CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors and Shareholders of OAO Tatneft:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of OAO Tatneft (the "Company") and its subsidiaries at December 31, 2009, December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

ZAO PricewaterhouseCoopers Audit

April 27, 2010

TATNEFT
Consolidated Balance Sheets
(in millions of Russian Roubles)

	Notes	At December 31, 2009	At December 31, 2008	At December 31, 2007
Assets				
Cash and cash equivalents		12,841	13,418	13,010
Restricted cash		12,071	7,704	3,996
Accounts receivable, net	4	43,807	22,848	44,193
Due from related parties	17	16,485	17,605	19,732
Short-term investments	5	10,614	9,743	12,977
Current portion of loans receivable	8	3,185	5,842	3,796
Inventories	6	11,684	14,121	10,923
Prepaid expenses and other current assets	7	25,227	25,339	17,968
Total current assets		**135,914**	**116,620**	**126,595**
Long-term loans and notes receivable, net	8	2,320	4,036	4,842
Due from related parties	17	8,524	5,431	6,546
Long-term investments	5	14,596	17,666	32,310
Property, plant and equipment, net	10	322,475	241,569	193,747
Other long-term assets	9	11,913	7,658	6,179
Total assets		**495,742**	**392,980**	**370,219**
Liabilities and shareholders' equity				
Short-term debt and current portion of long-term debt	11	71,228	5,790	4,332
Trade accounts payable		13,410	9,416	5,647
Due to related parties	17	1,503	781	1,387
Other accounts payable and accrued liabilities	12	14,262	9,999	16,820
Capital lease obligations	10	170	465	575
Taxes payable	14	10,321	5,592	9,667
Total current liabilities		**110,894**	**32,043**	**38,428**
Long-term debt, net of current portion	11	16,588	44,813	9,182
Other long-term liabilities		2,423	1,735	2,134
Asset retirement obligations, net of current portion	10	38,927	35,263	31,937
Deferred tax liability	14	13,388	14,143	19,738
Capital lease obligations, net of current portion	10	15	124	242
Total liabilities		**182,235**	**128,121**	**101,661**
Shareholders' equity				
Preferred shares (authorized and issued at December 31, 2009, 2008 and 2007 – 147,508,500 shares; nominal value at December 31, 2009, 2008 and 2007 – RR1.00)	15	148	148	148
Common shares (authorized and issued at December 31, 2009, 2008 and 2007 – 2,178,690,700 shares; nominal value at December 31, 2008 and 2007 – RR1.00)	15	2,179	2,179	2,179
Additional paid-in capital		95,735	96,171	95,274
Accumulated other comprehensive income (loss)		1,907	747	(461)
Retained earnings		209,275	164,991	169,721
Less: Common shares held in treasury, at cost (66,985,000 shares, 100,089,000 shares and 101,057,000 shares at December 31, 2009, 2008 and 2007, respectively)		(3,721)	(3,960)	(2,802)
Total Group shareholders' equity		**305,523**	**260,276**	**264,059**
Non-controlling interest		7,984	4,583	4,499
Total shareholders' equity		**313,507**	**264,859**	**268,558**
Total liabilities and shareholders' equity		**495,742**	**392,980**	**370,219**

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

TATNEFT
Consolidated Statements of Operations and Comprehensive Income
(in millions of Russian Roubles)

	Notes	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Sales and other operating revenues	16	**380,648**	**444,332**	**356,276**
Costs and other deductions				
Operating		59,334	65,961	59,623
Purchased oil and refined products		38,243	58,919	43,297
Exploration		3,540	3,770	1,577
Transportation		14,325	11,556	8,431
Selling, general and administrative		26,710	36,571	22,349
Depreciation, depletion and amortization	16	11,917	10,139	10,379
Loss on disposals of property, plant and equipment, investments and impairments		1,284	1,684	5,253
Taxes other than income taxes	14	153,797	217,271	146,299
Maintenance of social infrastructure and transfer of social assets	10	2,789	4,258	2,340
Total costs and other deductions		**311,939**	**410,129**	**299,548**
Other income (expenses)				
Earnings (losses) from equity investments	5	510	(9,556)	5,789
Foreign exchange loss		(920)	(6,135)	(2,623)
Interest income		4,216	3,753	2,779
Interest expense, net of amounts capitalized		(626)	(580)	(60)
Other income/(expenses), net		2,637	(3,531)	(4)
Total other income/(expenses)		**5,817**	**(16,049)**	**5,881**
Income before income taxes and non-controlling interest		**74,526**	**18,154**	**62,609**
Income taxes				
Current income tax expense		(17,527)	(16,043)	(18,895)
Deferred income tax (expense)/benefit		(29)	6,701	641
Total income tax expense	14	**(17,556)**	**(9,342)**	**(18,254)**
Net income		**56,970**	**8,812**	**44,355**
Less: net income attributable to non-controlling interest		(2,598)	(399)	(1,076)
Net income attributable to Group shareholders		**54,372**	**8,413**	**43,279**
Foreign currency translation adjustments		143	683	(143)
Actuarial gain on employee benefit plans		531	525	-
Unrealized holding gains on available-for-sale securities, net of tax		486	-	-
Comprehensive income		**55,532**	**9,621**	**43,136**
Basic and diluted net income per share (RR)	15			
Common		24.25	3.79	19.50
Preferred		24.15	3.53	19.27
Weighted average shares outstanding (millions of shares)	15			
Common		2,095	2,076	2,073
Preferred		148	148	148

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

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Operating activities			
Net income	56,970	8,812	44,355
Adjustments:			
Depreciation, depletion and amortization	11,917	10,139	10,379
Deferred income tax benefit/(expense)	29	(6,701)	(641)
Loss on disposals of property, plant and equipment, investments and impairments	1,284	1,684	5,253
Transfer of social assets	324	1,413	10
Effects of foreign exchange	12	8,075	(37)
Equity (loss)/earnings net of dividends received	(153)	9,964	(5,128)
Change of allowance for doubtful accounts	(2,887)	12,496	-
Accretion of asset retirement obligation	3,537	3,204	2,899
Change in fair value of trading securities	(1,835)	2,330	1,065
Other	(879)	2,187	199
Changes in operational working capital, excluding cash:			
Accounts receivable	(18,500)	11,720	(18,845)
Inventories	2,391	(671)	35
Prepaid expenses and other current assets	642	(10,398)	1,916
Trading securities	2,406	635	1,788
Related parties	669	(38)	836
Trade accounts payable	2,559	3,421	(318)
Other accounts payable and accrued liabilities	3,321	(6,077)	3,104
Taxes payable	4,985	(4,042)	2,210
Notes payable	(173)	18	193
Other non-current assets	(16)	(319)	(1,240)
Net cash provided by operating activities	**66,603**	**47,852**	**48,033**
Investing activities			
Additions to property, plant and equipment	(89,254)	(60,441)	(33,649)
Proceeds from disposals of property, plant and equipment	545	1,030	4,531
Proceeds from disposal of investments	186	(180)	9,431
Purchase of investments	(368)	(900)	(2,742)
Certificates of deposit	554	4,180	(11,351)
Loans and notes receivable	1,376	(1,716)	(3,333)
Change in restricted cash	(4,367)	(3,708)	(2,511)
Net cash used in investing activities	**(91,328)**	**(61,735)**	**(39,624)**
Financing activities			
Proceeds from issuance of debt	52,881	47,100	18,454
Repayment of debt	(18,160)	(17,351)	(9,171)
Repayment of capital lease obligations	(408)	(719)	(1,100)
Dividends paid to shareholders	(10,075)	(13,115)	(10,667)
Dividends paid to non-controlling shareholders	(190)	(163)	(148)
Purchase of treasury shares	(58)	(1,525)	(269)
Proceeds from sale of treasury shares	58	64	270
Proceeds from issuance of shares by subsidiaries	100	-	363
Net cash provided by (used in) financing activities	**24,148**	**14,291**	**(2,268)**
Net change in cash and cash equivalents	**(577)**	**408**	**6,141**
Cash and cash equivalents at beginning of period	13,418	13,010	6,869
Cash and cash equivalents at end of period	**12,841**	**13,418**	**13,010**

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

	2009		2008		2007	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Preferred shares:						
Balance at January 1 and December 31 (shares in thousands)	147,509	148	147,509	148	147,509	148
Common shares:						
Balance at January 1 and December 31 (shares in thousands)	2,178,691	2,179	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:						
Balance at January 1	100,089	(3,960)	101,057	(2,802)	111,299	(2,786)
Acquisitions	19,126	(2,504)	9,096	(1,525)	4,115	(331)
Disposals	(52,230)	2,743	(10,064)	367	(14,357)	315
Balance at December 31 (shares in thousands)	66,985	(3,721)	100,089	(3,960)	101,057	(2,802)
Additional paid-in capital						
Balance at January 1		96,171		95,274		95,337
Treasury share transactions		(256)		897		(63)
Acquisitions of subsidiaries		(180)		-		-
Balance at December 31		95,735		96,171		95,274
Accumulated other comprehensive income / (loss)						
Balance at January 1		747		(461)		(318)
Actuarial gain on employee benefit plans		531		525		-
Foreign currency translation adjustments		143		683		(143)
Unrealized holding gains on available-for-sale securities, net of tax		486		-		-
Balance at December 31		1,907		747		(461)
Retained earnings						
Balance at January 1		164,991		169,721		137,143
Net income		54,372		8,413		43,279
Dividends		(10,088)		(13,143)		(10,701)
Balance at December 31		209,275		164,991		169,721
Non-controlling interest						
Balance at January 1		4,583		4,499		3,174
Net income		2,598		399		1,076
Dividends		(190)		(163)		(148)
Change in Group structure		993		(152)		397
Balance at December 31		7,984		4,583		4,499
Total shareholders' equity at December 31		**313,507**		**264,859**		**268,558**

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

Note 1: Organization

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 January 1, 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.

As of December 31, 2009, 2008 and 2007 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, hold approximately 36% of the Company's voting stock. These shares were contributed to 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 15). 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, such as the electricity producer OAO Tatenergo and the petrochemicals company OAO Nizhnekamskneftekhim.

