



CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011



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 September 30, 2012 and the related consolidated interim condensed statements of comprehensive income, of shareholders' equity and of cash flows for the nine-month periods ended September 30, 2012 and September 30, 2011. 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, 2011, 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 16, 2012, 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, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit

December 5, 2012

TATNEFT
Consolidated Interim Condensed Balance Sheets (Unaudited)
(in millions of Russian Rubles)

	Notes	At September 30, 2012	At December 31, 2011
Assets			
Cash and cash equivalents		17,000	17,044
Restricted cash		1,490	1,178
Accounts receivable, net	3	63,542	60,095
Due from related parties	11	14,166	13,726
Short-term investments	4	14,325	9,391
Current portion of loans receivable		1,524	1,839
Inventories	5	25,475	25,243
Prepaid expenses and other current assets		21,596	27,084
Total current assets		159,118	155,600
Long-term loans and notes receivable, net		4,129	3,168
Due from related parties	11	10,554	11,829
Long-term investments		8,684	13,542
Property, plant and equipment, net		459,772	430,781
Other long-term assets		11,514	12,903
Total assets		653,771	627,823
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	6	32,018	40,722
Trade accounts payable		16,420	15,741
Due to related parties	11	6,233	6,154
Other accounts payable and accrued liabilities		15,250	20,225
Dividends payable		120	96
Taxes payable		18,116	14,123
Total current liabilities		88,157	97,061
Long-term debt, net of current portion	6	42,906	61,776
Due to related parties	11	60	462
Other long-term liabilities		3,236	2,744
Asset retirement obligations, net of current portion		51,099	47,534
Deferred tax liability		15,778	14,835
Total liabilities		201,236	224,412
Shareholders' Equity			
Preferred shares (authorized and issued at September 30, 2012 and December 31, 2011 - 147,508,500 shares; nominal value at September 30, 2012 and December 31, 2011 - RR1.00)		148	148
Common shares (authorized and issued at September 30, 2012 and December 31, 2011 - 2,178,690,700 shares; nominal value at September 30, 2012 and December 31, 2011 - RR1.00)		2,179	2,179
Additional paid-in capital		96,946	96,925
Accumulated other comprehensive income		1,778	1,995
Retained earnings		335,622	291,029
Less: Common shares held in treasury, at cost (55,623,000 shares and 55,875,000 shares at September 30, 2012 and December 31, 2011, respectively)		(3,098)	(3,117)
Total Group shareholders' equity		433,575	389,159
Non-controlling interest		18,960	14,252
Total shareholders' equity		452,535	403,411
Total liabilities and Equity		653,771	627,823

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

TATNEFT
Consolidated Interim Condensed Statements of Comprehensive Income (Unaudited)

(in millions of Russian Rubles)

	Notes	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Sales and other operating revenues	10	471,504	447,806
Costs and other deductions			
Operating		65,809	54,840
Purchased oil and refined products		39,970	53,872
Exploration		1,366	1,427
Transportation		21,686	14,359
Selling, general and administrative		27,945	22,028
Depreciation, depletion and amortization	10	12,392	10,053
Loss on disposals of property, plant and equipment, investments and impairments		985	1,696
Taxes other than income taxes	8	217,710	221,702
Maintenance of social infrastructure and transfer of social assets		3,069	2,733
Total costs and other deductions		390,932	382,710
Other income (expenses)			
Earnings from equity investments		531	744
Foreign exchange gain/(loss)		1,255	(2,541)
Interest income		3,257	2,195
Interest expense, net of amounts capitalized		(2,296)	(648)
Other income/(expenses), net		948	(529)
Total other income/(expenses)		3,695	(779)
Income before income taxes		84,267	64,317
Income taxes			
Current income tax expense		(19,405)	(16,065)
Deferred income tax benefit/(expense)		485	(1,202)
Total income tax expense		(18,920)	(17,267)
Net income		65,347	47,050
Less: net income attributable to non-controlling interest		(4,682)	(1,958)
Net income attributable to Group shareholders		60,665	45,092
Foreign currency translation adjustments		(210)	265
Actuarial (loss)/gain on employee benefit plans		(85)	116
Unrealized holding gains/(loss) on available-for-sale securities, net of tax		78	(169)
Comprehensive income		60,448	45,304
Basic and diluted net income per share (RR)			
Common		26.72	19.87
Preferred		26.69	19.85
Weighted average shares outstanding (millions of shares)			
Common		2,123	2,121
Preferred		148	148

