



**CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED MARCH 31, 2012 AND 2011**



## Report of Independent Accountants

### To the Board of Directors and Shareholders of OAO Tatneft:

We have reviewed the accompanying consolidated interim condensed balance sheet of OAO Tatneft and its subsidiaries as of March 31, 2012 and the related consolidated interim condensed statements of operations and comprehensive income, of shareholders' equity and of cash flows for the three-month periods ended March 31, 2012 and March 31, 2011. This interim financial information is the responsibility of the Company's management.

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

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

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of OAO Tatneft and its subsidiaries as of December 31, 2011, and the related consolidated statements of operations and comprehensive income, of shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated April 16, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated condensed balance sheet information as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

*ZAO PricewaterhouseCoopers Audit*

June 15, 2012

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

	Notes	At March 31, 2012	At December 31, 2011
<b>Assets</b>			
Cash and cash equivalents		28,144	17,044
Restricted cash		1,241	1,178
Accounts receivable, net	4	50,243	60,095
Due from related parties	10	13,699	13,726
Short-term investments		21,551	9,391
Current portion of loans receivable		2,060	1,839
Inventories	5	27,273	25,243
Prepaid expenses and other current assets		21,596	27,084
<b>Total current assets</b>		<b>165,807</b>	<b>155,600</b>
Long-term loans and notes receivable, net		3,642	3,168
Due from related parties	10	10,902	11,829
Long-term investments		12,013	13,542
Property, plant and equipment, net		435,801	430,781
Other long-term assets		13,239	12,903
<b>Total assets</b>		<b>641,404</b>	<b>627,823</b>
<b>Liabilities and shareholders' equity</b>			
Short-term debt and current portion of long-term debt	6	33,172	40,722
Trade accounts payable		14,240	15,741
Due to related parties	10	5,851	6,154
Other accounts payable and accrued liabilities		18,549	20,321
Taxes payable		15,923	14,123
<b>Total current liabilities</b>		<b>87,735</b>	<b>97,061</b>
Long-term debt, net of current portion	6	52,871	61,776
Due to related parties	10	427	462
Other long-term liabilities		2,853	2,744
Asset retirement obligations, net of current portion		48,711	47,534
Deferred tax liability		16,345	14,835
<b>Total liabilities</b>		<b>208,942</b>	<b>224,412</b>
<b>Shareholders' equity</b>			
Preferred shares (authorized and issued at March 31, 2012 and December 31, 2011 - 147,508,500 shares; nominal value at March 31, 2012 and December 31, 2011 - RR1.00)		148	148
Common shares (authorized and issued at March 31, 2012 and December 31, 2011 - 2,178,690,700 shares; nominal value at March 31, 2012 and December 31, 2011 - RR1.00)		2,179	2,179
Additional paid-in capital		96,940	96,925
Accumulated other comprehensive income		1,609	1,995
Retained earnings		319,090	291,029
Less: Common shares held in treasury, at cost (55,688,000 shares and 55,875,000 shares at March 31, 2012 and December 31, 2011, respectively)		(3,104)	(3,117)
<b>Total Group shareholders' equity</b>		<b>416,862</b>	<b>389,159</b>
Non-controlling interest		15,600	14,252
<b>Total shareholders' equity</b>		<b>432,462</b>	<b>403,411</b>
<b>Total liabilities and shareholders' equity</b>		<b>641,404</b>	<b>627,823</b>

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

**TATNEFT**
**Consolidated Interim Condensed Statements of Operations and Comprehensive Income (Unaudited)**

(in millions of Russian Roubles)