Note 2: Basis of Presentation

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 financial statements have been prepared from these accounting records and adjusted as necessary to comply with accounting principles generally accepted in the United States of America ("US GAAP"). The principal differences between RAR and US GAAP 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) capital leases; (6) share base payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for asset retirement obligation; (10) pensions and other post retirement benefits; (11) business combinations and goodwill; and (12) consolidation and accounting for subsidiaries, equity investees and variable interest entities ("VIEs").

Use of estimates in the preparation of financial statements. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. While management uses its best estimates and judgments, actual results could differ from those estimates and assumptions used. Among the estimates made by the management are: assets valuation allowances, depreciable lives, oil and gas reserves, pensions, asset retirement costs and income taxes.

Effective from the interim period ended 30 September 2009, the Group adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC was established as the sole source of US GAAP and superseded existing accounting and reporting guidance issued by the FASB, Emerging Issues Task Force and other sources. The ASC did not change US GAAP. All references to accounting standards in these consolidated financial statements were changed to corresponding ASC references.

Effective 1 January 2009, the Group adopted the authoritative guidance of ASC 810, Consolidation, as it relates to non-controlling interests. This guidance changed the accounting and reporting standards for minority interests, which were re-characterized as non-controlling interests and classified as a component of equity. In accordance with this guidance, the Group changed retrospectively the presentation of existing minority interests in these consolidated financial statements.

Note 2: Basis of Presentation (continued)

Foreign currency transactions and translation. Management has determined the functional currency 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 ASC 830 Foreign Currency matters.

Under ASC 830, 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 balance sheet date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in Russian Roubles are credited or charged to operations.

For operations of subsidiaries located outside of the Russian Federation, that primarily use US Dollars 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 accumulated other comprehensive income or loss. Gains or losses resulting from transactions in other than the functional currency are reflected in net income.

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 December 31, 2009, 2008 and 2007 was RR 30.24, RR 29.38 and RR 24.55 to US Dollar, respectively. Average rate of exchange for the years ended December 31, 2009, 2008 and 2007 were RR 31.72, RR 24.86 and RR 25.58 per US Dollar, respectively.

Principles of consolidation and long-term investments. The accompanying consolidated financial statements include the operations of all majority-owned, controlled subsidiaries and VIEs, where the Group is the primary beneficiary. In 2006 the Company determined that, despite a 40% direct ownership interest, OAO TANECO ("TANECO") was a variable interest entity and that the Group was its primary beneficiary. At December 31, 2009, Group's direct ownership interest in TANECO is 91%. Accordingly, the financial position, results of operation and cash flows of TANECO have been included in the consolidated financial statements as of and for the years ended December 31, 2009, 2008 and 2007. Joint ventures and affiliates in which the Group has significant influence but not control are accounted for using the equity method. Intercompany transactions and accounts are eliminated on consolidation. Other long-term investments are carried at cost and adjusted for estimated impairment. The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that an other-than-temporary decline in value has occurred. The amount of the impairment is based on quoted market prices, where available, or other valuation techniques, including discounted cash flows. Equity investments and investments in other companies are included in "Long-term investments" in the consolidated balance sheet.

Note 3: Summary of Significant Accounting Policies

Cash equivalents. Cash equivalents are highly liquid short-term investments that are readily convertible into known amounts of cash and have original maturities within three months from their date of purchase.

At December 31, 2009, 2008 and 2007, cash and cash equivalents of the Group, include US Dollar denominated amounts of RR 2,722 million (US $90 million), RR 1,136 million (US $39 million) and RR 2,954 million (US $120 million), respectively.

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.

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. 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.

Investments. Debt and equity securities are classified into one of three categories: trading, available-for-sale, or held-to-maturity and consist of certificates of deposit as well as debt and equity securities classified as available-for-sale or trading.

Securities classified as trading are bought and held principally for the purpose of selling them in the near term. Trading securities are carried at fair value on the consolidated balance sheet. In determining fair value, trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price. Unrealized and realized gains and losses on trading securities are included in other income of the consolidated statements of operations and comprehensive income.

Note 3: Summary of Significant Accounting Policies (continued)

Securities are classified as available-for-sale when, in management's judgment, they may be sold in response to or in anticipation of changes in market conditions. Available-for-sale securities are carried at estimated fair values on the consolidated balance sheet. Unrealized gains and losses on available-for-sale securities are reported net as increases or decreases to accumulate other comprehensive income. The specific identification method is used to determine realized gains and losses on available-for-sale securities.

If the decline in fair value of an investment below the accounting basis is other-than-temporary, the carrying value of the securities is reduced and a loss in the amount of any such decline is recorded. No such reductions have been required during the past three years.

Long-term investments not designated as available-for-sale or trading securities are recorded at cost because they are not traded on any market and it is not practicable to determine their fair value.

Accounts receivable. Trade accounts receivable are stated at their transaction amounts net of allowances for doubtful accounts. Allowances are recorded against trade receivables whose recovery or collection has been identified as doubtful. Estimates of allowances require the exercise of judgment and the use of assumptions.

Loans receivable. Loans originated by the Group by providing money directly to the borrower are carried at amortized cost less allowance for loan impairment. Loans are recognized when cash is advanced to borrowers.

Oil and gas exploration and development cost. Oil and gas exploration and production 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. 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 pending determination of whether proved reserves have been found. If proved reserves are not found exploratory well costs are expensed. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if sufficient reserves are discovered to justify its completion as a production well, and additional exploration drilling is underway or firmly planned. The Group does not capitalize the costs of other exploratory wells for more than one year unless proved reserves are found.

Impairment of long-lived assets. Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with ASC 360, Property, Plant and Equipment. Property, plant and equipment used in operations are assessed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recovered. If the carrying amounts are not expected to be recovered by undiscounted pretax future cash flows, the assets are impaired and an impairment loss is recorded in the periods in which the determination of impairment is made. The amount of impairment is determined based on the estimated fair value of the assets determined by discounting anticipated future net cash flows or based on quoted market prices in active markets, if available. In the case of oil and gas fields, the net present value of future cash flows is based on management's best estimate of future prices, which is determined with reference to recent historical prices and published forward prices, applied to projected production volumes of individual fields and discounted at a rate commensurate with the risks involved. The projected production volumes represent reserves, including risk-adjusted probable and possible reserves, expected to be produced based on a stipulated amount of capital expenditures. The production volumes, prices and timing of production are consistent with internal projections and other externally reported information. The price and cost outlook assumptions used in impairment reviews differ from the assumptions used in the Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserve Quantities. In that disclosure, ASC 932, Extractive Industry – Oil and Gas requires the use of the arithmetic average of the previous month's sales prices and costs at the balance sheet date, with no projection of future changes in those assumptions.

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. Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale pursuant to ASC 360, 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.

Depreciation, depletion and amortization. The Group calculates depletion expense for acquisition costs of proved properties using the units-of-production method over proved oil and gas reserves. Depreciation and depletion expense for oil and gas production equipment and wells and other development costs is calculated using the units-of-production method for each field over proved developed oil and gas reserves.

Note 3: Summary of Significant Accounting Policies (continued)

Depreciation of all other plant and equipment is determined on the straight-line method based on estimated useful lives which are as follows:

	Years
Buildings and constructions	25 - 33
Machinery and equipment	5 - 15

Maintenance and repair. Maintenance and repairs, which are not significant improvements, are expensed when incurred.

Capitalized interest. Interest from external borrowings is capitalized on major projects. Capitalized interest is added to the cost of the underlying asset and is amortized over the useful lives of the assets in the same manner as the underlying assets.

Asset retirement obligations. The Group recognizes a liability for the fair value of legally required asset retirement obligations 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 and are based upon management's experience of the costs and requirement for such activities. 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 is not subject to any legal or contractual obligations, to retire or otherwise abandon petrochemical, refining and marketing and distribution assets. Inasmuch as the regulatory and legal environment in Russia continues to evolve, there could be future changes to the requirements and costs associated with abandoning long-lived assets.

Measurements of asset retirement obligations include, as a component of expected costs, an estimate of the price that a third party would demand, and could expect to receive, for bearing the uncertainties and unforeseeable circumstances inherent in the obligations, sometimes referred to as a market-risk premium. To date, the oil and gas industry has few examples of credit-worthy third parties who are willing to assume this type of risk, for a determinable price, on major oil and gas production facilities and pipelines. Therefore, because determining such a market-risk premium would be an arbitrary process, it has been excluded from the Company's estimates.

The Group capitalizes the associated asset retirement costs as part of the carrying amount of the long-lived assets. Over time the liability is increased for the change in its present value, and the capitalized cost in properties, plant and equipment is depreciated on a units-of-production basis over the useful life of the related assets.

Property dispositions. When complete units of depreciable property are retired or sold, the asset cost and related accumulated depreciation are eliminated, with any gain or loss reflected in the consolidated statements of operations and comprehensive income. When less than complete units of depreciable property are disposed of or retired, the difference between asset cost and sales proceeds, if any, is charged or credited to accumulated depreciation.

Capital leases. Capital leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liabilities. Interest charges are charged directly to the consolidated statements of operations and comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term unless the leased assets are capitalized by virtue of the terms of the lease agreement granting the Group with ownership rights over the leased assets by the end of the lease term or containing a bargain purchase option. In this case, capitalized assets are depreciated over the estimated useful life of the asset regardless of the lease term. Depreciation of assets held under capital leases is included in depreciation, depletion and amortization charge.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of operations and comprehensive income on a straight-line basis over the lease term.

Note 3: Summary of Significant Accounting Policies (continued)

Environmental expenditures. Environmental expenditures are expensed or capitalized, depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments or cleanups are probable and the costs can be reasonably estimated.

Pension and post-employment benefits. 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. There are no contribution requirements for these benefits, which are paid by the Group directly to employees. The Group's mandatory contributions to the governmental pension scheme are expensed when incurred.

Revenue recognition. Revenues from the production and sale of crude oil, petroleum and petrochemical products and all other products are recognized when deliveries of products to final customers are made, title passes to the customer, collection is reasonably assured and sales price to final customers is fixed or determinable. Revenues include excise on petroleum products sales and duties on export sale of crude oil and petroleum products of RR 97,169 million, RR 136,541 million and RR 85,327 million at December 31, 2009, 2008 and 2007, respectively. All revenues are shown net of VAT.

Other operating revenues in the consolidated statements of operations and comprehensive income include sales of non-petroleum refined products, petrochemicals and other products and services.

