Management's Discussion and Analysis

The following discussion should be read in conjunction with the audited consolidated financial statements prepared in accordance with US GAAP and the related notes, published simultaneously with this MD&A. This discussion includes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including certain factors discussed later in this MD&A.

For financial reporting purposes, Tatneft converts metric tonnes of crude oil to barrels using a conversion factor of 7.123. This factor represents a blend of varying conversion factors specific to each of Tatneft's fields. Because the proportion of actual production by field varies from period to period, total reserves and production volumes for the Group in barrels converted from tonnes using the blended rate may differ from total reserves and production calculated on a field by field basis. Translations of cubic meters to cubic feet were made at the rate of 35.31 cubic feet per cubic meter. Translations of barrels of crude oil into barrels of oil equivalent ("BOE") were made at the rate of 1 barrel per BOE and of cubic feet into BOE at the rate of 6 thousand cubic feet per BOE.

Background

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as the "Group" or "Tatneft") is one of the largest vertically integrated oil companies in Russia in terms of crude oil production and proved oil reserves. The Company is an open joint-stock company organized under the laws of the Russian Federation with the headquarters located in City of Almetyevsk, Tatarstan. The principal business of the Group is to explore for, develop, produce and market crude oil and refined products. The Group is also involved in petrochemical (tires) production and expanding its activities to further develop its refining segment.

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. 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.

The majority of the Group's crude oil and gas production and other operations are located in Tatarstan, a republic of the Russian Federation situated between the Volga River and the Ural Mountains and located approximately 750 kilometers southeast of Moscow.

The Group currently holds most of the exploration and production licenses and produces substantially all its crude oil in Tatarstan.

The Group's total proved reserves of crude oil and condensate were 840 million tonnes or 5,982 million barrels and 862 million tonnes or 6,141 million barrels at January 1, 2011 and 2010, respectively.

Key financial and operational results

	Year ended December 31, 2010	Change	Year ended December 31, 2009
Sales (millions of RR)	468,032	22.96%	380,648
Net income attributable to Group shareholders (millions of RR)	46,673	(14.16)%	54,372
EBITDA [(*)] (millions of RR)	73,675	(11.08)%	82,853
Basic and Diluted net income per share of common stock (RR)			
Common……………	20.62	(14.97)%	24.25
Preferred……………...	20.56	(14.87)%	24.15
Crude oil production by the Group (thousands of tonnes)	26,112	0.0%	26,107
Crude oil production by the Group (thousands of barrels)	185,996	0.0%	185,957
Gas production by the Group (millions of cubic meters)	811.2	(1.7)%	825.1
Refined gas products produced (thousands of tonnes)	1,084.3	1.1%	1,072.9
Crude and condensate proved reserves (millions of bbl)	5,982	(2.6)%	6,141

[(*)] *As defined on page 15*

Our net income in 2010 was RR 46,673 million, which is RR 7,699 million, or 14.16%, less than in 2009.

Despite higher sales in 2010 compared to 2009 our net income decreased mainly on the back of increased export duties and unified production tax rates, higher volumes of purchased oil and refined products, as well as various other factors, such as higher transportation tariffs, foreign exchange loss recorded on credit facilities denominated in foreign currency and other various costs.

Segment information

Our operations are currently divided into the following main segments:

- **Exploration and production** – consists of the Company's oil and gas extraction and production divisions, well repair and reservoir oil yield improvement subdivisions, pumping equipment repair centers, security and logistics. Most oil and gas exploration and production activities are concentrated within the Company.

- **Refining and marketing** – consists of our participation in OAO TANECO, a company established to build and operate a refining and petrochemical complex in Nizhnekamsk, Tatarstan; our gas production, transportation and refining division Tatneftegaspererabotka; OOO Tatneft-AZS-Center, OOO Tatneft-AZS-Zapad, OOO Tatneft-AZS-Sibir and OOO Tatneft-AZS-Yug, management companies for the Tatneft branded gas stations network in Russia; and certain other oil trading and ancillary companies.

- **Petrochemicals -** our petrochemicals segment has been consolidated under a management company, Tatneft-Neftekhim, which manages OAO Nizhnekamskshina, one of the largest tire manufacturers in Russia, and the companies technologically integrated with it, including OAO Nizhnekamsk Industrial Carbon Plant, ZAO Yarpolymermash-Tatneft, OAO Nizhnekamskiy Mekhanicheskiy Zavod and OOO Nizhnekamskiy Shinny Zavod CMK. OOO Tatneft-Neftekhimsnab and OOO Trading House Kama are responsible for procuring supplies and marketing products produced by the companies within this segment, respectively.

These segments are determined by the way management recognizes the segments within the Group for making operating decisions and how they are evident from the Group structure.

Executive overview

Recent developments and outlook

E&P activities in Tatarstan

One of the Company's primary strategic goals is to maintain current levels of crude oil production from its licensed fields in Tatarstan. In 2010 the Group maintained production at the same level as in 2009. Due to the relative maturity of the Company's main producing fields significant portion of all crude oil produced by the Company in Tatarstan was extracted using various enhanced recovery techniques. In 2010 the Company put 314 new wells into operation and obtained two new E&P licenses in Tatarstan.

Effective from January 1, 2007 the Company benefits from the differentiated taxation of crude oil production from certain of its fields in Tatarstan, including the Company's largest field - Romashkinskoye (more fully discussed in the Taxation subsection of Certain Macroeconomic Factors Affecting the Group's Results of Operations below).