	Notes	Three months ended March 31, 2012	Three months ended March 31, 2011
<b>Sales and other operating revenues</b>	9	<b>151,030</b>	<b>131,726</b>
<b>Costs and other deductions</b>			
Operating		18,368	14,957
Purchased oil and refined products		12,780	15,914
Exploration		369	184
Transportation		6,973	3,998
Selling, general and administrative		7,597	6,258
Depreciation, depletion and amortization		3,504	3,279
Loss on disposals of property, plant and equipment, investments and impairments		371	1
Taxes other than income taxes	7	67,284	59,498
Maintenance of social infrastructure and transfer of social assets		925	782
<b>Total costs and other deductions</b>		<b>118,171</b>	<b>104,871</b>
<b>Other income (expenses)</b>			
Earnings from equity investments		466	360
Foreign exchange gain		4,378	4,252
Interest income		983	672
Interest expense, net of amounts capitalized		(795)	(242)
Other expenses, net		30	244
<b>Total other income</b>		<b>5,062</b>	<b>5,286</b>
<b>Income before income taxes and non-controlling interest</b>		<b>37,921</b>	<b>32,141</b>
<b>Income taxes</b>			
Current income tax expense		(8,425)	(6,668)
Deferred income tax expense		(87)	(444)
<b>Total income tax expense</b>		<b>(8,512)</b>	<b>(7,112)</b>
<b>Net income</b>		<b>29,409</b>	<b>25,029</b>
Less: net income attributable to non-controlling interest		(1,348)	(553)
<b>Net income attributable to Group shareholders</b>		<b>28,061</b>	<b>24,476</b>
Foreign currency translation adjustments		(452)	(232)
Unrealized holding gains on available-for-sale securities, net of tax		66	10
<b>Comprehensive income</b>		<b>27,675</b>	<b>24,254</b>
<b>Basic and diluted net income per share (RR)</b>			
Common		12.36	10.79
Preferred		12.36	10.79
<b>Weighted average shares outstanding (millions of shares)</b>			
Common		2,123	2,120
Preferred		148	148

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

**TATNEFT**
**Consolidated Interim Condensed Statements of Cash Flows (Unaudited)**

(in millions of Russian Roubles)

	Three months ended March 31, 2012	Three months ended March 31, 2011
<b>Operating activities</b>		
Net income	29,409	25,029
Adjustments:		
Depreciation, depletion and amortization	3,504	3,279
Deferred income tax expense	87	444
Loss on disposals of property, plant and equipment, investments and impairments	371	1
Effects of foreign exchange	(8,482)	(6,677)
Equity investments earnings net of dividends received	(466)	(360)
Change of allowance for doubtful accounts	1	(239)
Accretion of asset retirement obligation	1,192	1,079
Change in fair value of trading securities	(139)	(333)
Other	(468)	(52)
Changes in operational working capital, excluding cash:		
Accounts receivable	9,623	(1,156)
Inventories	(2,030)	(7,636)
Prepaid expenses and other current assets	5,489	6,881
Trading securities	(230)	(451)
Related parties	(704)	685
Trade accounts payable	(1,773)	915
Other accounts payable and accrued liabilities	(478)	(1,748)
Taxes payable	1,800	3,646
Notes payable	272	(11)
Other non-current assets	452	(712)
<b>Net cash provided by operating activities</b>	<b>37,430</b>	<b>22,584</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(9,199)	(13,033)
Proceeds from disposals of property, plant and equipment	164	94
Proceeds from disposal of investments	1,617	4
Purchase of investments	-	(45)
Certificates of deposit	(11,342)	(567)
Loans and notes receivable	66	(198)
Change in restricted cash	(63)	794
<b>Net cash used in investing activities</b>	<b>(18,757)</b>	<b>(12,951)</b>
<b>Financing activities</b>		
Proceeds from issuance of debt	3,523	14,794
Repayment of debt	(11,105)	(21,748)
Repayment of capital lease obligations	-	(34)
Dividends paid to shareholders	(3)	(106)
Purchase of treasury shares	(8)	-
Proceeds from sale of treasury shares	20	-
<b>Net cash used in financing activities</b>	<b>(7,573)</b>	<b>(7,094)</b>
<b>Net change in cash and cash equivalents</b>	<b>11,100</b>	<b>2,539</b>
Cash and cash equivalents at beginning of period	17,044	8,080
<b>Cash and cash equivalents at end of period</b>	<b>28,144</b>	<b>10,619</b>

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

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

(in millions of Russian Roubles)

	2012		2011	
	Shares	Amount	Shares	Amount
<b>Preferred shares:</b>				
<b>Balance at January 1 and March 31</b> (shares in thousands)	147,509	148	147,509	148
<b>Common shares:</b>				
<b>Balance at January 1 and March 31</b> (shares in thousands)	2,178,691	2,179	2,178,691	2,179
<b>Treasury shares, at cost:</b>				
<b>Balance at January 1</b>	55,875	(3,117)	58,960	(3,275)
Acquisitions	42	(8)	397	(214)
Disposals	(229)	21	(445)	220
<b>Balance at March 31</b> (shares in thousands)	55,688	(3,104)	58,912	(3,269)
<b>Additional paid-in capital</b>				
<b>Balance at January 1</b>		96,925		96,617
Treasury share transactions		15		-
<b>Balance at March 31</b>		96,940		96,617
<b>Accumulated other comprehensive income / (loss)</b>				
<b>Balance at January 1</b>		1,995		1,933
Foreign currency translation adjustments		(452)		(232)
Unrealized holding gains on available-for-sale securities, net of tax		66		10
<b>Balance at March 31</b>		1,609		1,711
<b>Retained earnings</b>				
<b>Balance at January 1</b>		291,029		241,005
Net income attributable to Group shareholders		28,061		24,476
<b>Balance at March 31</b>		319,090		265,481
<b>Non-controlling interest</b>				
<b>Balance at January 1</b>		14,252		11,939
Net income		1,348		553
Change in Group structure		-		47
<b>Balance at March 31</b>		15,600		12,539
<b>Total shareholders' equity at March 31</b>		<b>432,462</b>		<b>375,406</b>

