TATNEFT

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

Report of Independent Auditors

To the Board of Directors and Shareholders of OAO Tatneft:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of OAO Tatneft (the "Company") and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

ZAO PricewaterhouseCoopers Audit

April 16, 2012

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TATNEFT
Consolidated Balance Sheets
(in millions of Russian Roubles)

	Notes	At December 31, 2011	At December 31, 2010
Assets			
Cash and cash equivalents		17,044	8,080
Restricted cash		1,178	2,897
Accounts receivable, net	4	60,095	52,951
Due from related parties	17	13,726	14,585
Short-term investments	5	9,391	9,196
Current portion of loans receivable	8	1,839	2,275
Inventories	6	25,243	15,140
Prepaid expenses and other current assets	7	27,084	27,433
Total current assets		**155,600**	**132,557**
Long-term loans and notes receivable, net	8	3,168	2,344
Due from related parties	17	11,829	9,915
Long-term investments	5	13,542	15,823
Property, plant and equipment, net	10	430,781	393,776
Other long-term assets	9	12,903	12,764
Total assets		**627,823**	**567,179**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	11	40,722	34,333
Trade accounts payable		15,741	14,890
Due to related parties	17	6,154	5,135
Other accounts payable and accrued liabilities	12	20,321	15,861
Capital lease obligations	10	-	34
Taxes payable	14	14,123	10,583
Total current liabilities		**97,061**	**80,836**
Long-term debt, net of current portion	11	61,776	75,021
Due to related parties	17	462	585
Other long-term liabilities		2,744	3,295
Asset retirement obligations, net of current portion	10	47,534	43,008
Deferred tax liability	14	14,835	13,888
Total liabilities		**224,412**	**216,633**
Shareholders' equity			
Preferred shares (authorized and issued at December 31, 2011 and 2010 – 147,508,500 shares; nominal value at December 31, 2011 and 2010 – RR1.00)	15	148	148
Common shares (authorized and issued at December 31, 2011 and 2010 – 2,178,690,700 shares; nominal value at December 31, 2011 and 2010 – RR1.00)	15	2,179	2,179
Additional paid-in capital		96,925	96,617
Accumulated other comprehensive income		1,995	1,933
Retained earnings		291,029	241,005
Less: Common shares held in treasury, at cost (55,875,000 shares and 58,960,000 shares at December 31, 2011 and 2010, respectively)		(3,117)	(3,275)
Total Group shareholders' equity		**389,159**	**338,607**
Non-controlling interest		14,252	11,939
Total shareholders' equity		**403,411**	**350,546**
Total liabilities and Equity		**627,823**	**567,179**

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

Consolidated Statements of Operations and Comprehensive Income

(in millions of Russian Roubles)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
Sales and other operating revenues	16	**615,867**	**468,032**
Costs and other deductions			
Operating		79,071	67,190
Purchased oil and refined products		73,827	55,621
Exploration		2,230	2,068
Transportation		21,762	17,217
Selling, general and administrative		33,339	30,028
Depreciation, depletion and amortization	16	11,829	12,483
Loss/(gain) on disposals of property, plant and equipment, investments and impairments		532	(345)
Taxes other than income taxes	14	299,072	216,065
Maintenance of social infrastructure and transfer of social assets	10	3,561	3,608
Total costs and other deductions		**525,223**	**403,935**
Other (expenses)/income			
(Losses)/earnings from equity investments	5	(677)	786
Foreign exchange loss		(4,308)	(1,954)
Interest income		2,731	3,761
Interest expense, net of amounts capitalized		(1,050)	(483)
Other expenses, net		(1,431)	(1,737)
Total other (expenses)/income		**(4,735)**	**373**
Income before income taxes and non-controlling interest		**85,909**	**64,470**
Income taxes			
Current income tax expense		(19,356)	(13,774)
Deferred income tax expense		(2,580)	(48)
Total income tax expense	14	**(21,936)**	**(13,822)**
Net income		**63,973**	**50,648**
Less: net income attributable to non-controlling interest		(2,545)	(3,975)
Net income attributable to Group shareholders		**61,428**	**46,673**
Foreign currency translation adjustments		246	574
Actuarial loss on employee benefit plans		(16)	(545)
Unrealized holding losses on available-for-sale securities, net of tax		(168)	(3)
Comprehensive income		**61,490**	**46,699**
Basic and diluted net income per share (RR)	15		
Common		27.07	20.62
Preferred		27.05	20.56
Weighted average shares outstanding (millions of shares)	15		
Common		2,121	2,116
Preferred		148	148

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

(in millions of Russian Roubles)

	Year ended December 31, 2011	Year ended December 31, 2010
Operating activities		
Net income	63,973	50,648
Adjustments:		
Depreciation, depletion and amortization	11,829	12,483
Deferred income tax expense	2,580	48
Loss/(gain) on disposals of property, plant and equipment, investments and impairments	532	(345)
Transfer of social assets	183	675
Effects of foreign exchange	4,744	1,556
Equity investments losses/(earnings) net of dividends received	1,117	(392)
Change of allowance for doubtful accounts	(262)	333
Accretion of asset retirement obligation	4,314	3,905
Change in fair value of trading securities	279	(382)
Other	235	1,209
Changes in operational working capital, excluding cash:		
Accounts receivable	(5,678)	(11,282)
Inventories	(10,009)	(3,531)
Prepaid expenses and other current assets	330	(1,698)
Trading securities	227	(370)
Related parties	602	376
Trade accounts payable	647	318
Other accounts payable and accrued liabilities	1,866	2,597
Taxes payable	3,531	275
Notes payable	(11)	(49)
Other non-current assets	(373)	(497)
Net cash provided by operating activities	**80,656**	**55,877**
Investing activities		
Additions to property, plant and equipment	(52,679)	(77,901)
Proceeds from disposals of property, plant and equipment	3,466	686
Proceeds from disposal of investments	806	4,580
Purchase of investments	(97)	(4,658)
Certificates of deposit	259	3,286
Loans and notes receivable	(873)	(304)
Change in restricted cash	1,719	9,174
Net cash used in investing activities	**(47,399)**	**(65,137)**
Financing activities		
Proceeds from issuance of debt	89,118	115,800
Repayment of debt	(101,685)	(95,959)
Repayment of capital lease obligations	(34)	(151)
Dividends paid to shareholders	(11,404)	(14,943)
Dividends paid to non-controlling shareholders	(313)	(329)
Purchase of treasury shares	(13)	(5)
Proceeds from sale of treasury shares	13	9
Proceeds from issuance of shares by subsidiaries	25	77
Net cash (used in)/provided by financing activities	**(24,293)**	**4,499**
Net change in cash and cash equivalents	**8,964**	**(4,761)**
Cash and cash equivalents at beginning of period	8,080	12,841
Cash and cash equivalents at end of period	**17,044**	**8,080**