E&P activities outside of Tatarstan

The Group continues to expand its operations outside of Tatarstan. The Group produces crude oil in Samara and Orenburg regions. In 2010 the Group obtained two new licenses in Orenburg region, one new production license in the Kalmykia Republic and one new production license in the Nenets Autonomous Region. Outside of Russia, in Syria, the Group has made a commercial crude oil discovery with estimated recoverable reserves of 4.9 million tonnes, and continues exploratory drilling with a view of making new discoveries.

Tatneft is planning to continue expansion and diversification of its reserve base by gaining access, including through establishing strategic alliances, to reserves outside of Tatarstan. The Group is carrying out exploration and production projects in the Kalmykia Republic, the Ulyanovsk, Samara, Orenburg and Nenets Autonomous Region. Outside of the Russian Federation, Tatneft is engaged in projects in Libya, Syria and other countries.

As a result of a continuing turmoil in Libya, the Group had to entirely suspend its operations in that country 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 potential impact of these events on the Group's financial statements.

Highly viscous oil (natural bitumen) production

The Company continues a pilot project to produce highly viscous oil (natural bitumen) from the Ashalchinskoye and Mordovo-Karmalskoye fields in Tatarstan using parallel steam injection and producing wells. In 2010 three pairs of wells produced 27.15 thousand tonnes of highly viscous oil. The Company continues to assess the economic parameters and expansion of the activities relating to highly viscous oil production in Tatarstan.

The Group benefits from a zero unified production tax rate related to the production of highly viscous oil in Tatarstan.

Crude oil refining and marketing

The Group continued the construction by OAO TANECO ("TANECO"), formerly known as ZAO Nizhnekamsk Refinery, of a new refining and petrochemicals complex in Nizhnekamsk, Tatarstan. On October 10, 2010, the construction works on the initial stage of the refinery segment of the complex were completed and the comprehensive testing of the equipment commenced. Commercial production at the refinery is expected to commence in the course of 2011, while activities to increase the complexity of the refinery are continuing

Petrochemicals

In 2010 the core entity of the Group's petrochemicals segment – OAO Nizhnekamskshina produced 11.0 million tires in comparison to 9.4 million tires in 2009.

A new advanced rubber mix production line was launched in 2007 with monthly capacity of 1,200 tonnes, which allows OAO Nizhnekamskshina to produce modern high performance tires. The Group continued to invest in the modernization and upgrading of OAO Nizhnekamskshina's production facilities to strengthen its market competitiveness. In December 2009 a new plant to produce up to 1.2 million modern solid steel cord tires for trucks and other heavy load vehicles per year was launched.

Changes in the Group Structure

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 from June 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 was accounted for as treasury shares.

In February 2010 the Group submitted a request to redeem its entire interest in IPCG Fund. The redemption request was accepted by IPCG Fund and came into effect 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.

Resource base

As determined by the Group's independent petroleum engineering consultants, Miller and Lents, Ltd., the following information presents the balances of our crude oil and condensate reserves as of January 1, 2011 and 2010 in conformity with the standards of the Petroleum Resources Management System (PRMS), which was prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE).

Due to changes in the regulations from 2009, average, first-day-of-the-month prices during the reporting period for 2010 and 2009, and year-end costs, are used upon estimation of the Group's reserves.

Net crude and condensate reserves

(in mmbbl)	**At January 1, 2011**	**Changes in 2010**		**At January 1, 2010**
		Production	**Revision**	
Proved reserves	5,982	-186	27	6,141
Probable reserves	2,301			1,911
Possible reserves	49			48

Most evaluated properties are located in the Volga-Ural Oil Basin and include approximately 120 developed and producing oil fields, containing approximately 29,800 active completions.

Operational highlights

Crude oil and gas production

Tatneft undertakes exploration and production activities in Tatarstan and outside of Tatarstan in Russia: in Samara, Orenburg and Ulyanovsk regions, in the Kalmyk Republic, and Nenets Autonomous District. Outside of Russia, we have exploration activities in Libya and Syria. The table below summarizes key results of our exploration and production activities (daily volumes represent year average):

	Year ended December 31, 2010	Year ended December 31, 2009
Crude oil daily production, (thousand bbl per day)	509.6	509.5
Gas daily production (thousand boe per day)	12.8	12.9
Crude oil extraction expenses (RR per bbl)	172.2	153.5
	(RR millions)	
Sales of crude oil	375,130	300,077
Crude oil extraction expenses	32,026	28,549
Exploration expenses	2,068	3,540
Unified production tax	68,954	53,571

Crude oil production of the Group (including production of consolidated subsidiaries OAO Ilekneft, OOO Tatneft-Samara and ZAO Tatneft-Severny) in 2010 were at the same level as in 2009 and amounted to 26.11 million metric tones. Our gas production decreased by 1.7% to 811.2 million cubic meters in 2010 from 825.1 million cubic meters in 2009.

Refining and marketing

	Year ended December 31, 2010	Year ended December 31, 2009
Refining of crude oil throughput (thousand bbl per day)	10.36	10.48
Refining of gas products throughput (thousand boe per day)	11.17	10.91
Number of petrol (gas) stations in Russia*	497	484
Number of petrol (gas) stations outside of Russia*	130	136

** including rented stations*

Export of crude oil from Russia

The Group is using transportation services of Transneft, the state-owned monopoly owner and operator of Russia's trunk crude oil and export pipelines, upon export of its crude oil. During 2010, the Group exported from Russia approximately 69% of all its crude oil sold compared to approximately 68% in 2009.

In 2010 the Company delivered 54% (30% in 2009) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Hungary and Germany); 31% (44% in 2009) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk); 11% (10% in 2009) of crude oil exported through Baltic Sea port Primorsk and 4% (16% in 2009) of crude oil was shipped through Ukrainian port Yuzhnyi.