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

TATNEFT
Consolidated Interim Condensed Statements of Cash Flows (Unaudited)

(in millions of Russian Rubles)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Operating activities		
Net income	65,347	47,050
Adjustments:		
Depreciation, depletion and amortization	12,392	10,053
Deferred income tax (benefit)/expenses	(485)	1,202
Loss on disposals of property, plant and equipment, investments and impairments	985	1,696
Effects of foreign exchange	(3,703)	3,928
Equity investments (earnings) net of dividends received	(531)	(485)
Accretion of asset retirement obligation	3,576	3,236
Change in fair value of trading securities	(356)	195
Other	(148)	784
Changes in operational working capital, excluding cash:		
Accounts receivable	(3,160)	(2,959)
Inventories	(949)	(6,568)
Prepaid expenses and other current assets	5,487	9,591
Trading securities	196	(90)
Related parties	(784)	103
Trade accounts payable	(1,722)	(1,126)
Other accounts payable and accrued liabilities	(2,524)	(2,690)
Taxes payable	4,010	3,682
Notes payable	163	55
Other non-current assets	958	20
Net cash provided by operating activities	78,752	67,677
Investing activities		
Additions to property, plant and equipment	(36,861)	(41,809)
Proceeds from disposals of property, plant and equipment	585	3,240
Proceeds from disposal of investments	1,623	367
Purchases of investments	(1,009)	(51)
Purchases of certificates of deposit, net	(1,572)	(64)
Issuance and proceeds of loans and notes receivable, net	333	159
Change in restricted cash	(312)	1,734
Net cash used in investing activities	(37,213)	(36,424)
Financing activities		
Proceeds from issuance of debt	26,928	62,936
Repayment of debt	(52,269)	(74,472)
Repayment of capital lease obligations	-	(34)
Dividends paid to shareholders	(16,048)	(11,396)
Dividends paid to non-controlling shareholders	(239)	(164)
Purchase of treasury shares	(14)	(5)
Proceeds from sale of treasury shares	31	5
Proceeds from issuance of shares by subsidiaries	28	25
Net cash used in financing activities	(41,583)	(23,105)
Net change in cash and cash equivalents	(44)	8,148
Cash and cash equivalents at beginning of period	17,044	8,080
Cash and cash equivalents at end of period	17,000	16,228

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

TATNEFT
Consolidated Interim Condensed Statements of Shareholders' Equity (Unaudited)

(in millions of Russian Rubles)

	2012		2011	
	Shares	Amount	Shares	Amount
Preferred shares:				
Balance at January 1 and September 30				
(shares in thousands)	147,509	148	147,509	148
Common shares:				
Balance at January 1 and September 30				
(shares in thousands)	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:				
Balance at January 1	55,875	(3,117)	58,960	(3,275)
Acquisitions	77	(14)	1,783	(287)
Disposals	(329)	33	(4,877)	447
Balance at September 30	55,623	(3,098)	55,866	(3,115)
Additional paid-in capital				
Balance at January 1		96,925		96,617
Treasury share transactions		21		303
Balance at September 30		96,946		96,920
Accumulated other comprehensive income				
Balance at January 1		1,995		1,933
Actuarial /(loss)/gain on employee benefit plans		(85)		116
Foreign currency translation adjustments		(210)		265
Unrealized holding gains/(loss) on available-for-sale securities, net of tax		78		(169)
Balance at September 30		1,778		2,145
Retained earnings				
Balance at January 1		291,029		241,005
Net income		60,665		45,092
Dividends		(16,072)		(11,404)
Balance at September 30		335,622		274,693
Non-controlling interest				
Balance at January 1		14,252		11,939
Net income		4,682		1,958
Dividends		(239)		(164)
Change in Group structure		265		81
Balance at September 30		18,960		13,814
Total shareholders' equity at September 30		452,535		386,784

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

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Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(in millions of Russian Rubles)

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 September 30, 2012 and December 31, 2011 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.