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

## TATNEFT

### Notes to Consolidated Interim Condensed Financial Statements (Unaudited)

(in millions of Russian Roubles)

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#### Note 1: Organization

OA O 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 9).

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, 2012 and December 31, 2011 OA O Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, hold approximately 36% of the Company’s voting stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a “Golden Share”, a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and “major” and “interested party” transactions as defined under Russian law. The Golden Share currently has an indefinite term.

#### Note 2: Basis of Presentation

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

The unaudited consolidated interim condensed financial statements have been prepared in accordance with US GAAP for interim financial reporting of public companies “Interim Financial Reporting” and do not include all disclosures necessary required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2011 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these interim condensed financial statements are read in conjunction with the Company’s 2011 audited consolidated financial statements and the notes related thereto. In the opinion of the Company’s management, the unaudited consolidated interim condensed financial statements and notes thereto reflect all known adjustments, all of which are of a normal and recurring nature, necessary to fairly state the Company’s financial position, results of operations and cash flows for the interim periods.

The results for the three-month period ended March 31, 2012 are not necessarily indicative of the results expected for the full year.

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

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

**Note 2: Basis of Presentation (continued)**

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

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

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US \$") at March 31, 2012 and December 31, 2011 was RR 29.33 and RR 32.20 to US Dollar, respectively. Average rate of exchange for the three months ended March 31, 2012 and March 31, 2011 was RR 30.26 and RR 29.27 per US Dollar, respectively.

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

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

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

**Recent accounting pronouncements.** In 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. The adoption of this ASU had no material effect on the Group's results of operations, financial position or liquidity.

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 had no impact on the Group's results of operations, financial position or liquidity.



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

(in millions of Russian Roubles)

**Note 3: Acquisitions and Divestitures**

As a result of a Group reorganization in 2011, treasury shares decreased by 3.1 million shares with a corresponding increase to additional paid in capital of RR 303 million.

**Note 4: Accounts Receivable**

Accounts receivable are as follows:

	At March 31, 2012			At December 31, 2011		
	Total accounts receivable	Accounts receivable from related parties (Note 10)	Accounts receivable	Total accounts receivable	Accounts receivable from related parties (Note 10)	Accounts receivable
Trade - domestic	18,714	840	17,874	21,461	1,245	20,216
Trade - export	28,886	-	28,886	36,486	-	36,486
Other receivables	4,390	907	3,483	4,141	748	3,393
<b>Total accounts receivable, net</b>	<b>51,990</b>	<b>1,747</b>	<b>50,243</b>	<b>62,088</b>	<b>1,993</b>	<b>60,095</b>

Accounts receivables are presented net of an allowance for doubtful accounts of RR 10,060 million and RR 11,021 million at March 31, 2012 and December 31, 2011, respectively.

In accordance with the Group's policies for recorded allowances for doubtful accounts the Group fully provided for receivables from ChMPKP Avto of US \$334 million as of March 31, 2012 and December 31, 2011 relating to the sale of crude oil to Ukraine (Kremenchug refinery) (Note 11).

