TATNEFT

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

pwc

Report of Independent Auditors

To the Board of Directors and Shareholders of OAO Tatneft:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of OAO Tatneft (the "Company") and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

ZAO PricewaterhouseCoopers Audit

April 22, 2011

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(in millions of Russian Roubles)

	Notes	At December 31, 2010	At December 31, 2009
Assets			
Cash and cash equivalents		8,080	12,841
Restricted cash		2,897	12,071
Accounts receivable, net	4	52,951	43,807
Due from related parties	17	14,585	16,485
Short-term investments	5	9,196	10,614
Current portion of loans receivable	8	2,275	3,185
Inventories	6	15,140	11,684
Prepaid expenses and other current assets	7	27,433	25,227
Total current assets		**132,557**	**135,914**
Long-term loans and notes receivable, net	8	2,344	2,320
Due from related parties	17	9,915	8,524
Long-term investments	5	15,823	14,596
Property, plant and equipment, net	10	393,776	325,157
Other long-term assets	9	12,764	9,231
Total assets		**567,179**	**495,742**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	11	34,333	71,228
Trade accounts payable		14,890	13,410
Due to related parties	17	5,135	1,503
Other accounts payable and accrued liabilities	12	15,861	14,262
Capital lease obligations	10	34	170
Taxes payable	14	10,583	10,321
Total current liabilities		**80,836**	**110,894**
Long-term debt, net of current portion	11	75,021	16,588
Due to related parties	17	585	-
Other long-term liabilities		3,295	2,423
Asset retirement obligations, net of current portion	10	43,008	38,927
Deferred tax liability	14	13,888	13,388
Capital lease obligations, net of current portion	10	-	15
Total liabilities		**216,633**	**182,235**
Shareholders' equity			
Preferred shares (authorized and issued at December 31, 2010 and 2009 – 147,508,500 shares; nominal value at December 31, 2010 and 2009 – RR1.00)	15	148	148
Common shares (authorized and issued at December 31, 2010 and 2009 – 2,178,690,700 shares; nominal value at December 31, 2010 and 2009 – RR1.00)	15	2,179	2,179
Additional paid-in capital		96,617	95,735
Accumulated other comprehensive income		1,933	1,907
Retained earnings		241,005	209,275
Less: Common shares held in treasury, at cost (58,960,000 shares and 66,985,000 shares at December 31, 2010 and 2009, respectively)		(3,275)	(3,721)
Total Group shareholders' equity		**338,607**	**305,523**
Non-controlling interest		11,939	7,984
Total shareholders' equity		**350,546**	**313,507**
Total liabilities and Equity		**567,179**	**495,742**

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

(in millions of Russian Roubles)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Sales and other operating revenues	16	**468,032**	**380,648**
Costs and other deductions			
Operating		67,190	59,334
Purchased oil and refined products		55,621	38,243
Exploration		2,068	3,540
Transportation		17,217	14,325
Selling, general and administrative		30,028	26,710
Depreciation, depletion and amortization	16	12,483	11,917
(Gain)/loss on disposals of property, plant and equipment, investments and impairments		(345)	1,284
Taxes other than income taxes	14	216,065	153,797
Maintenance of social infrastructure and transfer of social assets	10	3,608	2,789
Total costs and other deductions		**403,935**	**311,939**
Other income (expenses)			
Earnings from equity investments	5	786	510
Foreign exchange loss		(1,954)	(920)
Interest income		3,761	4,216
Interest expense, net of amounts capitalized		(483)	(626)
Other (expenses)/income, net		(1,737)	2,637
Total other income		**373**	**5,817**
Income before income taxes and non-controlling interest		**64,470**	**74,526**
Income taxes			
Current income tax expense		(13,774)	(17,527)
Deferred income tax expense		(48)	(29)
Total income tax expense	14	**(13,822)**	**(17,556)**
Net income		**50,648**	**56,970**
Less: net income attributable to non-controlling interest		(3,975)	(2,598)
Net income attributable to Group shareholders		**46,673**	**54,372**
Foreign currency translation adjustments		574	143
Actuarial (loss)/gain on employee benefit plans		(545)	531
Unrealized holding (losses)/gains on available-for-sale securities, net of tax		(3)	486
Comprehensive income		**46,699**	**55,532**
Basic and diluted net income per share (RR)	15		
Common		20.62	24.25
Preferred		20.56	24.15
Weighted average shares outstanding (millions of shares)	15		
Common		2,116	2,095
Preferred		148	148

(in millions of Russian Roubles)

	Year ended December 31, 2010	Year ended December 31, 2009
Operating activities		
Net income	50,648	56,970
Adjustments:		
Depreciation, depletion and amortization	12,483	11,917
Deferred income tax expense	48	29
(Gain)/Loss on disposals of property, plant and equipment, investments and impairments	(345)	1,284
Transfer of social assets	675	324
Effects of foreign exchange	1,556	12
Equity investments earnings net of dividends received	(392)	(153)
Change of allowance for doubtful accounts	333	(2,887)
Accretion of asset retirement obligation	3,905	3,537
Change in fair value of trading securities	(382)	(1,835)
Other	1,209	(879)
Changes in operational working capital, excluding cash:		
Accounts receivable	(11,282)	(18,500)
Inventories	(3,531)	2,391
Prepaid expenses and other current assets	(1,698)	642
Trading securities	(370)	2,406
Related parties	376	669
Trade accounts payable	318	2,559
Other accounts payable and accrued liabilities	2,597	3,321
Taxes payable	275	4,985
Notes payable	(49)	(173)
Other non-current assets	(497)	(16)
Net cash provided by operating activities	**55,877**	**66,603**
Investing activities		
Additions to property, plant and equipment	(77,901)	(89,254)
Proceeds from disposals of property, plant and equipment	686	545
Proceeds from disposal of investments	4,580	186
Purchase of investments	(4,658)	(368)
Certificates of deposit	3,286	554
Loans and notes receivable	(304)	1,376
Change in restricted cash	9,174	(4,367)
Net cash used in investing activities	**(65,137)**	**(91,328)**
Financing activities		
Proceeds from issuance of debt	115,800	52,881
Repayment of debt	(95,959)	(18,160)
Repayment of capital lease obligations	(151)	(408)
Dividends paid to shareholders	(14,943)	(10,075)
Dividends paid to non-controlling shareholders	(329)	(190)
Purchase of treasury shares	(5)	(58)
Proceeds from sale of treasury shares	9	58
Proceeds from issuance of shares by subsidiaries	77	100
Net cash provided by financing activities	**4,499**	**24,148**
Net change in cash and cash equivalents	**(4,761)**	**(577)**
Cash and cash equivalents at beginning of period	12,841	13,418
Cash and cash equivalents at end of period	**8,080**	**12,841**