	2011		2010	
	Shares	**Amount**	**Shares**	**Amount**
Preferred shares:				
Balance at January 1 and December 31 (shares in thousands)	147,509	148	147,509	148
Common shares:				
Balance at January 1 and December 31 (shares in thousands)	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:				
Balance at January 1	58,960	(3,275)	66,985	(3,721)
Acquisitions	2,365	(353)	1,809	(908)
Disposals	(5,450)	511	(9,834)	1,354
Balance at December 31 (shares in thousands)	55,875	(3,117)	58,960	(3,275)
Additional paid-in capital				
Balance at January 1		96,617		95,735
Treasury share transactions		308		882
Balance at December 31		96,925		96,617
Accumulated other comprehensive income				
Balance at January 1		1,933		1,907
Actuarial loss on employee benefit plans		(16)		(545)
Foreign currency translation adjustments		246		574
Unrealized holding losses on available-for-sale securities, net of tax		(168)		(3)
Balance at December 31		1,995		1,933
Retained earnings				
Balance at January 1		241,005		209,275
Net income		61,428		46,673
Dividends		(11,404)		(14,943)
Balance at December 31		291,029		241,005
Non-controlling interest				
Balance at January 1		11,939		7,984
Net income		2,545		3,975
Dividends		(313)		(329)
Change in Group structure		81		309
Balance at December 31		14,252		11,939
Total shareholders' equity at December 31		**403,411**		**350,546**

Note 1: Organization

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products as well as production and marketing of petrochemicals (see Note 16).

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

As of December 31, 2011 and 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 (see Note 15). The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through OAO Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company's suppliers and contractors.

Note 2: Basis of Presentation

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements have been prepared from these accounting records and adjusted as necessary to comply with accounting principles generally accepted in the United States of America ("US GAAP"). The principal differences between RAR and US GAAP relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) capital leases; (6) share base payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for asset retirement obligation; (10) pensions and other post retirement benefits; (11) business combinations and goodwill; and (12) consolidation and accounting for subsidiaries, equity investees and variable interest entities ("VIEs").

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

Note 2: Basis of Presentation (continued)

Foreign currency transactions and translation. Management has determined the functional currency of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Rouble because the majority of its revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Roubles. Accordingly, transactions and balances not already measured in Russian Roubles (primarily US Dollars) have been re-measured into Russian Roubles in accordance with the relevant provisions of ASC 830 Foreign Currency matters.

Under ASC 830, revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in Russian Roubles are credited or charged to operations.

For operations of subsidiaries located outside of the Russian Federation, that primarily use US Dollars as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Roubles are recorded in a separate component of shareholders' equity entitled accumulated other comprehensive income or loss. Gains or losses resulting from transactions in other than the functional currency are reflected in net income.

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US $") at December 31, 2011 and 2010 was RR 32.20 and RR 30.48 to US Dollar, respectively. Average rate of exchange for the years ended December 31, 2011 and 2010 were RR 29.39 and RR 30.37 per US Dollar, respectively.

Principles of consolidation and long-term investments. The accompanying consolidated financial statements include the operations of all majority-owned, controlled subsidiaries and VIEs, where the Group is the primary beneficiary. Joint ventures and affiliates in which the Group has significant influence but not control are accounted for using the equity method. Intercompany transactions and accounts are eliminated on consolidation. Other long-term investments are carried at cost and adjusted for estimated impairment. The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that an other-than-temporary decline in value has occurred. The amount of the impairment is based on quoted market prices, where available, or other valuation techniques, including discounted cash flows. Equity investments and investments in other companies are included in "Long-term investments" in the consolidated balance sheet.

Note 3: Summary of Significant Accounting Policies

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

At December 31, 2011 and 2010, cash and cash equivalents of the Group, include US Dollar denominated amounts of RR 2,307 million (US $72 million) and RR 1,841 million (US $60 million), respectively.

Restricted cash. Restricted cash represents cash deposited under letter of credit arrangements, which are restricted under various contractual agreements. Letters of credit are used to pay contractors for materials, equipment and services provided.

Inventories. Inventories of crude oil, refined oil products, materials and supplies, and finished goods are valued at the lower of cost or net realizable value. The Group uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

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

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

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

Note 3: Summary of Significant Accounting Policies (continued)

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

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

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

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

Oil and gas exploration and development cost. Oil and gas exploration and production activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry holes, and related production facilities are capitalized. Exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized pending determination of whether proved reserves have been found. If proved reserves are not found exploratory well costs are expensed. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if sufficient reserves are discovered to justify its completion as a production well, and additional exploration drilling is underway or firmly planned.

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

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for service stations. Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale pursuant to ASC 360, are accounted for at the lower of amortized cost or fair value, less cost to sell. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

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

Note 3: Summary of Significant Accounting Policies (continued)

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

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

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

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

Asset retirement obligations. The Group recognizes a liability for the fair value of legally required asset retirement obligations associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group's field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group's licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group's estimates of future abandonment costs consider present regulatory or license requirements and are based upon management's experience of the costs and requirement for such activities. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal. The Group is not subject to any legal or contractual obligations, to retire or otherwise abandon petrochemical, refining and marketing and distribution assets. As the regulatory and legal environment in Russia continues to evolve, there could be future changes to the requirements and costs associated with abandoning long-lived assets.

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

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

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

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

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

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

Note 3: Summary of Significant Accounting Policies (continued)

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

Pension and post-employment benefits. The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the "Statement of Organization of Non-Governmental Pension Benefits for OAO Tatneft Employees" and the contracts concluded between the Company or its subsidiaries, management, and the non-profit organization "National Non-Governmental Pension Fund". In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years until official retirement age (age 60 for men and 55 for women), and in the case of management are based upon years of service. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement. There are no contribution requirements for these benefits, which are paid by the Group directly to employees. The Group's mandatory contributions to the governmental pension scheme are expensed when incurred.

Revenue recognition. Revenues from the production and sale of crude oil, petroleum and petrochemical products and all other products are recognized when deliveries of products to final customers are made, title passes to the customer, collection is reasonably assured and sales price to final customers is fixed or determinable. Revenues include excise on petroleum products sales and duties on export sale of crude oil and petroleum products of RR 198,430 million and RR 143,268 million at December 31, 2011 and 2010, respectively. All revenues are shown net of Value Added Tax (VAT).