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

**Note 5: Inventories**

Inventories are as follows:

	At March 31, 2012	At December 31, 2011
Materials and supplies	10,181	9,835
Crude oil	5,866	6,284
Refined oil products	6,013	5,373
Petrochemical supplies and finished goods	5,213	3,751
<b>Total inventories</b>	<b>27,273</b>	<b>25,243</b>

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

(in millions of Russian Roubles)

**Note 6: Debt**

Short-term and long-term debt as follows:

	At March 31, 2012	At December 31, 2011
<b>Short-term debt</b>		
<b>Foreign currency denominated debt</b>		
Current portion of long-term debt	31,451	38,442
Other foreign currency denominated debt	857	1,073
<b>Rouble denominated debt</b>		
Current portion of long-term debt	64	64
Other rouble denominated debt	3,370	3,029
Less: due to related parties (Note 10)	(2,570)	(1,886)
<b>Total short-term debt</b>	<b>33,172</b>	<b>40,722</b>
<b>Long-term debt</b>		
<b>Foreign currency denominated debt</b>		
US \$144.5 mln 2011 credit facility	1,353	-
US \$75 mln 2011 credit facility	2,200	2,415
US \$550 mln 2011 credit facility	16,131	17,708
US \$2.0 bln 2010 credit facility	42,483	51,963
US \$1.5 bln 2009 credit facility	14,783	20,809
Other foreign currency denominated debt	1,720	1,726
<b>Rouble denominated debt</b>		
Bonds	5,000	5,000
Other rouble denominated debt	1,143	1,123
Less: due to related parties (Note 10)	(427)	(462)
<b>Total long-term debt</b>	<b>84,386</b>	<b>100,282</b>
Less: current portion	(31,515)	(38,506)
<b>Total long-term debt, net of current portion</b>	<b>52,871</b>	<b>61,776</b>

Foreign currency debts are primarily denominated in US Dollars.

**Short-term foreign currency denominated debt.** In December 2003 the Group entered into a RR US \$35 million one month revolving credit facility with Credit Suisse Zurich. In December 2011 this agreement was replaced with new loan agreement totaling up to the US \$70 million under the same conditions. The monthly revolving loan bears interest at 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, 2012 and December 31, 2011 was RR 468 million (US \$16 million) and RR 553 million (US \$17 million), respectively.

**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 3,370 million and RR 3,029 million bear contractual interest rates of 7.0% to 10.0% per annum as of March 31, 2012 and December 31, 2011, respectively.

**Long-term foreign currency denominated debt.** In October 2009, the Company entered into a dual (3 and 5 year) tranches secured syndicated pre-export facility for up to USD 1.5 billion arranged by WestLB AG, Bayerische Hypo-und Vereinsbank AG, ABN AMRO Bank N.V., OJSC Gazprombank, Bank of Moscow and Nordea Bank. The amount outstanding under this loan as of March 31, 2012 and December 31, 2011 was RR 14,783 million (US \$504 million) and RR 20,809 million (US \$646 million), respectively, including the current portion. 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 360,000 metric tonnes of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The loan bears interest at LIBOR plus 3.10% and 4.10% for the 3 and 5 year tranches, respectively.

**Note 6: Debt (continued)**

In June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured 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. The amount outstanding under this loan as of March 31, 2012 and December 31, 2011, was RR 42,483 million (US \$1,449 million) and RR 51,963 million (US \$1,614 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 tonnes of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. 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 March 31, 2012 and December 31, 2011 was RR 16,131 million (US \$550 million) and RR 17,708 million (US \$550 million), respectively.

In November 2011, TANECO entered into a US \$75 million credit facility with equal semi-annual repayments during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The amount outstanding under this credit facility as of March 31, 2012 and December 31, 2011 was RR 2,200 million (US \$75 million) and RR 2,415 million (US \$75 million), including the current portion), respectively.

In November 2011, TANECO entered into a US \$144.48 million credit facility with equal semi-annual repayments during ten years with first repayment date as of May 15, 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ, LTD. The loan bears interest at LIBOR plus 1.25% per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The amount outstanding under this credit facility as of March 31, 2012 was RR 1,353 million (US \$46 million).

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

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

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

(in millions of Russian Roubles)

**Note 7: Taxes**

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

	<b>Three months ended March 31, 2012</b>	<b>Three months ended March 31, 2011</b>
Export duties	39,564	38,618
Mineral extraction tax	26,598	19,991
Property tax	557	441
Excise taxes	241	168
Penalties and interest	5	20
Other	319	260
<b>Total taxes other than income taxes</b>	<b>67,284</b>	<b>59,498</b>

Effective January 1, 2007, the base tax rate formula for mineral extraction tax was modified to provide a benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. Under the new rules, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold.

**Note 8: Fair Value Measurements**

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

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

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

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

Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability. The Group does not use Level 2 inputs for any of its recurring fair-value measurements.

Level 3: Valuations utilizing significant, unobservable inputs. This provides the least objective evidence of fair value and requires a significant degree of judgment. The Group does not use Level 3 inputs for any of its recurring fair-value measurements.