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

	2010		2009	
	Shares	**Amount**	**Shares**	**Amount**
Preferred shares:				
Balance at January 1 and December 31 (shares in thousands)	147,509	148	147,509	148
Common shares:				
Balance at January 1 and December 31 (shares in thousands)	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:				
Balance at January 1	66,985	(3,721)	100,089	(3,960)
Acquisitions	1,809	(908)	19,126	(2,504)
Disposals	(9,834)	1,354	(52,230)	2,743
Balance at December 31 (shares in thousands)	58,960	(3,275)	66,985	(3,721)
Additional paid-in capital				
Balance at January 1		95,735		96,171
Treasury share transactions		882		(256)
Acquisitions of subsidiaries		-		(180)
Balance at December 31		96,617		95,735
Accumulated other comprehensive income				
Balance at January 1		1,907		747
Actuarial (loss)/gain on employee benefit plans		(545)		531
Foreign currency translation adjustments		574		143
Unrealized holding (losses)/gains on available-for-sale securities, net of tax		(3)		486
Balance at December 31		1,933		1,907
Retained earnings				
Balance at January 1		209,275		164,991
Net income		46,673		54,372
Dividends		(14,943)		(10,088)
Balance at December 31		241,005		209,275
Non-controlling interest				
Balance at January 1		7,984		4,583
Net income		3,975		2,598
Dividends		(329)		(190)
Change in Group structure		309		993
Balance at December 31		11,939		7,984
Total shareholders' equity at December 31		**350,546**		**313,507**

Note 1: Organization

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

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

As of December 31, 2010 and 2009 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, hold approximately 36% of the Company's voting stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company (see Note 15). The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through OAO Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company's suppliers and contractors.

Note 2: Basis of Presentation

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

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

Effective from the interim period ended September 30, 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.

Effective January 1, 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.

Note 2: Basis of Presentation (continued)

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

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

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

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US $") at December 31, 2010 and 2009 was RR 30.48 and RR 30.24 to US Dollar, respectively. Average rate of exchange for the years ended December 31, 2010 and 2009 were RR 30.37and RR 31.72 per US Dollar, respectively.

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

Reclassifications. Certain reclassifications have been made to previously reported balances to conform to the current year presentation; such reclassifications had no effect on net income, shareholders' equity or cash flows.

Note 3: Summary of Significant Accounting Policies

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

At December 31, 2010 and 2009, cash and cash equivalents of the Group, include US Dollar denominated amounts of RR 1,841 million (US $60 million) and RR 2,722 million (US $90 million), respectively.

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

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

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

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

Note 3: Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

Note 3: Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

Note 3: Summary of Significant Accounting Policies (continued)

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

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

Revenue recognition. Revenues from the production and sale of crude oil, petroleum and petrochemical products and all other products are recognized when deliveries of products to final customers are made, title passes to the customer, collection is reasonably assured and sales price to final customers is fixed or determinable. Revenues include excise on petroleum products sales and duties on export sale of crude oil and petroleum products of RR 143,269 million and RR 97,515 million at December 31, 2010 and 2009, respectively. All revenues are shown net of Value Added Tax (VAT).

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

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

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

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

The Company accounts for its Awards under the liability method prescribed in ASC 718. The fair value of the Awards is determined using the Black-Scholes valuation model at the grant date and subsequently remeasured each interim reporting period. The liability at December 31, 2010 and 2009 is determined based on the final expected bonus payments. The Awards are recognized as expense over the annual service period, net of forfeitures, with a corresponding liability to other accounts payable and accrued liabilities.

For the year ended December 31, 2010, the Company issued 6,740,000 Awards to senior management and directors, all of which are expected to be settled at a price of RR 161.17 per Award. Final settlement is subject to approval at the Company's Management Committee meeting in July-September 2011. For the year ended December 31, 2009, the Company issued 7,909,000 Awards to senior management and directors, all of which were settled at a price of RR 161.17 per Award. The amount of related compensation expense recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2010 and 2009 was RR 1,061 million and RR 1,173 million, respectively.

Note 3: Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

New accounting standards adopted. Effective 1 January 2008, the Group adopted the authoritative guidance of ASC 820, Fair Value Measurements and Disclosures, as it relates to items that are recognized at fair value in the financial statements on a recurring basis. For the recognition, measurement and disclosure of nonfinancial assets and liabilities measured at fair value on a non-recurring basis, the guidance of ASC 820 became effective for the Group on 1 January 2009. The guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective January 1, 2009, the Group adopted the authoritative guidance of ASC 805, Business Combinations. ASC 805 provides guidance for recognition and measurement in the financial statements of identifiable assets acquired, liabilities assumed and non-controlling interest in the acquire. ASC 805 similarly provides guidance for accounting for goodwill acquired in a business combination or a gain arising from a bargain purchase. This guidance also enquires the Group to recognize acquired contingencies at fair value on the acquisition date if fair value can be reasonably estimated during the allocation period. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective January 1, 2009, the Group adopted the authoritative guidance of ASC 815, Derivatives and Hedging, as it relates to disclosures on derivatives and hedging activities. This guidance requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under ASC 815, Derivatives and Hedging, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The adoption of this guidance had no material effect on Group's results of operation, financial position or liquidity.

Effective January 1, 2009, the Group adopted the authoritative guidance of ASC 350, Intangibles - Goodwill and Other, and ASC 275, Risks and Uncertainties, as it relates to determining the useful life of intangible assets. This guidance was issued to improve the consistency between the useful life of a recognized intangible asset under ASC 350, Intangibles - Goodwill and Other, and the period of expected cash flows used to measure the fair value of the asset under ASC 805, Business Combinations, and other accounting guidance. The guidance for determining the useful life of a recognized intangible asset is to be applied prospectively. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Note 3: Summary of Significant Accounting Policies (continued)

Effective January 1, 2009, the Group adopted the authoritative guidance of ASC 323, Investments – Equity Method and Joint Ventures, as it relates to certain issues raised by ASC 805, Business Combinations, and ASC 810, Consolidation, in respect to equity method accounted investments, including impairment considerations. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective from the interim period ended on June 30, 2009, the Group adopted the authoritative guidance of ASC 855, Subsequent Events. This guidance sets forth the period after the balance sheet date during which events or transactions that may occur should be evaluated for potential recognition or disclosure in the financial statements, the circumstances under which events or transactions occurring after the balance sheet date should be recognized in financial statements and the disclosures that should be made about events or transactions that occurred after the balance sheet date. The guidance introduced the concept of financial statements being available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective from the interim period ended on June 30, 2009, the Group adopted the authoritative guidance of ASC 820, Fair Value Measurements and Disclosures, as it relates to estimating the fair value when the volume and level of activity for the asset or liability have significantly decreased. This guidance also clarifies the approach for identifying circumstances that indicate a transaction is not orderly. This guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation techniques used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective from the interim period ended on June 30, 2009, the Group adopted the authoritative guidance of ASC 825, Financial Instruments, as it relates to fair value disclosures of financial instruments in interim financial statements. This guidance requires fair value disclosures for financial instruments on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The adoption of this guidance had no material effect on the Group's results of operations, financial position or liquidity.