Certain Macroeconomic and Other Factors Affecting the Group's Results of Operations

The Group's results of operations and the period to period changes therein have been and will continue to be impacted by various factors outlined below.

Crude oil prices

The primary driver of our revenue is the selling price of crude oil and refined products. In 2009, after a significant decline attributed to the world's financial and economic crisis in 2008, the Brent crude oil price started to recover and fluctuated between $39 and $78 per barrel, with yearly average of $61.5 per barrel.

In 2010 crude oil markets were much stronger relative to 2009 due to an overall recovery of the global markets and increase in demand. During the period, Brent crude oil price fluctuated between $67 and $94 per barrel and averaged U.S. $79.5 per barrel.

Substantially all the crude oil we sell on export and domestic markets is Urals blend. The table below shows average and the end of the period crude oil prices for 2010 and 2009, respectively.

	Average for the year ended December 31		Change	At December 31		Change
	2010	**2009**		**2010**	**2009**	
	(in US dollars per barrel, except for figures in percent)					
Brent crude	79.5	61.5	*29.2%*	91.4	77.7	*17.6%*
Urals crude (*CIF Mediterranean*)*	78.3	61.0	*28.2%*	89.6	77.1	*16.3%*
Urals crude (*CIF Rotterdam*)*	78.2	61.0	*28.3%*	89.4	76.9	*16.2%*

Source: Platts

* The Company sells crude oil for export on various delivery terms. Therefore, our average realized sales prices differ from average reported market prices.

There is no independent or uniform market price for crude oil in Russia primarily because a significant portion of crude oil destined for sale in Russia is produced by vertically integrated Russian oil companies and is refined by the same vertically integrated companies. Crude oil that is not exported from Russia, refined by the producer or sold on previously agreed terms, offered for sale in the domestic market at prices determined on a transaction-by-transaction basis. However, there may be significant price differences between regions for similar quality crude oil as a result of the competition and economic conditions in those regions.

Transportation of crude oil and refined products

Due to the fact that main Russian crude oil production regions are remote from the main crude oil and refined products markets oil companies are dependent on the extent of diversification of transport infrastructure and access to it. Thus, transportation cost is an important factor affecting our operations and financial results.

The Group transports substantially all of the crude oil that it sells in export and local markets through trunk pipelines in Russia that are controlled by Transneft.

Transportation of crude oil is based on contracts with Transneft and its subsidiaries, which set forth the basic obligations of the contracting parties, including the right of Transneft to blend or substitute a company's oil with oil of other producers. The Group's crude oil is blended in the Transneft pipeline system with other crude oil of varying qualities to produce an export blend commonly referred to as Urals. The Group benefits from this blending since the quality of its crude oil is generally lower than that produced by some other oil companies due to the relatively high sulfur content.

A significant portion of crude oil and refined products transported by pipeline is delivered to marine terminals for onward transportation. There are constraints present in Russia's oil shipment terminals due to geographic location, weather conditions, and port capacity limitations. However, government sponsored and private programs are seeking to improve port facilities.

Transneft establishes and collects on prepayment terms a ruble tariff on domestic shipments and an additional US dollar tariff on exports. The Federal Tariff Service ("FST") is authorized to periodically review and set the tariff rates applicable for each segment of the pipeline. The tariffs are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Tariffs are revised by FST at least annually.

Inflation and foreign currency exchange rate fluctuations

A significant part of the Group's revenues are derived from export sales of crude oil which are denominated in US dollars. The Group's operating costs are primarily denominated in Rubles. Accordingly, the relative movements of Ruble inflation and Ruble/US dollar exchange rates can significantly affect the results of operations of the Group. For instance, operating margins are generally adversely affected by an appreciation of the Ruble against the US dollar, because in the inflatory economy this will generally cause costs to increase relative to revenues. The Group has not historically used financial instruments to hedge against foreign currency exchange rate fluctuations.

The following table shows the rates of inflation in Russia, the period-end and average Ruble/US dollar exchange rates, the rates of nominal appreciation or devaluation of the Ruble against the US dollar, and the rates of real change in the value of the Ruble against the US dollar for the periods indicated.

	Year ended December 31, 2010	Year ended December 31, 2009
Ruble inflation	8.8%	8.8%
Period-end exchange rate (Ruble to US$)	30.48	30.24
Average exchange rate (Ruble to US$)	30.37	31.72
Nominal devaluation of the Ruble	(0.8)%	(2.9)%
Real Ruble appreciation	8.0%	5.7%

Sources: Federal Service of State Statistics and the Central Bank of Russia

At present, the Ruble is not a freely convertible currency outside the Commonwealth of Independent States. Certain exchange restrictions and controls still exist related to converting Rubles into other currencies.