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

Marketable securities: The Group has RR 8,629 million and RR 8,200 million in marketable securities as of March 31, 2012 and December 31, 2011, respectively. The Group calculates fair value for its marketable securities based on quoted market prices for identical assets and liabilities (Level 1 valuations).

**Note 9: 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, and earnings from equity investments, other income and monetary effects. Intersegment sales are at prices that approximate market.

For the three months ended March 31, 2012, the Group had four customers which accounted for RR 84,694 million in crude oil sales, comprising 39%, 18%, 18% and 8% respectively of the crude oil sales by the Group during the three months.

For the three months ended March 31, 2011, the Group had four customers which accounted for RR 94,238 million in crude oil sales, comprising 52%, 16%, 13% and 8% respectively of the crude oil sales by the Group during the three months. Management does not believe the Group is dependent on any particular customer.

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

(in millions of Russian Roubles)

**Note 9: 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, 2012	Three months ended March 31, 2011
<b>Exploration and production</b>		
Domestic own crude oil	19,458	16,929
CIS own crude oil	3,539	-
Non – CIS own crude oil	73,226	80,321
Other	970	758
Intersegment sales	18,465	2,621
<b>Total exploration and production</b>	<b>115,658</b>	<b>100,629</b>
<b>Refining and marketing</b>		
<i>Domestic sales</i>		
Crude oil purchased for resale	877	1,846
Refined products	14,392	11,311
Total Domestic sales	15,269	13,157
<i>CIS sales</i>		
Crude oil purchased for resale	860	3,362
Refined products	9,440	75
Total CIS sales <sup>(1)</sup>	10,300	3,437
<i>Non – CIS sales</i>		
Crude oil purchased for resale	3,936	4,669
Refined products	12,762	1,612
Total Non – CIS sales <sup>(2)</sup>	16,698	6,281
Other	720	868
Intersegment sales	864	662
<b>Total refining and marketing</b>	<b>43,851</b>	<b>24,405</b>
<b>Petrochemicals</b>		
Tires - domestic sales	5,305	4,552
Tires - CIS sales	1,401	973
Tires - non-CIS sales	208	217
Petrochemical products and other	551	717
Intersegment sales	179	263
<b>Total petrochemicals</b>	<b>7,644</b>	<b>6,722</b>
<b>Total segment sales</b>	<b>167,153</b>	<b>131,756</b>
Corporate and other sales	3,385	3,516
Elimination of intersegment sales	(19,508)	(3,546)
<b>Total sales and other operating revenues</b>	<b>151,030</b>	<b>131,726</b>

<sup>(1)</sup> - CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).

<sup>(2)</sup> - Non-CIS sales of crude oil and refined products are mainly made to European markets.

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

(in millions of Russian Roubles)

**Note 9: Segment Information (continued)**
**Segment earnings**

	<b>Three months ended March 31, 2012</b>	<b>Three months ended March 31, 2011</b>
<b>Segment earnings</b>		
Exploration and production	34,082	25,022
Refining and marketing	805	1,999
Petrochemicals	85	617
<b>Total segment earnings</b>	<b>34,972</b>	<b>27,638</b>
Corporate and other	(2,113)	(783)
Other income	5,062	5,286
<b>Income before income taxes and non-controlling interest</b>	<b>37,921</b>	<b>32,141</b>

**Segment assets**

	<b>At March 31, 2012</b>	<b>At December 31, 2011</b>
<b>Assets</b>		
Exploration and production	287,606	297,752
Refining and marketing	219,730	216,432
Petrochemicals	27,438	27,215
Corporate and other	106,630	86,424
<b>Total assets</b>	<b>641,404</b>	<b>627,823</b>

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:

	<b>Three months ended March 31, 2012</b>	<b>Three months ended March 31, 2011</b>
<b>Depreciation, depletion and amortization</b>		
Exploration and production	1,911	2,006
Refining and marketing	602	304
Petrochemicals	316	436
Corporate and other	675	533
<b>Total segment depreciation, depletion and amortization</b>	<b>3,504</b>	<b>3,279</b>
<b>Additions to property, plant and equipment</b>		
Exploration and production	4,643	3,556
Refining and marketing	3,707	8,960
Petrochemicals	14	51
Corporate and other	835	466
<b>Total additions to property, plant and equipment</b>	<b>9,199</b>	<b>13,033</b>

During the three months ended March 31, 2012 and March 31, 2011 the Company recorded RR 144 million and RR 1,046 million of capitalized interest as property, plant and equipment additions, respectively.