Effective December 31, 2009, the company implemented the expanded disclosure requirements for the plan assets of defined benefit pension plans (ASC 715) to provide users of financial statements with an understanding of: how investment allocation decisions are made; the major categories of plan assets; the inputs and valuation techniques used to measure the fair value of plan assets; the effect of fair-value measurements using unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets.

In January 2010, ASU No. 2010-2, Accounting and Reporting for Decreases in Ownership of a Subsidiary, a Scope Clarification, was issued and became effective for the Group from the annual reporting period ended 31 December 2009. This ASU clarifies that transactions involving transfer of a subsidiary or group of assets that constitutes a business to an equity method investee or joint-venture and exchange of a group of assets for a non-controlling interest in an entity are included in the scope of ASC 810, Consolidation. This ASU also expands disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets. The adoption of this ASU had no material effect on the Group's results of operations, financial position or liquidity.

In January 2010, ASU No 2010-3, Oil and Gas Reserves Estimation and Disclosures, was issued and became effective for the Group from the annual reporting period ended 31 December 2009. This ASU amends oil and gas reserves estimation and disclosure requirements in ASC 932, Extractive Industry – Oil and Gas, to align it with the Securities and Exchange Commission's final rule, Modernization of the Oil and Gas Reporting Requirements, issued in December 2008. This ASU revised the definition of the oil- and gas-producing activities to classify non-traditional resources as reserves. The definition of proved oil and gas reserves was amended, so that the Group is required to use average, first-day-of-the-month price during the previous 12 month period rather than the year-end price in determining reserves quantities which are economical to produce. The revised guidance requires presenting expanded disclosures about the Group's equity affiliates in the same level of detail as disclosures about its consolidated subsidiaries. The adoption of this ASU had no material effect on the Group's results of operations, financial position or liquidity. The presentation of Supplemental Information on Oil and Gas Exploration and Production activities was amended prospectively in accordance with the requirements of the ASU.

Note 3: Summary of Significant Accounting Policies (continued)

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 January 1, 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 February 2010, ASU No. 2010-9, Amendments to Certain Recognition and Disclosure Requirements, was issued and became effective for the Group upon issuance. This ASU amends ASC 855, Subsequent Events, and requires an entity which is either a Securities and Exchange Commission filer or a conduit bond obligor for conduit debt securities that are traded in a public market to evaluate subsequent events through the date that the financial statements are issued. An entity that meets neither of those criteria is required to evaluate subsequent events through the date the financial statements are available to be issued. Pursuant to the requirements of this ASU, the Group evaluates subsequent events through the date the financial statements are available to be issued.

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

(in millions of Russian Roubles)

Note 4: Accounts Receivable

Accounts receivable are as follows:

	At December 31, 2010			At December 31, 2009		
	Total accounts receivable	Accounts receivable from related parties (Note 17)	Accounts receivable	Total accounts receivable	Accounts receivable from related parties (Note 17)	Accounts receivable
Trade - domestic	18,407	1,638	16,769	14,315	209	14,106
Trade - export	28,971	-	28,971	22,130	-	22,130
Other receivables	7,553	342	7,211	7,913	342	7,571
Total accounts receivable, net	**54,931**	**1,980**	**52,951**	**44,358**	**551**	**43,807**

Accounts receivables are presented net of an allowance for doubtful accounts of RR 10,465 million and RR 10,171 million at December 31, 2010 and 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 December 31, 2010 and 2009, relating to the sale of crude oil to Ukraine (Kremenchug refinery) (Note 19).

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

Note 5: Short and Long-Term Investments

Short-term investments are classified as follows:

	At December 31, 2010	At December 31, 2009
Certificates of deposit	9,923	17,781
Trading securities	8,055	7,220
Total short-term investments	**17,978**	**25,001**
Less: due from related parties (Note 17)	(8,782)	(14,387)
Short-term investments, net	**9,196**	**10,614**

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

	At December 31, 2010	At December 31, 2009
Russian government debt securities	1,217	1,079
Corporate debt securities	2,391	1,887
Equity securities	4,447	4,254
Total trading securities	**8,055**	**7,220**
Less: corporate debt securities due from related parties (Note 17)	(129)	(46)
Trading securities, net	**7,926**	**7,174**

(in millions of Russian Roubles)

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

Long-term investments are as follows:

	Ownership percentage at December 31,		Net book value at December 31,		Group's share of income/(loss) for the years ended December 31,	
	2010	2009	2010	2009	2010	2009
Investments in equity affiliates and joint ventures:						
ZAO Tatex	50	50	2,105	1,997	219	130
IPCG Fund	-	49	-	3,619	(362)	(141)
Bank Zenit	25	25	5,200	4,614	899	513
Osmand Holdings Ltd	30	30	2,663	2,592	69	(3)
MARS Emerging Markets Fund Limited	33	-	580	-	-	-
Other	20-50	20-50	816	728	(39)	11
Total investments in equity affiliates and joint ventures / income			**11,364**	**13,550**	**786**	**510**
Long-term investments, at cost:						
ZAO Ukrtatnafta (Note 19)	9	9	-	-		
Other	0-20	0-20	954	1,046		
Total long-term investments, at cost			**954**	**1,046**		
Long-term certificates of deposit			7,418	2,846		
Less: due from related parties (Note 17)			(3,913)	(2,846)		
Total long-term investments			**15,823**	**14,596**		

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

During the years ended December 31, 2010 and 2009 the Group received dividends from equity investees of RR 394 million and RR 357 million, respectively.

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

	2010	2009
Sales / interest income	25,393	26,865
Net income	4,465	3,770
Current assets	177,847	168,642
Long-term assets	47,137	61,455
Current liabilities	135,525	131,900
Long-term liabilities	46,564	36,198

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 2,663 million as at December 31, 2010, respectively.

In 2009 Osmand owned 39.9 million Tatneft common shares which were accounted for as treasury shares by the Group. As a result of the Group's change in interest in Osmand and sale of a portion of Tatneft shares by Osmand in June 2009 28.8 million shares previously classified as treasury shares of the Group were no longer reflected as treasury shares resulting an increase in additional paid in capital of shareholders' equity of RR 1,275 million as of December 31, 2009.