Taxation

The table below presents a summary of statutory tax rates that the Company and the majority of its subsidiaries were subject to in the respective periods:

	Year ended December 31, 2010	Year ended December 31, 2009	Change	Taxable base
Income tax – maximum rate	20%	20%	-	Taxable income
VAT	18%	18%	-	Added value
Property tax – maximum rate	2.2%	2.2%	-	Taxable property
	(in RR per metric tonne, except for figures in percent)			
Unified production tax, average rates[1]	3,074	2,299	*33.7%*	Metric tonne produced (crude oil)
Refined products excise tax:				
High octane gasoline	3,992	3,629	*10%*	
Low octane gasoline	2,923	2,657	*10%*	
Diesel fuel	1,188	1,080	*10%*	Metric tonne produced and sold domestically [2]
Motor oils	3,246	2,951	*10%*	
Straight run gasoline	4,290	3,900	*10%*	
	(in US $ per metric tonne, except for figures in percent)			
Crude oil export duty, average rates	273.6	179.3	*52.6%*	Metric tonne exported
Refined products export duty average rates:				
Light refined products (gasoline products) and mid refined products (diesel fuel)	196.6	133.1	*47.7%*	Metric tonne exported
Fuel oil *(mazut)*	105.9	71.7	*47.7%*	

(1) *Without taking into account differentiated taxation*
(2) *The responsibility to pay excise taxes on refined products in Russia is imposed on refined product producers (except for straight-run gasoline).*

Due to increase in international crude oil prices the tax rates specific to the oil industry increased substantially during 2010 compared to the previous year. Unified production tax rate increased by 34%, average crude oil export duty rate by 53% and average refined products export duty rate by 48%.

The increase in unified production tax rate in 2010 was a result of increase in the average Urals crude price by 28%. Excise taxes on refined products increased in 2010 by 10%.

Unified production tax rate. The base tax rate for the production of oil was set at RR 419 per metric tonne and is adjusted depending on the international market price of Urals blend and the ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to $15.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($15.00 per barrel) results in an increase of the tax rate by $1.61 per tonne extracted (or $0.22 per barrel extracted using a barrels per tonne conversion factor of 7.33).

The base rate for 2012 and 2013 is currently set at 446 rubles and 470 rubles per metric tonne extracted, respectively. However, the rate may be amended by the authorities later on.

This tax rate is applied with a discount based on the levels of international oil prices and the levels of depletion of the related oil fields as determined under Russian reserves classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above as determined by the Russian reserves classification. The Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As Romashkinskoye field, the Company's largest, along with certain other fields, is more than 80% depleted, the Company received a benefit from these fields in 2010 of RR 10.4 billion (RR 6.96 billion in 2009).

Effective from January 1, 2009, the list of regions where, depending on the period and volume of production, a zero crude oil production tax rate applies has been extended. In particular, it now includes Caspian offshore and the Nenets Autonomous District (the Company has operations in the latter).

Also a zero unified production tax rate applies to the production of highly viscous crude oil (defined as crude oil of more than 200 Megapascal second in reservoir conditions) where the direct (segregated) method of accounting for produced oil is used. Since April 2007, the Company's production of highly viscous crude oil (bitumen) from the Ashalchinskoye and Mordovo-Karmalskoye fields was subject to a zero unified production tax rate, resulting in tax benefit during 2010 attributed to that production of RR 91 million (RR 55 million in 2009).

Crude oil export duties. The Government determines the export duty rate, which is dependent on the average Urals price for the monitoring period according to the following table:

Quoted Urals price (P), US$ per tonne	Maximum Export Duty Rate
0 – 109.50	0%
109.50 – 146.00	35.0% * (P - 109.50)
146.00 – 182.50	US$ 12.78 + 45.0% * (P - 146.00)
>182.50	US$ 29.20 + 65.0% * (P - 182.50)

Beginning from December 2008, the export customs duty is revised monthly and the duty for the next month is based on the average Urals price for the period from the 15th of the previous month to the 14th (inclusive) of the current month. The rate is effective from the first day of the coming month after the monitoring period.

The export duty rate on crude oil increased by 53% in 2010 to US$ 273.6 per tonne (US$ 37.5 per barrel) from US$ 179.3 per tonne (US$ 24.6 per barrel) in 2009. The increase in these comparative periods was associated with the increase of Urals prices by 28% to US$ 78.3 per barrel in 2010 compared to US$ 61.0 per barrel in 2009.

In 2009, crude oil exported from Russia to Belorussia was subject to export duties, calculated with an application of a discount factor (0.356 for 2009) to the regular export duty rate set by the Government of the Russian Federation.

In 2010, under the agreement between the Russian Federation and Belorussia, crude oil exported from Russia to Belorussia up to total amount of 6.3 million tonnes was not subject to export duty. Volumes of crude oil above this limit were taxed at a regular export duty rate.

Property tax. The maximum property tax rate in Russia is 2.2%. Exact tax rates are set by the local authorities.

Value added tax (VAT). The Group is subject to value added tax (or VAT) of 18% on most purchases. VAT payments are recoverable against VAT received on domestic sales. Export sales are not subject to VAT. Input VAT related to export sales is recoverable from the Russian government. The Group's results of operations exclude the impact of VAT.

Income tax. Starting from January 1, 2009, the total income tax rate was decreased to 20%, including federal part which decreased to 2.0% and the regional part which varies between 13.5% and 18.0%.

Year ended December 31, 2010 compared to the year ended December 31, 2009

The table below details certain income and expense items from our consolidated statements of operations and comprehensive income for the periods indicated.

