TATNEFT

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2011 AND 2010

pwc

Report of Independent Accountants

To the Board of Directors and Shareholders of OAO Tatneft:

We have reviewed the accompanying consolidated interim condensed balance sheet of OAO Tatneft and its subsidiaries as of June, 30 2011 and the related consolidated interim condensed statements of operations and comprehensive income, of shareholders' equity and of cash flows for the six-month periods ended June, 30 2011 and June 30, 2010. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with the standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim condensed financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of OAO Tatneft and its subsidiaries as of December 31, 2010, and the related consolidated statements of operations and comprehensive income, of shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated April 22, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet information as of December 31, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit

October 4, 2011

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(in millions of Russian Rubles)

	Notes	At June 30, 2011	At December 31, 2010
Assets			
Cash and cash equivalents		14,358	8,080
Restricted cash		1,381	2,897
Accounts receivable, net	4	50,601	52,951
Due from related parties	11	13,359	14,585
Short-term investments		9,991	9,196
Current portion of loans receivable		2,231	2,275
Inventories	5	21,136	15,140
Prepaid expenses and other current assets		22,492	27,433
Total current assets		**135,549**	**132,557**
Long-term loans and notes receivable, net		2,601	2,344
Due from related parties	11	10,727	9,915
Long-term investments		15,938	15,823
Property, plant and equipment, net		412,254	393,776
Other long-term assets		13,072	12,764
Total assets		**590,141**	**567,179**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	6	37,474	34,333
Trade accounts payable		14,504	14,890
Due to related parties	11	4,472	5,135
Other accounts payable and accrued liabilities		12,811	15,776
Dividends payable		11,530	119
Taxes payable		14,144	10,583
Total current liabilities		**94,935**	**80,836**
Long-term debt, net of current portion	6	52,302	75,021
Due to related parties	11	525	585
Other long-term liabilities		3,377	3,295
Asset retirement obligations, net of current portion		45,159	43,008
Deferred tax liability		14,378	13,888
Total liabilities		**210,676**	**216,633**
Shareholders' Equity			
Preferred shares (authorized and issued at June 30, 2011 and December 31, 2010 - 147,508,500 shares; nominal value at June 30, 2011 and December 31, 2010 - RR1.00)		148	148
Common shares (authorized and issued at June 30, 2011 and December 31, 2010 - 2,178,690,700 shares; nominal value at June 30, 2011 and December 31, 2010 - RR1.00)		2,179	2,179
Additional paid-in capital		96,617	96,617
Accumulated other comprehensive income		1,658	1,933
Retained earnings		269,051	241,005
Less: Common shares held in treasury, at cost (58,940,000 shares and 58,960,000 shares at June 30, 2011 and December 31, 2010, respectively)		(3,273)	(3,275)
Total Group shareholders' equity		**366,380**	**338,607**
Non-controlling interest		13,085	11,939
Total shareholders' equity		**379,465**	**350,546**
Total liabilities and Equity		**590,141**	**567,179**

(in millions of Russian Rubles)

	Notes	Six months ended June 30, 2011	Six months ended June 30, 2010
Sales and other operating revenues	10	**293,990**	**214,611**
Costs and other deductions			
Operating		33,317	28,184
Purchased oil and refined products		34,377	27,309
Exploration		999	941
Transportation		8,863	8,004
Selling, general and administrative		14,515	13,031
Depreciation, depletion and amortization	10	6,561	6,671
Loss/(gain) on disposals of property, plant and equipment, investments and impairments		594	(336)
Taxes other than income taxes	8	145,348	101,272
Maintenance of social infrastructure and transfer of social assets		1,753	1,956
Total costs and other deductions		**246,327**	**187,032**
Other income (expenses)			
Earnings from equity investments		304	28
Foreign exchange gain/(loss)		4,377	(3,539)
Interest income		1,518	2,006
Interest expense, net of amounts capitalized		(457)	(215)
Other expenses, net		(380)	(981)
Total other income/(expenses)		**5,362**	**(2,701)**
Income before income taxes and non-controlling interest		**53,025**	**24,878**
Income taxes			
Current income tax expense		(11,357)	(6,824)
Deferred income tax (expenses)/benefit		(970)	97
Total income tax expense		**(12,327)**	**(6,727)**
Net income		**40,698**	**18,151**
Less: net income attributable to non-controlling interest		(1,231)	(2,291)
Net income attributable to Group shareholders		**39,467**	**15,860**
Foreign currency translation adjustments		(382)	(81)
Actuarial gain/(loss) on employee benefit plans		116	(488)
Unrealized holding gains on available-for-sale securities, net of tax		(9)	23
Comprehensive income		**39,192**	**15,314**
Basic and diluted net income per share (RR)			
Common		17.4	7.01
Preferred		17.37	6.95
Weighted average shares outstanding (millions of shares)			
Common		2,120	2,116
Preferred		148	148

