TATNEFT

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

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

	Notes	At September 30, 2009	At December 31, 2008
Assets			
Cash and cash equivalents		20,657	13,418
Restricted cash		9,544	7,704
Accounts receivable, net	4	34,607	22,848
Due from related parties	10	10,528	17,605
Short-term investments		18,022	9,743
Current portion of loans receivable		5,189	5,842
Inventories	5	11,524	14,121
Prepaid expenses and other current assets		20,784	25,339
Total current assets		**130,855**	**116,620**
Long-term loans receivable, net		4,848	4,036
Due from related parties	10	10,895	5,431
Long-term investments		21,395	17,666
Property, plant and equipment, net		295,685	241,569
Other long-term assets		9,593	7,658
Total assets		**473,271**	**392,980**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	6	68,040	5,790
Trade accounts payable		9,689	9,416
Due to related parties	10	682	781
Other accounts payable and accrued liabilities		11,981	9,841
Dividends payable		5,669	158
Capital lease obligations		244	465
Taxes payable		9,108	5,592
Total current liabilities		**105,413**	**32,043**
Long-term debt, net of current portion	6	8,746	44,813
Other long-term liabilities		1,669	1,735
Asset retirement obligations, net of current portion		37,908	35,263
Deferred tax liability		14,838	14,143
Capital lease obligations, net of current portion		43	124
Total liabilities		**168,617**	**128,121**
Shareholders' equity			
Preferred shares (authorized and issued at September 30, 2009 and December 31, 2008 - 147,508,500 shares; nominal value at September 30, 2009 and December 31, 2008 - RR1.00)		148	148
Common shares (authorized and issued at September 30, 2009 and December 31, 2008 - 2,178,690,700 shares; nominal value at September 30, 2009 and December 31, 2008 - RR1.00)		2,179	2,179
Additional paid-in capital		94,069	96,171
Accumulated other comprehensive loss		919	747
Retained earnings		202,054	164,991
Less: Common shares held in treasury, at cost (68,413,000 shares and 100,089,000 shares at September 30, 2009 and December 31, 2008, respectively)		(2,416)	(3,960)
Total Group shareholders' equity		**296,953**	**260,276**
Non-controlling interest		7,701	4,583
Total shareholders' equity		**304,654**	**264,859**
Total liabilities and shareholders' equity		**473,271**	**392,980**

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

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

(in millions of Russian Roubles)

	Notes	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Sales and other operating revenues	9	**273,683**	**378,066**
Costs and other deductions			
Operating		45,056	48,349
Purchased oil and refined products		26,816	48,080
Exploration		1,813	2,134
Transportation		10,644	9,049
Selling, general and administrative		14,992	28,567
Depreciation, depletion and amortization	9	9,799	7,621
Loss on disposals of property, plant and equipment and investments and impairments		29	3,117
Taxes other than income taxes	7	106,115	182,645
Maintenance of social infrastructure and transfer of social assets		1,838	3,369
Total costs and other deductions		**217,102**	**332,931**
Other income (expenses)			
Earnings from equity investments		1,015	(750)
Foreign exchange gain/(loss)		445	(225)
Interest income		3,146	2,576
Interest expense, net of amounts capitalized		(502)	(277)
Other income / (expenses), net		2,722	(1,759)
Total other income / (expenses)		**6,826**	**(435)**
Income before income taxes and non-controlling interest		**63,407**	**44,700**
Income taxes			
Current income tax expense		(13,934)	(15,288)
Deferred income tax benefit		127	1,081
Total income tax expense		**(13,807)**	**(14,207)**
Income before non-controlling interest		**49,600**	**30,493**
Less: net income attributable to non-controlling interest		(2,449)	(96)
Net income attributable to Group shareholders		**47,151**	**30,397**
Foreign currency translation adjustments		172	121
Comprehensive income		**47,323**	**30,518**
Basic and diluted net income per share (RR)			
Common		21.04	13.69
Preferred		20.94	13.39
Weighted average shares outstanding (millions of shares)			
Common		2,094	2,076
Preferred		148	148

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

Consolidated Interim Condensed Statements of Cash Flows (Unaudited)