RR millions	Year ended December 31, 2010 (audited)	Year ended December 31, 2009 (audited)	Change
Sales and other operating revenues	**468,032**	**380,648**	**23%**
Costs and other deductions			
Operating	67,190	59,334	13.2%
Purchased oil and refined products	55,621	38,243	45.4%
Exploration	2,068	3,540	(41.6)%
Transportation	17,217	14,325	20.2%
Selling, general and administrative	30,028	26,710	12.4%
Depreciation, depletion and amortization	12,483	11,917	4.7%
(Gain)/ loss on disposals of property, plant and equipment and investments and impairments	(345)	1,284	126.9%
Taxes other than income taxes	216,065	153,797	40.5%
Maintenance of social infrastructure and transfer of social assets	3,608	2,789	29.4%
Total costs and other deductions	**403,935**	**311,939**	**29.5%**
Earnings from equity investments	786	510	54.1%
Foreign exchange loss	(1,954)	(920)	112.4%
Interest income	3,761	4,216	(10.8)%
Interest expense, net of amounts capitalized	(483)	(626)	(22.8)%
Other (expenses)/ income, net	(1,737)	2,637	165.9%
Total other income	**373**	**5,817**	**(93.6)%**
Income before income taxes and non-controlling interest	**64,470**	**74,526**	**(13.5)%**
Current income tax expense	(13,774)	(17,527)	(21.4)%
Deferred income tax expense	(48)	(29)	65.5%
Total income tax expense	**(13,822)**	**(17,556)**	**(21.3)%**
Net income	**50,648**	**56,970**	**(11.1)%**
Less: net income attributable to non-controlling interest	(3,975)	(2,598)	53%
Net income attributable to Group shareholders	**46,673**	**54,372**	**(14.2)%**

The analysis of the main financial indicators of the above financial information is provided below.

Sales and other operating revenues

A breakdown of sales and other operating revenues (by product type) is provided in the following table:

RR millions	Year ended December 31, 2010	Year ended December 31, 2009
Crude oil	375,130	300,077
Refined products	48,853	42,934
Petrochemicals	24,092	19,849
Corporate and other sales	19,957	17,788
Total sales and other operating revenues	**468,032**	**380,648**

Sales and other operating revenues increased in 2010 by 23% to RR 468,032 million from RR 380,648 million in 2009. The increase was mainly attributed to an overall increase in crude oil and refined product prices.

Sales of crude oil

Sales of crude oil increased by 25% to RR 375,130 in 2010 from RR 300,077 million in 2009. The table below provides an analysis of the changes in sales of crude oil:

	Year ended December 31, 2010	Change	Year ended December 31, 2009
Domestic sales of crude oil			
Revenues (RR millions)	65,091	*18.2%*	55,070
Volume (thousand tonnes)	*8,600*	*(0.4)%*	*8,638*
Realized price (RR per tonne)	*7,569*	*18.7%*	*6,375*
CIS export sales of crude oil [1]			
Revenues (RR millions)	21,534	*28%*	16,829
Volume (thousand tonnes)	*2,244*	*36.8%*	*1,640*
Realized price (RR per tonne)	*9,596*	*(6.5)%*	*10,262*
Non-CIS export sales of crude oil			
Revenues (RR millions)	288,505	*26.4%*	228,178
Volume (thousand tonnes)	*17,269*	*4.2%*	*16,575*
Realized price (RR per tonne)	*16,707*	*21.4%*	*13,766*

[1] CIS is an abbreviation for Commonwealth of Independent States

Sales of refined products

Sales of refined products increased by 13.8% to RR 48,853 million in 2010 from RR 42,934 million in 2009. The table below provides an analysis of the changes in sales of refined products:

	Year ended December 31, 2010	Change	Year ended December 31, 2009
Domestic sales of refined products			
Revenues (RR millions)	40,758	*9%*	37,406
Volume (thousand tonnes)	*2,489*	*(6.4)%*	*2,660*
Realized price (RR per tonne)	*16,375*	*16.4%*	*14,062*
CIS export sales of refined products			
Revenues (RR millions)	2,003	*68.5%*	1,189
Volume (thousand tonnes)	*92*	*(17.9)%*	*112*
Realized price (RR per tonne)	*21,772*	*105.1%*	*10,616*
Non-CIS export sales of refined products			
Revenues (RR millions)	6,092	*40.4%*	4,339
Volume (thousand tonnes)	*357*	*5%*	*340*
Realized price (RR per tonne)	*17,064*	*33.7%*	*12,762*

Increase in the average realized price on CIS export sales of refined products in the current reporting period was due to different types of refined products sold in comparison to the corresponding period of 2009. In 2010 we increased sales volumes of diesel fuel and petrol, realized prices for which on CIS export sales were 48% higher than that of other refined products.

Sales of petrochemical products

The table below provides an analysis of petrochemical products sales.

RR millions	Year ended December 31, 2010	Change	Year ended December 31, 2009
Tires sales	23,003	*21.9%*	18,864
Other petrochemicals sales	1,089	*10.7%*	985
Total sales of petrochemical products	**24,092**	***21.4%***	**19,849**

The increase in sales of petrochemical products was primarily due to higher volumes of tires sold. The Group's production of tires in 2010 increased by 17.2% compared to 2009 and amounted to 11.1 million tires due to increase in production of vehicles by major clients of Nizhnekamskshina.

Other sales

Other sales increased by 12.2% to RR 19,957 million in 2010 from RR 17,788 million in 2009. Other sales primarily represent sales of materials and equipment and various oilfield services provided by the Group to third parties (such as drilling, well construction and repairs, and geophysical works).

Costs and other deductions

Operating expenses. Operating expenses include the following costs:

RR millions	Year ended December 31, 2010	Year ended December 31, 2009
Crude oil extraction expenses	32,026	28,549
Petrochemical production expenses	22,159	16,771
Other operating expenses	13,307	13,565
Operating expenses not matched to the revenue in the current period *	(302)	449
Total operating expenses	**67,190**	**59,334**

** This change includes extraction expenses related to crude oil produced by the Group in one period but sold to third parties in the different reporting period.*

Operating expenses include the following main categories: lifting expenses connected with extraction of crude oil, refining and processing expenses, cost of petrochemicals production, cost of materials other than oil and gas, and other direct costs.