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

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

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

Stock-based compensation. The Company has a share-based compensation plan (the "Plan") for senior management and directors of the Company. Under the provisions of the Plan, share-based bonus awards ("Awards") are issued on an annual basis to the Company's directors and senior management as approved by the Board of Directors. Each Award provides a cash payment at the settlement date equal to one of the Company's common shares multiplied by the difference between the lowest share price for the preceding three years as of the grant date and the highest share price for the preceding three years as of each year-end. Share prices are measured based on the weighted average daily trading price as reported on the Moscow Interbank Currency Exchange (MICEX). Awards are subject to individual annual performance conditions and are generally settled within 90 days after the Company's Management Committee approval.

The Company accounts for its Awards under the liability method prescribed in ASC 718. The fair value of the Awards is determined using the Black-Scholes valuation model at the grant date and subsequently remeasured each interim reporting period. The liability at December 31, 2011 and 2010 is determined based on the final expected bonus payments. The Awards are recognized as expense over the annual service period, net of forfeitures, with a corresponding liability to other accounts payable and accrued liabilities.

For the year ended December 31, 2011, the Company issued 6,513,000 Awards to senior management and directors, all of which are expected to be settled at a price of RR 166.95 per Award. Final settlement is subject to approval at the Company's Management Committee meeting in July-September 2012. For the year ended December 31, 2010, the Company issued 6,740,000 Awards to senior management and directors, 6,683,000 of which were settled at a price of RR 161.17 per Award. The amount of related compensation expense recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2011 and 2010 was RR 1,065 million and RR 1,061 million, respectively.

Note 3: Summary of Significant Accounting Policies (continued)

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

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

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

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

Treasury shares. Common shares of the Company owned by the Group at the balance sheet date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

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

New accounting standards adopted. 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 were effective for the Group on 1 January 2010 with the exception of disclosure of activity in Level 3 fair value measurements which will become effective on 1 January 2011.

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 July 2010, ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, was issued. This ASU requires the provision of information for both the financing receivables and the related allowance for credit losses at disaggregated levels. This ASU introduces two new defined terms that will govern the level of disaggregation – a portfolio segment and a class of financing receivables. The portfolio segment is defined as the level at which an entity determines its allowance for credit losses. The class of financing receivable is defined as a group of financing receivables determined on the basis of their initial measurement attribute. The new disclosures requirements in respect of information as of the end of a reporting period will become effective for the Group starting with the annual reporting period ending on 31 December 2010. The disclosures about activity that occurs during a reporting period became effective on 1 January 2011.

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 became 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 Roubles)

Note 3: Summary of Significant Accounting Policies (continued)

In June 2011, ASU No. 2011-05, Comprehensive Income (Topic 220) was issued and became 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.

In December 2011 the Financial Accounting Standards Board ("FASB") issued ASU 2011-12 — Comprehensive Income (Topic 220). The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update No.2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. Taking into account that Update 2011-05 had no material impact on the Group's results of operations, financial position or liquidity the Update 2011-12 also will not have impact on the Group's results of operations, financial position or liquidity.

Note 4: Accounts Receivable

Accounts receivable are as follows:

	At December 31, 2011			At December 31, 2010		
	Total accounts receivable	**Accounts receivable from related parties (Note 17)**	**Accounts receivable**	**Total accounts receivable**	**Accounts receivable from related parties (Note 17)**	**Accounts receivable**
Trade - domestic	21,461	1,245	20,216	18,407	1,638	16,769
Trade - export	36,486	-	36,486	28,971	-	28,971
Other receivables	4,141	748	3,393	7,553	342	7,211
Total accounts receivable, net	**62,088**	**1,993**	**60,095**	**54,931**	**1,980**	**52,951**

Accounts receivables are presented net of an allowance for doubtful accounts of RR 11,021 million and RR 10,465 million at December 31, 2011 and 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 December 31, 2011 and 2010, relating to the sale of crude oil to Ukraine (Kremenchug refinery) (Note 19).

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

Note 5: Short and Long-Term Investments

Short-term investments are classified as follows:

	At December 31, 2011	**At December 31, 2010**
Certificates of deposit	10,570	9,923
Trading securities	8,200	8,055
Total short-term investments	**18,770**	**17,978**
Less: due from related parties (Note 17)	(9,379)	(8,782)
Short-term investments, net	**9,391**	**9,196**

(in millions of Russian Roubles)

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

Trading securities are held in the Group with the objective of earning profits on short-term price differences. Short-term investments classified as trading securities are as follows:

	At December 31, 2011	At December 31, 2010
Russian government debt securities	1,436	1,217
Corporate debt securities	2,927	2,391
Equity securities	3,837	4,447
Total trading securities	**8,200**	**8,055**
Less: corporate debt securities due from related parties (Note 17)	(200)	(129)
Trading securities, net	**8,000**	**7,926**

Long-term investments are as follows:

	Ownership percentage at December 31,		Net book value at December 31,		Group's share of income/(loss) for the years ended December 31,	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Investments in equity affiliates and joint ventures:						
ZAO Tatex	50	50	1,808	2,105	133	219
IPCG Fund	-	-	-	-	-	(362)
Bank Zenit	25	25	5,695	5,200	619	899
Osmand Holdings Ltd	30	30	1,106	2,663	(1,187)	69
MARS Emerging Markets Fund Limited	-	33	-	580	-	-
Other	20-50	20-50	618	816	(242)	(39)
Total investments in equity affiliates and joint ventures (loss)/income			**9,227**	**11,364**	**(677)**	**786**
Long-term investments, at cost:						
ZAO Ukrtatnafta (Note 19)	9	9	-	-		
Other	0-20	0-20	1,010	954		
Total long-term investments, at cost			**1,010**	**954**		
Long-term certificates of deposit			11,279	7,418		
Less: due from related parties (Note 17)			(7,974)	(3,913)		
Total long-term investments			**13,542**	**15,823**		

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

During the years ended December 31, 2011 and 2010 the Group received dividends from equity investees of RR 440 million and RR 394 million, respectively.

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

	2011	**2010**
Sales / interest income	26,916	25,393
Net income	6,551	4,465
Current assets	220,400	177,847
Long-term assets	43,913	47,137
Current liabilities	169,219	135,525
Long-term liabilities	58,773	46,564

(in millions of Russian Roubles)

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

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.

As a result of a Group reorganization, treasury shares decreased by 3.1 million shares with a corresponding increase to additional paid in capital of RR 303 million.

