CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2010 AND 2009

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors and Shareholders of OAO Tatneft:

We have reviewed the accompanying consolidated interim condensed balance sheet of OAO Tatneft and its subsidiaries as of June 30, 2010, and the related consolidated interim condensed statements of operations and comprehensive income, of shareholders' equity and of cash flows for each of the six month periods ended June 30, 2010 and June 30, 2009. This interim condensed financial information is the responsibility of the Company's management.

We conducted our review in accordance with 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 statements 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 interim condensed financial information for them 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, 2009, and the related consolidated statements of operations and comprehensive income, of changes in shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated April 27, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated interim condensed balance sheet as of June 30, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit

October 13, 2010

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

	Notes	At June 30, 2010	At December 31, 2009
Assets			
Cash and cash equivalents		23,676	12,841
Restricted cash		7,814	12,071
Accounts receivable, net	4	38,653	43,807
Due from related parties	11	8,113	16,485
Short-term investments		14,256	10,614
Current portion of loans receivable		3,565	3,185
Inventories	5	15,800	11,684
Prepaid expenses and other current assets		24,892	25,227
Total current assets		**136,769**	**135,914**
Long-term loans and notes receivable, net		1,932	2,320
Due from related parties	11	15,706	8,524
Long-term investments		15,705	14,596
Property, plant and equipment, net		359,609	322,475
Other long-term assets		10,674	11,913
Total assets		**540,395**	**495,742**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	6	21,694	71,228
Trade accounts payable		13,900	13,410
Due to related parties	11	2,748	1,503
Other accounts payable and accrued liabilities		13,408	14,055
Dividends payable		15,105	207
Capital lease obligations		104	170
Taxes payable		8,799	10,321
Total current liabilities		**75,758**	**110,894**
Long-term debt, net of current portion	6	87,892	16,588
Other long-term liabilities		4,342	2,423
Asset retirement obligations, net of current portion		40,874	38,927
Deferred tax liability		14,102	13,388
Capital lease obligations, net of current portion		6	15
Total liabilities		**222,974**	**182,235**
Shareholders' Equity			
Preferred shares (authorized and issued at June 30, 2010 and December 31, 2009 - 147,508,500 shares; nominal value at June 30, 2010 and December 31, 2009 - RR1.00)		148	148
Common shares (authorized and issued at June 30, 2010 and December 31, 2009 - 2,178,690,700 shares; nominal value at June 30, 2010 and December 31, 2009 - RR1.00)		2,179	2,179
Additional paid-in capital		96,616	95,735
Accumulated other comprehensive income		1,361	1,907
Retained earnings		210,192	209,275
Less: Common shares held in treasury, at cost (59,311,000 shares and 66,985,000 shares at June 30, 2010 and December 31, 2009, respectively)		(3,325)	(3,721)
Total Group shareholders' equity		**307,171**	**305,523**
Non-controlling interest		10,250	7,984
Total shareholders' equity		**317,421**	**313,507**
Total liabilities and Equity		**540,395**	**495,742**

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

(in millions of Russian Rubles)

	Notes	Six months ended June 30, 2010	Six months ended June 30, 2009
Sales and other operating revenues	10	**214,611**	**163,972**
Costs and other deductions			
Operating		28,184	27,646
Purchased oil and refined products		27,309	16,268
Exploration		941	1,081
Transportation		8,004	6,822
Selling, general and administrative		13,031	12,500
Depreciation, depletion and amortization	10	6,671	6,326
(Gain)/loss on disposals of property, plant and equipment, investments and impairments		(336)	324
Taxes other than income taxes	8	101,272	56,695
Maintenance of social infrastructure and transfer of social assets		1,956	926
Total costs and other deductions		**187,032**	**128,588**
Other income (expenses)			
Earnings from equity investments		28	882
Foreign exchange loss		(3,539)	(535)
Interest income		2,006	2,121
Interest expense, net of amounts capitalized		(215)	(309)
Other (expenses)/income, net		(981)	2,413
Total other (expenses)/income		**(2,701)**	**4,572**
Income before income taxes and non-controlling interest		**24,878**	**39,956**
Income taxes			
Current income tax expense		(6,824)	(10,234)
Deferred income tax benefit		97	1,284
Total income tax expense		**(6,727)**	**(8,950)**
Net income		**18,151**	**31,006**
Less: net income attributable to non-controlling interest		(2,291)	(1,320)
Net income attributable to Group shareholders		**15,860**	**29,686**
Foreign currency translation adjustments		(81)	(30)
Actuarial loss on employee benefit plans		(488)	-
Unrealized holding gains on available-for-sale securities, net of tax		23	-
Comprehensive income		**15,314**	**29,656**
Basic and diluted net income per share (RR)			
Common		7.01	13.22
Preferred		6.95	13.13
Weighted average shares outstanding (millions of shares)			
Common		2,116	2,099
Preferred		148	148