Crude oil extraction expenses. The Group's extraction ("lifting") expenses relate to oil and gas production and are incurred by the Company's oil and gas producing divisions and subsidiaries. They include expenditures related to maintenance services, repairs and insurance of extraction equipment, labour costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, materials and goods consumed in oil and gas production, and other similar costs.

Expenses of the Company's oil and gas production units and subsidiaries consisting of the purchase of services and goods (such as electricity, heat, etc.) that are unrelated to their core activities, accretion of the Company's asset retirement obligations, and the change in crude oil and refined products inventory, have been excluded from extraction expenses and are included in other operating costs.

Lifting expenses averaged to RR 172.2 per barrel in 2010 compared to RR 153.5 per barrel in 2009. Higher equipment service and repair, as well as electricity costs were the primary reasons for a 12% increase in lifting expenses year-on-year.

Petrochemical production expenses. Petrochemical production expenses primarily include the costs of raw materials, labour, maintenance and electricity consumed in the production of petrochemical products. Cost of petrochemical products increased by 32.1% to RR 22,159 million in 2010 compared to 2009 primarily due to increase in volumes of petrochemicals produced and higher costs of raw materials and electricity.

Other operating expenses include accretion of the asset retirement obligation and the costs of other services, goods and materials not related to the core oil and gas production activities of the Group. Other operating expenses decreased to RR 13,307 million, or by 1.9%, compared to 2009 primarily due to decrease of costs of other services.

Cost of purchased crude oil and refined products. A summary of purchased oil and refined products for 2010 and 2009, respectively, is as follows:

RR millions	Year ended December 31, 2010	Year ended December 31, 2009
Purchased crude oil (RR millions)	24,399	9,420
Volume (thousand tonnes)	2,652	845
Average price per tonne (RR)	*9,200*	*11,148*
Purchased refined products (RR millions)	31,222	28,823
Volume (thousand tonnes)	*1,938*	*2,007*
Average price per tonne (RR)	*16,110*	*14,361*
Total purchased oil and refined products	**55,621**	**38,243**

Purchases of crude oil in 2010 increased substantially compared to 2009 due to more favourable pricing and marketing conditions for such purchased crude oil.

Purchases of refined products increased by 8% to RR 31,222 million in 2010 from RR 28,823 million in 2009 due to increase in average purchase price per tonne by 12% partly offset by decrease in volumes of purchased refined products for trading by 3%.

Exploration expenses. Exploration expenses consist primarily of exploratory drilling, geological and geophysical costs, and the costs of carrying and retaining undeveloped properties. Exploration expenses decreased to RR 2,068 million in 2010 from RR 3,540 million in 2009.

Transportation expenses. Transportation expenses relate to the delivery of our own crude oil produced as well as purchased crude oil and refined products, which are mostly carried out using Transneft pipeline for deliveries of crude oil to our customers. Transportation costs increased by 20.2% to RR 17,217 million in 2010 from RR 14,325 million in 2009 in line with the increase in transportation tariffs on delivery routes utilized by the Company.

Selling, general and administrative expenses. Certain selling, general and administrative expenses are by nature fixed costs, which are not directly related to production, such as payroll, general business costs, insurance, advertising, share based compensation, legal fees, consulting and audit services, charity and other expenses, including bad debt provisions. Selling, general and administrative expenses increased by RR 3,318 million to RR 30,028 million in 2010 compared to 2009. In 2009 a collection of part of our bad debt provision on accounts receivables related to crude oil sales to Ukraine prior to October 2007 in the amount of RR 3,174 million was accounted for. Without taking into account this nonrecurring item, selling, general and administrative expenses would have increased by only 0.5% compared to 2009.

(Gain)/ loss on disposals of property, plant and equipment and impairment of investments. In 2010 we recorded gain on disposals of property, plant and equipment and impairment of investments amounted to RR 345 million compared to a RR 1,284 million loss in 2009. The gain in 2010 primarily included a gain from disposal of equity investments in IPCG Fund in the amount of RR 574 million, partly offset by the loss from a write-off of the goodwill on our other equity investment in the amount of RR 323 million.

Taxes other than income taxes. Taxes other than income taxes include the following:

	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**

Taxes other than income taxes increased by 40.5% to RR 216,065 million in 2010 from RR 153,797 million in 2009. The increase was primarily a result of higher export duty and unified production tax rates, which are linked to crude oil market prices. In 2010 compared to 2009, export duties paid by the Group increased by 47%. The Group's unified production tax expense increased by 28.7%. Our expenses on excise taxes increased to RR 391 million from RR 346 million in 2009. Other taxes include land tax and non-recoverable VAT.

Effective January 1, 2007, the tax rate formula for unified production tax was modified to provide a benefit for fields whose depletion rate is 80% or above as determined under Russian reserves classification. Under these new rules, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As Romashkinskoye field, the Company's largest, along with certain other fields is more than 80% depleted, the Company received a benefit in 2010 of RR 10.4 billion in comparison to RR 6.96 billion in 2009, driven mainly by a fluctuation in crude oil prices in the respective periods.

Since April 2007, the Company applied a zero unified production tax rate to production of highly viscous crude oil (bitumen) from Ashalchinskoye and Mordovo-Karmalskoye fields, resulting in 2010 tax benefit of RR 91 million in comparison to RR 55 million in 2009.

Maintenance of social infrastructure and transfer of social assets. Social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan. Maintenance of social infrastructure expenses and transfer of social assets increased to RR 3,608 million in 2010 from RR 2,789 million in 2009 mainly due to write-off of a social asset (transfer to local authorities) in the amount of RR 637 million.

