CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2010 AND 2009

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

	Notes	At March 31, 2010	At December 31, 2009
Assets			
Cash and cash equivalents		23,645	12,841
Restricted cash		9,302	12,071
Accounts receivable, net	3	44,318	43,807
Due from related parties	9	8,000	16,485
Short-term investments		14,674	10,614
Current portion of loans receivable		3,281	3,185
Inventories	4	13,827	11,684
Prepaid expenses and other current assets		23,183	25,227
Total current assets		**140,230**	**135,914**
Long-term loans and notes receivable, net		2,277	2,320
Due from related parties	9	8,467	8,524
Long-term investments		14,758	14,596
Property, plant and equipment, net		339,379	322,475
Other long-term assets		8,130	11,913
Total assets		**513,241**	**495,742**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	5	70,419	71,228
Trade accounts payable		11,960	13,410
Due to related parties	9	1,253	1,503
Other accounts payable and accrued liabilities		11,354	14,262
Capital lease obligations		137	170
Taxes payable		9,938	10,321
Total current liabilities		**105,061**	**110,894**
Long-term debt, net of current portion	5	24,095	16,588
Other long-term liabilities		2,813	2,423
Asset retirement obligations, net of current portion		39,900	38,927
Deferred tax liability	6	14,226	13,388
Capital lease obligations, net of current portion		11	15
Total liabilities		**186,106**	**182,235**
Shareholders' equity			
Preferred shares (authorized and issued at March 31, 2010 and December 31, 2009 - 147,508,500 shares; nominal value at March 31, 2010 and December 31, 2009 - RR1.00)		148	148
Common shares (authorized and issued at March 31, 2010 and December 31, 2009 - 2,178,690,700 shares; nominal value at March 31, 2010 and December 31, 2009 - RR1.00)		2,179	2,179
Additional paid-in capital		95,735	95,735
Accumulated other comprehensive loss		1,914	1,907
Retained earnings		221,905	209,275
Less: Common shares held in treasury, at cost (66,979,000 shares and 66,985,000 shares at March 31, 2010 and December 31, 2009, respectively)		(3,720)	(3,721)
Total Group shareholders' equity		**318,161**	**305,523**
Non-controlling interest		8,974	7,984
Total shareholders' equity		**327,135**	**313,507**
Total liabilities and shareholders' equity		**513,241**	**495,742**

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

(in millions of Russian Roubles)

	Notes	Three months ended March 31, 2010	Three months ended March 31, 2009
Sales and other operating revenues	8	**105,152**	**73,540**
Costs and other deductions			
Operating		13,010	15,380
Purchased oil and refined products		12,587	7,801
Exploration		275	293
Transportation		3,951	3,302
Selling, general and administrative		6,534	5,349
Depreciation, depletion and amortization		3,681	3,820
Gain on disposals of property, plant and equipment, investments and impairments		(446)	(1,710)
Taxes other than income taxes	6	49,298	25,638
Maintenance of social infrastructure and transfer of social assets		584	342
Total costs and other deductions		**89,474**	**60,215**
Other income (expenses)			
Earnings/(losses) from equity investments		(65)	744
Foreign exchange earnings/(loss)		1,407	(3,206)
Interest income		951	958
Interest expense, net of amounts capitalized		(117)	(136)
Other income, net		599	380
Total other income/(expenses)		**2,775**	**(1,260)**
Income before income taxes and non-controlling interest		**18,453**	**12,065**
Income taxes			
Current income tax expense		(4,559)	(6,320)
Deferred income tax (expense)/benefit		(308)	2,526
Total income tax expense	6	**(4,867)**	**(3,794)**
Net income		**13,586**	**8,271**
Less: net income attributable to non-controlling interest		(956)	(342)
Net income attributable to Group shareholders		**12,630**	**7,929**
Foreign currency translation adjustments		(87)	(240)
Unrealized holding gains on available-for-sale securities, net of tax		94	-
Comprehensive income		**12,637**	**7,689**
Basic and diluted net income per share (RR)	7		
Common		5.59	3.56
Preferred		5.59	3.56
Weighted average shares outstanding (millions of shares)	7		
Common		2,112	2,079
Preferred		148	148