(in millions of Russian Rubles)

	Six months ended June 30, 2010	Six months ended June 30, 2009
Operating activities		
Net income	18,151	31,006
Adjustments:		
Depreciation, depletion and amortization	6,671	6,326
Deferred income tax benefit	(97)	(1,284)
(Gain)/loss on disposals of property, plant and equipment, investments and impairments	(336)	324
Transfer of social assets	514	-
Effects of foreign exchange	3,953	2,038
Equity earnings/(loss) net of dividends received	190	(802)
Change of allowance for doubtful accounts	(66)	847
Accretion of asset retirement obligation	1,952	1,769
Change in fair value of trading securities	(36)	(999)
Other	(439)	(1,389)
Changes in operational working capital, excluding cash:		
Accounts receivable	3,635	(16,149)
Inventories	(3,880)	3,154
Prepaid expenses and other current assets	843	4,548
Trading securities	(104)	698
Related parties	16	225
Trade accounts payable	(693)	583
Other accounts payable and accrued liabilities	(456)	415
Taxes payable	(1,508)	3,999
Notes payable	(29)	(142)
Other non-current assets	98	(46)
Net cash provided by operating activities	**28,379**	**35,121**
Investing activities		
Additions to property, plant and equipment	(39,363)	(46,055)
Proceeds from disposals of property, plant and equipment	297	239
Proceeds from disposal of investments	3,120	170
Purchase of investments	(1,482)	(42)
Certificates of deposit	1,519	1,967
Loans and notes receivable	(2,639)	(176)
Change in restricted cash	4,257	(1,426)
Net cash used in investing activities	**(34,291)**	**(45,323)**
Financing activities		
Proceeds from issuance of debt	93,736	27,921
Repayment of debt	(76,708)	(5,787)
Repayment of capital lease obligations	(76)	(204)
Dividends paid to shareholders	(6)	(11)
Dividends paid to non-controlling shareholders	(194)	(168)
Purchase of treasury shares	(8)	(46)
Proceeds from sale of treasury shares	3	50
Net cash provided by financing activities	**16,747**	**21,755**
Net change in cash and cash equivalents	**10,835**	**11,553**
Cash and cash equivalents at beginning of period	12,841	13,418
Cash and cash equivalents at end of period	**23,676**	**24,971**

	2010		2009	
	Shares	**Amount**	**Shares**	**Amount**
Preferred shares:				
Balance at January 1 and June 30 (shares in thousands)	147,509	148	147,509	148
Common shares:				
Balance at January 1 and June 30 (shares in thousands)	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:				
Balance at January 1	66,985	(3,721)	100,089	(3,960)
Acquisitions	1,462	(563)	1,607	(80)
Disposals	(9,136)	959	(45,700)	2,017
Balance at June 30 (shares in thousands)	59,311	(3,325)	55,996	(2,023)
Additional paid-in capital				
Balance at January 1		95,735		96,171
Treasury share transactions		881		(739)
Acquisition of subsidiaries		-		(180)
Balance at June 30		96,616		95,252
Accumulated other comprehensive income				
Balance at January 1		1,907		747
Actuarial loss on employee benefit plans		(488)		-
Foreign currency translation adjustments		(81)		(30)
Unrealized holding gains on available-for-sale securities, net of tax		23		-
Balance at June 30		1,361		717
Retained earnings				
Balance at January 1		209,275		164,991
Net income		15,860		29,686
Dividends		(14,943)		(10,088)
Balance at June 30		210,192		184,589
Non-controlling interest				
Balance at January 1		7,984		4,583
Net income		2,291		1,320
Dividends		(129)		(168)
Change in Group structure		104		750
Balance at June 30		10,250		6,485
Total shareholders' equity at June 30		**317,421**		**287,347**