As of 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 is accounted for as treasury shares.

During the year ended December 31, 2009 IPCG Fund disposed of 9.6 million Tatneft common shares. This transaction was accounted for by the Group as a disposal of treasury shares and resulted in an increase in the carrying value of the Group's investment in IPCG Fund, a decrease in treasury shares of RR 141 million and an increase in additional paid in capital of RR 431 million.

(in millions of Russian Roubles)

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

In December 2008 the Group submitted a redemption request to IPCG Fund to redeem a part of its holding in the fund. IPCG Fund accepted this request subject to certain conditions which were met in May 2009. The redemption was performed (on a non cash basis) by delivering to the Group 51% shares in TANECO. As a result, the Group currently owns 91% in TANECO. Also as a result of the redemption, the Group's investment in IPCG Fund decreased by RR 1,424 million with a corresponding decrease in additional paid in capital of shareholders' equity of RR 1,962 million as of December 31, 2009.

Subsequent to this redemption the Group's interest in IPCG Fund increased from 35.74% to 49.07% as a result of other transactions. This increase in the Group interest in IPCG Fund resulted in an increase in treasury shares of RR 1,871 million in 2009.

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

Note 6: Inventories

Inventories are as follows:

	At December 31, 2010	At December 31, 2009
Materials and supplies	6,448	5,454
Crude oil	4,564	3,546
Refined oil products	1,801	1,146
Petrochemical supplies and finished goods	2,327	1,538
Total inventories	**15,140**	**11,684**

Note 7: Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are as follows:

	At December 31, 2010	At December 31, 2009
VAT recoverable	7,271	9,778
Advances	7,784	4,896
Prepaid export duties	8,122	7,333
Prepaid income tax	694	350
Prepaid transportation expenses	1,035	933
Other	2,527	1,937
Prepaid expenses and other current assets	**27,433**	**25,227**

(in millions of Russian Roubles)

Note 8: Loans and notes receivable

Loans and notes receivable are as follows:

	At December 31, 2010	At December 31, 2009
Notes receivable	4,108	2,575
Loans to employees	630	699
Other foreign currency denominated loans receivable	1,966	1,512
Other Russian Rouble denominated loans receivable	7,707	7,941
Total loans and notes receivable	**14,411**	**12,727**
Less: current portion of loans receivable and short-term loans	(2,275)	(3,185)
Less: due from related parties (Note 17)	(9,792)	(7,222)
Total long-term loans and notes receivable	**2,344**	**2,320**

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

Loans and notes receivable, excluding amounts due from related parties, reported as of December 31, 2009 in the amounts of RR 615 million, RR 637 million and RR 1,068 million mature in 2011, 2012 and thereafter (2013-2024), respectively.

The fair value of loans and notes receivable is approximately RR 13,525 million and RR 10,773 million as of December 31, 2010 and 2009 assuming a discount rate of 7.75% and 9% as of December 31, 2010 and 2009, respectively (CBR interbank refinancing rate).

Loans and notes receivable are presented net of an allowance for doubtful accounts of RR 801 million and RR 1,741 million at December 31, 2010 and 2009, respectively.

Note 9: Other long-term assets

Other long-term assets are as follows:

	At December 31, 2010	At December 31, 2009
Deferred financing cost	3,059	1,578
Long-term accounts receivable	2,272	2,584
Prepaid license agreements	375	277
Non-current deferred tax assets (Note 14)	2,980	2,209
Prepaid computer programs	2,655	2,084
Other long-term assets	1,456	502
Total other long-term assets	**12,797**	**9,234**
Less: due from related parties (Note 17)	(33)	(3)
Total other long-term assets, net	**12,764**	**9,231**

Long-term accounts receivables are presented net of an allowance for doubtful accounts of RR 363 million and RR 463 million at December 31, 2010 and 2009, respectively.

(in millions of Russian Roubles)

Note 10: Property, Plant and Equipment

Property, plant and equipment are as follows:

	Cost	Accumulated depreciation, depletion and amortization	Net book value
Oil and gas properties	307,989	130,734	177,255
Buildings and constructions	40,002	14,776	25,226
Machinery and equipment	65,855	49,854	16,001
Assets under construction	175,294	-	175,294
December 31, 2010	**589,140**	**195,364**	**393,776**
Oil and gas properties	291,139	125,406	165,733
Buildings and constructions	32,541	13,460	19,081
Machinery and equipment	56,068	49,077	6,991
Assets under construction	133,352	-	133,352
December 31, 2009	**513,100**	**187,943**	**325,157**

As of December 31, 2010 and 2009, oil and gas properties include RR 4,715 million and RR 5,982 million, respectively, of unproved properties.

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

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group's existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2011 and 2043. The economic lives of many of the Group's licensed fields extend beyond these dates. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a license to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production in the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has the right to extend the license term so long as it has not violated the conditions of the license. In August 2006, the term of the Group's license to produce oil and gas from the Group's largest field, Romashkinskoye, was extended through 2038. And the license to produce oil and gas from the Group's second largest field, Novo-Elkhovskoe, was extended through 2026. The Group's right to extend licenses is, however, dependent on the Group continuing to comply with the terms of the licenses, and management has the ability and intent to do so.

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

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

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

(in millions of Russian Roubles)

Note 10: Property, Plant and Equipment (continued)

Asset Retirement Obligations.

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

Asset Retirement Obligations

	At December 31, 2010	At December 31, 2009
Balance, beginning of period	**39,049**	**35,374**
Accretion of discount	3,905	3,537
New obligations	220	169
Spending on existing obligations	(32)	(31)
Balance, end of period	**43,142**	**39,049**
Less: current portion of asset retirement obligations (Note 12)	(134)	(122)
Long-term balance, end of period	**43,008**	**38,927**

Capital leases. The Group leases machinery and equipment.