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 2011 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 2011 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 nine-month period ended September 30, 2012 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 Ruble 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 Rubles. Accordingly, transactions and balances not already measured in Russian Rubles (primarily US Dollars) have been re-measured into Russian Rubles 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 Rubles 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 Rubles 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 September 30, 2012 and December 31, 2011 was RR 30.92 and RR 32.20 to US Dollar, respectively. Average rate of exchange for the nine months ended September 30, 2012 and September 30, 2011 was RR 31.09 and RR 28.77 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 Variable Interest Entities ("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 sheets.

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 that 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 interim condensed statements of comprehensive income and Taxes payable in the consolidated interim condensed balance sheets, respectively. Income tax interest expense and payable are included in Interest expense in the consolidated interim condensed statements of comprehensive income and other accounts payable and accrued expenses in the consolidated interim condensed balance sheets, respectively.

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

(in millions of Russian Rubles)

Note 3: Accounts Receivable

Accounts receivable are as follows:

	At September 30, 2012			At December 31, 2011		
	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	15,407	1,523	13,884	21,461	1,245	20,216
Trade - export	45,023	-	45,023	36,486	-	36,486
Other receivables	5,380	745	4,635	4,141	748	3,393
Total accounts receivable, net	65,810	2,268	63,542	62,088	1,993	60,095

Accounts receivables are presented net of an allowance for doubtful accounts of RR 10,667 million and RR 11,021 million at September 30, 2012 and December 31, 2011 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 September 30, 2012 and December 31, 2011 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 interim condensed statements of comprehensive income.

Note 4: Short-Term Investments

Short-term investments are classified as follows:

	At September 30, 2012	At December 31, 2011
Certificates of deposit	15,409	10,570
Trading securities	8,592	8,200
Total short-term investments	24,001	18,770
Less: due from related parties (Note 11)	(9,676)	(9,379)
Short-term investments, net	14,325	9,391

During the nine months ended September 30, 2012 purchases of certificates of deposit and proceeds from certificates of deposit were RR 21,262 million and RR 19,690 million respectively.

Note 5: Inventories

Inventories are as follows:

	At September 30, 2012	At December 31, 2011
Materials and supplies	10,718	9,835
Crude oil	4,517	6,284
Refined oil products	5,178	5,373
Petrochemical supplies and finished goods	5,062	3,751
Total inventories	25,475	25,243

TATNEFT
Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(in millions of Russian Rubles)

Note 6: Debt

	At September 30, 2012	At December 31, 2011
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	23,323	38,442
Other foreign currency denominated debt	2,892	1,073
Ruble denominated debt		
Current portion of long-term debt	5,000	64
Other ruble denominated debt	3,428	3,029
Less: due to related parties (Note 11)	(2,625)	(1,886)
Total short-term debt	32,018	40,722
Long-term debt		
Foreign currency denominated debt		
US \$144.5 mln 2011 credit facility	1,427	-
US \$75 mln 2011 credit facility	2,203	2,415
US \$550 mln 2011 credit facility	17,004	17,708
US \$2.0 bln 2010 credit facility	34,554	51,963
US \$1.5 bln 2009 credit facility	6,786	20,809
Other foreign currency denominated debt	3,250	1,726
Ruble denominated debt		
Bonds	5,000	5,000
Other ruble denominated debt	1,065	1,123
Less: due to related parties (Note 11)	(60)	(462)
Total long-term debt	71,229	100,282
Less: current portion	(28,323)	(38,506)
Total long-term debt, net of current portion	42,906	61,776

Foreign currency debts are primarily denominated in US Dollars.