Note 6: Inventories

Inventories are as follows:

	At December 31, 2011	At December 31, 2010
Materials and supplies	9,835	6,448
Crude oil	6,284	4,564
Refined oil products	5,373	1,801
Petrochemical supplies and finished goods	3,751	2,327
Total inventories	**25,243**	**15,140**

Note 7: Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are as follows:

	At December 31, 2011	At December 31, 2010
VAT recoverable	5,705	7,271
Advances	6,019	7,784
Prepaid export duties	12,393	8,122
Prepaid income tax	368	694
Prepaid transportation expenses	518	1,035
Other	2,081	2,527
Prepaid expenses and other current assets	**27,084**	**27,433**

Note 8: Loans and notes receivable

Loans and notes receivable are as follows:

	At December 31, 2011	At December 31, 2010
Notes receivable	4,334	4,108
Loans to employees	1,041	630
Other foreign currency denominated loans receivable	966	1,966
Other Russian Rouble denominated loans receivable	4,422	7,707
Total loans and notes receivable	**10,763**	**14,411**
Less: current portion of loans receivable and short-term loans	(1,839)	(2,275)
Less: due from related parties (Note 17)	(5,756)	(9,792)
Total long-term loans and notes receivable	**3,168**	**2,344**

Loans and notes receivable, excluding amounts due from related parties, reported as of December 31, 2011 in the amounts of RR 1,139 million, RR 463 million and RR 1,566 million mature in 2013, 2014 and thereafter (2015 – 2024), respectively.

(in millions of Russian Roubles)

Note 8: Loans and notes receivable (continued)

Loans and notes receivable, excluding amounts due from related parties, reported as of December 31, 2010 in the amounts of RR 418 million, RR 1,026 million and RR 900 million mature in 2012, 2013 and thereafter (2014 – 2024), respectively.

The fair value of loans and notes receivable is approximately RR 9,736 million and RR 13,525 million as of December 31, 2011 and 2010 assuming a discount rate of 8.0% and 7.75% as of December 31, 2011 and 2010, respectively (CBR interbank refinancing rate).

Loans and notes receivable are presented net of an allowance for doubtful accounts of RR 466 million and RR 801 million at December 31, 2011 and 2010, respectively.

Note 9: Other long-term assets

Other long-term assets are as follows:

	At December 31, 2011	At December 31, 2010
Deferred financing cost	2,855	3,059
Long-term accounts receivable	1,986	2,272
Prepaid license agreements	286	375
Non-current deferred tax assets (Note 14)	3,430	2,980
Prepaid computer programs	2,710	2,655
Other long-term assets	2,089	1,456
Total other long-term assets	**13,356**	**12,797**
Less: due from related parties (Note 17)	(453)	(33)
Total other long-term assets, net	**12,903**	**12,764**

Long-term accounts receivables are presented net of an allowance for doubtful accounts of RR 138 million and RR 363 million at December 31, 2011 and 2010, respectively.

Note 10: Property, Plant and Equipment

Property, plant and equipment are as follows:

	Cost	Accumulated depreciation, depletion and amortization	Net book value
Oil and gas properties	318,707	134,964	183,743
Buildings and constructions	141,424	16,554	124,870
Machinery and equipment	86,471	46,300	40,171
Assets under construction	81,997	-	81,997
December 31, 2011	**628,599**	**197,818**	**430,781**
Oil and gas properties	307,989	130,734	177,255
Buildings and constructions	40,002	14,776	25,226
Machinery and equipment	65,855	49,854	16,001
Assets under construction	175,294	-	175,294
December 31, 2010	**589,140**	**195,364**	**393,776**

As of December 31, 2011 and 2010, oil and gas properties include RR 4,737 million and RR 4,715 million, respectively, of unproved properties.

As stated in Note 3, the Group calculates depreciation, depletion and amortization for oil and gas properties using the units-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the units-of-production method assume the extension of the Group's production license beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

(in millions of Russian Roubles)

Note 10: Property, Plant and Equipment (continued)

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group's existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2012 and 2043. The economic lives of many of the Group's licensed fields extend beyond these dates. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a license to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production in the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has the right to extend the license term so long as it has not violated the conditions of the license. In August 2006, the term of the Group's license to produce oil and gas from the Group's largest field, Romashkinskoye, was extended through 2038. And the license to produce oil and gas from the Group's second largest field, Novo-Elkhovskoe, was extended through 2026. The Group's right to extend licenses is, however, dependent on the Group continuing to comply with the terms of the licenses, and management has the ability and intent to do so.

Management plans to request the extension of the licenses that have not yet been extended. The Group's current production plans are based on the assumption, which management considers to be reasonably certain, that the Group will be able to extend all existing licenses.

These plans have been designed on the basis that the Group will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Group's reserves to maximum effect only through the license expiration dates.

Management is reasonably certain that the Group will be allowed to produce oil from the Group's reserves after the expiration of existing production licenses and until the end of the economic lives of the fields. "Reasonable certainty" is the applicable standard for defining proved reserves under the SEC's Regulation S-X, Rule 4-10.

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

Balance as of 31 December 2011	**10,630**
Additions	1,513
Reclassification to production wells	(433)
Balance as of 31 December 2010	**9,550**
Additions	2,772
Reclassification to production wells	(438)
Balance as of 31 December 2009	**7,216**

Exploration activity often involves drilling multiple wells over a number of years to fully evaluate a project and therefore a decision on the recognition of proved reserves in some cases may not occur for several years. These costs remain capitalized until a final assessment of the economic and operating viability of the reserves is made.

Asset Retirement Obligations.

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

Asset Retirement Obligations

	At December 31, 2011	**At December 31, 2010**
Balance, beginning of period	**43,142**	**39,049**
Accretion of discount	4,314	3,905
New obligations	257	220
Spending on existing obligations	(32)	(32)
Balance, end of period	**47,681**	**43,142**
Less: current portion of asset retirement obligations (Note 12)	(147)	(134)
Long-term balance, end of period	**47,534**	**43,008**

(in millions of Russian Roubles)

Note 10: Property, Plant and Equipment (continued)

Capital leases. The Group leases machinery and equipment.