TATNEFT
Consolidated Interim Condensed Statements of Cash Flows (Unaudited)
(in millions of Russian Roubles)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Operating activities		
Net income	13,586	8,271
Adjustments:		
Depreciation, depletion and amortization	3,681	3,820
Deferred income tax (expense)/benefit	308	(2,526)
Gain on disposals of property, plant and equipment, investments and impairments	(446)	(1,710)
Transfer of social assets	31	-
Effects of foreign exchange	(2,584)	6,699
Equity (loss)/earnings net of dividends received	65	(744)
Change of allowance for doubtful accounts	(306)	2,007
Accretion of asset retirement obligation	976	884
Change in fair value of trading securities	(163)	(661)
Other	(33)	(120)
Changes in operational working capital, excluding cash:		
Accounts receivable	778	(658)
Inventories	(1,984)	3,604
Prepaid expenses and other current assets	2,195	5,970
Trading securities	176	1,205
Related parties	(371)	137
Trade accounts payable	(2,178)	(2,151)
Other accounts payable and accrued liabilities	(2,531)	(662)
Taxes payable	(385)	1,633
Notes payable	(12)	(10,679)
Other non-current assets	2,086	(41)
Net cash provided by operating activities	**12,889**	**14,278**
Investing activities		
Additions to property, plant and equipment	(15,381)	(19,140)
Proceeds from disposals of property, plant and equipment	314	1,206
Proceeds from disposal of investments	(23)	161
Purchase of investments	(291)	(916)
Certificates of deposit	4,628	1,686
Loans and notes receivable	(3,129)	(4,033)
Change in restricted cash	2,769	444
Net cash used in investing activities	**(11,113)**	**(20,592)**
Financing activities		
Proceeds from issuance of debt	24,529	14,152
Repayment of debt	(15,323)	(2,817)
Repayment of capital lease obligations	(38)	(102)
Dividends paid to shareholders	(4)	(9)
Dividends paid to non-controlling shareholders	(137)	-
Purchase of treasury shares	(368)	(46)
Proceeds from sale of treasury shares	369	46
Proceeds from issuance of shares by subsidiaries	-	1,557
Net cash provided by financing activities	**9,028**	**12,781**
Net change in cash and cash equivalents	**10,804**	**6,467**
Cash and cash equivalents at beginning of period	12,841	13,418
Cash and cash equivalents at end of period	**23,645**	**19,885**

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

	2010		2009	
	Shares	**Amount**	**Shares**	**Amount**
Preferred shares:				
Balance at January 1 and March 31 (shares in thousands)	147,509	148	147,509	148
Common shares:				
Balance at January 1 and March 31 (shares in thousands)	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:				
Balance at January 1	66,985	(3,721)	100,088	(3,960)
Acquisitions	620	(368)	602	(46)
Disposals	(626)	369	(602)	46
Balance at March 31 (shares in thousands)	66,979	(3,720)	100,088	(3,960)
Additional paid-in capital				
Balance at January 1		95,735		96,171
Treasury share transactions		-		1
Balance at March 31		95,735		96,172
Accumulated other comprehensive income / (loss)				
Balance at January 1		1,907		747
Foreign currency translation adjustments		(87)		(240)
Unrealized holding gains on available-for-sale securities, net of tax		94		-
Balance at March 31		1,914		507
Retained earnings				
Balance at January 1		209,275		164,991
Net income attributable to Group shareholders		12,630		7,929
Balance at March 31		221,905		172,920
Non-controlling interest				
Balance at January 1		7,984		4,583
Net income		956		344
Dividends		(137)		-
Change in Group structure		171		749
Balance at March 31		8,974		5,676
Total shareholders' equity at March 31		**327,135**		**273,642**

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

Note 1: Organization

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products as well as production and marketing of petrochemicals (see Note 8).

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 March 31 2010 and December 31, 2009 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 7). The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through OAO Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company's suppliers and contractors.

Note 2: Basis of Presentation

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements have been prepared from these accounting records and adjusted as necessary to comply with accounting principles generally accepted in the United States of America ("US GAAP").