Shipping and handling costs. Shipping and handling costs are included in Transportation expenses caption in the consolidated statements of operations and comprehensive income.

Non-monetary transactions. In accordance with US GAAP, exchanges of non-monetary assets are recorded based on the fair values of the assets (or services) involved which is the same basis as that used in monetary transactions. Thus, the cost of a non-monetary asset acquired in exchange for another non-monetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss is recognized on the exchange if the carrying amount of the asset surrendered differs from its fair value. The fair value of the asset received is used to measure the cost if it is more clearly evident than the fair value of the asset surrendered.

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 Interbank Currency Exchange (MICEX). Awards are subject to individual annual performance conditions and are generally settled within 90 days after the Company's Management Committee approval.

The Company accounts for its Awards under the liability method prescribed in ASC 718. The fair value of the Awards is determined using the Black-Scholes valuation model at the grant date and subsequently remeasured each interim reporting period. The liability at December 31, 2009, 2008 and 2007 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 other accounts payable and accrued liabilities.

For the year ended December 31, 2009, the Company issued 7,909,000 Awards to senior management and directors, all of which are expected to be settled at a price of RR 161.17 per Award. Final settlement is subject to approval at the Company's Management Committee meeting in July-September 2010. For the year ended December 31, 2008, the Company issued 8,753,600 Awards to senior management and directors, of which 8,175,700 were ultimately settled at a price of RR 150.08 per Award. For the year ended December 31, 2007, the Company issued 8,874,000 Awards to senior management and directors, of which 8,780,600 were ultimately settled at a price of RR 145.25 per Award. The amount of related compensation expense recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2009, 2008 and 2007 was RR 1,173 million, RR 1,290 million and RR 1,263 million, respectively.

Note 3: Summary of Significant Accounting Policies (continued)

Income taxes. Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, except for deferred taxes on income considered to be permanently reinvested in foreign subsidiaries. Deferred tax assets and liabilities are measured using enacted tax rates in the periods in which these temporary differences are expected to reverse. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not those such assets will not be realized.

The Group applies the authoritative guidance of ASC 740, Income taxes, which prescribe a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements uncertain tax positions that the Company or its subsidiaries have taken or expect to take in their income tax returns. Income tax penalties expense and income tax penalties payable are included in Taxes other than income tax in the consolidated statements of income and Taxes payable in the consolidated balance sheets, respectively. Income tax interest expense and payable are included in Interest expense in the consolidated statements of income and other accounts payable and accrued expenses in the consolidated balance sheets, respectively.

Non-controlling interest. Non-controlling interest represents the non-controlling shareholders' proportionate share of the equity of the Group's subsidiaries. This has been calculated based upon the non-controlling interest ownership percentage of these subsidiaries.

Net income per share. Basic income per share is calculated using the two class method of computing income per share. Under this method, net income is reduced by the amount of dividends declared in the current period for each class of shares, and the remaining income is allocated to common and preferred shares to the extent that each class may share in income if all income for the period had been distributed. Diluted income per share reflects the potential dilution arising from options granted to senior managers and the Directors of the Group.

Treasury shares. Common shares of the Company owned by the Group at the balance sheet 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.

Guarantees. The Group recognizes a liability for the fair value of the obligation it assumes under the guarantee in accordance with the provisions of US GAAP.

New accounting standards adopted. Effective 1 January 2008, the Group adopted the authoritative guidance of ASC 820, Fair Value Measurements and Disclosures, as it relates to items that are recognized at fair value in the financial statements on a recurring basis. For the recognition, measurement and disclosure of nonfinancial assets and liabilities measured at fair value on a non-recurring basis, the guidance of ASC 820 became effective for the Group on 1 January 2009. The guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective 1 January 2009, the Group adopted the authoritative guidance of ASC 805, Business Combinations. ASC 805 provides guidance for recognition and measurement in the financial statements of identifiable assets acquired, liabilities assumed and non-controlling interest in the acquire. ASC 805 similarly provides guidance for accounting for goodwill acquired in a business combination or a gain arising from a bargain purchase. This guidance also enquires the Group to recognize acquired contingencies at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective 1 January 2009, the Group adopted the authoritative guidance of ASC 815, Derivatives and Hedging, as it relates to disclosures on derivatives and hedging activities. This guidance requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under ASC 815, Derivatives and Hedging, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The adoption of this guidance had no material effect on Group's results of operation, financial position or liquidity.

Note 3: Summary of Significant Accounting Policies (continued)

Effective 1 January 2009, the Group adopted the authoritative guidance of ASC 350, Intangibles - Goodwill and Other, and ASC 275, Risks and Uncertainties, as it relates to determining the useful life of intangible assets. This guidance was issued to improve the consistency between the useful life of a recognized intangible asset under ASC 350, Intangibles - Goodwill and Other, and the period of expected cash flows used to measure the fair value of the asset under ASC 805, Business Combinations, and other accounting guidance. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective 1 January 2009, the Group adopted the authoritative guidance of ASC 323, Investments – Equity Method and Joint Ventures, as it relates to certain issues raised by ASC 805, Business Combinations, and ASC 810, Consolidation, in respect to equity method accounted investments, including impairment considerations. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective from the interim period ended on 30 June 2009, the Group adopted the authoritative guidance of ASC 855, Subsequent Events. This guidance sets forth the period after the balance sheet date during which events or transactions that may occur should be evaluated for potential recognition or disclosure in the financial statements, the circumstances under which events or transactions occurring after the balance sheet date should be recognized in financial statements and the disclosures that should be made about events or transactions that occurred after the balance sheet date. The guidance introduced the concept of financial statements being available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective from the interim period ended on 30 June 2009, the Group adopted the authoritative guidance of ASC 820, Fair Value Measurements and Disclosures, as it relates to estimating the fair value when the volume and level of activity for the asset or liability have significantly decreased. This guidance also clarifies the approach for identifying circumstances that indicate a transaction is not orderly. This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation techniques used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective from the interim period ended on 30 June 2009, the Group adopted the authoritative guidance of ASC 825, Financial Instruments, as it relates to fair value disclosures of financial instruments in interim financial statements. This guidance requires fair value disclosures for financial instruments on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective December 31, 2009, the company implemented the expanded disclosure requirements for the plan assets of defined benefit pension plans (ASC 715) to provide users of financial statements with an understanding of: how investment allocation decisions are made; the major categories of plan assets; the inputs and valuation techniques used to measure the fair value of plan assets; the effect of fair-value measurements using unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets.

In January 2010, ASU No. 2010-2, Accounting and Reporting for Decreases in Ownership of a Subsidiary, a Scope Clarification, was issued and became effective for the Group from the annual reporting period ended 31 December 2009. This ASU clarifies that transactions involving transfer of a subsidiary or group of assets that constitutes a business to an equity method investee or joint-venture and exchange of a group of assets for a non-controlling interest in an entity are included in the scope of ASC 810, Consolidation. This ASU also expands disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets. The adoption of this ASU had no material effect on the Group's results of operations, financial position or liquidity.

Note 3: Summary of Significant Accounting Policies (continued)

In January 2010, ASU No 2010-3, Oil and Gas Reserves Estimation and Disclosures, was issued and became effective for the Group from the annual reporting period ended 31 December 2009. This ASU amends oil and gas reserves estimation and disclosure requirements in ASC 932, Extractive Industry – Oil and Gas, to align it with the Securities and Exchange Commission's final rule, Modernization of the Oil and Gas Reporting Requirements, issued in December 2008. This ASU revised the definition of the oil- and gas-producing activities to classify non-traditional resources as reserves. The definition of proved oil and gas reserves was amended, so that the Group is required to use average, first-day-of-the-month price during the reporting period rather than the year-end price in determining reserves quantities which are economical to produce. The revised guidance requires presenting expanded disclosures about the Group's equity affiliates in the same level of detail as disclosures about its consolidated subsidiaries. The adoption of this ASU had no material effect on the Group's results of operations, financial position or liquidity. The presentation of Supplemental Information on Oil and Gas Exploration and Production activities was amended prospectively in accordance with the requirements of the ASU.

Recent accounting pronouncements. In December 2009, ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, was issued and will become effective for the Group on 1 January 2010. This ASU amends ASC 810, Consolidation, and changes the rules for determination when an entity should be consolidated. The new guidance requires the Group to perform an analysis to determine whether the Group's variable interest or interests give it a controlling financial interest in a variable interest entity. The Group is also required to assess whether it has an implicit financial responsibility to ensure that the variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. It is expected that the adoption of this ASU will have no material effect on the Group's results of operations, financial position or liquidity.

In August 2009, ASU No. 2009-5, Measuring Liabilities at Fair Value, was issued and will become effective for the Group on 1 January 2010. This ASU amends ASC 820, Fair Value Measurements and Disclosures, and provides additional guidance on how companies should measure liabilities at fair value. While reaffirming the existing definition of fair value, this ASU reintroduces the concept of entry value into the determination of fair value. Entry value is the amount an entity would receive to enter into an identical liability. Under the new guidance, the fair value of a liability is not adjusted to reflect the impact of contractual restrictions that prevent its transfer. It is expected that the adoption of this ASU will have no material effect on the Group's results of operations, financial position or liquidity.

In January 2010, ASU No. 2010-6, Fair Value Measurements and Disclosures, was issued. The ASU amends ASC 820, Fair Value Measurements and Disclosures, and requires separate disclosures of transfers in and out Level 1 and Level 2 fair value measurements and the reasons for the transfers. Also the ASU requires disclosure of activity in Level 3 fair value measurements on a gross basis rather than as one net number. The guidance requires the Group to provide fair value measurement disclosure for each class of assets and liabilities as well as disclosures about valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements that fall either in Level 2 or Level 3. The provisions of this ASU will become effective for the Group on 1 January 2010 with the exception of disclosure of activity in Level 3 fair value measurements which will become effective on 1 January 2011.