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

	At December 31, 2011	At December 31, 2010
Machinery and equipment	-	7,113
Less: accumulated amortization	-	(6,459)
Net book value of machinery and equipment under capital leases	**-**	**654**

Social assets. During the years ended December 31, 2011 and 2010 the Group transferred social assets with a net book value of RR 183 million and RR 675 million, respectively, to local authorities. At December 31, 2011 and 2010, the Group held social assets with a net book value of RR 2,980 million and RR 2,932 million, respectively, all of which were constructed after the privatization date.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 3,378 million and RR 2,933 million for the years ended December 31, 2011 and 2010, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

Note 11: Debt

Short-term and long-term debt as follows:

	At December 31, 2011	At December 31, 2010
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	38,442	30,213
Other foreign currency denominated debt	1,073	970
Rouble denominated debt		
Current portion of long-term debt	64	60
Other rouble denominated debt	3,029	5,061
Less: due to related parties (Note 17)	(1,886)	(1,971)
Total short-term debt	**40,722**	**34,333**
Long-term debt		
Foreign currency denominated debt		
US $75 mln 2011 credit facility	2,415	-
US $550 mln 2011 credit facility	17,708	-
US $2.0 bln 2010 credit facility	51,963	60,954
US $1.5 bln 2009 credit facility	20,809	37,043
Other foreign currency denominated debt	1,726	1,814
Rouble denominated debt		
Bonds	5,000	5,000
Other rouble denominated debt	1,123	1,068
Less: due to related parties (Note 17)	(462)	(585)
Total long-term debt	100,282	105,294
Less: current portion	(38,506)	(30,273)
Total long-term debt, net of current portion	**61,776**	**75,021**

Note 11: Debt (continued)

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 December 31, 2011 and 2010 was RR 553 million (US $17 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). The Group repaid in full the credit agreements in the first quarter 2011.

Short-term Russian rouble denominated debt. Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 3,029 million and RR 5,061 million bear contractual interest rates of 7.0% to 10.0% and 8.0% to 10.0% per annum for the years ended December 31, 2011 and 2010, respectively.

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.

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 December 31, 2011 and 2010 was RR 20,809 million (US $646 million) and RR 37,043 million (US $1,215 million), respectively, including the current portion. As of December 31, 2010 this credit facility is collateralized with the contractual rights and receivables under an oil export contract between Tatneft and Tavit B.V. under which Tatneft supplies no less than 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 June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured credit 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. Unicredit Bank AG was the lender of record in this credit facility. The amount outstanding under this loan as of December 31, 2011 and 2010 was RR 51,963 million (US $1,614 million) and RR 60,954 million (US $2,000 million), including the current portion. The loan is collateralized with the contractual rights and receivables under an oil 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.

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 December 31, 2011 was RR 17,708 million (US $550 million).

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 December 31, 2011 was RR 2,415 million (US $75 million), including the current portion.

(in millions of Russian Roubles)

Note 11: Debt (continued)

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.

Management believes that for the year ended December 31, 2011 the Group was in compliance with all covenants required by the above loan agreements.

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

Aggregate maturities of long-term debt outstanding at December 31, 2011 are as follows:

2012	38,506
2013	22,784
2014	29,089
2015	5,031
2016	1,059
2017	529
Thereafter	3,284
Total long-term debt	**100,282**

Interest paid during the years ended December 31, 2011 and 2010 was 3,721 million and RR 4,291 million, respectively.

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

Note 12: Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities are as follows:

	At December 31, 2011	**At December 31, 2010**
Salaries and wages payable	3,915	3,194
Advances received from customers	3,170	3,735
Insurance provision	2,026	1,944
Dividends payable	96	119
Current portion of asset retirement obligations (Note 10)	147	134
Current deferred tax liability (Note 14)	3,570	1,591
Other accrued liabilities	7,954	5,211
Less: due to related parties (Note 17)	(557)	(67)
Total other accounts payable and accrued liabilities	**20,321**	**15,861**

Note 13: Pensions and Post Employment Benefits

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

(in millions of Russian Roubles)

Note 13: Pensions and Post Employment Benefits (continued)

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

In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, including a lump sum payment upon retirement, jubilee and holiday payments during retirement and funeral benefits. Benefits are generally based on salary grade and years of service at the time of retirement. There are no contribution requirements for these benefits, which are paid by the Group directly to retirees.

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

The following table provides information about the benefit obligations, plan assets and actuarial assumptions used as of December 31, 2011 and 2010. The benefit obligations below represent the projected benefit obligations of the Group's benefit plans.

	At December 31, 2011	At December 31, 2010
Benefit Obligations		
Benefit obligations as of January 1	4,065	2,898
Effect of exchange rate changes	6	1
Service cost	126	97
Interest cost	325	275
Benefit paid	(360)	(370)
Actuarial (loss)/gain	(103)	699
Other	(5)	465
Benefit obligations as of December 31	**4,054**	**4,065**
Plan Assets		
Fair value of plan assets as of January 1	1,451	1,134
Actual return on plan assets	131	102
Contributions	202	211
Benefit paid	(133)	(144)
Actuarial (loss)/gain	(119)	154
Other	(1)	(6)
Fair value of plan assets as of December 31	**1,531**	**1,451**
Under funded status at end of year	**2,523**	**2,614**

Amounts recognized in the consolidated balance sheet	**Year ended December 31, 2011**	**Year ended December 31, 2010**
Accrued benefit liabilities included in "other accounts payable and accrued liabilities"	(189)	(216)
Accrued benefit liabilities included in "other long-term liabilities"	(2,334)	(2,398)
Net amount recognized	**(2,523)**	**(2,614)**

Assumptions:	**Year ended December 31, 2011**	**Year ended December 31, 2010**
Discount rate	8.0%	8.0%
Expected return on plan assets	9.0%	9.0%
Rate of increase in salary levels	7.0%	7.0%

(in millions of Russian Roubles)

Note 13: Pensions and Post Employment Benefits (continued)

Components of net periodic benefit costs were as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
Service cost	126	97
Interest cost	325	275
Less expected return on plan assets	(131)	(102)
Effect of exchange rates	-	1
Disposals	-	6
Other	(5)	465
Total net periodic benefit costs	**315**	**742**

The annual contributions made by the Group are managed by the Fund. The primary investment objectives of the Fund are to achieve the highest rate of total return within prudent levels of risk and liquidity, to diversify and mitigate potential downside risk associated with the investments, and to provide adequate liquidity for benefit payments and portfolio management.

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

Type of assets	At December 31, 2011	At December 31, 2010
Russian corporate bonds	649	599
Equity securities of Russian issuers	200	272
Russian government and regions bonds	452	441
Bank deposits	122	98
Other	108	41
Total	**1,531**	**1,451**

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

	2012	2013	2014	2015	2016	2017-2021
Pension benefits	281	228	215	221	218	1,046
Other long-term employee benefits	189	154	152	153	155	835
Total expected benefits to be paid	**470**	**382**	**367**	**374**	**373**	**1,881**

(in millions of Russian Roubles)

Note 14: Taxes

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following December 31, 2011 and 2010:

	At December 31, 2011	At December 31, 2010
Accounts receivable	59	112
Obligations under capital leases	-	7
Tax loss carry forward	3,922	3,466
Other	554	701
Deferred tax assets	**4,535**	**4,286**
Property, plant and equipment	(14,847)	(14,118)
Inventories	(1,630)	(1,070)
Long-term investments	(215)	(128)
Undistributed Earnings	(819)	(697)
Other liabilities	(1,999)	(772)
Deferred tax liabilities	**(19,510)**	**(16,785)**
Net deferred tax liability	**(14,975)**	**(12,499)**

Tax loss carry forward expires mainly between 2017 and 2021.