Note 1: Organization

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products as well as production and marketing of petrochemicals (see Note 10).

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

As of June 30, 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. 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 Standards Codification (ASC) 270 Interim Reporting) and do not include all necessary disclosures 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 six-month period ended June 30, 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 Ruble ("RR") to the US Dollar ("US $") at June 30, 2010 and December 31, 2009 was RR 31.20 and RR 30.24 to US Dollar, respectively. Average rate of exchange for the six months ended June 30, 2010 and June 30, 2009 was RR 30.07 and RR 33.07 per US Dollar, respectively.

Recent accounting pronouncements. In December 2009, ASU No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, was issued and became 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. The adoption of this ASU did not have a 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 became 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. The adoption of this ASU did not have a 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 were effective for the Group on 1 January 2010 with the exception of disclosure of activity in Level 3 fair value measurements which will become effective on 1 January 2011.

Transfers and Servicing (ASC 860), Accounting for Transfers of Financial Assets (ASU 2009-16). The FASB issued ASU 2009-16 in December 2009. This standard became effective for the company on January 1, 2010. ASU 2009-16 changes how companies account for transfers of financial assets and eliminates the concept of qualifying special-purpose entities. Adoption of the guidance did not have a material effect on the company's results of operations, financial position or liquidity.

(in millions of Russian Rubles)

Note 3: Acquisitions and Divestitures

In June 2009, Osmand Holdings Ltd ("Osmand"), a newly formed wholly owned subsidiary of the Company, issued additional shares to investors who contributed a 17.05% ownership interest in Ak Bars Bank valued at RR 3,442 million. As a result of this transaction, the Group's ownership interest in Osmand decreased to 29.5%. Therefore the Company deconsolidated Osmand and began to account for this investment under the equity method which amounts to RR 2,592 million as at December 31, 2009 and RR 2,595 million as at June 30, 2010 respectively.

Since December 31, 2009 International Petro-Chemical Growth Fund Limited ("IPCG Fund") owned 113.1 million of Tatneft common shares, including in form of depository receipts, of which the Group's share was accounted for as treasury shares.

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

Note 4: Accounts Receivable

Accounts receivable are as follows:

	At June 30, 2010			At December 31, 2009		
	Total accounts receivable	Accounts receivable from related parties (Note 11)	Accounts receivable	Total accounts receivable	Accounts receivable from related parties (Note 11)	Accounts receivable
Trade - domestic	14,208	267	13,941	14,315	209	14,106
Trade - export	21,056	-	21,056	22,130	-	22,130
Other receivables	4,340	684	3,656	7,913	342	7,571
Total accounts receivable, net	**39,604**	**951**	**38,653**	**44,358**	**551**	**43,807**

Accounts receivables are presented net of an allowance for doubtful accounts of RR 10,484 million and RR 10,171 million at June 30, 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 June 30, 2010 and December 31, 2009 relating to the sale of crude oil to Ukraine (Kremenchug refinery) (Note 12).

