	123,389	371,815	334,639

⁽¹⁾ - CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).

⁽²⁾ - Non-CIS sales of crude oil and refined products are mainly made to Germany, Switzerland, Netherlands, United Kingdom based traders and Poland based refineries.

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Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(in millions of Russian Roubles)

Note 16: Segment information (continued)
Segment earnings

	Three months ended 30 September:		Nine months ended 30 September:	
	2014	2013	2014	2013
Segment earnings				
Exploration and production	21,896	29,148	80,156	73,813
Refining and marketing	7,576	6,340	21,652	9,475
Petrochemicals	(1)	113	(385)	609
Total segment earnings	29,471	35,601	101,423	83,897
Corporate and other	(962)	(1,320)	(3,876)	(3,843)
Other income/(expenses)	1,767	(193)	986	(2,259)
Profit before income tax	30,276	34,088	98,533	77,795

Segment assets

	At 30 September 2014	At 31 December 2013
Assets		
Exploration and production	305,264	281,384
Refining and marketing	277,205	259,879
Petrochemicals	31,344	29,830
Corporate and other	117,137	102,996
Total assets	730,950	674,089

As of 30 September 2014 and 31 December 2013 corporate and other segment comprised RR 7,895 million and RR 7,778 million, respectively, investments in associates and joint ventures.

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

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2014	2013	2014	2013
Depreciation, depletion and amortization				
Exploration and production	2,925	1,961	8,566	7,456
Refining and marketing	1,296	1,007	3,988	2,882
Petrochemicals	380	407	1,255	1,272
Corporate and other	510	304	1,534	1,284
Total segment depreciation, depletion and amortization	5,111	3,679	15,343	12,894
Additions to property, plant and equipment				
Exploration and production	7,425	5,467	15,358	18,691
Refining and marketing	8,404	4,422	19,089	15,311
Petrochemicals	108	86	994	258
Corporate and other	471	2,445	5,262	6,203
Total additions to property, plant and equipment	16,408	12,420	40,703	40,463

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

Note 17: Related party transactions

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

Associates, joint ventures and other related parties

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

	Three months		Nine months	
	ended 30 September:		ended 30 September:	
	2014	2013	2014	2013
Revenues and income				
Sales of refined products	4	4	11	12
Other sales	73	74	229	187
Costs and expenses				
Purchases of crude oil	-	98	130	98
Other services	124	123	376	448
Other purchases	275	334	1,106	987

For the nine months ended 30 September 2014 and 2013, the Group sold crude oil on a commission basis from related parties for RR 130 million and RR 98 million, respectively.

For the nine months ended 30 September 2014 and 2013 the Group has entered into transactions with related parties for purchases of equipment in the amount of RR 0 million and RR 1,549 million, respectively, which is included in our property, plant and equipment.

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

	At 30 September	At 31 December
	2014	2013
Assets		
Cash and cash equivalents	18,298	11,342
Accounts receivable	469	332
Notes receivable	2,551	2,164
Short-term certificates of deposit	3,994	4,300
Trading securities	7	7
Loans receivable	509	310
Prepaid expenses and other current assets	327	107
Due from related parties short-term	26,155	18,562
Long-term certificates of deposit	14,729	14,341
Long-term loans receivable	3,090	2,366
Due from related parties long-term	17,819	16,707
Liabilities		
Accounts payable and accrued liabilities	(276)	(162)
Short-term debt	(2,296)	(1,991)
Due to related parties short-term	(2,572)	(2,153)
Long-term debt	-	(66)
Due to related parties long-term	-	(66)

At 30 September 2014 and 31 December 2013, the Group had RR 4,937 million and RR 3,879 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2014 and 2022, bearing interest between 2.9% and 8.5%. As of 30 September 2014 and 31 December 2013, the Group has short and long-term certificates of deposit of RR 18,723 million and RR 18,641 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

TATNEFT**Notes to Consolidated Interim Condensed Financial Statements (Unaudited)**

(in millions of Russian Roubles)

Note 17: Related party transactions (continued)

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

Russian Government bodies and state organizations

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

	Three months ended 30 September:		Nine months ended 30 September:	
	2014	2013	2014	2013
Sales of crude oil	485	-	1,292	-
Sales of refined products	842	368	2,291	900
Other sales	71	75	229	220
Purchases of refined products	5,627	875	14,238	4,263
Purchases of electricity	2,690	2,561	8,187	7,361
Purchases of transportation services	4,153	5,558	11,565	17,990
Other services	792	871	2,376	2,801
Other purchases	55	217	107	217

Note 18: Contingencies and commitments**Operating Environment of the Group**

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

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

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

Capital commitments. As of 30 September 2014 and 31 December 2013 the Group has outstanding capital commitments of approximately RR 41,847 million and RR 23,180 million, respectively, for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2014 and 2017.

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

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

Note 18: Contingencies and commitments (continued)

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

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

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

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

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

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

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

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

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

Ukratnafta. 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 Ministers of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT") in connection with the forcible takeover of Ukratnafta and seizure of shares of the Group in Ukratnafta. In July 2014 the arbitral tribunal issued the award holding Ukraine liable for violation of the Russia-Ukraine BIT and required Ukraine to pay Tatneft US\$ 112 million plus interest.

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