At December 31, 2011 and 2010, deferred taxes were classified in the consolidated balance sheet as follows:

	At December 31, 2011	At December 31, 2010
Non-current deferred tax assets (Note 9)	3,430	2,980
Current deferred tax liability (Note 12)	(3,570)	(1,591)
Non-current deferred tax liability	(14,835)	(13,888)
Net deferred tax liability	**(14,975)**	**(12,499)**

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

	Year ended December 31, 2011	Year ended December 31, 2010
Income before income taxes and non-controlling interest	85,909	64,470
Theoretical income tax expense at statutory rate	17,182	12,894
Increase due to:		
Non-deductible expenses, net	4,754	928
Income tax expenses	**21,936**	**13,822**

No provision has been made for additional income taxes of RR 4,736 million on undistributed earnings of a foreign subsidiary. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 426 million if they were remitted as dividends.

Income taxes paid during the years ended December 31, 2011 and 2010 was RR 19,308 million and RR 14,640 million, respectively.

(in millions of Russian Roubles)

Note 14: Taxes (continued)

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

	Year ended December 31, 2011	Year ended December 31, 2010
Export duties	197,817	142,877
Unified production tax	96,719	68,954
Property tax	2,085	2,018
Excise taxes	613	391
Penalties and interest	334	(108)
Other	1,504	1,933
Total taxes other than income taxes	**299,072**	**216,065**

Effective January 1, 2007, the base tax rate formula for unified production tax was modified to provide a benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. Under the new rules, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As the Company's largest field, Romashkinskoe, along with certain other fields are more than 80% depleted, the Company received a benefit of approximately RR 16.7 billion and RR 10.4 billion for the years ended December 31, 2011 and 2010, respectively.

At December 31, 2011 and 2010, taxes payable were as follows:

	At December 31, 2011	At December 31, 2010
Unified production tax	8,843	6,991
Value Added Tax on goods sold	1,576	1,430
Other	3,704	2,162
Total taxes payable	**14,123**	**10,583**

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

Authorized share capital. At December 31, 2011 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share.

Golden share. OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, as of December 31, 2011 holds approximately 33.59% of the Company's capital stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share" – a special governmental right – in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and Revision Committee of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company's suppliers and contractors, such as the electricity producer OAO Tatenergo and the petrochemicals company OAO Nizhnekamskneftekhim (see also Note 1).

(in millions of Russian Roubles)

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

Rights attributable to preferred shares. Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share. Preferred shareholders may vote at meetings only on the following decisions:

- the amendment of the dividends payable per preferred share;
- the issuance of additional shares with rights greater than the current rights of preferred shareholders; and
- the liquidation or reorganization of the Company.

The decisions listed above can be made only if approved by 75% of preferred shareholders.

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that dividends are either not declared, or declared but not paid, on preferred shares. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies Law and the Company's charter in case of liquidation, preferred shareholders have priority over shareholders holding common shares to be paid declared but unpaid dividends on preferred shares and the liquidation value of preferred shares, if any.

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from US GAAP (see Note 2). The statutory accounts are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended December 31, 2011 and 2010, the Company had a statutory current profit of RR 54,881 million and RR 37,777 million, respectively.

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

	Year ended December 31, 2011	**Year ended December 31, 2010**
Net income attributable to Group shareholders	61,428	46,673
Common share dividends	(10,664)	(13,975)
Preferred share dividends	(740)	(968)
Income available to common and preferred shareholders, net of dividends	**50,024**	**31,730**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,121	2,116
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,269	2,264
Basic and diluted net income per share (RR)		
Common	27.07	20.62
Preferred	27.05	20.56

Non-controlling interest. Non-controlling interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 313 million and RR 329 million at December 31, 2011 and 2010, respectively.

Note 16: Segment Information

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

Exploration and production segment activities consist of exploration, development, extraction and sale of own crude oil. Intersegment sales consist of other goods and services provided to other operating segments.

Refining and marketing comprises purchases and sales of crude oil and refined products from third parties, own refining activities and retailing operations.

Sales of petrochemical products include sales of tires and petrochemical raw materials and refined products, which are used in production of tires.

Other sales include revenues from ancillary services provided by the specialized subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies 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, expense, earnings from equity investments, other income and monetary effects. Segment accounting policies are the same as those disclosed in Note 3. Intersegment sales are at prices that approximate market.

For the year ended December 31, 2011, the Group had four customers which accounted for RR 396,505 million in crude oil sales, comprising 50%, 15%, 12% and 7% respectively of the crude oil sales by the Group during the year.

For the year ended December 31, 2010, the Group had four customers which accounted for RR 292,605 million in crude oil sales, comprising 40%, 14%, 13% and 11% respectively of the crude oil sales by the Group during the year.

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

(in millions of Russian Roubles)

Note 16: Segment Information (continued)

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

	Year ended December 31, 2011	Year ended December 31, 2010
Exploration and production		
Domestic own crude oil	70,299	54,158
CIS own crude oil	3,893	7,096
Non – CIS own crude oil	356,514	273,105
Other	3,295	3,255
Intersegment sales	25,218	12,884
Total exploration and production	**459,219**	**350,498**
Refining and marketing		
Domestic sales		
Crude oil purchased for resale	2,697	10,933
Refined products	52,890	40,758
Total Domestic sales	55,587	51,691
CIS sales		
Crude oil purchased for resale	20,016	14,438
Refined products	6,719	2,003
Total CIS sales(1)	26,735	16,441
Non – CIS sales		
Crude oil purchased for resale	20,984	15,400
Refined products	27,994	6,092
Total Non – CIS sales(2)	48,978	21,492
Other	2,352	2,770
Intersegment sales	2,704	1,937
Total refining and marketing	**136,356**	**94,331**
Petrochemicals		
Tires - domestic sales	23,556	18,114
Tires - CIS sales	6,519	4,084
Tires - non-CIS sales	1,316	805
Petrochemical products and other	2,547	2,686
Intersegment sales	954	995
Total petrochemicals	**34,892**	**26,684**
Total segment sales	**630,467**	**471,513**
Corporate and other sales	14,276	12,335
Elimination of intersegment sales	(28,876)	(15,816)
Total sales and other operating revenues	**615,867**	**468,032**

(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 Roubles)

Note 16: Segment Information (continued)

Segment earnings.