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

Note 5: Inventories

Inventories are as follows:

	At June 30, 2010	At December 31, 2009
Materials and supplies	7,245	5,454
Crude oil	4,452	3,546
Refined oil products	2,287	1,146
Petrochemical supplies and finished goods	1,816	1,538
Total inventories	**15,800**	**11,684**

(in millions of Russian Rubles)

Note 6: Debt

	At June 30, 2010	At December 31, 2009
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	19,172	63,217
Other foreign currency denominated debt	1,646	7,318
Rouble denominated debt		
Current portion of long-term debt	68	26
Other rouble denominated debt	1,882	925
Less: due to related parties (Note 11)	(1,074)	(258)
Total short-term debt	**21,694**	**71,228**
Long-term debt		
Foreign currency denominated debt		
BNP Paribas	-	60,488
UniCredit Bank AG	57,711	-
Bayerische Hypo-und Vereinsbank AG	46,793	7,561
Other foreign currency denominated debt	1,555	10,315
Rouble denominated debt	1,073	1,467
Total long-term debt	**107,132**	**79,831**
Less: current portion	(19,240)	(63,243)
Total long-term debt, net of current portion	**87,892**	**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 1 month LIBOR plus varying margin of about 1.8% per annum and is collateralized by crude oil sales. The amount of loan outstanding as of June 30, 2010 and December 31, 2009 was RR 1,021 million (US $33 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 six months ended June 30, 2010 the Group repaid the remaining credit in full.

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.

In November 2007, OAO 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 was the lender of record in this credit facility. The loan bore interest at LIBOR plus 1.65% and matured in July 2010. The loan was repaid in full in June 2010. The amount outstanding under this loan as of December 31, 2009 was RR 60,488 million (US $2,000 million). The loan was fully guaranteed by OAO Tatneft as a major shareholder of TANECO. The Company’s guarantee was 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 required compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios.

Short-term Russian Ruble denominated debt. Russian Ruble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 1,882 million and RR 925 million bear contractual interest rates of 7.3% to 19.5% per annum for the six months ended June 30, 2010 and year ended December 31, 2009, respectively.

(in millions of Russian Rubles)

Note 6: Debt (continued)

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 was 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 June 30, 2010 and December 31, 2009 was RR 46,793 million (US $1,500 million) and RR 7,561 million (US $250 million), respectively, including current portion. As of June 30, 2010 this credit facility is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tavit B.V. under which Tatneft supplies no less than 750,000 metric tones of oil in a calendar quarter (see also Note 13). 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 June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured syndicated facility for up to USD 2 billion arranged by Barclays Bank PLS, BNP Paribas (Suisse) SA, Bank of Moscow, Bank of Tokyo-Mitsubishi UFJ, LTD, Citibank, N.A., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis SA, Nordea Bank, The Royal Bank of Scotland N.V., Sberbank, Société Générale, Sumitomo Mitsui Finance Dublin LTD, Unicredit Bank AG, VTB Bank and WestLB AG. Unicredit Bank AG was the lender of record in this credit facility. The amount outstanding under this loan as of June 30, 2010, was RR 57,711 million (US $1,850). The loan is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than 750,000 metric tones of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios.

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

Note 7: Pensions and Post Employment Benefits

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

	Six months ended June 30, 2010	**Six months ended June 30, 2009**
Service cost	49	81
Interest cost	138	162
Less expected return on plan assets	(144)	(55)
Effect of exchange rates	3	6
Disposals	(63)	-
Acquisitions	104	-
Other	197	1
Total net periodic benefit costs	**284**	**195**

Employer Contributions

The Company is generally required to make minimum monthly contributions to fund its various pension obligations. During the six months ended June 30, 2010, the Company contributed RR 187 million to its various plans. The Company does not have any required funding obligations for its other post employment benefits.

(in millions of Russian Rubles)

Note 8: Taxes

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

	Six months ended June 30, 2010	Six months ended June 30, 2009
Export duties	66,338	32,513
Unified production tax	32,766	22,387
Property tax	972	962
Excise taxes	165	163
Penalties and interest	12	178
Other	1,019	492
Total taxes other than income taxes	**101,272**	**56,695**

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

Note 9: Fair Value Measurements

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

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

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

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

Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Marketable securities: The Group has RR 7,374 million and RR 7,220 million in marketable securities as of June 30, 2010 and December 31, 2009, respectively. The Group calculates fair value for its marketable securities based on quoted market prices for identical assets and liabilities (Level 1 valuations).