Other (expenses) income

The Group recorded a gain from equity investments amounted to RR 786 million in 2010 compared to a RR 510 million gain in the corresponding period of 2009. This increase was due to the increase in Bank Zenit gain, RR (899) million which was attributed to the Group in 2010 in comparison to the RR 513 million in 2009, partly offset by the IPCG Fund loss, RR 362 million which was attributed to the Group in 2010, before the redemption, in comparison to a loss of RR 141 million in 2009.

The Group also recorded foreign exchange loss amounted to RR 1,954 million in 2010 compared to a foreign exchange loss of RR 920 million in 2009. This year loss was mainly due to foreign exchange loss in the amount of RR 1,956 million on US dollars denominated debt incurred under the long-term credit facilities of the Group.

Interest income decreased by 10.8% to RR 3,761 million in 2010 compared to 2009 due to decrease of interest income received on loans receivable.

Interest expense, net of amounts capitalized, decreased from RR 626 million to RR 483 million in 2010 in comparison to 2009, which was a result of decrease in other debt, beyond the syndicated credit facilities.

Other expense, net, in 2010 amounted to RR 1,737 million compared with RR 2,637 million of other income, net, in 2009. This year expense mainly included expenses related to the various construction activities, which were not subject for capitalization.

Income taxes

The effective income tax rate in 2010 was 21.4%, compared to the statutory tax rate of 20% in the Russian Federation. This difference was due to non deductible or partially deductible expenses incurred during the reporting period.

Reconciliation of net income to EBITDA (earnings before interest, income taxes, depreciation and amortization)

RR millions	Year ended December 31, 2010	Year ended December 31, 2009
Net income attributable to Group shareholders	46,673	54,372
Add back:		
Non-controlling interest	3,975	2,598
Income tax expense	13,822	17,556
Depreciation, depletion and amortization	12,483	11,917
Interest expense	483	626
Interest income	(3,761)	(4,216)
EBITDA	**73,675**	**82,853**

EBITDA is a non-US GAAP financial measure, defined as net income before interest, taxes, depreciation and amortization. The Company believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under US GAAP, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our EBITDA calculation is commonly used as a basis by some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under US GAAP. EBITDA does not consider our need to replace our capital equipment over time.

Credit ratings

In May 2010 and January 2011, Fitch Ratings affirmed the Group’s long -term foreign currency issuer default rating at BB with a stable outlook.

In June 2010, Moody’s affirmed the Group’s a corporate family rating at Ba2 with a stable outlook.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization. The ratings do not address the marketability of any of our securities or their market price. Any change in the credit ratings of Tatneft or our securities could adversely affect the price that a subsequent purchaser will be willing to pay for our securities. We recommend that you analyze the significance of each rating independently from any other rating.

Financial Condition Summary Information

The following table shows certain key financial indicators:

RR millions	At December 31, 2010	At December 31, 2009
Current assets	132,557	135,914
Long-term assets	434,622	359,828
Total assets	**567,179**	**495,742**
Current liabilities	80,836	110,894
Long-term liabilities	135,797	71,341
Total liabilities	**216,633**	**182,235**
Shareholders' equity	**350,546**	**313,507**
Working capital	51,721	25,020

<u>Working capital position</u>

As of December 31, 2010 working capital of the Group amounted to RR 51,721 million compared to RR 25,020 million as of December 31, 2009. The increase in the working capital was attributable to a decrease of current liabilities (mainly current portion of long-term debt) as well as an increase in cash and cash equivalents.

Liquidity and Capital Resources

The following table shows a summary from the Consolidated Statements of Cash Flows:

RR millions	Year ended December 31, 2010	Year ended December 31, 2009
Net cash provided by operating activities	55,877	66,603
Net cash used for investment activities	(65,137)	(91,328)
Net cash provided by financing activities	4,499	24,148
Increase in cash and cash equivalents	(4,761)	(577)

<u>Net cash provided by operating activities</u>

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities decreased by 16.1% to RR 55,877 million in 2010 from RR 66,603 million in 2009 which was primarily attributed to changes in working capital, particularly, to change in inventory and taxes payable.

<u>Net cash used for investing activities</u>

Net cash used for investing activities decreased by 28.7% to RR 65,137 million in 2010 from RR 91,328 million in the corresponding period of 2009, which was primarily due to changes in restricted cash as well as a decrease in expenditures related to the construction of TANECO's refinery.

<u>Net cash provided by financing activities</u>

Cash flow provided by financing activities amounted to RR 4,499 million in 2010 compared to RR 24,148 million in 2009. This was primarily due to net debt proceeds of RR 19,841 million in 2010 compared with net debt proceeds of RR 34,721 million in 2009.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment) were made in 2010, compared to 2009:

RR millions	Year ended December 31, 2010	Year ended December 31, 2009
Exploration and production	18,708	16,455
Refining and marketing	56,218 [1]	64,805
Petrochemicals	1,563[2]	5,947
Corporate and other	1,632	2,052
Total additions to property, plant and equipment	**78,121**	**89,259**

[1] *Includes RR* 53,058 *million expenditures related to the refinery construction by TANECO*
[2] *Includes RR* 1,003 *million expenditures related to the new solid steel cord tires plant*

Analysis of Debt

At December 31, 2010, long-term debt, including the current portion of long-term debt, amounted to RR 105,294 million as compared to RR 79,831 million at December 31, 2009. The related increase was due to an increase in the long-term foreign currency denominated debt mainly through drawdowns under a dual (3 and 5 year) tranches secured syndicated pre-export credit facility for up to US$ 1.5 billion arranged by WestLB AG, Bayerische Hypo-und Vereinsbank AG, ABN AMRO Bank N.V. (RBS), OJSC Gazprombank, Bank of Moscow and Nordea Bank in October 2009 (RR 37,043 million (US$ 1,215 million) under this credit facility were outstanding as of December 31, 2010) as well as the new secured syndicated pre-export facility for up to US$ 2 billion (3, 5 and 7 year tranches at LIBOR plus 3.10%, 4.10% and 5.0%, respectively, secured by 750,000 metric tones of crude oil in a calendar quarter) arranged by Barclays Bank, Bank of Moscow, BTMU UFJ, BNP Paribas, Citibank, Commerzbank, ING Bank, Natixis, Nordea Bank, RBS, Sberbank, Societe Generale, Sumitomo Mitsui, Unicredit Bank, VTB and WestLB in June 2010 (RR 60,954 million (US$ 2,000 million) under this credit facility were outstanding as of December 31, 2010).