	Year ended December 31, 2011	Year ended December 31, 2010
Segment earnings		
Exploration and production	88,572	62,066
Refining and marketing	8,284	7,160
Petrochemicals	281	(422)
Total segment earnings	**97,137**	**68,804**
Corporate and other	(6,493)	(4,707)
Other (expenses)/income	(4,735)	373
Income before income taxes and non-controlling interest	**85,909**	**64,470**

Segment assets.

	At December 31, 2011	At December 31, 2010
Assets		
Exploration and production	297,752	281,976
Refining and marketing	216,432	183,251
Petrochemicals	27,215	24,525
Corporate and other	86,424	77,427
Total assets	**627,823**	**567,179**

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

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

	Year ended December 31, 2011	Year ended December 31, 2010
Depreciation, depletion and amortization		
Exploration and production	6,088	8,026
Refining and marketing	1,181	1,136
Petrochemicals	1,818	1,090
Corporate and other	2,742	2,231
Total segment depreciation, depletion and amortization	**11,829**	**12,483**
Additions to property, plant and equipment		
Exploration and production	20,503	18,708
Refining and marketing	29,076	56,218
Petrochemicals	445	1,563
Corporate and other	2,911	1,632
Total additions to property, plant and equipment	**52,935**	**78,121**

During the year ended December 31, 2011 and 2010 the Company recorded RR 3,182 million and RR 3,990 million of capitalized interest as property, plant and equipment additions, respectively.

(in millions of Russian Roubles)

Note 17: Related Party Transactions

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

As of December 31, 2011 and 2010, the Group had RR 4,707 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 2012 and 2013, bearing interest between 3.2% and 7.5%. As of December 31, 2011 and 2010, the Group has short and long-term certificates of deposit of RR 16,843 million and RR 12,375 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

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

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

	Year ended December 31, 2011	Year ended December 31, 2010
Sales of refined products	38	36
Other sales	2,732	1,367
Purchases of crude oil	(9,739)	(6,045)
Purchases of refined products	(5)	(3)
Purchases of electricity	-	(107)
Other services	(6,413)	(2,087)
Other purchases	(923)	(217)

For the year ended December 31, 2011 the Group has entered into transactions with a related party for purchases of construction services in the amount of 5,364 million which is included in our property, plant and equipment balance as of December 31, 2011.

For the year ended December 31, 2010 the Group has entered into transactions with a related party for purchases of construction services in the amount of RR 1,397 million which is included in our property, plant and equipment balance as of December 31, 2010.

For the years ended December 31, 2011 and 2010, the Group sold crude oil on a commission basis from related parties for RR 17,117 million and RR 9,696 million, respectively.

	At December 31, 2011	At December 31, 2010
Assets		
Accounts receivable (Note 4)	1,993	1,980
Notes receivable (Note 8)	2,010	3,122
Short-term certificates of deposit (Note 5)	9,179	8,653
Trading securities (Note 5)	200	129
Loans receivable (Note 8)	344	701
Due from related parties short-term	**13,726**	**14,585**
Long-term certificates of deposit (Note 5)	7,974	3,913
Long-term loans receivable (Note 8)	3,402	5,969
Long-term accounts receivable (Note 9)	453	33
Due from related parties long-term	**11,829**	**9,915**
Liabilities		
Other accounts payable (Note 12)	(557)	(67)
Short-term debt (Note 11)	(1,886)	(1,971)
Trade accounts payable	(3,711)	(3,097)
Due to related parties short-term	**(6,154)**	**(5,135)**
Long-term debt (Note 11)	(462)	(585)
Due to related parties long-term	**(462)**	**(585)**

Note 18: Financial Instruments and Risk Management

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

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

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Marketable securities: The Group has RR 8,200 million and RR 8,055 million in marketable securities as of December 31, 2011 and 2010, respectively. The Group calculates fair value for its marketable securities based on quoted market prices for identical assets and liabilities (Level 1 valuations).

Credit risk. The Group's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of accounts receivables, cash and cash equivalents, prepaid VAT as well as loans receivable and advances. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. Although collection of these receivables could be influenced by economic factors affecting these entities, management believes there is no significant risk of loss to the Group beyond provisions already recorded.

The Group deposits available cash mostly with financial institutions in the Russian Federation. To manage this credit risk, the Group allocates its available cash to a variety of Russian banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash.

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

Note 19: Commitments and Contingent Liabilities

Guarantees. The Group has no outstanding guarantees at December 31, 2011 and 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 December 31, 2011 and 2010 the Group has outstanding capital commitments of approximately RR 14,966 million and RR 23,086 million, respectively, for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2012 and 2013.

Management believes the Group's current and long-term capital expenditures program can be funded through cash generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 11). Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project, refinance any maturing debts as well as finance business acquisitions and other transactions that may arise in the future.

Taxation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Tax authorities are currently reviewing the operations of the Company and its subsidiaries for the years ended December 31, 2009 and 2010. While the results of that review have not been finalized, management expects the ultimate outcome will not have a material effect on the Group's results of operations or cash flows.

New transfer pricing rules were introduced in Russia – applicable from 2012. Compared to the previous transfer pricing legislation, these new rules appear more technically elaborated and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). Upon the introduction of new Russian transfer pricing rules, the Group will revise its transfer pricing policies and will be required to prepare annual notices to local tax offices and transfer pricing documentation supporting the arm's length nature of prices applied and transfer pricing methods used in transactions that are subject to special oversight from the tax authorities.

The Group is currently assessing the potential impact of the new transfer pricing rules on intragroup transactions.

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.

Note 19: 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.

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

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

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

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 2013.

There are a number of legal proceedings currently in process in the Ukraine, Russian Federation and international courts to recover the Group's assets. As a result of the ongoing legal dispute over shareholding interests, as of December 31, 2011 the Company has fully provided for its investments in Ukrtatnafta.

Libya. As a result of the turmoil in Libya, the Group had to entirely suspend its operations there and evacuate all its personnel. The Group is not certain if and when it is 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 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 20: Subsequent events

We have evaluated the existence of both recognized and unrecognized subsequent events through the date of this report April 16, 2012 and have deemed no adjustments or additional disclosures are necessary.

(in millions of Russian Roubles)

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

The Group does not disclose the effect of adoption of ASU No 2010-3, Oil and Gas Reserves Estimation and Disclosures, on the supplemental information on oil and gas exploration and production activities as of and for the year ended 31 December 2011, as it is not practicable to estimate.

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2011 and 2010.