IPCG Fund: IPCG Fund follows the accounting principles of the AICPA Audit and Accounting Guide "Investment Companies." Accordingly, IPCG Fund's investments are fair valued each reporting period primarily using, Level 2 inputs. The Company's carrying value of its investment in IPCG Fund was RR 3,619 million as of December 31, 2009 and RR 3,256 million at the redemption date which was March 31, 2010.

Note 10: Segment Information

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

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

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

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

Other sales include revenues from ancillary services provided by the specialized subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies in Tatarstan, revenues from the sale of auxiliary petrochemical related services and materials as well as other business activities, which do not constitute reportable business segments.

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

For the six months ended June 30, 2010, the Group had four customers which accounted for RR 131,350 million in crude oil sales, comprising 25%, 24%, 11% and 11% respectively of the total tons of crude oil sold by the Group during the six months.

For the six months ended June 30, 2009, the Group had four customers which accounted for RR 89,328 million in crude oil sales, comprising 25%, 19%, 13% and 13% respectively of the total tons of crude oil sold by the Group during the six months.

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

(in millions of Russian Rubles)

Note 10: Segment Information (continued)

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

	Six months ended June 30, 2010	Six months ended June 30, 2009
Exploration and production		
Domestic own crude oil	26,830	23,718
CIS own crude oil	3,679	10,789
Non – CIS own crude oil	122,376	86,076
Other	1,511	2,305
Intersegment sales	6,997	4,293
Total exploration and production	**161,393**	**127,181**
Refining and marketing		
Domestic sales		
Crude oil purchased for resale	5,155	3,468
Refined products	18,761	17,766
Total Domestic sales	23,916	21,234
CIS sales		
Crude oil purchased for resale	8,822	-
Refined products	1,096	555
Total CIS sales(1)	9,918	555
Non – CIS sales		
Crude oil purchased for resale	6,623	2,604
Refined products	2,989	2,172
Total Non – CIS sales(2)	9,612	4,776
Other	1,376	1,668
Intersegment sales	878	698
Total refining and marketing	**45,700**	**28,931**
Petrochemicals		
Tires - domestic sales	7,853	6,464
Tires - CIS sales	1,808	1,433
Tires - non-CIS sales	310	275
Petrochemical products and other	756	607
Intersegment sales	467	596
Total petrochemicals	**11,194**	**9,375**
Total segment sales	**218,287**	**165,487**
Corporate and other sales	4,666	4,072
Elimination of intersegment sales	(8,342)	(5,587)
Total sales and other operating revenues	**214,611**	**163,972**

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

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

(in millions of Russian Rubles)

Note 10: Segment Information (continued)

Segment earnings

	Six months ended June 30, 2010	Six months ended June 30, 2009
Segment earnings		
Exploration and production	26,949	37,147
Refining and marketing	3,781	2,702
Petrochemicals	(237)	604
Total segment earnings	**30,493**	**40,453**
Corporate and other	(2,914)	(5,069)
Other income/(expenses)	(2,701)	4,572
Income before income taxes and non-controlling interest	**24,878**	**39,956**

Segment assets

	At June 30, 2010	At December 31, 2009
Assets		
Exploration and production	256,738	245,948
Refining and marketing	158,409	132,207
Petrochemicals	24,789	23,496
Corporate and other	100,459	94,091
Total assets	**540,395**	**495,742**

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

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

	Six months ended June 30, 2010	Six months ended June 30, 2009
Depreciation, depletion and amortization		
Exploration and production	4,621	5,225
Refining and marketing	575	452
Petrochemicals	361	308
Corporate and other	1,114	341
Total segment depreciation, depletion and amortization	**6,671**	**6,326**
Additions to property, plant and equipment		
Exploration and production	8,080	9,420
Refining and marketing	29,647	32,236
Petrochemicals	925	3,758
Corporate and other	711	646
Total additions to property, plant and equipment	**39,363**	**46,060**