Short-term foreign currency denominated debt. In December 2003 the Group entered into a US \$35 million one month revolving credit facility with Credit Suisse Zurich. In December 2011 this agreement was replaced with new loan agreement totaling up to the US \$70 million under the same conditions. The monthly revolving loan bears interest at 1 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 September 30, 2012 and December 31, 2011 was RR 2,107 million (US \$68 million) and RR 553 million (US \$17 million), respectively.

Short-term Russian Ruble denominated debt. Russian Ruble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Ruble denominated loans of RR 3,428 million and RR 3,029 million bear contractual interest rates of 7.0% to 8.25% per annum for the nine months ended September 30, 2012 and year ended December 31, 2011, respectively.

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 September 30, 2012 and December 31, 2011 was RR 6,786 million (US \$220 million) and RR 20,809 million (US \$646 million), respectively, including current portion. 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 360,000 metric tonnes 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.

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 September 30, 2012 and December 31, 2011 was RR 34,554 million (US \$1,118 million) and RR 51,963 million (US \$1,614 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 tonnes 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 2.40%, 3.40% and 5% for the 3, 5 and 7 year tranches, respectively.

In June 2011, the Company entered into a US \$550 million unsecured financing with a fixed rate of 3.50% per annum with bullet repayment in three years. The loan was arranged by BNP Paribas (Suisse) SA, The Bank Of Tokyo Mitsubishi UFJ, Ltd., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis, Open Joint Stock Company Nordea Bank, Sumitomo Mitsui Banking Corporation and WestLB AG, London Branch. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The amount outstanding under this credit facility as of September 30, 2012 and December 31, 2011 was RR 17,004 million (US \$550 million) and RR 17,708 million (US \$550 million), respectively.

In November 2011, TANECO entered into a US \$75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The amount outstanding under this credit facility as of September 30, 2012 and December 31, 2011 was RR 2,203 million (US \$71 million) and RR 2,415 million (US \$75 million), including the current portion, respectively.

In November 2011, TANECO entered into a US \$144.5 million credit facility with equal semi-annual repayments during ten years with the first repayment date as of May 15, 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ, LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The amount outstanding under this credit facility as of September 30, 2012 was RR 1,427 million (US \$46 million).

In October 2009, P-D Tatneft-Alabuga Steklovolokno entered into a EUR 44 million credit facility with fourteen equal semi-annual repayments with the first repayment date as of February 28, 2012. The loan was arranged by Landesbank Baden-Wuerttemberg. The loan bears interest at EURIBOR plus 1.5% per annum. The amount outstanding under this credit facility as of September 30, 2012 was RR 1,472 million (EUR 36.9 million).

Long-term Russian ruble denominated debt. In September 2010, the Group issued ruble 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.

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

(in millions of Russian Rubles)

Note 7: Pensions and Post Employment Benefits

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

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Service cost	96	94
Interest cost	243	244
Less expected return on plan assets	(104)	(97)
Effect of exchange rates	3	(9)
Other	71	18
Total net periodic benefit costs	309	250

Employer Contributions

The Group is generally required to make minimum monthly contributions to fund its various pension obligations. During the nine months ended September 30, 2012, the Group contributed RR 165 million to its various plans. The Group does not have any required funding obligations for its other post employment benefits.

Note 8: Taxes

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

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Export duties	136,542	147,677
Mineral extraction tax	78,061	70,995
Property tax	1,660	1,518
Excise taxes	686	459
Penalties and interest	(265)	4
Other	1,026	1,049
Total taxes other than income taxes	217,710	221,702

For mineral extraction tax for fields whose depletion rate exceeds 80% 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 markets.

Note 9: Fair Value Measurements (continued)

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. The Group does not use Level 2 inputs for any of its recurring fair-value measurements.

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 8,592 million and RR 8,200 million in marketable securities as of September 30, 2012 and December 31, 2011, 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.

For the nine months ended September 30, 2012, the Group had four customers which accounted for RR 253,891 million in crude oil sales, comprising 47%, 19%, 14% and 7% respectively of the crude oil sales by the Group during the nine months.

For the nine months ended September 30, 2011, the Group had four customers which accounted for RR 302,511 million in crude oil sales, comprising 50%, 14%, 12% and 7% respectively of the crude oil sales by the Group during the nine months.