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

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

Oil Exploration and Production Costs

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

Costs Incurred in Exploration and Development Activities

	Year ended December 31, 2011	Year ended December 31, 2010
Exploration costs	3,536	5,256
Development costs	15,954	15,367
Total costs incurred in exploration and development activities	**19,490**	**20,623**

Property acquisitions for the years ended December 2011 and 2010 are immaterial to the Group's oil activities.

Capitalized Costs of Oil Properties

	At December 31, 2011	At December 31, 2010
Wells, support equipment and facilities	313,970	303,274
Unproved properties	15,366	14,264
Uncompleted wells, equipment and facilities	4,892	2,586
Total capitalized costs of oil properties	**334,228**	**320,124**
Accumulated depreciation, depletion and amortization	(134,964)	(130,734)
Net capitalized costs of oil properties	**199,264**	**189,390**

(in millions of Russian Roubles)

Results of Operations for Oil Producing Activities

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

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

	Year ended December 31, 2011	**Year ended December 31, 2010**
Revenues from net production:		
Sales	430,706	334,359
Transfers[1]	25,218	12,884
Total revenues from net production	**455,924**	**347,243**
Less:		
Production and operating costs[2]	61,125	55,221
Exploration expenses	2,230	2,068
Depreciation, depletion and amortization	6,088	8,026
Taxes other than income taxes	296,229	212,938
Related income taxes	18,050	13,798
Results of operations for oil and gas producing activities	**72,202**	**55,192**

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

The average sales price (including transfers) per ton for 2011 and 2010 are RR 17,562 and RR 13,551 respectively. The average production and operating cost per ton for 2011 and 2010 are RR 2,351 and RR 2,124, respectively.

Proved Oil Reserves

As determined by the Group's independent reservoir engineers, Miller and Lents, Ltd., the following information presents the balances of proved oil reserves at December 31, 2011 and 2010. The definitions used are in accordance with applicable US Securities and Exchange Commission ("SEC") regulations.

Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The Group's existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2012 and 2043. Management believes the licenses may be extended at the initiative of the Group and management expects to extend such licenses for properties expected to produce subsequent to their license expiry date. The Group has disclosed information on proved oil and gas reserve quantities and standardized measure of discounted future net cash flows for periods up to and past license expiry dates separately.

(in millions of Russian Roubles)

Proved Oil Reserves (continued)

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

Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined, which are average, first-day-of-the-month prices during the 12 month period and year-end costs.

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

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

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

Net proved reserves of crude oil at December 31, 2011:

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Net proved developed producing reserves	2,615	367	1,029	145	3,644	512
Net proved developed non-producing reserves	1,599	225	769	108	2,368	333
Net proved developed reserves	**4,214**	**592**	**1,798**	**253**	**6,012**	**845**
Net proved undeveloped reserves	114	16	67	9	181	25
Net proved developed and undeveloped reserves	**4,328**	**608**	**1,865**	**262**	**6,193**	**870**

Net proved reserves of crude oil at December 31, 2010:

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Net proved developed producing reserves	2,573	361	936	132	3,509	493
Net proved developed non-producing reserves	1,544	217	786	110	2,330	327
Net proved developed reserves	**4,117**	**578**	**1,722**	**242**	**5,839**	**820**
Net proved undeveloped reserves	80	11	63	9	143	20
Net proved developed and undeveloped reserves	**4,197**	**589**	**1,785**	**251**	**5,982**	**840**

(in millions of Russian Roubles)

Movements in Proved Oil Reserves

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Balance at December 31, 2009	**3,675**	**517**	**2,466**	**345**	**6,141**	**862**
Revisions	708	98	(681)	(94)	27	4
Production	(186)	(26)	-	-	(186)	(26)
Balance at December 31, 2010	**4,197**	**589**	**1,785**	**251**	**5,982**	**840**
Revisions	318	45	80	11	398	56
Production	(187)	(26)	-	-	(187)	(26)
Balance at December 31, 2011	**4,328**	**608**	**1,865**	**262**	**6,193**	**870**

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

The standardized measure of discounted future net cash flows is calculated in accordance with ASC 932, which requires measurement of future net cash flows by applying average, first-day-of-the-month prices, and year-end costs and an annual discount factor of ten percent to year-end quantities of estimated net proved reserves using a standardized formula. The calculations assumed the continuation of existing political, economic, operating and contractual conditions at each of December 31, 2011 and 2010. However, such arbitrary assumptions have not necessarily proven to be the case in the past and may not in the future. Other assumptions of equal validity would give rise to substantially different results. As a result, future cash flows calculated under this methodology are not necessarily indicative of the Group’s future cash flows nor the fair value of its oil reserves.

The net price used in the forecast of future net revenue is the weighted average year end price received for sales domestically, for exports to Commonwealth of Independent States (“CIS”) countries, and for exports to non-CIS countries, after adjustments, where applicable, for certain costs, duties, and taxes. The weighted average net prices per ton used in the forecasts for 2011 and 2010, are US $313.35 and US $233.06 (US $43.99 and US $32.72 per barrel), respectively. The Company determined the appropriate mix between domestic sales, exports to CIS countries and exports to non-CIS countries using historic percentages which are supported by export quotas granted by the Government or otherwise available to the Company. The Company assumes that the current level of export quotas will remain unchanged through the life of reserves.

	As of December 31, 2011	**As of December 31, 2010**
	Future cash flows attributable to total recoverable net proved reserves	Future cash flows attributable to total recoverable net proved reserves
Future cash inflows from production	9,187,789	6,363,682
Future production costs	(4,963,256)	(3,781,404)
Future development costs	(319,790)	(199,744)
Future income taxes	(767,636)	(464,394)
Future net cash flows	**3,137,107**	**1,918,140**
10% annual discount	(2,200,675)	(1,372,560)
Discounted future net cash flows	**936,432**	**545,580**

(in millions of Russian Roubles)

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

	Year ended December 31, 2011 Future cash flows attributable to total net proved reserves	**Year ended December 31, 2010** Future cash flows attributable to total net proved reserves
Beginning of year	**545,580**	**542,252**
Sales and transfers of oil produced, net of production costs and other operating expenses	(98,809)	(79,084)
Net change in prices received per ton, net of production costs and other operating expenses	438,860	(11,698)
Change in estimated future development costs	(14,645)	(8,691)
Development costs incurred during the period	15,954	15,367
Revisions of quantity estimates	67,883	23,683
Net change in income taxes	(98,017)	(528)
Accretion of discount	55,853	59,556
Other	23,773	4,723
End of year	**936,432**	**545,580**

For the years ended December 31 2011 and 2010 discounted future cash flows for total net proved reserves include RR 64,269 million and RR 37,121 million, respectively, attributable to net proved reserves recoverable past license expiry dates.