Note 4: Accounts Receivable

Accounts receivable are as follows:

	At December 31, 2009			At December 31, 2008			At December 31, 2007		
	Total accounts receivable	**Accounts receivable from related parties (Note 17)**	**Accounts receivable**	**Total accounts receivable**	**Accounts receivable from related parties (Note 17)**	**Accounts receivable**	**Total accounts receivable**	**Accounts receivable from related parties (Note 17)**	**Accounts receivable**
Trade - domestic	14,315	209	14,106	9,861	476	9,385	7,880	544	7,336
Trade - export	22,130	-	22,130	10,913	-	10,913	34,464	-	34,464
Other receivables	7,913	342	7,571	2,852	302	2,550	2,900	507	2,393
Total accounts receivable, net	**44,358**	**551**	**43,807**	**23,626**	**778**	**22,848**	**45,244**	**1,051**	**44,193**

Accounts receivables are presented net of an allowance for doubtful accounts of RR 10,171 million, RR 12,980 million and RR 375 million at December 31, 2009, 2008 and 2007, respectively.

In accordance with the Group's policies for recorded allowances for doubtful accounts the Group fully provided for receivables from ChMPKP Avto of US $439 million as of 31 December 2008 and 31 December 2007, relating to the sale of crude oil to Ukraine (Kremenchug refinery). During the year of 2009 part of this receivable was collected in the amount of RR 3,174 million (US $105 million) resulting in a decrease of the bad debt provision amount to US $334 million as of December 31, 2009 (Note 19).

Changes in provisions for doubtful accounts are included in selling, general and administrative expenses in the consolidated statements of operations and comprehensive income.

Note 5: Short and Long-Term Investments

Short-term investments are classified as follows:

	At December 31, 2009	**At December 31, 2008**	**At December 31, 2007**
Certificates of deposit	17,781	13,731	15,011
Trading securities	7,220	7,678	10,695
Total short-term investments	**25,001**	**21,409**	**25,706**
Less: due from related parties (Note 17)	(14,387)	(11,666)	(12,729)
Short-term investments, net	**10,614**	**9,743**	**12,977**

Trading securities are held in the Group with the objective of earning profits on short-term price differences.

Note 5: Short and Long-Term Investments (continued)

Short-term investments classified as trading securities are as follows:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Russian government debt securities	1,079	678	563
Corporate debt securities	1,887	3,634	2,781
Equity securities	4,254	3,366	7,351
Total trading securities	**7,220**	**7,678**	**10,695**
Less: corporate debt securities due from related parties (Note 17)	(46)	-	(223)
Trading securities, net	**7,174**	**7,678**	**10,472**

Long-term investments are as follows:

	Ownership percentage at December 31,			**Net book value at December 31,**			**Group's share of income for the years ended December 31,**		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Investments in equity affiliates and joint ventures:									
ZAO Tatex	50	50	50	1,997	2,125	2,146	130	60	303
IPCG Fund	49	49	49	3,619	3,283	11,553	(141)	(9,470)	4,545
Bank Zenit	25	25	25	4,614	3,712	4,044	513	(112)	677
Osmand Holdings Ltd	30	-	-	2,592	-	-	(3)	-	-
Other	20-50	20-50	20-50	728	356	888	11	(34)	264
Total investments in equity affiliates and joint ventures/ income (expense)				**13,550**	**9,476**	**18,631**	**510**	**(9,556)**	**5,789**
Long-term investments, at cost:									
ZAO Ukrtatnafta	9	9	9	-	504	2,751			
Other	0-20	0-20	0-20	1,046	736	578			
Total long-term investments, at cost				**1,046**	**1,240**	**3,329**			
Long-term certificates of deposit				2,846	7,450	10,350			
Less: due from related parties (Note 17)				(2,846)	(500)	-			
Total long-term investments				**14,596**	**17,666**	**32,310**			

Long-term investments not designated as available-for-sale or trading securities are recorded at cost because they are not traded on any market and it is not practicable to determine their fair value.

During the years ended December 31, 2009, 2008 and 2007 the Group received dividends from equity investees of RR 357 million, RR 408 million and RR 661 million, respectively.

Note 5: Short and Long-Term Investments (continued)

The condensed financial information of the Group's equity basis investments is as follows:

	2009	2008	2007
Sales / interest income	26,865	28,679	22,595
Net income	3,770	2,461	3,753
Current assets	190,224	171,755	152,214
Long-term assets	39,873	43,653	66,128
Current liabilities	167,325	141,966	130,978
Long-term liabilities	773	33,336	22,956

In June 2009, Osmand Holdings Ltd ("Osmand"), a newly formed wholly owned subsidiary of the Company, issued additional shares to investors who contributed a 17.05% ownership interest in Ak Bars Bank valued at RR 3,442 million. As a result of this transaction, the Group's ownership interest in Osmand decreased to 29.5%. Therefore the Company deconsolidated Osmand and began to account for this investment under the equity method which amounts to RR 2,592 million as at 31 December 2009. At December 31, 2008, Osmand owned 39.9 million Tatneft common shares which were accounted for as treasury shares by the Group. As a result of the Group's change in interest in Osmand and sale of a portion of Tatneft shares by Osmand during 2009 28.8 million shares previously classified as treasury shares of the Group were no longer reflected as treasury shares resulting an increase in additional paid in capital of shareholders' equity of RR 1,275 million.

At December 31, 2009, 2008 and 2007, IPCG Fund owned 113.1 million, 122.7 million and 142.2 million, respectively, of Tatneft common shares, including in form of depository receipts, of which the Group's share is accounted for as treasury shares.

During the year ended December 31, 2009 and 2008, IPCG Fund disposed of 9.6 million and 19.5 million Tatneft common shares, respectively. These transactions were accounted for by the Group as disposals of treasury shares and resulted in an increase in the carrying value of the Group's investment in IPCG Fund and a decrease in treasury shares of RR 141 million and RR 303 million and an increase in additional paid in capital of RR 431 million and RR 897 million in 2009 and 2008, respectively.

In December 2008 the Group submitted a redemption request to IPCG Fund to redeem a part of its holding in the fund. IPCG Fund accepted this request subject to certain conditions which were met in May 2009. The redemption was performed (on a non cash basis) by delivering to the Group 51% shares in TANECO. As a result, the Group currently owns 91% in TANECO. Also as a result of the redemption, the Group's investment in IPCG Fund decreased by RR 1,424 million with a corresponding decrease in additional paid in capital of shareholders' equity of RR 1,962 million. Subsequent to this redemption the Group's interest in IPCG Fund increased from 35.74% to 49.07% as a result of other transactions. This increase in the Group interest in IPCG Fund resulted in an increase in treasury shares of RR 1,871 million.

At December 31, 2009, 2008 and 2007 IPCG Fund owned an indirect ownership interest in Bank Zenit of 41.92%, 41.92% and 41.81%, respectively.

In March 2007, the Group disposed of 1,138 million of Bank Zenit shares for RR 1,787 million, decreasing the Company's ownership in Bank Zenit to 28.35%. The Group recorded a gain of RR 195 million as a result of this transaction. In June 2007 Bank Zenit carried out a private placement of 1,545 million newly issued ordinary shares to a private investor unrelated to the Group, resulting in the dilution of the Group's ownership in Bank Zenit to 24.56%.

In December 2007, the Company acquired equity interests in AmRUZ Trading AG ("AmRUZ") and Seagroup International Inc. ("Seagroup"). These entities primary activities are ownership interests in Closed Joint Stock Company Ukrtatnafta ("Ukrtatnafta"), the owner of the Kremenchug refinery, which constitute 8.34% and 9.96% of the outstanding common shares in Ukrtatnafta, respectively. The Company acquired 49.6% of AmRUZ for US $23.9 million (RR 591 million) and 100% of Seagroup for US$ 57.1 million (RR 1,402 million). The AmRUZ purchase agreement also contains an option allowing the Company to acquire an additional 49.1% in AmRUZ for US $23.7 million. As the exercise of the option is subject to certain contingencies, the acquisition of AmRUZ was accounted for under the equity method.

As a result of the ongoing legal dispute over the indirect shareholding interests in Ukrtatnafta, in 2008 the Company fully provided for these investments (See Note 19).

Note 6: Inventories

Inventories are as follows:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Materials and supplies	5,454	5,113	4,857
Crude oil	3,546	4,599	2,965
Refined oil products	1,146	1,405	1,952
Petrochemical supplies and finished goods	1,538	3,004	1,149
Total inventories	**11,684**	**14,121**	**10,923**

Note 7: Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are as follows:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
VAT recoverable	9,778	7,925	5,817
Advances	4,896	4,490	3,225
Prepaid export duties	7,333	5,234	6,532
Prepaid income tax	350	4,763	527
Prepaid transportation expenses	933	696	499
Deferred tax asset (Note 14)	-	19	315
Other	1,937	2,212	1,053
Prepaid expenses and other current assets	**25,227**	**25,339**	**17,968**

Note 8: Loans and notes receivable

Loans receivable are as follows:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Notes receivable	2,575	4,952	8,327
Loans to employees	699	763	924
Other foreign currency denominated loans receivable	1,512	2,075	1,365
Other Russian Rouble denominated loans receivable	7,941	12,174	10,515
Total loans and notes receivable	**12,727**	**19,964**	**21,131**
Less: current portion of loans receivable and short-term loans	(3,185)	(5,842)	(3,796)
Less: due from related parties (Note 17)	(7,222)	(10,086)	(12,493)
Total long-term loans and notes receivable	**2,320**	**4,036**	**4,842**

Loans and notes receivable, excluding amounts due from related parties, reported as of December 31, 2009 in the amounts of RR 615 million, RR 637 million and RR 1,068 million mature in 2011, 2012 and thereafter (2013-2024), respectively.

Loans and notes receivable, excluding amounts due from related parties, reported as of December 31, 2008 in the amounts of RR 996 million, RR 263 million and RR 2,777 million mature in 2010, 2011 and thereafter (2012 – 2024), respectively.

The fair value of loans and notes receivable is approximately RR 10,773 million, RR 14,096 million and RR 18,463 million as of December 31, 2009, 2008 and 2007 assuming a discount rate of 9%, 13% and 10% as of December 31, 2009, 2008 and 2007, respectively (CBR interbank refinancing rate).