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

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Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(in millions of Russian Rubles)

Note 10: Segment Information (continued)

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

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Exploration and production		
Domestic own crude oil	45,805	53,663
CIS own crude oil	5,342	3,132
Non – CIS own crude oil	224,718	274,805
Other	2,778	2,352
Intersegment sales	56,670	9,990
Total exploration and production	335,313	343,942
Refining and marketing		
<i>Domestic sales</i>		
Crude oil purchased for resale	1,313	1,846
Refined products	53,634	35,362
Total Domestic sales	54,947	37,208
<i>CIS sales</i>		
Crude oil purchased for resale	-	14,133
Refined products	26,501	1,798
Total CIS sales ⁽¹⁾	26,501	15,931
<i>Non – CIS sales</i>		
Crude oil purchased for resale	12,985	15,791
Refined products	56,462	9,182
Total Non – CIS sales ⁽²⁾	69,447	24,973
Other	2,863	1,963
Intersegment sales	2,285	1,913
Total refining and marketing	156,043	81,988
Petrochemicals		
Tires - domestic sales	20,232	16,717
Tires - CIS sales	5,699	4,720
Tires - non-CIS sales	813	911
Petrochemical products and other	1,652	1,699
Intersegment sales	665	730
Total petrochemicals	29,061	24,777
Total segment sales	520,417	450,707
Corporate and other sales	10,707	9,732
Elimination of intersegment sales	(59,620)	(12,633)
Total sales and other operating revenues	471,504	447,806

⁽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.

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Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(in millions of Russian Rubles)

Note 10: Segment Information (continued)

Segment earnings

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Segment earnings		
Exploration and production	77,318	66,903
Refining and marketing	8,418	4,605
Petrochemicals	1,045	331
Total segment earnings	86,781	71,839
Corporate and other	(6,209)	(6,743)
Other income/(expense)	3,695	(779)
Income before income taxes and non-controlling interest	84,267	64,317

Segment assets

	At September 30, 2012	At December 31, 2011
Assets		
Exploration and production	304,081	297,752
Refining and marketing	228,917	216,432
Petrochemicals	27,474	27,215
Corporate and other	93,299	86,424
Total assets	653,771	627,823

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:

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Depreciation, depletion and amortization		
Exploration and production	6,278	6,138
Refining and marketing	2,820	745
Petrochemicals	1,171	1,130
Corporate and other	2,123	2,040
Total segment depreciation, depletion and amortization	12,392	10,053
Additions to property, plant and equipment		
Exploration and production	18,522	14,523
Refining and marketing	18,784	25,617
Petrochemicals	263	283
Corporate and other	2,299	1,386
Total additions to property, plant and equipment	39,868	41,809

During the nine months ended September 30, 2012 and September 30, 2011 the Group recorded RR 454 million and RR 2,361 million of capitalized interest as property, plant and equipment additions, respectively.

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

(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 services and banking transactions.

As of September 30, 2012 and December 31, 2011, the Group had RR 4,641 million and RR 4,707 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 2012 and 2013, bearing interest between 3.2% and 7.5%. As of September 30, 2012 and December 31, 2011, the Group has short and long-term certificates of deposit of RR 17,284 million and RR 16,843 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:

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Sales of refined products	51	27
Other sales	2,088	1,640
Purchases of crude oil	(7,301)	(6,825)
Purchases of refined products	(4)	(4)
Other services	(5,149)	(4,341)
Other purchases	(2,782)	(1,159)

For the nine month ended September 30, 2012 and September 30, 2011 the Group has entered into transactions with related parties for purchases of construction services in the amount of RR 4,832 million and RR 3,654 million which is included in our property, plant and equipment.

For the nine month ended September 30, 2012 and September 30, 2011, the Group sold crude oil obtained from related parties for RR 8,232 million and RR 12,577 million, respectively.