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

	At December 31, 2010	At December 31, 2009
Machinery and equipment	7,113	7,113
Less: accumulated amortization	(6,459)	(5,797)
Net book value of machinery and equipment under capital leases	**654**	**1,316**

The following is a schedule by year of future lease payments under capital leases together with the present value of the future minimum lease payments as of December 31, 2010:

Year ended December 31:	
2011	37
2012	-
2013	-
2014	-
2015	-
Total future lease payments	**37**
Less interest	(3)
Present value of future minimum lease payments	**34**
Less current portion	(34)
Long-term portion of capital lease obligations	**-**

Social assets. During the years ended December 31, 2010 and 2009 the Group transferred social assets with a net book value of RR 675 million and RR 324 million, respectively, to local authorities. At December 31, 2010 and 2009, the Group held social assets with a net book value of RR 2,932 million all of which were constructed after the privatization date. The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 2,933 million and RR 2,465 million for the years ended December 31, 2010 and 2009, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

(in millions of Russian Roubles)

Note 10: Property, Plant and Equipment (continued)

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

Balance as of 31 December 2010	**9,550**
Additions	2,772
Acquisition of subsidiaries	-
Reclassification to production wells	(438)
Balance as of 31 December 2009	**7,216**
Additions	1,899
Acquisition of subsidiaries	1,909
Reclassification to production wells	(1,250)
Balance as of 31 December 2008	**4,658**

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

Note 11: Debt

Short-term and long-term debt as follows:

	At December 31, 2010	**At December 31, 2009**
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	30,213	63,217
Other foreign currency denominated debt	970	7,318
Rouble denominated debt		
Current portion of long-term debt	60	26
Other rouble denominated debt	5,061	925
Less: due to related parties (Note 17)	(1,971)	(258)
Total short-term debt	**34,333**	**71,228**
Long-term debt		
Foreign currency denominated debt		
US $2.0 bln 2010 credit facility	60,954	-
US $1.5 bln 2009 credit facility	37,043	7,561
US $2.0 bln 2007 credit facility	-	60,488
Other foreign currency denominated debt	1,814	10,315
Rouble denominated debt		
Bonds	5,000	-
Other rouble denominated debt	1,068	1,467
Less: due to related parties (Note 17)	(585)	-
Total long-term debt	105,294	79,831
Less: current portion	(30,273)	(63,243)
Total long-term debt, net of current portion	**75,021**	**16,588**

Note 11: Debt (continued)

Foreign currency debts are primarily denominated in US Dollars.

Short-term foreign currency denominated debt. In December 2003 the Group entered into a RR 1,034 million (US $35 million) one month revolving credit facility with Credit Suisse Zurich. The monthly revolving loan bears interest at one month LIBOR plus varying margin of 1.785% per annum and is collateralized by crude oil sales. The amount of loan outstanding as of December 31, 2010 and 2009 was RR 4 million (US $0.1 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. During the year ended December 31, 2010 the Group partially repaid the credit received of RR 45 million (US $1.5 million). The amount of loans outstanding as of December 31, 2010 and 2009 was RR 716 million (US $23.5 million) and RR 756 million (US $25 million), respectively.

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, TANECO entered into a senior secured credit facility arranged by ABN AMRO, BNP Paribas (Suisse) SA, Citibank International PLC, Bayerische Hypo-und Vereinsbank AG, Sumitomo Mitsui Finance Dublin and WestLB AG, for US$ 2.0 billion to be used in the construction of TANECO's refinery and petrochemical complex. BNP Paribas is the lender of record in this credit facility. The 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 and guarantee collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG for the supply of 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 rouble denominated debt. In August 2010, the Company entered into a RR 2,500 million (US $82 million) credit agreement with Ak Bars Bank. The loan bears interest 8% per annum and matures in March 2011. The amount of loans outstanding as of December 31, 2010 is RR 2,500 million (US $82 million). The loan was repaid in full in February 2011.

Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 5,061 million and RR 925 million bear contractual interest rates of 8.0% to 10.0% and 7.3% to 19.5% per annum for the years ended December 31, 2010 and 2009, respectively.

Long-term foreign currency denominated debt. In September 2009, the Company entered into a two-years RR 9,073 million (US $300 million) unsecured loan agreement with Bank of Moscow. The loan 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 December 31, 2010 and 2009 was RR 37,043 million (US $1,215 million) and RR 7,561 million (US $250 million), respectively, including the current portion. As of December 31, 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 480,000 metric tones of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The loan bears interest at LIBOR plus 3.10% and 4.10% for the 3 and 5 year tranches, respectively.

In 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 December 31, 2010, was RR 60,954 million (US $2,000 million), including the current portion. The loan is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than 750,000 metric tones of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. Prior to February 2011, the loan bore interest at LIBOR plus 3.10% for the 3-year tranche and 4.10% for the 5-year tranche (see note 20). The 7-year tranche bears the interest of LIBOR plus 5%.

(in millions of Russian Roubles)

Note 11: Debt (continued)

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

Management believes that for the year ended December 31, 2010 the Group was in compliance with all covenants required by the above loan agreements.

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

Aggregate maturities of long-term debt outstanding at December 31, 2010 are as follows:

2011	30,273
2012	35,042
2013	21,835
2014	10,773
2015	4,734
2016	1,033
Thereafter	1,604
Total long-term debt	**105,294**

Interest paid during the years ended December 31, 2010 and 2009 was 4,291 million and RR 2,325 million, respectively.

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

Note 12: Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities are as follows:

	At December 31, 2010	At December 31, 2009
Salaries and wages payable	3,194	4,355
Advances received from customers	3,735	-
Insurance provision	1,944	1,636
Dividends payable	119	207
Current portion of asset retirement obligations (Note 10)	134	122
Current deferred tax liability (Note 14)	1,591	1,261
Other accrued liabilities	5,211	7,194
Less: due to related parties (Note 17)	(67)	(513)
Total other accounts payable and accrued liabilities	**15,861**	**14,262**

(in millions of Russian Roubles)

Note 13: Pensions and Post Employment Benefits

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

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

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

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

The following table provides information about the benefit obligations, plan assets and actuarial assumptions used as of December 31, 2010 and 2009. The benefit obligations below represent the projected benefit obligations of the Group's benefit plans.

	At December 31, 2010	At December 31, 2009
Benefit Obligations		
Benefit obligations as of January 1	2,898	3,095
Effect of exchange rate changes	1	3
Service cost	97	162
Interest cost	275	325
Benefit paid	(370)	(386)
Actuarial (loss)/gain	699	(373)
Other	465	72
Benefit obligations as of December 31	**4,065**	**2,898**
Plan Assets		
Fair value of plan assets as of January 1	1,134	1,219
Actual return on plan assets	102	350
Contributions	211	220
Benefit paid	(144)	(230)
Actuarial gain	154	1
Other	(6)	(426)
Fair value of plan assets as of December 31	**1,451**	**1,134**
Under funded status at end of year	**2,614**	**1,764**

Amounts recognized in the consolidated balance sheet	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Accrued benefit liabilities included in "other accounts payable and accrued expenses"	(216)	(278)
Accrued benefit liabilities included in "other long-term liabilities"	(2,398)	(1,486)
Net amount recognized	**(2,614)**	**(1,764)**

(in millions of Russian Roubles)