Note 9: Other long-term assets

Other long-term assets are as follows:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Long-term accounts receivable	2,584	1,387	1,925
Prepaid license agreements	2,959	1,979	1,346
Non-current deferred tax assets (Note 14)	2,209	1,892	196
Prepaid computer programs	2,084	1,723	1,405
Other long-term assets	2,080	683	1,312
Total other long-term assets	**11,916**	**7,664**	**6,184**
Less: due from related parties (Note 17)	(3)	(6)	(5)
Total other long-term assets, net	**11,913**	**7,658**	**6,179**

Note 10: Property, Plant and Equipment

Property, plant and equipment are as follows:

	Cost	Accumulated depreciation, depletion and amortization	Net book value
Oil and gas properties	291,139	125,406	165,733
Buildings and constructions	32,541	13,460	19,081
Machinery and equipment	56,068	49,077	6,991
Assets under construction	130,670	-	130,670
December 31, 2009	**510,418**	**187,943**	**322,475**
Oil and gas properties	279,480	120,483	158,997
Buildings and constructions	29,658	12,518	17,140
Machinery and equipment	55,430	47,007	8,423
Assets under construction	57,009	-	57,009
December 31, 2008	**421,577**	**180,008**	**241,569**
Oil and gas properties	258,728	116,361	142,367
Buildings and constructions	33,265	12,072	21,193
Machinery and equipment	51,167	42,687	8,480
Assets under construction	21,707	-	21,707
December 31, 2007	**364,867**	**171,120**	**193,747**

As of December 31, 2009, 2008 and 2007, oil and gas properties include RR 5,982 million, RR 7,223 million and RR 5,952 million, respectively, of unproved properties.

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.

Note 10: Property, Plant and Equipment (continued)

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. Most of the Group's existing production licenses expire from 2013 to 2019, and the license for the Group's largest field, Romashkinskoye, expires in 2038. The economic lives most 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, Romashkinsokoye, 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.

Asset Retirement Obligations.

The following tables summarize the Group's asset retirement obligations and asset retirement costs activities:

Asset Retirement Obligations

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Balance, beginning of period	**35,374**	**32,037**	**28,990**
Accretion of discount	3,537	3,204	2,899
New obligations	169	191	188
Spending on existing obligations	(31)	(58)	(40)
Balance, end of period	**39,049**	**35,374**	**32,037**
Less: current portion of asset retirement obligations (Note 12)	(122)	(111)	(100)
Long-term balance, end of period	**38,927**	**35,263**	**31,937**

Capital leases. The Group leases machinery and equipment.

The following is an analysis of the leased property under capital leases:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Machinery and equipment	7,113	7,109	6,617
Less: accumulated amortization	(5,797)	(4,944)	(3,889)
Net book value of machinery and equipment under capital leases	**1,316**	**2,165**	**2,728**

Note 10: Property, Plant and Equipment (continued)

The following is a schedule by year of future lease payments under capital leases together with the present value of the future minimum lease payments as of December 31, 2009:

Year ended December 31:	
2010	170
2011	37
2012	-
2013	-
2014	-
Total future lease payments	**207**
Less interest	(22)
Present value of future minimum lease payments	**185**
Less current portion	(170)
Long-term portion of capital lease obligations	**15**

Social assets. During the years ended December 31, 2009, 2008 and 2007 the Group transferred social assets with a net book value of RR 324 million, RR 1,413 million and RR 10 million, respectively, to local authorities. At December 31, 2009, 2008 and 2007, the Group held social assets with a net book value of RR 2,932 million, RR 3,260 million and RR 3,434 million 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 2,465 million, RR 2,845 million and RR 2,330 million for the years ended December 31, 2009, 2008 and 2007, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

The following tables provide details of the changes in the balance of capitalized exploratory wells costs pending the determination of proved reserves.

Balance as of 31 December 2009	**7,216**
Additions	1,899
Acquisition of subsidiaries	1,909
Reclassification to production wells	(1,250)
Charged to expense	-
Balance as of 31 December 2008	**4,658**
Additions	2,879
Acquisition of subsidiaries	1,797
Reclassification to production wells	(1,207)
Charged to expense	(600)
Balance as of 31 December 2007	**1,789**
Additions	1,551
Acquisition of subsidiaries	-
Reclassification to production wells	(674)
Charged to expense	(8)
Balance as of 31 December 2006	**920**

Note 11: Debt

Short-term and long-term debt as follows:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Short-term debt			
Foreign currency denominated debt			
Current portion of long-term debt	63,217	-	-
Other foreign currency denominated debt	7,318	5,112	3,444
Rouble denominated debt			
Current portion of long-term debt	26	76	144
Other rouble denominated debt	925	623	838
Less: due to related parties (Note 17)	(258)	(21)	(94)
Total short-term debt	**71,228**	**5,790**	**4,332**
Long-term debt			
Foreign currency denominated debt			
BNP Paribas	60,488	43,336	8,591
Other foreign currency denominated debt	17,876	1,377	461
Rouble denominated debt	1,467	176	274
Total long-term debt	**79,831**	**44,889**	**9,326**
Less: current portion	(63,243)	(76)	(144)
Total long-term debt, net of current portion	**16,588**	**44,813**	**9,182**

Foreign currency debts are primarily denominated in US Dollars.

Short-term foreign currency denominated debt. In December 2003 the Group entered into a RR 1,034 million (US $35 million) one month revolving credit facility with Credit Suisse Zurich. 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. The amount of loan outstanding as of December 31, 2009, 2008 and 2007 was RR 1,037 million (US $34 million), RR 1,028 million (US $35 million) and RR 508 million (US $20.7 million), respectively.

In 2008 and 2009 the Group entered into credit agreements with BNP Paribas Geneva for RR 4,688 million (US $155 million) in aggregate. The loans bear interest from 1.78% to 5.78% per annum and are collateralized by total crude oil sales of 344 thousand tons. During the year ended December 31, 2009 the Group partially repaid the credit received of RR 3,932 million (US $130 million). The amount of loans outstanding as of December 31, 2009 and 2008 was RR 756 million (US $25 million) and RR 3,819 million (US $130 million), respectively.

In November 2007, TANECO entered into a senior secured credit facility arranged by ABN AMRO (now RBS), BNP Paribas (Suisse) SA, Citibank International PLC, Bayerische Hypo-und Vereinsbank AG, Sumitomo Mitsui Finance Dublin and WestLB AG, for US$ 2.0 billion to be used in the construction of TANECO's refinery and petrochemical complex. BNP Paribas is the lender of record in this credit facility. The amount outstanding under this loan as of December 31, 2009, 2008 and 2007 was RR 60,488 million (US $2,000 million), RR 43,336 million (US $1,475 million) and RR 8,591 million (US 350 million), respectively. The loan bears interest at LIBOR plus 1.65% and matures in July 2010. The loan is fully guaranteed by OAO Tatneft as a major shareholder of TANECO. The Company's guarantee 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 three million metric tones of oil 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 December 2009, the Company entered into a 1-month credit agreement with Bank of Moscow for RR 5,142 million (US $170 million). The loan was repaid in full in January 2010.

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 925 million, RR 623 million and RR 838 million bear contractual interest rates of 7.3% to 19.5%, 7% to 15% and 11% to 17% per annum for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 11: Debt (continued)

Long-term foreign currency denominated debt. In September 2009, the Company entered into a two-years RR 9,073 million (US $300 million) unsecured loan agreement with Bank of Moscow. The loan has been prepaid in full in March 2010.

In October 2009, the Company entered into a dual (3 and 5 year) tranches secured syndicated pre-export facility for up to USD 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. The amount outstanding under this loan as of December 31, 2009 was RR 7,561 million (US $250 million).

Management believes that for the year ended December 31, 2009 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 this debt is a reasonable approximation of its fair value.

Aggregate maturities of long-term debt outstanding at December 31, 2009 are as follows:

2010	63,243
2011	12,889
2012	2,700
2013	-
2014	-
2015	31
Thereafter	968
Total long-term debt	**79,831**

Interest paid during the years ended December 31, 2009, 2008 and 2007 was RR 2,325 million, RR 191 million and RR 417 million, respectively.

The Group has no subordinated debt and no debt that may be converted in an equity instrument of the Group.

Note 12: Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities are as follows:

	At December 31, 2009	**At December 31, 2008**	**At December 31, 2007**
Salaries and wages payable	4,355	3,302	3,449
Advances received from customers	-	-	6,274
Insurance provision	1,636	1,282	1,106
Dividends payable	207	158	99
Current portion of asset retirement obligations (Note 10)	122	111	100
Current deferred tax liability (Note 14)	1,261	-	-
Other accrued liabilities	7,194	5,431	5,867
Less: due to related parties (Note 17)	(513)	(285)	(75)
Total other accounts payable and accrued liabilities	**14,262**	**9,999**	**16,820**

Note 13: Pensions and Post Employment Benefits

The Company sponsors a post retirement program for all eligible employees, whereby the Company makes an annual contribution on behalf of all employees to the non-profit organization National Non-governmental Pension Fund (the "Fund"). Employees are also eligible to make contributions into the Fund. The amount of contributions, frequency of benefit payments and other conditions of this plan are regulated by the Statement of Organization of Non-governmental Pension Benefits for OAO Tatneft Employees (the "Agreement") and the Fund. The Company also guarantees a minimum benefit upon retirement to all participants in the Fund covered by the Agreement. The minimum guaranteed benefit component of this plan is accounted for as a defined benefit plan, with the resulting projected benefit obligation netted against the fair value of the contributions made to date as of each measurement date.

The Group has several pension programs for management, which are concluded through various agreements between the Company, the Fund and management. Under the agreements, participants are provided a monthly benefit payment, generally based upon grade, for a period of 10 to 25 years subsequent to retirement. The Company makes voluntary periodic contributions to the Fund on behalf of eligible participants.

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, including a lump sum payment upon retirement, jubilee and holiday payments during retirement and funeral benefits. Benefits are generally based on salary grade and years of service at the time of retirement. There are no contribution requirements for these benefits, which are paid by the Group directly to retirees.

The Company uses December 31 as the measurement date for its post retirement benefits program.

The following table provides information about the benefit obligations, plan assets and actuarial assumptions used as of December 31, 2009, 2008 and 2007. The benefit obligations below represent the projected benefit obligations of the Group's benefit plans.