	At September 30, 2012	At December 31, 2011
Assets		
Accounts receivable (Note 3)	2,268	1,993
Notes receivable	2,205	2,010
Short-term certificates of deposit (Note4)	9,360	9,179
Trading securities (Note4)	316	200
Loans receivable	17	344
Due from related parties short-term	14,166	13,726
Long-term certificates of deposit	7,924	7,974
Long-term loans and notes receivable	2,446	3,402
Long-term accounts receivable	184	453
Due from related parties long-term	10,554	11,829
Liabilities		
Other accounts payable	(890)	(557)
Short-term debt (Note 6)	(2,625)	(1,886)
Trade accounts payable	(2,718)	(3,711)
Due to related parties short-term	(6,233)	(6,154)
Long-term debt (Note 6)	(60)	(462)
Due to related parties long-term	(60)	(462)

Note 12: Commitments and Contingent Liabilities

Guarantees. The Group has no outstanding guarantees at September 30, 2012 and December 31, 2011.

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 September 30, 2012 and December 31, 2011 the Group has outstanding capital commitments of approximately RR 19,623 million and RR 14,966 million, respectively, for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2012 and 2013.

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 performing tax inspections of the Company and its subsidiaries for the years ended December 31, 2009 and 2010. While the results of these inspections 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.

Russian transfer pricing legislation was amended starting from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Management exercises its judgement about whether or not the transfer pricing documentation that the entity has prepared, as required by the new legislation, provides sufficient evidence to support the Group's tax positions and related tax returns. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

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

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

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

Note 12: Commitments and Contingent Liabilities (continued)

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

Ukratnafta. Historically, and in particular during the course of 2007, there have been a number of attempts by Ukraine to challenge AmRUZ and Seagroup's acquisition of shares in Ukratnafta, and in particular, by the State Property Fund and NJSC Naftogaz of Ukraine ("Naftogaz"). Naftogaz is 100% owned by the Ukrainian Government and also owner of record of 43% Ukratnafta's common shares.

The challenges were suspended in April 2006 when the Supreme Court of Ukraine ruled the payment for Ukratnafta shares made with promissory notes issued by AmRUZ and Seagroup was lawful. However, in May 2007 the Ministry of Fuel and Energy of Ukraine ("MFEU") resumed its attempts and, as a result, succeeded in obtaining alleged and doubtful court decisions, after which it announced the transfer into Naftogaz's custody the 18.3% of Ukratnafta's shares, representing the entire holdings of AmRUZ and Seagroup in Ukratnafta. Subsequent to these actions, MFEU effectively began to exclude the Group from exercising their shareholder rights related to Ukratnafta.

In October 2007 the existing management of Ukratnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently, individuals who obtained the ability to manage Ukratnafta took certain actions effectively assisting MFEU in taking control over the shares in Ukratnafta owned by SeaGroup and AmRUZ. In addition, Ukratnafta subsequently refused to settle its payables to ChMPKP Avto (Note 3), a Ukrainian intermediary that previously purchased crude from the Group for deliveries to Ukratnafta. Following this forced change of control of Ukratnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its crude oil deliveries to Ukratnafta.

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT"). The arbitration concerns losses suffered by Tatneft as a consequence of the forcible takeover of Ukratnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russian-Ukraine BIT and to order MFEU to restore Ukratnafta'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 2013.

There were a number of legal proceedings in the Ukraine, Russian Federation and international courts to recover the Group's assets. As of September 30, 2012, there were no substantial results. Due to ongoing legal dispute over shareholding interests, as of September 30, 2012 the Company has fully provided for its investments in Ukratnafta.

Libya. As a result of the turmoil in Libya, 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 September 30, 2012 the company had approximately 5 674 million of assets associated with its Libyan operations of which RR 5 428 million is related to capitalized exploration costs, RR 215 million of inventories and RR 31 million of cash. As of December 31, 2011 the company had approximately RR 5,692 million of assets associated with its Libyan operations of which RR 5,392 million is related to capitalized exploration costs, RR 216 million of inventories and RR 84 million of cash.

Note 13: Subsequent Events

We have evaluated the existence of both recognized and unrecognized subsequent events through the date of this report December 5, 2012 and have deemed no adjustments or additional disclosures are necessary.