(in millions of Russian Rubles)

	Six months ended June 30, 2011	Six months ended June 30, 2010
Operating activities		
Net income	40,698	18,151
Adjustments:		
Depreciation, depletion and amortization	6,561	6,671
Deferred income tax expenses/(benefit)	970	(97)
Loss/(gain) on disposals of property, plant and equipment, investments and impairments	594	(336)
Transfer of social assets	7	514
Effects of foreign exchange	(7,819)	3,953
Equity investments (earnings)/losses net of dividends received	(304)	190
Change of allowance for doubtful accounts	(238)	(66)
Accretion of asset retirement obligation	2,157	1,952
Change in fair value of trading securities	(3)	(36)
Other	(259)	(439)
Changes in operational working capital, excluding cash:		
Accounts receivable	2,987	3,635
Inventories	(5,899)	(3,880)
Prepaid expenses and other current assets	4,950	843
Trading securities	(460)	(104)
Related parties	387	16
Trade accounts payable	(613)	(693)
Other accounts payable and accrued liabilities	(3,662)	(456)
Taxes payable	3,549	(1,508)
Notes payable	31	(29)
Other non-current assets	111	98
Net cash provided by operating activities	**43,745**	**28,379**
Investing activities		
Additions to property, plant and equipment	(28,651)	(39,363)
Proceeds from disposals of property, plant and equipment	3,123	297
Proceeds from disposal of investments	4	3,120
Purchase of investments	(52)	(1,482)
Certificates of deposit	(273)	1,519
Loans and notes receivable	(218)	(2,639)
Change in restricted cash	1,516	4,257
Net cash used in investing activities	**(24,551)**	**(34,291)**
Financing activities		
Proceeds from issuance of debt	33,806	93,736
Repayment of debt	(46,543)	(76,708)
Repayment of capital lease obligations	(34)	(76)
Dividends paid to shareholders	(10)	(6)
Dividends paid to non-controlling shareholders	(162)	(194)
Purchase of treasury shares	-	(8)
Proceeds from sale of treasury shares	2	3
Proceeds from issuance of shares by subsidiaries	25	-
Net cash (used in)/provided by financing activities	**(12,916)**	**16,747**
Net change in cash and cash equivalents	**6,278**	**10,835**
Cash and cash equivalents at beginning of period	8,080	12,841
Cash and cash equivalents at end of period	**14,358**	**23,676**

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

	2011		2010	
	Shares	**Amount**	**Shares**	**Amount**
Preferred shares:				
Balance at January 1 and June 30 (shares in thousands)	147,509	148	147,509	148
Common shares:				
Balance at January 1 and June 30 (shares in thousands)	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:				
Balance at January 1	58,960	(3,275)	66,985	(3,721)
Acquisitions	1,603	(259)	1,462	(563)
Disposals	(1,623)	261	(9,136)	959
Balance at June 30 (shares in thousands)	58,940	(3,273)	59,311	(3,325)
Additional paid-in capital				
Balance at January 1		96,617		95,735
Treasury share transactions		-		881
Balance at June 30		96,617		96,616
Accumulated other comprehensive income				
Balance at January 1		1,933		1,907
Actuarial gain/(loss) on employee benefit plans		116		(488)
Foreign currency translation adjustments		(382)		(81)
Unrealized holding gains on available-for-sale securities, net of tax		(9)		23
Balance at June 30		1,658		1,361
Retained earnings				
Balance at January 1		241,005		209,275
Net income		39,467		15,860
Dividends		(11,421)		(14,943)
Balance at June 30		269,051		210,192
Non-controlling interest				
Balance at January 1		11,939		7,984
Net income		1,231		2,291
Dividends		(162)		(129)
Change in Group structure		77		104
Balance at June 30		13,085		10,250
Total shareholders' equity at June 30		**379,465**		**317,421**

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 10).

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 June 30, 2011 and December 31, 2010 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. 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.