	At December 31, 2009	**At December 31, 2008**	**At December 31, 2007**
Benefit Obligations			
Benefit obligations as of January 1	3,095	3,362	3,212
Effect of exchange rate changes	3	15	(5)
Service cost	162	145	90
Interest cost	325	229	230
Benefit paid	(386)	(300)	(218)
Actuarial gain	(373)	(910)	(120)
Other	72	554	173
Benefit obligations as of December 31	**2,898**	**3,095**	**3,362**
Plan Assets			
Fair value of plan assets as of January 1	1,219	2,619	2,098
Actual return on plan assets	350	44	148
Contributions	220	599	435
Benefit paid	(230)	(170)	(38)
Actuarial gain/(loss)	1	(193)	75
Other	(426)	(1,680)	(99)
Fair value of plan assets as of December 31	**1,134**	**1,219**	**2,619**
Funded status at end of year	**1,764**	**1,876**	**743**

Note 13: Pensions and Post Employment Benefits (continued)

Amounts recognized in the consolidated balance sheet	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Accrued benefit liabilities included in "other accounts payable and accrued expenses"	(278)	(335)	-
Accrued benefit liabilities included in "other long-term liabilities"	(1,486)	(1,541)	(1,608)
Prepaid benefit obligations included in "other long-term assets"	-	-	865
Net amount recognized	**(1,764)**	**(1,876)**	**(743)**

Assumptions:	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Discount rate	9.5%	10.0%	6.8%
Expected return on plan assets	9.0%	9.0%	9.0%
Rate of increase in salary levels	7.0%	7.0%	7.0%

Components of net periodic benefit costs were as follows:

	Year ended December 31, 2009	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Service cost	162	145	90
Interest cost	325	229	230
Less expected return on plan assets	(193)	(236)	(189)
Effect of exchange rates	3	15	(5)
Disposals	-	-	(155)
Other	498	2,234	272
Total net periodic benefit costs	**795**	**2,387**	**243**

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.

Note 13: Pensions and Post Employment Benefits (continued)

The fair value of the pension plan assets held by Fund is based on quoted, unadjusted prices for identical assets in active market that the Fund has ability to access. These inputs are classified as Level 1 in fair-value hierarchy. The fair value of the Group's respective share of the Fund's assets reported as the fair value of the Group's plan assets was as follows:

Type of assets	At December 31, 2009	At December 31, 2008	At December 31, 2007
Russian corporate bonds and equity securities of Russian issuers	513	694	1,030
Russian municipal bonds	318	171	579
Russian state bonds	161	102	715
Bank deposits	90	163	127
Other	52	89	168
Total	**1,134**	**1,219**	**2,619**

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	2010	2011	2012	2013	2014	2015-2019
Pension benefits	100	107	114	121	127	689
Other long-term employee benefits	278	226	226	227	229	1,134
Total expected benefits to be paid	**378**	**333**	**340**	**348**	**356**	**1,823**

Note 14: Taxes

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 December 31, 2009, 2008 and 2007:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Accounts receivable	64	17	-
Long-term investments	-	58	-
Obligations under capital leases	37	118	196
Tax loss carry forward	2,537	1,717	-
Other	732	806	1,266
Deferred tax assets	**3,370**	**2,716**	**1,462**
Property, plant and equipment	(12,899)	(13,052)	(16,672)
Inventories	(1,051)	(794)	(688)
Accounts receivable	-	-	(58)
Long-term investments	(621)	-	(1,869)
Undistributed Earnings	(852)	(1,091)	(833)
Other liabilities	(387)	(11)	(569)
Deferred tax liabilities	**(15,810)**	**(14,948)**	**(20,689)**
Net deferred tax liability	**(12,440)**	**(12,232)**	**(19,227)**

Note 14: Taxes (continued)

At December 31, 2009, 2008 and 2007, deferred taxes were classified in the consolidated balance sheet as follows:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Current deferred tax asset (Note 7)	-	19	315
Non-current deferred tax assets (Note 9)	2,209	1,892	196
Current deferred tax liability (Note 12)	(1,261)	-	-
Non-current deferred tax liability	(13,388)	(14,143)	(19,738)
Net deferred tax liability	**(12,440)**	**(12,232)**	**(19,227)**

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

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Income before income taxes and non-controlling interest	74,526	18,154	62,609
Theoretical income tax expense at statutory rate	14,905	4,357	15,026
Increase (reduction) due to:			
Non-deductible expenses, net	2,651	7,213	3,228
Effect of change in statutory profit tax rate from 24% to 20% effective January 1, 2009	-	(2,228)	-
Income tax expenses	**17,556**	**9,342**	**18,254**

No provision has been made for additional income taxes of RR 3,050 million on undistributed earnings of a foreign subsidiary. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 274 million if they were remitted as dividends.

Income taxes paid during the years ended December 31, 2009, 2008 and 2007 was RR 12,502 million, RR 15,922 million and RR 18,859 million, respectively.

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

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Export duties	97,169	136,541	85,327
Unified production tax	53,571	77,235	58,049
Property tax	1,916	1,493	1,398
Excise taxes	346	328	300
Penalties and interest	94	121	205
Other	701	1,553	1,020
Total taxes other than income taxes	**153,797**	**217,271**	**146,299**

Effective January 1, 2007, the base tax rate formula for unified production tax was modified to provide a benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. Under the new rules, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As the Company's largest field, Romashkinsokoe, along with certain other fields are more than 80% depleted, the Company received a benefit of approximately RR 7.0 billion, RR 8.3 billion and RR 5.1 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 14: Taxes (continued)

At December 31, 2009, 2008 and 2007, taxes payable were as follows:

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Unified production tax	5,485	2,520	6,105
Value Added Tax on goods sold	2,526	1,474	1,832
Other	2,310	1,598	1,730
Total taxes payable	**10,321**	**5,592**	**9,667**

Note 15: Share Capital, Additional Capital and Other Comprehensive Income

Authorized share capital. At December 31, 2009 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.

Golden share. OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, as of December 31, 2009 holds approximately 33.59% of the Company's capital stock. These shares were contributed to 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 Revision Committee 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 and contractors, such as the electricity producer OAO Tatenergo and the petrochemicals company OAO Nizhnekamskneftekhim (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 US GAAP (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 December 31, 2009, 2008 and 2007, the Company had a statutory current profit of RR 50,873 million, RR 36,522 million and RR 43,812 million, respectively.

Note 15: Share Capital, Additional Capital and Other Comprehensive Income (continued)

Net income per share. Under the two-class method of computing net income per share, net income is computed for common and preferred shares according to dividends declared and participation rights in undistributed earnings. Under this method, net income is reduced by the amount of dividends declared in the current period for each class of shares, and the remaining income is allocated to common and preferred shares to the extent that each class may share in income if all income for the period had been distributed.

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Net income attributable to Group shareholders	54,372	8,413	43,279
Common share dividends	(9,436)	(12,310)	(10,020)
Preferred share dividends	(652)	(833)	(681)
Income / (loss) available to common and preferred shareholders, net of dividends	**44,284**	**(4,730)**	**32,578**
Basic and diluted:			
Weighted average number of shares outstanding (millions of shares):			
Common	2,095	2,076	2,073
Preferred	148	148	148
Combined weighted average number of common and preferred shares outstanding	2,243	2,224	2,221
Basic and diluted net income per share (RR)			
Common	24.25	3.79	19.50
Preferred	24.15	3.53	19.27

Non-controlling interest. Non-controlling interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 190 million, RR 163 million and RR 148 million at December 31, 2009, 2008 and 2007, respectively.

In March 2007, the Group transferred approximately 10.8 million Tatneft common shares to the non-profit organization "National Non-governmental Pension Fund" (the "Fund"). A substantial portion of the Group's pension and post employment benefit programs are administered through the Fund, in which the Group is the primary participant. The terms of the share transfer was not made under any of the Group's benefit programs, but was for the benefit of the Group's employees. The fair value of this transfer, RR 1,289 million, was reflected as a Loss on disposal of property, plant and equipment and investments and impairments in the Group's 2007 consolidated statement of operations and comprehensive income.

Note 16: Segment Information

The Group's business activities are conducted predominantly through three business segments: exploration and production, refining and marketing and petrochemicals. The segments were determined according to how management recognizes the segments within the Group for making operating decisions and how they are evident from the Group structure.

Exploration and production segment activities consist of exploration, development, extraction and sale of own crude oil. Intersegment sales consist of 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.

Sales of petrochemical products include 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, 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 income or losses before income taxes and non-controlling interest not including interest income, expense, earnings from equity investments, other income and monetary effects. Segment accounting policies are the same as those disclosed in Note 3. Intersegment sales are at prices that approximate market.

For the year ended December 31, 2009, the Group had four customers which accounted for RR 228,224 million in crude oil sales, comprising 23%, 23%, 16% and 12% respectively of the total tons of crude oil sold by the Group during the year. For the year ended December 31, 2008, the Group had four customers which accounted for RR 302,518 million in crude oil sales, comprising 26%, 21%, 19% and 17% respectively of the total tons of crude oil sold by the Group during the year. For the year ended December 31, 2007, the Group had four customers which accounted for RR 206,875 million in crude oil sales, comprising 26%, 24%, 15% and 9% respectively of the total tons of crude oil sold by the Group during the year. Management does not believe the Group is dependent on any particular customer.

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:

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Exploration and production			
Domestic own crude oil	45,792	48,667	48,924
CIS own crude oil	14,411	15,800	55,849
Non – CIS own crude oil	218,196	246,733	148,341
Other	4,474	5,083	3,625
Intersegment sales	11,277	13,534	5,155
Total exploration and production	**294,150**	**329,817**	**261,894**
Refining and marketing			
Domestic sales			
Crude oil purchased for resale	9,278	17,139	6,030
Refined products	37,406	48,707	37,013
Total Domestic sales	46,684	65,846	43,043
CIS sales			
Crude oil purchased for resale	2,418	-	2,044
Refined products	1,189	673	2,669
Total CIS sales[1]	3,607	673	4,713
Non – CIS sales			
Crude oil purchased for resale	9,982	17,922	9,772
Refined products	4,339	6,164	3,544
Total Non – CIS sales[2]	14,321	24,086	13,316
Other	4,066	2,246	1,893
Intersegment sales	1,579	2,412	2,129
Total refining and marketing	**70,257**	**95,263**	**65,094**
Petrochemicals			
Tires - domestic sales	14,549	17,100	18,100
Tires - CIS sales	3,521	2,784	3,337
Tires - non-CIS sales	793	1,325	1,080
Petrochemical products and other	1,555	1,256	1,609
Intersegment sales	1,168	1,158	1,370
Total petrochemicals	**21,586**	**23,623**	**25,496**
Total segment sales	**385,993**	**448,703**	**352,484**
Corporate and other sales	8,679	12,733	12,446
Elimination of intersegment sales	(14,024)	(17,104)	(8,654)
Total sales and other operating revenues	**380,648**	**444,332**	**356,276**

[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 European markets.