The unaudited consolidated interim condensed financial statements have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principles Board Opinion 28 ("APB 28") "Interim Financial Reporting" and do not include all disclosures necessary required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2009 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these interim consolidated financial statements are read in conjunction with the Company's 2009 audited consolidated financial statements and the notes related thereto. In the opinion of the Company's management, the unaudited consolidated interim condensed financial statements and notes thereto reflect all known adjustments, all of which are of a normal and recurring nature, necessary to fairly state the Company's financial position, results of operations and cash flows for the interim periods.

The results for the three-month period ended March 31, 2010 are not necessarily indicative of the results expected for the full year.

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

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

Note 2: Basis of Presentation (continued)

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

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 March 31, 2010 and December 31, 2009 was RR 29.36 and RR 30.24 to US Dollar, respectively. Average rate of exchange for the three months ended March 31, 2010 was RR 29.89 per US Dollar.

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.

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.

(in millions of Russian Roubles)

Note 2: Basis of Presentation (continued)

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

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

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

Note 3: Accounts Receivable

Accounts receivable are as follows:

	At March 31, 2010			**At December 31, 2009**		
	Total accounts receivable	**Accounts receivable from related parties (Note 9)**	**Accounts receivable**	**Total accounts receivable**	**Accounts receivable from related parties (Note 9)**	**Accounts receivable**
Trade - domestic	13,746	168	13,578	14,315	209	14,106
Trade - export	21,779	-	21,779	22,130	-	22,130
Other receivables	9,537	576	8,961	7,913	342	7,571
Total accounts receivable, net	**45,062**	**744**	**44,318**	**44,358**	**551**	**43,807**

Accounts receivables are presented net of an allowance for doubtful accounts of RR 9,876 million and RR 10,171 million at March 31, 2010 and December 31, 2009, 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 March 31, 2010 and December 31, 2009 relating to the sale of crude oil to Ukraine (Kremenchug refinery). (See also Note 10).

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

(in millions of Russian Roubles)

Note 4: Inventories

Inventories are as follows:

	At March 31, 2010	At December 31, 2009
Materials and supplies	7,084	5,454
Crude oil	3,166	3,546
Refined oil products	1,519	1,146
Petrochemical supplies and finished goods	2,058	1,538
Total inventories	**13,827**	**11,684**

Note 5: Debt

Short-term and long-term debt as follows:

	At March 31, 2010	At December 31, 2009
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	68,090	63,217
Other foreign currency denominated debt	1,639	7,318
Rouble denominated debt		
Current portion of long-term debt	26	26
Other rouble denominated debt	846	925
Less: due to related parties (Note 9)	(182)	(258)
Total short-term debt	**70,419**	**71,228**
Long-term debt		
Foreign currency denominated debt		
BNP Paribas	58,728	60,488
Other foreign currency denominated debt	32,326	17,876
Rouble denominated debt	1,157	1,467
Total long-term debt	**92,211**	**79,831**
Less: current portion	(68,116)	(63,243)
Total long-term debt, net of current portion	**24,095**	**16,588**

Foreign currency debts are primarily denominated in US Dollars.

Short-term foreign currency denominated debt. In December 2003 the Group entered into a RR 1,034 million (US $35 million) one month revolving credit facility with Credit Suisse Zurich. The monthly revolving loan bears interest at one month LIBOR plus varying margin of about 1.8% per annum and is collateralized by crude oil sales. The amount of loan outstanding as of March 31, 2010 and December 31, 2009 was RR 985 million (US $34 million) and RR 1,037 million (US $34 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, 2009 was RR 756 million (US $25 million). During the three month ended March 31, 2010 the Group repaid the remaining credit in full.

(in millions of Russian Roubles)

Note 5: Debt (continued)

In November 2007, OJSC TANECO ("TANECO") entered into a senior secured credit facility arranged by ABN AMRO (now RBS), BNP Paribas (Suisse) SA, Citibank International PLC, Bayerische Hypo-und Vereinsbank AG, Sumitomo Mitsui Finance Dublin and WestLB AG, for US$ 2.0 billion to be used in the construction of TANECO's refinery and petrochemical complex. BNP Paribas is the lender of record in this credit facility. The amount outstanding under this loan as of March 31, 2010 and December 31, 2009 was RR 58,728 million (US $2,000 million) and RR 60,488 million (US $2,000 million), respectively. The loan bears interest at LIBOR plus 1.65% and matures in July 2010. The loan is fully guaranteed by OAO Tatneft as a major shareholder of TANECO. The Company's guarantee is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than three million metric tones of oil per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios.