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 unaudited consolidated interim condensed financial statements have been prepared in accordance with US GAAP for interim financial reporting of public companies "Interim Financial Reporting" and do not include all disclosures necessary required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2010 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these interim consolidated financial statements are read in conjunction with the Company's 2010 audited consolidated financial statements and the notes related thereto. In the opinion of the Company's management, the unaudited consolidated interim condensed financial statements and notes thereto reflect all known adjustments, all of which are of a normal and recurring nature, necessary to fairly state the Company's financial position, results of operations and cash flows for the interim periods.

The results for the six-month period ended June 30, 2011 are not necessarily indicative of the results expected for the full year.

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.

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.

Note 2: Basis of Presentation (continued)

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 Ruble ("RR") to the US Dollar ("US $") at June 30, 2011 and December 31, 2010 was RR 28.08 and RR 30.48 to US Dollar, respectively. Average rate of exchange for the six months ended June 30, 2011 and June 30, 2010 was RR 28.62 and RR 30.07 per US Dollar, respectively.

Principles of consolidation and long-term investments. The accompanying consolidated interim condensed financial statements include the operations of all majority-owned, controlled subsidiaries and VIEs, where the Group is the primary beneficiary. 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 interim condensed balance sheet.

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.

Recent accounting pronouncements. 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 became effective for the Group on 1 January 2010 with the exception of disclosure of activity in Level 3 fair value measurements which was effective on 1 January 2011. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

In February 2010, ASU No. 2010-9, Amendments to Certain Recognition and Disclosure Requirements, was issued and became effective for the Group upon issuance. This ASU amends ASC 855, Subsequent Events, and requires an entity which is either a Securities and Exchange Commission filer or a conduit bond obligor for conduit debt securities that are traded in a public market to evaluate subsequent events through the date that the financial statements are issued. An entity that meets neither of those criteria is required to evaluate subsequent events through the date the financial statements are available to be issued. Pursuant to the requirements of this ASU, the Group evaluates subsequent events through the date the financial statements are available to be issued.

In May 2011, ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, was issued and will become effective for the Group for its annual period ended December 31, 2011. It is expected that the adoption of this ASU will not have a material effect on the Group's results of operations, financial position or liquidity.

(in millions of Russian Rubles)

Note 2: Basis of Presentation (continued)

In June 2011, ASU No. 2011-05, Comprehensive Income (Topic 220) was issued and will become effective for the Group for its annual period ended December 31, 2011. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

Note 3: Acquisitions and Divestitures

In February 2010 the Group submitted a request to redeem its entire interest in IPCG Fund. The redemption request was accepted by IPCG Fund and was effected on March 31, 2010 through the delivery to the Group of 47.5 million of Tatneft shares, loans receivable from Bank Zenit in the amount of USD 48 million, cash of USD 102 million and a 28.6% interest in MARS Emerging Markets Fund Limited valued at USD 18 million. As a result of the redemption and divestment from the IPCG Fund, the Group ceased to hold 8 million treasury shares resulting in an increase in additional paid in capital of RR 881 million.

Note 4: Accounts Receivable

Accounts receivable are as follows:

	At June 30, 2011			At December 31, 2010		
	Total accounts receivable	Accounts receivable from related parties (Note 11)	Accounts receivable	Total accounts receivable	Accounts receivable from related parties (Note 11)	Accounts receivable
Trade - domestic	16,992	1,108	15,884	18,407	1,638	16,769
Trade - export	31,705	-	31,705	28,971	-	28,971
Other receivables	3,217	205	3,012	7,553	342	7,211
Total accounts receivable, net	**51,914**	**1,313**	**50,601**	**54,931**	**1,980**	**52,951**

Accounts receivables are presented net of an allowance for doubtful accounts of RR 9,650 million and RR 10,465 million at June 30, 2011 and December 31, 2010 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 $334 million as of June 30, 2011 and December 31, 2010 relating to the sale of crude oil to Ukraine (Kremenchug refinery) (Note 12).