Note 16: Segment Information (continued)

Segment earnings.

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Segment earnings			
Exploration and production	69,947	36,554	61,982
Refining and marketing	6,686	12,009	11,007
Petrochemicals	789	1,045	3,843
Total segment earnings	**77,422**	**49,608**	**76,832**
Corporate and other	(8,713)	(15,405)	(20,104)
Other income/(expenses)	5,817	(16,049)	5,881
Income before income taxes and non-controlling interest	**74,526**	**18,154**	**62,609**

Segment assets.

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Assets			
Exploration and production	245,948	218,509	225,817
Refining and marketing	132,207	72,720	21,715
Petrochemicals	23,496	18,768	13,881
Corporate and other	94,091	82,983	108,806
Total assets	**495,742**	**392,980**	**370,219**

The Group's assets and operations are primarily located and conducted in Russia.

Segment depreciation, depletion and amortization and additions to property, plant and equipment are as follows:

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Depreciation, depletion and amortization			
Exploration and production	9,081	7,673	7,582
Refining and marketing	906	849	598
Petrochemicals	677	621	773
Corporate and other	1,253	996	1,426
Total segment depreciation, depletion and amortization	**11,917**	**10,139**	**10,379**
Additions to property, plant and equipment			
Exploration and production	16,455	23,391	19,445
Refining and marketing	64,805	26,613	10,754
Petrochemicals	5,947	6,263	2,061
Corporate and other	2,052	4,207	2,175
Total additions to property, plant and equipment	**89,259**	**60,474**	**34,435**

Note 17: Related Party Transactions

Transactions are entered into in the normal course of business with affiliates, directors and other related parties. These transactions include sales of crude oil and refined products, purchases of electricity and banking transactions.

As of December 31, 2009, 2008 and 2007, the Group had RR 6,298 million, RR 8,328 million and RR 8,292 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 2010 and 2019, bearing interest between 7.0% and 8.5%. As of December 31, 2009, 2008 and 2007, the Group has short and long-term certificates of deposit of RR 11,237 million, RR 11,966 million and RR 12,592 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

In March 2009 the Group issued a long-term deposit to Bank Zenit for RR 2,140 million payable in 10 years bearing interest 10.85%.

The amounts of transactions for each year and the outstanding balances at each year end with related parties are as follows:

	Year ended December 31, 2009	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Sales of crude oil	-	37	6
Volumes of crude oil sales (thousand tons)	-	4	1
Sales of refined products	24	27	82
Volumes of refined product sales (thousand tons)	1	1	5
Sales of petrochemical products	-	2	-
Other sales	740	2,002	851
Purchases of crude oil	(4,927)	(11,233)	(7,766)
Volumes of crude oil purchases (thousand tons)	350	760	693
Purchases of refined products	-	-	(18)
Volumes of refined products purchases (thousand tons)	-	-	1
Purchases of electricity	(193)	(5,284)	(4,425)
Other purchases	(216)	(1,148)	(980)

For the years ended December 31, 2009, 2008 and 2007, the Group sold crude oil on a commission basis from related parties for RR 8,859 million (780 thousand tons), RR 6,278 million (580 thousand tons) and RR 5,220 million (533 thousand tons), respectively.

	At December 31, 2009	**At December 31, 2008**	**At December 31, 2007**
Assets			
Accounts receivable (Note 4)	551	778	1,051
Notes receivable (Note 8)	1,150	3,352	5,021
Short-term certificates of deposit (Note 5)	14,341	11,666	12,506
Trading securities (Note 5)	46	-	223
Loans receivable (Note 8)	397	1,809	931
Due from related parties short-term	**16,485**	**17,605**	**19,732**
Long-term certificates of deposit (Note 5)	2,846	500	-
Long-term loans receivable (Note 8)	5,675	4,925	6,541
Long-term accounts receivable (Note 9)	3	6	5
Due from related parties long-term	**8,524**	**5,431**	**6,546**
Liabilities			
Other accounts payable (Note 12)	(513)	(285)	(75)
Notes payable	-	(22)	-
Short-term debt (Note 11)	(258)	(21)	(94)
Trade accounts payable	(732)	(453)	(1,218)
Due to related parties short-term	**(1,503)**	**(781)**	**(1,387)**

Note 18: Financial Instruments and Risk Management

Fair values. The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market transaction.

The net carrying values of cash and cash equivalents, short-term investments, short-term loans receivable, accounts receivable and payable approximate their fair values because of the short maturities of these instruments.

As discussed in Note 5, the Company has investments in a number of companies. There are no quoted market prices for these instruments and a precise estimate of fair value could not be made without incurring excessive costs.

Information concerning the fair value of loans receivable is disclosed in Note 8 and information concerning the fair value of short-term and long-term debt is disclosed in Note 11.

The Company implemented the provisions of ASC 820. The implementation of ASC 820 did not have a material effect on the Group's results of operations or consolidated financial position and had no effect on the company's existing fair-value measurement practices. However, ASC 820 requires disclosure of a fair-value hierarchy of inputs the Company uses to value an asset or a liability. The three levels of the fair-value hierarchy are described as follows:

Level 1: Valuations utilizing quoted, unadjusted prices for identical assets or liabilities in active markets that the Company has the ability to access. This is the most reliable evidence of fair value and does not require a significant degree of judgment. For the Group, Level 1 inputs include marketable securities that are actively traded on the Russian domestic markets.

Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability. Certain investments held by IPCG Fund, which is accounted for under the equity method, including its investment in Bank Zenit are valued using level 2 inputs.

Level 3: Valuations utilizing significant, unobservable inputs. This provides the least objective evidence of fair value and requires a significant degree of judgment. The Group does not use Level 3 inputs for any of its recurring fair-value measurements; however, certain investments held by the IPCG Fund are valued using level 3 inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Marketable securities: The Group has RR 7,220 million, RR 7,678 million and RR 10,695 million in marketable securities as of December 31, 2009, 2008 and 2007, respectively. The Group calculates fair value for its marketable securities based on quoted market prices for identical assets and liabilities (Level 1 valuations).

IPCG Fund: IPCG Fund follows the accounting principles of the AICPA Audit and Accounting Guide "Investment Companies." Accordingly, IPCG Fund's investments are fair valued each reporting period primarily using, Level 2 inputs. The Company's carrying value of its investment in IPCG Fund is RR 3,619 million, RR 3,283 million and RR 11,553 million at December 31, 2009, 2008 and 2007, respectively.

Credit risk. The Group's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of accounts receivables, cash and cash equivalents, prepaid VAT as well as loans receivable and advances. 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 some circumstances letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. Although collection of these receivables could be influenced by economic factors affecting these entities, management believes there is no significant risk of loss to the Group beyond provisions already recorded.

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.

Prepaid VAT, representing amounts paid to suppliers, is recoverable from the tax authorities through offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of prepaid VAT and believes it is fully recoverable within one year.

Note 19: Commitments and Contingent Liabilities

Guarantees. The Group has no outstanding guarantees at December 31, 2009, 2008 and 2007.

Operating environment. While there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not easily convertible in most countries outside of the Russian Federation and relatively high inflation. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

Recent volatility in global financial markets. The global liquidity crisis in 2009 resulted in, among other things, a lower level of capital market funding and lower liquidity levels across the Russian Federation. The uncertainties in the global financial market, also led to bank failures and/or bank rescues. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions or generally favorable to the Group. Additionally, the uncertainty in the global markets combined with other local factors has led to very high volatility in the Russian Stock Markets during 2009.

Management believes the Group's current and long-term capital expenditures program can be funded through cash 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 as well as the US$ 2.0 billion line of credit, of which US$ 2.0 million was drawn as of December 31, 2009. This line of credit is payable in July 2010. 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. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Tax authorities are currently reviewing the operations of the Company and its subsidiaries for the years ended December 31, 2008. 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.

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

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

Capital commitments. The Group has outstanding capital commitments of RR 17,885 million mainly for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2010 and 2011.

Note 19: Commitments and Contingent Liabilities (continued)

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.

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. 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 Ukrtatnafta, 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% Ukrtatnafta's common shares.

The challenges were suspended in April 2006 when the Supreme Court of Ukraine ruled the payment for Ukrtatnafta 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 Ukrtatnafta's shares, representing the entire holdings of AmRUZ and Seagroup in Ukrtatnafta. Subsequent to these actions, MFEU effectively began to exclude the Group from exercising their shareholder rights related to Ukrtatnafta.

In October 2007 the existing management of Ukrtatnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently, individuals who obtained the ability to manage Ukrtatnafta took certain actions effectively assisting MFEU in taking control over the shares in Ukrtatnafta owned by SeaGroup and AmRUZ. In addition, Ukrtatnafta subsequently refused to settle its payables to ChMPKP Avto (Note 4), a Ukrainian intermediary that previously purchased crude from the Group for deliveries to Ukrtatnafta. Following this forced change of control of Ukrtatnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its crude oil deliveries to Ukrtatnafta and initiated legal proceedings against the Ukrainian owners in international arbitration.

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 Ukrtatnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russian-Ukraine BIT and to order MFEU to restore Ukrtatnafta's lawful management and pay compensation in excess of US$2.4 billion.

In November 2009 the Business Court of the City of the Poltava Region invalidated the initial purchase of 8.6% of Ukrtatnafta shares by the Company without payment of any compensation to the Company. This decision became effective but is currently under further appeal.

There are a number of legal proceedings currently in process in the Ukraine, Russian Federation and international courts to recover the Group's assets. As a result of the ongoing legal dispute over shareholding interests, as of December 31, 2009 the Company has fully provided for its investments in Ukrtatnafta.

Note 20: Subsequent events.

We have evaluated the existence of both recognized and unrecognized subsequent events through the date of this report April 27, 2010 and have deemed no adjustments or additional disclosures are necessary.