Note 13: Pensions and Post Employment Benefits (continued)

Assumptions:	**Year ended December 31, 2010**	**Year ended December 31, 2009**
Discount rate	8.0%	9.5%
Expected return on plan assets	9.0%	9.0%
Rate of increase in salary levels	7.0%	7.0%

Components of net periodic benefit costs were as follows:

	Year ended December 31, 2010	**Year ended December 31, 2009**
Service cost	97	162
Interest cost	275	325
Less expected return on plan assets	(102)	(193)
Effect of exchange rates	1	3
Disposals	6	-
Other	465	498
Total net periodic benefit costs	**742**	**795**

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

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

Type of assets	**At December 31, 2010**	**At December 31, 2009**
Russian corporate bonds	599	513
Equity securities of Russian issuers	272	318
Russian government and regions bonds	441	161
Bank deposits	98	90
Other	41	52
Total	**1,451**	**1,134**

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

	2011	**2012**	**2013**	**2014**	**2015**	**2016-2020**
Pension benefits	238	201	191	197	203	981
Other long-term employee benefits	216	171	158	162	167	872
Total expected benefits to be paid	**454**	**372**	**349**	**359**	**370**	**1,853**

(in millions of Russian Roubles)

Note 14: Taxes

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following December 31, 2010 and 2009:

	At December 31, 2010	At December 31, 2009
Accounts receivable	112	64
Obligations under capital leases	7	37
Tax loss carry forward	3,466	2,537
Other	701	732
Deferred tax assets	**4,286**	**3,370**
Property, plant and equipment	(14,118)	(12,899)
Inventories	(1,070)	(1,051)
Long-term investments	(128)	(621)
Undistributed Earnings	(697)	(852)
Other liabilities	(772)	(387)
Deferred tax liabilities	**(16,785)**	**(15,810)**
Net deferred tax liability	**(12,499)**	**(12,440)**

Tax loss carry forward expires mainly between 2017 and 2020.

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

	At December 31, 2010	At December 31, 2009
Non-current deferred tax assets (Note 9)	2,980	2,209
Current deferred tax liability (Note 12)	(1,591)	(1,261)
Non-current deferred tax liability	(13,888)	(13,388)
Net deferred tax liability	**(12,499)**	**(12,440)**

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

	Year ended December 31, 2010	Year ended December 31, 2009
Income before income taxes and non-controlling interest	64,470	74,526
Theoretical income tax expense at statutory rate	12,894	14,905
Increase due to:		
Non-deductible expenses, net	928	2,651
Income tax expenses	**13,822**	**17,556**

No provision has been made for additional income taxes of RR 4,153 million on undistributed earnings of a foreign subsidiary. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 374 million if they were remitted as dividends.

Income taxes paid during the years ended December 31, 2010 and 2009 was RR 14,640 million and RR 12,502 million, respectively.

(in millions of Russian Roubles)

Note 14: Taxes (continued)

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

	Year ended December 31, 2010	Year ended December 31, 2009
Export duties	142,877	97,169
Unified production tax	68,954	53,571
Property tax	2,018	1,916
Excise taxes	391	346
Penalties and interest	(108)	94
Other	1,933	701
Total taxes other than income taxes	**216,065**	**153,797**

Effective January 1, 2007, the base tax rate formula for unified production tax was modified to provide a benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. Under the new rules, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As the Company's largest field, Romashkinskoe, along with certain other fields are more than 80% depleted, the Company received a benefit of approximately RR 10.4 billion and RR 7.0 billion for the years ended December 31, 2010 and 2009, respectively.

At December 31, 2010 and 2009, taxes payable were as follows:

	At December 31, 2010	At December 31, 2009
Unified production tax	6,991	5,485
Value Added Tax on goods sold	1,430	2,526
Other	2,162	2,310
Total taxes payable	**10,583**	**10,321**

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

Authorized share capital. At December 31, 2010 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share.

Golden share. OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, as of December 31, 2010 holds approximately 33.59% of the Company's capital stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share" – a special governmental right – in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and Revision Committee of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company's suppliers and contractors, such as the electricity producer OAO Tatenergo and the petrochemicals company OAO Nizhnekamskneftekhim (see also Note 1).

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

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

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

(in millions of Russian Roubles)

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

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

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from US GAAP (see Note 2). The statutory accounts are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended December 31, 2010 and 2009, the Company had a statutory current profit of RR 38,931 million and RR 50,873 million, respectively.

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

	Year ended December 31, 2010	**Year ended December 31, 2009**
Net income attributable to Group shareholders	46,673	54,372
Common share dividends	(13,975)	(9,436)
Preferred share dividends	(968)	(652)
Income available to common and preferred shareholders, net of dividends	**31,730**	**44,284**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,116	2,095
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,264	2,243
Basic and diluted net income per share (RR)		
Common	20.62	24.25
Preferred	20.56	24.15

Non-controlling interest. Non-controlling interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 329 million and RR 190 million at December 31, 2010 and 2009, respectively.

Note 16: Segment Information

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

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

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

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

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

The Group evaluates performance of its reportable operating segments and allocates resources based on income or losses before income taxes and non-controlling interest not including interest income, expense, earnings from equity investments, other income and monetary effects. Segment accounting policies are the same as those disclosed in Note 3. Intersegment sales are at prices that approximate market.

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

For the year ended December 31, 2009, the Group had four customers which accounted for RR 228,224 million in crude oil sales, comprising 29%, 19%, 14% and 14% respectively of the crude oil sales by the Group during the year.

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

(in millions of Russian Roubles)

Note 16: Segment Information (continued)

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

	Year ended December 31, 2010	Year ended December 31, 2009
Exploration and production		
Domestic own crude oil	54,158	45,792
CIS own crude oil	7,096	14,411
Non – CIS own crude oil	273,105	218,196
Other	3,255	4,474
Intersegment sales	12,884	11,277
Total exploration and production	**350,498**	**294,150**
Refining and marketing		
Domestic sales		
Crude oil purchased for resale	10,933	9,278
Refined products	40,758	37,406
Total Domestic sales	51,691	46,684
CIS sales		
Crude oil purchased for resale	14,438	2,418
Refined products	2,003	1,189
Total CIS sales(1)	16,441	3,607
Non – CIS sales		
Crude oil purchased for resale	15,400	9,982
Refined products	6,092	4,339
Total Non – CIS sales(2)	21,492	14,321
Other	2,770	4,066
Intersegment sales	1,937	1,579
Total refining and marketing	**94,331**	**70,257**
Petrochemicals		
Tires - domestic sales	18,114	14,549
Tires - CIS sales	4,084	3,521
Tires - non-CIS sales	805	793
Petrochemical products and other	2,686	1,555
Intersegment sales	995	1,168
Total petrochemicals	**26,684**	**21,586**
Total segment sales	**471,513**	**385,993**
Corporate and other sales	12,335	8,679
Elimination of intersegment sales	(15,816)	(14,024)
Total sales and other operating revenues	**468,032**	**380,648**

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

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

(in millions of Russian Roubles)

Note 16: Segment Information (continued)

Segment earnings.