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: Inventories

Inventories are as follows:

	At June 30, 2011	At December 31, 2010
Materials and supplies	7,635	6,448
Crude oil	6,054	4,564
Refined oil products	2,137	1,801
Petrochemical supplies and finished goods	5,310	2,327
Total inventories	**21,136**	**15,140**

(in millions of Russian Rubles)

Note 6: Debt

	At June 30, 2011	At December 31, 2010
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	35,579	30,213
Other foreign currency denominated debt	1,087	970
Rouble denominated debt		
Current portion of long-term debt	67	60
Other rouble denominated debt	2,259	5,061
Less: due to related parties (Note 11)	(1,518)	(1,971)
Total short-term debt	**37,474**	**34,333**
Long-term debt		
Foreign currency denominated debt		
US $2.0 bln 2010 credit facility	54,603	60,954
US $1.5 bln 2009 credit facility	26,135	37,043
Other foreign currency denominated debt	1,669	1,814
Rouble denominated debt		
Bonds	5,000	5,000
Other rouble denominated debt	1,066	1,068
Less: due to related parties (Note 11)	(525)	(585)
Total long-term debt	87,948	105,294
Less: current portion	(35,646)	(30,273)
Total long-term debt, net of current portion	**52,302**	**75,021**

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 1 month LIBOR plus varying margin of about 1.785% per annum and is collateralized by crude oil sales. The amount of loan outstanding as of June 30, 2011 and December 31, 2010 was RR 627 million (US $22 million) and RR 4 million (US $0.1 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. The amount of loans outstanding as of December 31, 2010 was RR 716 million (US $23.5 million). During the six months ended June 30, 2011 the Group repaid the remaining credit in full.

Short-term Russian Ruble denominated debt. In August 2010, the Company entered into a RR 2,500 million (US $82 million) credit agreement with AK Bars Bank. The loan bears interest 8% per annum and matures in March 2011. The amount of loans outstanding as of December 31, 2010 is RR 2,500 million (US $82 million). The loan was repaid in full in February 2011.

Russian Ruble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 2,259 million and RR 5,061 million for the six months ended June 30, 2011 and year ended December 31, 2010, respectively bear contractual interest rates of 8.0% to 10.0% per annum.

Long-term foreign currency denominated debt. In October 2009, the Company entered into a dual (3 and 5 year) tranches secured syndicated pre-export facility for up to 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 June 30, 2011 and December 31, 2010 was RR 26,135 million (US $931 million) and RR 37,043 million (US $1,215 million), respectively, including current portion. As of June 30, 2011 this credit facility is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tavit B.V. under which Tatneft supplies no less than 480,000 metric tones of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The loan bears interest at LIBOR plus 3.10% and 4.10% for the 3 and 5 year tranches, respectively. In February 2011 the Company reached an agreement to substantially decrease the amount of crude oil volumes used as collateral for this facility. The crude oil volumes used as collateral decreased to 360,000 metric tons of oil in a calendar quarter.

(in millions of Russian Rubles)

Note 6: Debt (continued)

In June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured syndicated facility for up to USD 2 billion arranged by Barclays Bank PLS, BNP Paribas (Suisse) SA, Bank of Moscow, Bank of Tokyo-Mitsubishi UFJ, LTD, Citibank, N.A., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis SA, Nordea Bank, The Royal Bank of Scotland N.V., Sberbank, Société Générale, Sumitomo Mitsui Finance Dublin LTD, Unicredit Bank AG, VTB Bank and WestLB AG. The amount outstanding under this loan as of June 30, 2011 and December 31, 2010 was RR 54,603 million (US $1,945) and RR 60,954 million (US $2,000 million), respectively, including the current portion. The loan is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than 750,000 metric tones of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. Prior to February 2011, the loan bore interest at LIBOR plus 3.10% for the 3-year tranche and 4.10% for the 5-year tranche. The 7-year tranche bears the interest of LIBOR plus 5%. In February 2011 the Company reached an agreement to decrease the margins. The margins were decreased to LIBOR plus 2.40% and 3.40% for the 3 and 5 year tranches, respectively.

Long-term Russian rouble denominated debt. In September 2010, the Group issued rouble exchange bonds in the amount of RR 5,000 million due in September 2013 at an interest rate of 7.25% per annum.

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.

Note 7: Pensions and Post Employment Benefits

The following table provides the components of net periodic pension cost for the period indicated:

	Six months ended June 30, 2011	**Six months ended June 30, 2010**
Service cost	63	49
Interest cost	163	138
Less expected return on plan assets	(65)	(144)
Effect of exchange rates	(6)	3
Disposals	-	(63)
Acquisitions	-	104
Other	12	197
Total net periodic benefit costs	**167**	**284**

Employer Contributions

The Company is generally required to make minimum monthly contributions to fund its various pension obligations. During the six months ended June 30, 2011, the Company contributed RR 101 million to its various plans. The Company does not have any required funding obligations for its other post employment benefits.