In December 2009, the Company entered into a 1-month credit agreement with Bank of Moscow for RR 5,142 million (US $170 million). The loan was repaid in full in January 2010.

Short-term Russian Rouble denominated debt. Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 846 million and RR 925 million bear contractual interest rates of 7.3% to 19.5% per annum as of March 31, 2010 and December 31, 2009, respectively.

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

In October 2009, the Company entered into a dual (3 and 5 year) tranches secured syndicated pre-export facility for up to USD 1.5 billion arranged by WestLB AG, Bayerische Hypo-und Vereinsbank AG, ABN AMRO Bank N.V., OJSC Gazprombank, Bank of Moscow and Nordea Bank. The amount outstanding under this loan as of March 31, 2010 and December 31, 2009 was RR 30,832 million (US $1,050 million) and RR 7,561 million (US $250 million), respectively.

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

Note 6: 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 March 31, 2010 and December 31, 2009:

	At March 31, 2010	At December 31, 2009
Accounts receivable	28	64
Obligations under capital leases	30	37
Tax loss carry forward	2,670	2,537
Other	566	732
Deferred tax assets	**3,294**	**3,370**
Property, plant and equipment	(13,400)	(12,899)
Inventories	(792)	(1,051)
Long-term investments	(682)	(621)
Undistributed Earnings	(761)	(852)
Other liabilities	(466)	(387)
Deferred tax liabilities	**(16,101)**	**(15,810)**
Net deferred tax liability	**(12,807)**	**(12,440)**

(in millions of Russian Roubles)

Note 6: Taxes (continued)

At March 31, 2010 and December 31, 2009, deferred taxes were classified in the consolidated balance sheet as follows:

	At March 31, 2010	At December 31, 2009
Non-current deferred tax assets	2,649	2,209
Current deferred tax liability	(1,230)	(1,261)
Non-current deferred tax liability	(14,226)	(13,388)
Net deferred tax liability	**(12,807)**	**(12,440)**

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Income before income taxes and non-controlling interest	18,453	12,065
Theoretical income tax expense at statutory rate	3,691	2,413
Increase (reduction) due to:		
Non-deductible expenses, net	1,176	1,381
Income tax expenses	**4,867**	**3,794**

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

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Export duties	32,024	15,034
Unified production tax	16,304	9,796
Property tax	485	492
Excise taxes	94	104
Penalties and interest	11	1
Other	380	211
Total taxes other than income taxes	**49,298**	**25,638**

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.

(in millions of Russian Roubles)

Note 7: Earnings 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.

	Three months ended March 31, 2010	Three months ended March 31, 2009
Income available to common and preferred shareholders, net of dividends	**12,630**	**7,929**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,112	2,079
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,260	2,227
Basic and diluted net income per share (RR)		
Common	5.59	3.56
Preferred	5.59	3.56

Note 8: 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-cjntrolling 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 2. Intersegment sales are at prices that approximate market.

For the three months ended March 31, 2010, the Group had four customers which accounted for RR 62,138 million in crude oil sales, comprising 24%, 23%, 11 % and 10% respectively of the total tons of crude oil sold by the Group during the three months. For the three months ended March 31, 2009, the Group had four customers which accounted for RR 38,223 million in crude oil sales, comprising 22%, 21%, 14 % and 10% respectively of the total tons of crude oil sold by the Group during the three months. Management does not believe the Group is dependent on any particular customer.

(in millions of Russian Roubles)

Note 8: Segment Information (continued)