	Year ended December 31, 2010	Year ended December 31, 2009
Segment earnings		
Exploration and production	62,066	72,162
Refining and marketing	7,160	4,471
Petrochemicals	(422)	789
Total segment earnings	**68,804**	**77,422**
Corporate and other	(4,706)	(8,713)
Other income	372	5,817
Income before income taxes and non-controlling interest	**64,470**	**74,526**

Segment assets.

	At December 31, 2010	At December 31, 2009
Assets		
Exploration and production	281,976	245,948
Refining and marketing	183,251	132,207
Petrochemicals	24,525	23,496
Corporate and other	77,427	94,091
Total assets	**567,179**	**495,742**

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

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

	Year ended December 31, 2010	Year ended December 31, 2009
Depreciation, depletion and amortization		
Exploration and production	8,026	9,081
Refining and marketing	1,136	906
Petrochemicals	1,090	677
Corporate and other	2,231	1,253
Total segment depreciation, depletion and amortization	**12,483**	**11,917**
Additions to property, plant and equipment		
Exploration and production	18,708	16,455
Refining and marketing	56,218	64,805
Petrochemicals	1,563	5,947
Corporate and other	1,632	2,052
Total additions to property, plant and equipment	**78,121**	**89,259**

During the year ended December 31, 2010 and 2009 the Company recorded RR 3,990 million and RR 1,556 million of capitalized interest as property, plant and equipment additions, respectively.

(in millions of Russian Roubles)

Note 17: Related Party Transactions

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

As of December 31, 2010 and 2009, the Group had RR 8,664 million and RR 6,298 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2011 and 2019, bearing interest between 3.7% and 9.0%. As of December 31, 2010 and 2009, the Group has short and long-term certificates of deposit of RR 12,375 million and RR 11,237 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

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

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

	Year ended December 31, 2010	**Year ended December 31, 2009**
Sales of refined products	36	24
Other sales	1,367	740
Purchases of crude oil	(6,045)	(4,927)
Purchases of refined products	(3)	-
Purchases of electricity	(107)	(193)
Other services	(2,087)	(726)
Other purchases	(217)	(216)

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

For the years ended December 31, 2010 and 2009, the Group sold crude oil on a commission basis from related parties for RR 9,696 million and RR 8,859 million, respectively.

	At December 31, 2010	**At December 31, 2009**
Assets		
Accounts receivable (Note 4)	1,980	551
Notes receivable (Note 8)	3,122	1,150
Short-term certificates of deposit (Note 5)	8,653	14,341
Trading securities (Note 5)	129	46
Loans receivable (Note 8)	701	397
Due from related parties short-term	**14,585**	**16,485**
Long-term certificates of deposit (Note 5)	3,913	2,846
Long-term loans receivable (Note 8)	5,969	5,675
Long-term accounts receivable (Note 9)	33	3
Due from related parties long-term	**9,915**	**8,524**
Liabilities		
Other accounts payable (Note 12)	(67)	(513)
Short-term debt (Note 11)	(1,971)	(258)
Trade accounts payable	(3,097)	(732)
Due to related parties short-term	**(5,135)**	**(1,503)**
Long-term debt (Note 11)	(585)	-
Due to related parties long-term	**(585)**	**-**

Note 18: Financial Instruments and Risk Management

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

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

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

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Marketable securities: The Group has RR 8,055 million and RR 7,220 million in marketable securities as of December 31, 2010 and 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.

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

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

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

Note 19: Commitments and Contingent Liabilities

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

Capital commitments. As of December 31, 2010 and 2009 the Group has outstanding capital commitments of approximately RR 23,086 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 2011 and 2012.

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

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

In 2010 Tax authorities completed tax review of the operations of the Company and its subsidiaries for the years ended December 31, 2008. No adjustments with a material effect on the Group's results of operations or cash flows have been identified as a result of the tax review. Years ended December 31, 2009 and December 31, 2010 remain subject to examination by tax jurisdictions.

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.

Note 19: Commitments and Contingent Liabilities (continued)

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

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

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

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

In October 2007 the existing management of Ukrtatnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently, individuals who obtained the ability to manage Ukrtatnafta took certain actions effectively assisting MFEU in taking control over the shares in Ukrtatnafta owned by SeaGroup and AmRUZ. In addition, Ukrtatnafta subsequently refused to settle its payables to ChMPKP Avto (Note 4), a Ukrainian intermediary that previously purchased crude from the Group for deliveries to Ukrtatnafta. Following this forced change of control of Ukrtatnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its crude oil deliveries to Ukrtatnafta and initiated legal proceedings against the Ukrainian owners in international arbitration. In November 2009 the Business Court of the City of the Poltava Region invalidated the initial purchase of 8.6% of Ukrtatnafta shares by the Company without payment of any compensation to the Company

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the Government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT"). The arbitration concerns losses suffered by Tatneft as a consequence of the forcible takeover of Ukrtatnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russian-Ukraine BIT and to order MFEU to restore Ukrtatnafta's lawful management and pay compensation in excess of US$ 2.4 billion. In September 2010 the arbitral tribunal issued an award confirming that all of Tatneft's claims are admissible and that the tribunal has jurisdiction over the claims. Tatneft's claims will now move forward to the merits stage with the award expected in 2012.

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

Note 20: Subsequent events

We have evaluated the existence of both recognized and unrecognized subsequent events through the date of this report April 22, 2011 and have deemed no adjustments or additional disclosures are necessary.

In February 2011 the Company reached an agreement with the lenders under the US $2 billion 2010 facility 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 February 2011 the Company also reached an agreement with the lenders under the US $1,500 million 2009 facility to substantially decrease the amount of crude oil volumes used as collateral for this facility. The crude oil volumes used as collateral decreased from 480,000 to 360,000 metric tons of oil in a calendar quarter.

Note 20: Subsequent events (continued)

As a result of a recent turmoil in Libya, the Group had to entirely suspend its operations there and evacuate all its personnel. The Group is not certain if and when it is able to resume its operations in Libya. Currently the Group is not able to assess the impact of these events on the Group's financial statements. As of December 31, 2010 the company had approximately RR 5,224 million of assets associated with its Libyan operations of which RR 4,781 million is related to capitalized exploration costs, RR 219 million of inventories and RR 224 million of cash.