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

(in millions of Russian Roubles)

**Note 10: 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, 2012 and December 31, 2011, the Group had RR 4,441 million and RR 4,707 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2012 and 2013, bearing interest between 3.2% and 7.5%. As of March 31, 2012 and December 31, 2011, the Group has short and long-term certificates of deposit of RR 16,760 million and RR 16,843 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

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

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

	<b>Three months ended March 31, 2012</b>	<b>Three months ended March 31, 2011</b>
Sales of refined products	10	9
Other sales	510	304
Purchases of crude oil	(2,246)	(1,956)
Purchases of refined products	(2)	(1)
Other services	(1,129)	(1,053)
Other purchases	(748)	(55)

For the three months ended March 31, 2012 and March 31, 2011 the Group has entered into transactions with a related party for purchases of construction services in the amount of RR 2,520 million and RR 109 million, respectively, which is included in our property, plant and equipment.

For the three month ended March 31, 2012 and March 31, 2011, the Group sold crude oil on a commission basis from related parties for RR 3,167 million and RR 4,233 million, respectively.

	<b>At March 31, 2012</b>	<b>At December 31, 2011</b>
<b>Assets</b>		
Accounts receivable (Note 4)	1,747	1,993
Notes receivable	2,373	2,010
Short-term certificates of deposit	8,926	9,179
Trading securities	260	200
Loans receivable	393	344
<b>Due from related parties short-term</b>	<b>13,699</b>	<b>13,726</b>
Long-term certificates of deposit	7,834	7,974
Long-term loans receivable	2,713	3,402
Long-term accounts receivable	355	453
<b>Due from related parties long-term</b>	<b>10,902</b>	<b>11,829</b>
<b>Liabilities</b>		
Other accounts payable	(819)	(557)
Short-term debt (Note 6)	(2,570)	(1,886)
Notes payable	(9)	-
Trade accounts payable	(2,453)	(3,711)
<b>Due to related parties short-term</b>	<b>(5,851)</b>	<b>(6,154)</b>
Long-term debt (Note 6)	(427)	(462)
<b>Due to related parties long-term</b>	<b>(427)</b>	<b>(462)</b>



**Note 11: Commitments and Contingent Liabilities**

**Guarantees.** The Group has no outstanding guarantees at March 31, 2012 and December 31, 2011.

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

**Capital commitments.** As of March 31, 2012 and December 31, 2011 the Group has outstanding capital commitments of approximately RR 19,288 million and RR 14,966 million, respectively, for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2012 and 2013.

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

Tax authorities are currently 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.

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

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

**Legal contingencies.** The Group is subject to various lawsuits and claims arising in the ordinary course of business. The outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present. In the case of all known contingencies the Group accrues a liability when the loss is probable and the amount is reasonably estimable. Based on currently available information, management believes that it is remote that future costs related to known contingent liability exposures would have a material adverse impact on the Group's consolidated 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 11: Commitments and Contingent Liabilities (continued)**

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

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

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

In October 2007 the existing management of Ukratnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently, individuals who obtained the ability to manage Ukratnafta took certain actions effectively assisting MFEU in taking control over the shares in Ukratnafta owned by SeaGroup and AmRUZ. In addition, Ukratnafta subsequently refused to settle its payables to ChMPKP Avto (Note 4), a Ukrainian intermediary that previously purchased crude from the Group for deliveries to Ukratnafta. Following this forced change of control of Ukratnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its crude oil deliveries to Ukratnafta 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 Ukratnafta 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 Ukratnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russia-Ukraine BIT and to order MFEU to restore Ukratnafta's lawful management and pay compensation in excess of US\$ 2.4 billion. In September 2010 the arbitral tribunal issued an award confirming that all of Tatneft's claims are admissible and that the tribunal has jurisdiction over the claims. Tatneft's claims will now move forward to the merits stage with the award expected in 2013.

There 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, 2012 the Company has fully provided for its investments in Ukratnafta.

**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 will be able to resume its operations in Libya. Currently the Group is not able to assess the impact of these events on the Group's financial statements. As of March 31, 2012 the company had approximately RR 5,707 million of assets associated with its Libyan operations of which RR 5,425 million is related to capitalized exploration costs, RR 216 million of inventories and RR 66 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 12: Subsequent events**

We have evaluated the existence of both recognized and unrecognized subsequent events through the date of this report June 15, 2012 and have deemed no adjustments or additional disclosures are necessary.