Note 8: Taxes

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

	Six months ended June 30, 2011	**Six months ended June 30, 2010**
Export duties	97,152	66,338
Unified production tax	46,245	32,766
Property tax	981	972
Excise taxes	314	165
Penalties and interest	14	12
Other	642	1,019
Total taxes other than income taxes	**145,348**	**101,272**

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.

Note 9: Fair Value Measurements

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.

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.

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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Marketable securities: The Group has RR 9,162 million and RR 8,055 million in marketable securities as of June 30, 2011 and December 31, 2010, respectively. The Group calculates fair value for its marketable securities based on quoted market prices for identical assets and liabilities (Level 1 valuations).

Note 10: 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 in Tatarstan, revenues from the sale of auxiliary petrochemical related services and materials as well as other business activities, which do not constitute reportable business segments.

The Group evaluates performance of its reportable operating segments and allocates resources based on income or losses before income taxes and non-controlling interest not including interest income, interest expense, earnings from equity investments, other income, foreign exchange gains (losses) and certain other components of selling, general and administrative costs. Intersegment sales are at prices that approximate market.

(in millions of Russian Rubles)

Note 10: Segment Information (continued)

For the six months ended June 30, 2011, the Group had four customers which accounted for RR 208,069 million in crude oil sales, comprising 52%, 14%, 13% and 7% respectively of the crude oil sales by the Group Group during the six months.

For the six months ended June 30, 2010, the Group had four customers which accounted for RR 131,350 million in crude oil sales, comprising 33%, 14%, 14% and 14% respectively of the crude oil sales by the Group during the six months.

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

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

	Six months ended June 30, 2011	Six months ended June 30, 2010
Exploration and production		
Domestic own crude oil	36,228	26,830
CIS own crude oil	-	3,679
Non – CIS own crude oil	187,003	122,376
Other	1,555	1,511
Intersegment sales	4,137	6,997
Total exploration and production	**228,923**	**161,393**
Refining and marketing		
Domestic sales		
Crude oil purchased for resale	1,846	5,155
Refined products	22,268	18,761
Total Domestic sales	24,114	23,916
CIS sales		
Crude oil purchased for resale	7,729	8,822
Refined products	615	1,096
Total CIS sales[(1)]	8,344	9,918
Non – CIS sales		
Crude oil purchased for resale	11,020	6,623
Refined products	3,478	2,989
Total Non – CIS sales[(2)]	14,498	9,612
Other	1,385	1,376
Intersegment sales	1,237	878
Total refining and marketing	**49,578**	**45,700**
Petrochemicals		
Tires - domestic sales	9,833	7,853
Tires - CIS sales	2,303	1,808
Tires - non-CIS sales	527	310
Petrochemical products and other	1,522	756
Intersegment sales	477	467
Total petrochemicals	**14,662**	**11,194**
Total segment sales	**293,163**	**218,287**
Corporate and other sales	6,678	4,666
Elimination of intersegment sales	(5,851)	(8,342)
Total sales and other operating revenues	**293,990**	**214,611**

(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.

(in millions of Russian Rubles)

Note 10: Segment Information (continued)

Segment earnings

	Six months ended June 30, 2011	Six months ended June 30, 2010
Segment earnings		
Exploration and production	46,751	26,949
Refining and marketing	3,311	3,781
Petrochemicals	878	(237)
Total segment earnings	**50,940**	**30,493**
Corporate and other	(3,277)	(2,914)
Other income/(expenses)	5,362	(2,701)
Income before income taxes and non-controlling interest	**53,025**	**24,878**

Segment assets

	At June 30, 2011	At December 31, 2010
Assets		
Exploration and production	283,040	281,976
Refining and marketing	193,765	183,251
Petrochemicals	27,491	24,525
Corporate and other	85,845	77,427
Total assets	**590,141**	**567,179**

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

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

	Six months ended June 30, 2011	Six months ended June 30, 2010
Depreciation, depletion and amortization		
Exploration and production	4,011	4,621
Refining and marketing	651	575
Petrochemicals	742	361
Corporate and other	1,157	1,114
Total segment depreciation, depletion and amortization	**6,561**	**6,671**
Additions to property, plant and equipment		
Exploration and production	9,907	8,080
Refining and marketing	17,607	29,647
Petrochemicals	149	925
Corporate and other	988	711
Total additions to property, plant and equipment	**28,651**	**39,363**

During the six months ended June 30, 2011 and June 30, 2010 the Company recorded RR 1,570 million and RR 1,738 million of capitalized interest as property, plant and equipment additions, respectively.