(in millions of Russian Roubles)

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

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

The following information presents the quantities of proved oil and gas reserves and changes thereto as at and for the years ended 31 December 2010 and 2009.

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

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

Oil Exploration and Production Costs

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

Costs Incurred in Exploration and Development Activities

	Year ended December 31, 2010	Year ended December 31, 2009
Exploration costs	5,256	5,300
Development costs	15,367	15,312
Total costs incurred in exploration and development activities	**20,623**	**20,612**

Property acquisitions for the years ended December 2010 and 2009 are immaterial to the Group's oil activities.

Capitalized Costs of Oil Properties

	At December 31, 2010	At December 31, 2009
Wells, support equipment and facilities	303,274	285,157
Unproved properties	14,264	13,197
Uncompleted wells, equipment and facilities	2,586	3,780
Total capitalized costs of oil properties	**320,124**	**302,134**
Accumulated depreciation, depletion and amortization	(130,734)	(125,406)
Net capitalized costs of oil properties	**189,390**	**176,728**

(in millions of Russian Roubles)

Results of Operations for Oil Producing Activities

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

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

	Year ended December 31, 2010	Year ended December 31, 2009
Revenues from net production:		
Sales	334,359	278,399
Transfers[1]	12,884	11,277
Total revenues from net production	**347,243**	**289,676**
Less:		
Production and operating costs[2]	55,221	49,549
Exploration expenses	2,068	3,540
Depreciation, depletion and amortization	8,026	9,081
Taxes other than income taxes	212,938	151,971
Related income taxes	13,798	15,107
Results of operations for oil and gas producing activities	**55,192**	**60,428**

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

The average sales price (including transfers) per ton for 2010 and 2009 are RR 13,551 and RR 11,001 respectively. The average production and operating cost per ton for 2010 and 2009 are RR 2,124 and RR 1,898, respectively.

Proved Oil Reserves

As determined by the Group's independent reservoir engineers, Miller and Lents, Ltd., the following information presents the balances of proved oil reserves at December 31, 2010 and 2009. The definitions used are in accordance with applicable US Securities and Exchange Commission ("SEC") regulations.

Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. The Group's existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2011 and 2043. Management believes the licenses may be extended at the initiative of the Group and management expects to extend such licenses for properties expected to produce subsequent to their license expiry date. The Group has disclosed information on proved oil and gas reserve quantities and standardized measure of discounted future net cash flows for periods up to and past license expiry dates separately.

(in millions of Russian Roubles)

Proved Oil Reserves (continued)

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

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

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

“Net” reserves exclude quantities due to others when produced.

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

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

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

Net proved reserves of crude oil at December 31, 2009:

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Net proved developed producing reserves	2,335	328	1,255	176	3,590	504
Net proved developed non-producing reserves	1,265	178	1,119	157	2,384	335
Net proved developed reserves	**3,600**	**506**	**2,374**	**333**	**5,974**	**839**
Net proved undeveloped reserves	75	11	92	12	167	23
Net proved developed and undeveloped reserves	**3,675**	**517**	**2,466**	**345**	**6,141**	**862**

(in millions of Russian Roubles)

Movements in Proved Oil Reserves

	Net proved reserves of crude oil recoverable up to license expiry dates		Net proved reserves of crude oil recoverable past license expiry dates		Total net proved reserves of crude oil	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Balance at December 31, 2008	**3,623**	**508**	**2,002**	**282**	**5,625**	**790**
Revisions	238	35	464	63	702	98
Production	(186)	(26)	-	-	(186)	(26)
Balance at December 31, 2009	**3,675**	**517**	**2,466**	**345**	**6,141**	**862**
Revisions	708	98	(681)	(94)	27	4
Production	(186)	(26)	-	-	(186)	(26)
Balance at December 31, 2010	**4,197**	**589**	**1,785**	**251**	**5,982**	**840**

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

The standardized measure of discounted future net cash flows is calculated in accordance with ASC 932, which requires measurement of future net cash flows by applying average, first-day-of-the-month prices, and year-end costs and an annual discount factor of ten percent to year-end quantities of estimated net proved reserves using a standardized formula. The calculations assumed the continuation of existing political, economic, operating and contractual conditions at each of December 31, 2010 and 2009. However, such arbitrary assumptions have not necessarily proven to be the case in the past and may not in the future. Other assumptions of equal validity would give rise to substantially different results. As a result, future cash flows calculated under this methodology are not necessarily indicative of the Group's future cash flows nor the fair value of its oil reserves.

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

The net price used in the forecast of future net revenue is the weighted average year end price received for sales domestically, for exports to Commonwealth of Independent States ("CIS") countries, and for exports to non-CIS countries, after adjustments, where applicable, for certain costs, duties, and taxes. The weighted average net prices per ton used in the forecasts for 2010 and 2009, are US $233.06 and US $199.98 (US $32.72 and US $28.08 per barrel), respectively. The Company determined the appropriate mix between domestic sales, exports to CIS countries and exports to non-CIS countries using historic percentages which are supported by export quotas granted by the Government or otherwise available to the Company. The Company assumes that the current level of export quotas will remain unchanged through the life of reserves.

	As of December 31, 2010	**As of December 31, 2009**
	Future cash flows attributable to total recoverable net proved reserves	Future cash flows attributable to total recoverable net proved reserves
Future cash inflows from production	6,363,682	5,493,325
Future production costs	(3,781,404)	(2,978,580)
Future development costs	(199,744)	(188,733)
Future income taxes	(464,394)	(455,042)
Future net cash flows	**1,918,140**	**1,870,970**
10% annual discount	(1,372,560)	(1,328,718)
Discounted future net cash flows	**545,580**	**542,252**

(in millions of Russian Roubles)

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

	Year ended December 31, 2010 Future cash flows attributable to total net proved reserves	**Year ended December 31, 2009** Future cash flows attributable to total net proved reserves
Beginning of year	**542,252**	**179,875**
Sales and transfers of oil produced, net of production costs and other operating expenses	(79,084)	(88,157)
Net change in prices received per ton, net of production costs and other operating expenses	(11,698)	435,952
Change in estimated future development costs	(8,691)	(11,611)
Development costs incurred during the period	15,367	15,312
Revisions of quantity estimates	23,683	54,661
Net change in income taxes	(528)	(90,240)
Accretion of discount	59,556	19,085
Other	4,723	27,375
End of year	**545,580**	**542,252**

For the years ended December 31 2010 and 2009 discounted future cash flows for total net proved reserves include RR 37,121 million and RR 75,848 million, respectively, attributable to net proved reserves recoverable past license expiry dates.