In accordance with ASC 932-235, Extractive Activities – Oil and Gas, this section provides supplemental information on oil and gas exploration and production activities of the Group.

The Group does not disclose the effect of adoption of ASU No 2010-3, Oil and Gas Reserves Estimation and Disclosures, on the supplemental information on oil and gas exploration and production activities as of and for the year ended 31 December 2009, as it is not practicable to estimate.

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2009, 2008 and 2007.

The definitions used are in accordance with United States Securities and Exchange Commission ("SEC") regulations.

The Group's oil and gas production is predominantly in Tatarstan within the Russian Federation; therefore, all of the information provided in this section pertains entirely to that region.

Oil Exploration and Production Costs

The following tables set forth information regarding oil exploration and production costs. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the year.

Costs Incurred in Exploration and Development Activities

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Exploration costs	5,300	4,707	2,302
Development costs	15,312	13,244	9,843
Total costs incurred in exploration and development activities	**20,612**	**17,951**	**12,145**

Property acquisitions for the years ended December 31, 2009, 2008 and 2007 are immaterial to the Group's oil activities.

Capitalized Costs of Oil Properties

	At December 31, 2009	At December 31, 2008	At December 31, 2007
Wells, support equipment and facilities	285,157	272,257	252,776
Unproved properties	13,197	11,898	7,758
Uncompleted wells, equipment and facilities	3,780	2,979	3,127
Total capitalized costs of oil properties	**302,134**	**287,134**	**263,661**
Accumulated depreciation, depletion and amortization	(125,406)	(120,483)	(116,361)
Net capitalized costs of oil properties	**176,728**	**166,651**	**147,300**

Results of Operations for Oil Producing Activities

The Group's results of operations from oil producing activities are shown below. Proved natural gas reserves do not represent a significant portion of the Group's total reserves.

In accordance with ASC 932, results of operations do not include general corporate overhead and monetary effects nor their associated tax effects. Income taxes are based on statutory rates for the year, adjusted for tax deductions, tax credits and allowances.

	Year ended December 31, 2009	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Revenues from net production:			
Sales	278,399	311,200	253,114
Transfers[1]	11,277	13,534	5,155
Total revenues from net production	**289,676**	**324,734**	**258,269**
Less:			
Production and operating costs[2]	49,549	44,786	36,347
Exploration expenses	3,540	3,770	1,577
Depreciation, depletion and amortization	9,081	7,673	7,582
Taxes other than income taxes	151,971	213,280	142,164
Related income taxes	15,107	13,254	16,944
Results of operations for oil and gas producing activities	**60,428**	**41,971**	**53,655**

[1] Transfers represent crude oil to the refining subsidiaries at the estimated market price of those transactions.
[2] Production and operating costs include transportation expenses and accretion of discount in accordance with ASC 410-20.

The average sales price (including transfers) per ton for 2009, 2008 and 2007 are RR 11,001, RR 12,962 and RR 9,654 respectively. The average production and operating cost per ton for 2009, 2008 and 2007 are RR 1,898, RR 1,719 and RR 1,402, respectively.

Proved Oil Reserves

As determined by the Group's independent reservoir engineers, Miller and Lents, Ltd., the following information presents the balances of proved oil reserves at December 31, 2009, 2008 and 2007. The definitions used are in accordance with applicable US Securities and Exchange Commission ("SEC") regulations.

Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. Most of the Group's existing production licenses expire from 2013 to 2019, and the license for the Group's largest field, Romashkinskoye, expires in 2038. Management believes the licenses may be extended at the initiative of the Group and management expects to extend such licenses for properties expected to produce subsequent to their license expiry date. The Group has disclosed information on proved oil and gas reserve quantities and standardized measure of discounted future net cash flows for periods up to and past license expiry dates separately.

Proved Oil Reserves (continued)

Proved reserves are defined as those quantities of oil and gas, which, by analysis of geosciences and engineering data can be estimated with reasonable certainty to be economically producible from a given date forward from known reservoirs, and under existing economic conditions, operating methods and government regulation.

Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined, which are average, first-day-of-the-month prices during the reporting period for 2009, or year-end prices for the prior periods, and year-end costs.

Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are inherently imprecise, require the application of judgment and are subject to change over time as additional information becomes available.

"Net" reserves exclude quantities due to others when produced.

A significant portion of the Group's total proved reserves are classified as developed non-producing. The developed non-producing proved reserves can be produced from existing well bores but require capital costs for workovers, recompletions, or restoration of shut-in wells, additional completion work or future recompletion prior to the start of production.

Net proved reserves of crude oil at December 31, 2009:

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Net proved developed producing reserves	2,335	328	1,255	176	3,590	504
Net proved developed non-producing reserves	1,265	178	1,119	157	2,384	335
Net proved developed reserves	**3,600**	**506**	**2,374**	**333**	**5,974**	**839**
Net proved undeveloped reserves	75	11	92	12	167	23
Net proved developed and undeveloped reserves	**3,675**	**517**	**2,466**	**345**	**6,141**	**862**

Net proved reserves of crude oil at December 31, 2008:

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Net proved developed producing reserves	2,395	336	782	110	3,177	446
Net proved developed non-producing reserves	1,168	164	1,122	158	2,290	322
Net proved developed reserves	**3,563**	**500**	**1,904**	**268**	**5,467**	**768**
Net proved undeveloped reserves	60	8	98	14	158	22
Net proved developed and undeveloped reserves	**3,623**	**508**	**2,002**	**282**	**5,625**	**790**

Proved Oil Reserves (continued)

Net proved reserves of crude oil at December 31, 2007:

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Net proved developed producing reserves	2,382	334	1,369	193	3,751	527
Net proved developed non-producing reserves	632	89	1,522	213	2,154	302
Net proved developed reserves	**3,014**	**423**	**2,891**	**406**	**5,905**	**829**
Net proved undeveloped reserves	33	5	202	28	235	33
Net proved developed and undeveloped reserves	**3,047**	**428**	**3,093**	**434**	**6,140**	**862**

Movements in Proved Oil Reserves

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Balance at December 31, 2006	**3,046**	**427**	**2,865**	**403**	**5,911**	**830**
Revisions	185	27	228	31	413	58
Production	(184)	(26)	-	-	(184)	(26)
Balance at December 31, 2007	**3,047**	**428**	**3,093**	**434**	**6,140**	**862**
Revisions	762	106	(1,091)	(152)	(329)	(46)
Production	(186)	(26)	-	-	(186)	(26)
Balance at December 31, 2008	**3,623**	**508**	**2,002**	**282**	**5,625**	**790**
Revisions	238	35	464	63	702	98
Production	(186)	(26)	-	-	(186)	(26)
Balance at December 31, 2009	**3,675**	**517**	**2,466**	**345**	**6,141**	**862**

Standardized Measure, Including Year-to-Year Changes Therein, of Discounted Future Cash Flows

The standardized measure of discounted future net cash flows is calculated in accordance with ASC 932, which requires measurement of future net cash flows by applying average, first-day-of-the-month prices for the reporting period for 2009, or year-end prices for the prior periods, and year-end costs and an annual discount factor of ten percent to year-end quantities of estimated net proved reserves using a standardized formula. The calculations assumed the continuation of existing political, economic, operating and contractual conditions at each of December 31, 2009, 2008 and 2007. However, such arbitrary assumptions have not necessarily proven to be the case in the past and may not in the future. Other assumptions of equal validity would give rise to substantially different results. As a result, future cash flows calculated under this methodology are not necessarily indicative of the Group's future cash flows nor the fair value of its oil reserves.

Standardized Measure, Including Year-to-Year Changes Therein, of Discounted Future Cash Flows (continued)

The net price used in the forecast of future net revenue is the weighted average year end price received for sales domestically, for exports to Commonwealth of Independent States ("CIS") countries, and for exports to non-CIS countries, after adjustments, where applicable, for certain costs, duties, and taxes. The weighted average net prices per ton used in the forecasts for 2009, 2008 and 2007, are US $199.98, US $131.7 and US $335.71 (US $28,08, US $18.49 and US $47.13 per barrel), respectively. The Company determined the appropriate mix between domestic sales, exports to CIS countries and exports to non-CIS countries using historic percentages which are supported by export quotas granted by the Government or otherwise available to the Company. The Company assumes that the current level of export quotas will remain unchanged through the life of reserves.

	As of December 31, 2009	**As of December 31, 2008**	**As of December 31, 2007**
	Future cash flows attributable to total recoverable net proved reserves	Future cash flows attributable to total recoverable net proved reserves	Future cash flows attributable to total recoverable net proved reserves
Future cash inflows from production	5,493,325	3,136,411	7,330,086
Future production costs	(2,978,580)	(2,096,616)	(3,559,680)
Future development costs	(188,733)	(190,835)	(144,150)
Future income taxes	(455,042)	(160,645)	(859,820)
Future net cash flows	**1,870,970**	**688,315**	**2,766,436**
10% annual discount	(1,328,718)	(508,440)	(2,105,211)
Discounted future net cash flows	**542,252**	**179,875**	**661,225**

Changes in the Standardized Measure of Discounted Future Net Cash Flows From Proved Reserve Quantities

	Year ended December 31, 2009	**Year ended December 31, 2008**	**Year ended December 31, 2007**
	Future cash flows attributable to total net proved reserves	Future cash flows attributable to total net proved reserves	Future cash flows attributable to total net proved reserves
Beginning of year	**179,875**	**661,225**	**306,981**
Sales and transfers of oil produced, net of production costs and other operating expenses	(88,157)	(66,669)	(77,384)
Net change in prices received per ton, net of production costs and other operating expenses	435,952	(694,917)	510,655
Change in estimated future development costs	(11,611)	(21,415)	(14,593)
Development costs incurred during the period	15,312	13,244	9,843
Revisions of quantity estimates	54,661	24,541	7,363
Net change in income taxes	(90,240)	162,992	(112,649)
Accretion of discount	19,085	95,649	38,039
Other	27,375	5,225	(7,030)
End of year	**542,252**	**179,875**	**661,225**

For the years ended December 31 2009, 2008 and 2007 discounted future cash flows for total net proved reserves include RR 75,848 million, RR 22,913 million and RR 105,349 million, respectively, attributable to net proved reserves recoverable past license expiry dates.