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

	Three months ended March 31, 2010	**Three months ended March 31, 2009**
Exploration and production		
Domestic own crude oil	13,718	10,611
CIS own crude oil	1,941	4,080
Non – CIS own crude oil	60,077	37,865
Other	753	1,172
Intersegment sales	3,428	1,118
Total exploration and production	**79,917**	**54,846**
Refining and marketing		
Domestic sales		
Crude oil purchased for resale	2,864	673
Refined products	9,081	9,580
Total Domestic sales	11,945	10,253
CIS sales		
Crude oil purchased for resale	3,693	-
Refined products	454	176
Total CIS sales[(1)]	4,147	176
Non – CIS sales		
Crude oil purchased for resale	3,534	1,077
Refined products	1,695	899
Total Non – CIS sales[(2)]	5,229	1,976
Other	681	972
Intersegment sales	492	389
Total refining and marketing	**22,494**	**13,766**
Petrochemicals		
Tires - domestic sales	3,124	2,745
Tires - CIS sales	740	416
Tires - non-CIS sales	140	117
Petrochemical products and other	373	950
Intersegment sales	193	242
Total petrochemicals	**4,570**	**4,470**
Total segment sales	**106,981**	**73,082**
Corporate and other sales	2,284	2,207
Elimination of intersegment sales	(4,113)	(1,749)
Total sales and other operating revenues	**105,152**	**73,540**

[(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 8: Segment Information (continued)

Segment earnings

	Three months ended March 31, 2010	Three months ended March 31, 2009
Segment earnings		
Exploration and production	13,376	11,857
Refining and marketing	3,449	1,487
Petrochemicals	(160)	(309)
Total segment earnings	**16,665**	**13,035**
Corporate and other	(987)	290
Other income/(expenses)	2,775	(1,260)
Income before income taxes and non-controlling interest	**18,453**	**12,065**

Segment assets

	At March 31, 2010	At December 31, 2009
Assets		
Exploration and production	241,477	245,948
Refining and marketing	140,829	132,207
Petrochemicals	24,422	23,496
Corporate and other	106,513	94,091
Total assets	**513,241**	**495,742**

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:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Depreciation, depletion and amortization		
Exploration and production	2,691	2,694
Refining and marketing	206	285
Petrochemicals	214	210
Corporate and other	570	631
Total segment depreciation, depletion and amortization	**3,681**	**3,820**
Additions to property, plant and equipment		
Exploration and production	2,274	2,806
Refining and marketing	11,782	14,591
Petrochemicals	692	944
Corporate and other	632	803
Total additions to property, plant and equipment	**15,380**	**19,144**

(in millions of Russian Roubles)

Note 9: Related Party Transactions

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

As of March 31, 2010 and December 31, 2009, the Group had RR 6,559 million and RR 6,298 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 2009 and 2016, bearing interest between 7.0% and 8.5%. As of March 31, 2010 and December 31, 2009, the Group has short and long-term certificates of deposit of RR 8,486 million and RR 11,237 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

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

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

	Three months ended March 31, 2010	**Three months ended March 31, 2009**
Sales of refined products	9	5
Volumes of refined product sales (thousand tons)	1	-
Other sales	211	225
Purchases of crude oil	(1,378)	(350)
Volumes of crude oil purchases (thousand tons)	111	32
Purchases of electricity	-	(1,390)
Other purchases	(46)	(192)

	At March 31, 2010	**At December 31, 2009**
Assets		
Accounts receivable (Note 3)	744	551
Notes receivable	1,474	1,150
Short-term certificates of deposit	5,640	14,341
Trading securities	51	46
Loans receivable	91	397
Due from related parties short-term	**8,000**	**16,485**
Long-term certificates of deposit	2,846	2,846
Long-term loans receivable	5,619	5,675
Long-term accounts receivable	2	3
Due from related parties long-term	**8,467**	**8,524**
Liabilities		
Other accounts payable	(589)	(513)
Short-term debt (Note 5)	(182)	(258)
Trade accounts payable	(482)	(732)
Due to related parties short-term	**(1,253)**	**(1,503)**

Note 10: Commitments and Contingent Liabilities

Guarantees. The Group has no outstanding guarantees at March 31, 2010 and December 31, 2009.

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.

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.

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

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

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

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

Note 10: Commitments and Contingent Liabilities (continued)

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

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

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

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT"). The arbitration concerns losses suffered by Tatneft as a consequence of the forcible takeover of Ukrtatnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russian-Ukraine BIT and to order MFEU to restore Ukrtatnafta's lawful management and pay compensation in excess of US$2.4 billion.

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

There are a number of legal proceedings currently in process in the Ukraine, Russian Federation and international courts to recover the Group's assets. As a result of the ongoing legal dispute over shareholding interests, as of March 31, 2010 the Company has fully provided for its investments in Ukrtatnafta.