(in millions of Russian Rubles)

Note 11: Related Party Transactions

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

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

	Six months ended June 30, 2010	Six months ended June 30, 2009
Sales of refined products	17	7
Volumes of refined product sales (thousand tons)	1	-
Other sales	425	420
Purchases of crude oil	(2,723)	(1,750)
Volumes of crude oil purchases (thousand tons)	213	133
Purchases of electricity	(107)	(3,207)
Other purchases	(96)	(621)

	At June 30, 2010	At December 31, 2009
Assets		
Accounts receivable (Note 4)	951	551
Notes receivable	1,509	1,150
Short-term certificates of deposit	5,012	14,341
Trading securities	59	46
Loans receivable	582	397
Due from related parties short-term	**8,113**	**16,485**
Long-term certificates of deposit	6,546	2,846
Long-term loans and notes receivable	9,157	5,675
Long-term accounts receivable	3	3
Due from related parties long-term	**15,706**	**8,524**
Liabilities		
Other accounts payable	(706)	(513)
Short-term debt (Note 6)	(1,074)	(258)
Trade accounts payable	(968)	(732)
Due to related parties short-term	**(2,748)**	**(1,503)**

Note 12: Commitments and Contingent Liabilities

Guarantees. The Group has no outstanding guarantees at June 30, 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.

Recent volatility in global and Russian financial markets. The global liquidity crisis in 2009 resulted in, among other things, a lower level of capital market funding and lower liquidity levels across the Russian Federation. The uncertainties in the global financial market, also led to bank failures and/or bank rescues. Although economies worldwide, including the Russian economy, have been recovering quite rapidly from the financial crisis of 2008-2009, sings of economic instability and weaknesses remain, which, should they develop, could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions or generally favorable to the Group. Additionally, the uncertainty in the global markets combined with other local factors has led to very high volatility in the Russian Stock Markets during 2009.

Note 12: Commitments and Contingent Liabilities (continued)

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

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

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

Capital commitments. As of June 30, 2010 and December 31, 2009 the Group has outstanding capital commitments of approximately RR 6,860 million and RR 17,885 million, respectively, for the construction of the TANECO refinery complex and Nizhnekamsk tire plant. These commitments are expected to be paid between 2010 and 2011.

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.

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.

Note 12: Commitments and Contingent Liabilities (continued)

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT"). The arbitration concerns losses suffered by Tatneft as a consequence of the forcible takeover of Ukrtatnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russian-Ukraine BIT and to order MFEU to restore Ukrtatnafta's lawful management and pay compensation in excess of US$ 2.4 billion. In September 2010 the arbitral tribunal issued an award confirming that all of Tatneft's claims are admissible and that the tribunal has jurisdiction over the claims. Tatneft's claims will now move forward to the merits stage, on a schedule to be determined by the parties and the tribunal.

In November 2009 the Business Court of the City of the Poltava Region invalidated the initial purchase of 8.6% of Ukrtatnafta shares by the Company without payment of any compensation to the Company.

There are a number of legal proceedings currently in process in the Ukraine, Russian Federation and international courts to recover the Group's assets. As a result of the ongoing legal dispute over shareholding interests, as of June 30, 2010 the Company has fully provided for its investments in Ukrtatnafta.

Note 13: Subsequent Events

In August the Company reached an agreement with the lenders under the US$ 1,500 million 2009 Facility to decrease the margins and substantially decrease the amount of crude oil volumes used as collateral for this facility. The margins were decreased to LIBOR plus 3.10% and 4.10% for the 3 and 5 year tranches and crude oil volumes used as collateral decreased from 750,000 to 480,000 metric tones of oil in a calendar quarter, respectively.

In September 2010 the Group issued bonds in the amount of RR 5,000 million due in September 2013 at an interest rate of 7.25%.

We have evaluated the existence of both recognized and unrecognized subsequent events through the date of this report October 13, 2010 and have deemed no adjustments or additional disclosures are necessary.