(in millions of Russian Rubles)

Note 11: Related Party Transactions

Transactions are entered into in the normal course of business with significant shareholders, directors and companies with which the Group has significant shareholders and directors in common (see also Note 1). These transactions include sales of crude oil and refined products, purchases of electricity and banking transactions.

As of June 30, 2011 and December 31, 2010, the Group had RR 4,101 million and RR 8,664 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 2011 and 2013, bearing interest between 3.2% and 7.5%. As of June 30, 2011 and December 31, 2010, the Group has short and long-term certificates of deposit of RR 17,008 million and RR 12,375 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

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

The amounts of transactions and the outstanding balances with related parties are as follows:

	Six months ended June 30, 2011	Six months ended June 30, 2010
Sales of refined products	17	17
Other sales	949	425
Purchases of crude oil	(4,151)	(2,723)
Purchases of refined products	(3)	-
Other services	(2,406)	(446)
Other purchases	(104)	(203)

For the six month ended June 30, 2011 the Group has entered into transactions with related parties for purchases of construction services in the amount of RR 2,723 million which is included in our property, plant and equipment.

For the six month ended June 30, 2011 and June 30, 2010, the Group sold crude oil on a commission basis from related parties for RR 8,644 million and RR 4,540 million, respectively.

	At June 30, 2011	At December 31, 2010
Assets		
Accounts receivable (Note 4)	1,313	1,980
Notes receivable	2,663	3,122
Short-term certificates of deposit	8,933	8,653
Trading securities	193	129
Loans receivable	257	701
Due from related parties short-term	**13,359**	**14,585**
Long-term certificates of deposit	8,395	3,913
Long-term loans and notes receivable	2,295	5,969
Long-term accounts receivable	37	33
Due from related parties long-term	**10,727**	**9,915**
Liabilities		
Other accounts payable	(396)	(67)
Short-term debt (Note 6)	(1,518)	(1,971)
Trade accounts payable	(2,558)	(3,097)
Due to related parties short-term	**(4,472)**	**(5,135)**
Long-term debt (Note 6)	(525)	(585)
Due to related parties long-term	**(525)**	**(585)**

Note 12: Commitments and Contingent Liabilities

Guarantees. The Group has no outstanding guarantees at June 30, 2011 and December 31, 2010.

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.

Capital commitments. As of June 30, 2011 and December 31, 2010 the Group has outstanding capital commitments of approximately RR 26,534 million and RR 23,086 million, respectively, for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2011 and 2012.

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 proceeding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

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.

Note 12: Commitments and Contingent Liabilities (continued)

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.

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 September 2010 the arbitral tribunal issued an award confirming that all of Tatneft's claims are admissible and that the tribunal has jurisdiction over the claims. Tatneft's claims will now move forward to the merits stage with the award expected in 2012.

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.

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 June 30, 2011 the Company has fully provided for its investments in Ukrtatnafta.

Libya. As a result of a recent turmoil in Libya, in March 2011 the Group had to entirely suspend its operations there and evacuate all its personnel. The Group is not certain if and when it will be able to resume its operations in Libya. Currently the Group is not able to assess the impact of these events on the Group's financial statements. As of December 31, 2010 the company had approximately RR 5,224 million of assets associated with its Libyan operations of which RR 4,781 million is related to capitalized exploration costs, RR 219 million of inventories and RR 224 million of cash. As of June 30, 2011 the company had approximately RR 5,442 million of assets associated with its Libyan operations of which RR 5,145 million is related to capitalized exploration costs, RR 215 million of inventories and RR 82 million of cash.

Note 13: Subsequent Events

On 24 June 2011, the Company entered into US 550 million unsecured financing with a fixed rate of 3.50% per annum with bullet repayment in three years. The loan was arranged by BNP Paribas (Suisse) SA, The Bank Of Tokyo Mitsubishi UFJ, Ltd., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis, Open Joint Stock Company Nordea Bank, Sumitomo Mitsui Banking Corporation and WestLB AG, London Branch.

We have evaluated the existence of both recognized and unrecognized subsequent events through the date of this report October 4, 2011 and have deemed no adjustments or additional disclosures are necessary.