In August 2010 the Company reached an agreement with the lenders under the US$ 1.5 billion 2009 Facility to decrease the margins and substantially decrease the amount of crude oil volumes used as collateral for this facility. The margins were decreased to LIBOR plus 3.10% and 4.10% for the 3 and 5 year tranches and crude oil volumes used as collateral decreased from 750,000 to 480,000 metric tones of oil in a calendar quarter, respectively.

In 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$ 1.5 billion 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.

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

The aggregate maturities of total long-term debt, including current portion as of December 31, 2010 were as follows:

RR millions	At December 31, 2010
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**

Contractual obligations, other contingencies and off balance sheet arrangements

Guarantees

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

Commitments and Contingent Liabilities

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.

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, 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.

Market risks

We are exposed to market risks from changes in both foreign currency exchange rates and interest rates. We are exposed to foreign exchange risk to the extent that our costs are denominated in currencies other than rubles. We are subject to market risk from changes in interest rates that may affect the cost of our financing. We do not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. We also do not hold or issue derivative or other financial instruments for trading purposes.

Interest rate risk

We are exposed to interest rate risk on our indebtedness that bears interest at floating rates and to a lesser extent, on our indebtedness that bears interest at fixed rates. At December 31, 2010 we had approximately RR 111,910 million in loans outstanding, of which approximately RR 13,909 million bore interest at fixed rates and approximately RR 98,001 million bore interest at floating rates determined by reference to the LIBOR for US dollar loans (for details please refer to Note 11 "Debt" of the audited consolidated financial statements).

We undertake debt obligations to support general corporate purposes including capital expenditures and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of our debt obligations. However, our sensitivity to decreases in interest rates and corresponding increases in the fair value of our debt portfolio would unfavorably affect our results and cash flows only to the extent that we elected to repurchase or otherwise retire all or a portion of our fixed-rate debt portfolio at prices above carrying value.

Foreign currency risk

Our principal exchange rate risk involves changes in the value of the ruble relative to the US dollar. At December 31, 2010, approximately RR 100,781 million of our indebtedness was denominated in US dollars (out of approximately RR 111,910 million of our total indebtedness at that date). Depreciation in the value of the ruble relative to the US dollar will increase the cost in rubles of our foreign currency denominated costs and expenses and of our debt service obligations for foreign currency denominated indebtedness. A depreciation of the ruble relative to the US dollar will also result in foreign exchange losses as the ruble value of our foreign currency denominated indebtedness is increased. We believe that the risks associated with our foreign currency exposure are mitigated by the fact that a significant portion of our revenues are US dollar denominated and thus more closely match our foreign currency costs and debt service obligations. Furthermore, accounts receivable of RR 28,971 million at December 31, 2010 were also US dollar based and serve to mitigate our exposure to foreign currency fluctuations. As of December 31, 2010, the ruble had depreciated against the US dollar by approximately 0.8% since December 31, 2009. We recognized a net foreign currency translation loss of RR 1,954 million in 2010.

Commodity instruments

Substantially all of our crude oil and refined products are sold under short-term contracts and on the spot market at market sensitive prices. Market prices for export sales of crude oil and refined products are subject to volatile trading patterns in the commodity futures market. Average selling prices can differ from quoted market prices due to the effects of uneven volume distributions during the period, quality differentials, different delivery terms compared to quoted benchmarks, different conditions in local markets and other factors. Domestic prices generally follow the trend of world market prices but are volatile due to the nature of the Russian market. We do not use any derivative instruments to hedge our crude oil or refined products sales in order to decrease our price risk exposure.

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.

Critical accounting policies

The preparation of consolidated financial statements in conformity with US GAAP requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. For a full description of our significant accounting policies, please refer to Note 3 of our audited consolidated financial statements.

Forward-looking statements

Certain statements in this document are not historical facts and are ''forward-looking'' (as such term is defined in the US Private Securities Litigation Reform Act of 1995). We may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- projections of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios;
- statements of our plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Words such as ''believes,'' ''anticipates,'' ''expects,'' ''intends'' and ''plans'' and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements.

These factors include:

- inflation, interest rate, and exchange rate fluctuations;
- the price of oil;
- the effect of, and changes in, Russian or Tatarstan government policy;
- the effect of terrorist attack or other geopolitical instability, either within Russia or elsewhere;
- the effects of competition in the geographic and business areas in which we conduct operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices;
- our ability to increase market share and control expenses;
- acquisitions or divestitures;
- technological changes; and
- our success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive; when relying on forward-looking statements to make decisions with respect to our shares, American Depositary Shares (ADSs) or other securities, investors and others should carefully consider the foregoing factors and other uncertainties and events, especially in light of the difficult political, economic, social and legal environment in which we operate. Such forward-looking statements speak only at the date on which they are made, and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.