(in millions of Russian Roubles)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Operating activities		
Net income	47,151	30,397
Adjustments:		
Non-controlling interest	2,449	96
Depreciation, depletion and amortization	9,799	7,621
Deferred income tax benefit	(127)	(1,081)
Loss on disposals of property, plant and equipment and investments and impairments	29	3,117
Effects of foreign exchange	(496)	1,415
Equity earnings/(loss) net of dividends received	(935)	1,056
Accretion of asset retirement obligation	2,653	2,403
Change in fair value of trading securities	(1,422)	1,604
Other	(432)	1,644
Changes in operational working capital, excluding cash:		
Accounts receivable	(10,863)	(382)
Inventories	3,234	(110)
Prepaid expenses and other current assets	2,002	(7,230)
Trading securities	2,693	(695)
Related parties	292	(17)
Trade accounts payable	(927)	3,197
Other accounts payable and accrued liabilities	1,803	(4,031)
Taxes payable	3,290	1,855
Notes payable	(695)	923
Other non-current assets	(74)	(1,106)
Net cash provided by operating activities	**59,424**	**40,676**
Investing activities		
Additions to property, plant and equipment	(64,451)	(36,878)
Proceeds from disposals of property, plant and equipment	325	909
Proceeds from disposal of investments	167	(167)
Purchase of investments	118	(492)
Certificates of deposit	(9,827)	(2,400)
Loans and notes receivable	1,927	(2,365)
Change in restricted cash	(1,840)	(1,338)
Net cash used in investing activities	**(73,581)**	**(42,731)**
Financing activities		
Proceeds from issuance of debt	35,372	27,984
Repayment of debt	(8,838)	(12,265)
Repayment of capital lease obligations	(306)	(530)
Dividends paid to shareholders	(4,716)	(7,611)
Dividends paid to minority shareholders	(169)	(102)
Purchase of treasury shares	(76)	(1,273)
Proceeds from sale of treasury shares	79	50
Proceeds from issuance of shares by subsidiaries	50	59
Net cash provided by financing activities	**21,396**	**6,312**
Net change in cash and cash equivalents	**7,239**	**4,257**
Cash and cash equivalents at beginning of period	13,418	13,010
Cash and cash equivalents at end of period	**20,657**	**17,267**

	2009		2008	
	Shares	**Amount**	**Shares**	**Amount**
Preferred shares:				
Balance at January 1 and September 30 (shares in thousands)	147,509	148	147,509	148
Common shares:				
Balance at January 1 and September 30 (shares in thousands)	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:				
Balance at January 1	100,089	(3,960)	101,057	(2,802)
Purchases	14,080	(509)	9,072	(1,273)
Sales	(45,756)	2,053	(6,271)	236
Balance at September 30 (shares in thousands)	68,413	(2,416)	103,858	(3,839)
Additional paid-in capital				
Balance at January 1		96,171		95,274
Treasury share transactions		(1,922)		764
Acquisitions of subsidiaries		(180)		-
Balance at September 30		94,069		96,038
Accumulated other comprehensive income / (loss)				
Balance at January 1		747		(461)
Foreign currency translation adjustments		172		121
Balance at September 30		919		(340)
Retained earnings				
Balance at January 1		164,991		169,721
Net income		47,151		30,397
Dividends		(10,088)		(13,143)
Balance at September 30		202,054		186,975
Non-controlling interest				
Balance at January 1		4,583		4,499
Net income		2,449		96
Dividends		(169)		(102)
Change in Group structure		838		(15)
Balance at September 30		7,701		4,478
Total shareholders' equity at September 30		**304,654**		**285,639**

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

Note 1: Organization

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products as well as production and marketing of petrochemicals (see Note 9).

The Government, through its wholly owned company, OAO Svyazinvestneftekhim, holds 36% of the common shares of the Company. The Government owns a "Golden Share" which carries the right to, *inter alia*, veto certain decisions taken at meetings of the shareholders and the Board of Directors. The Government of Tatarstan is able to exercise significant influence through its ownership interest in the Company, its legislative, taxation and regulatory powers, its representation on the Board of Directors and informal influence.

The Government of Tatarstan controls or exercises significant influence over a number of the Group's suppliers, such as OAO Tatenergo, a major supplier of electricity to the Group, and a number of the Group's ultimate customers including OAO TAIF.

Note 2: Basis of Presentation

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

The unaudited consolidated interim condensed financial statements have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principles Board Opinion 28 ("APB 28") "Interim Financial Reporting") and do not include all necessary disclosures required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2008 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these interim consolidated financial statements are read in conjunction with the Company's 2008 audited consolidated financial statements and the notes related thereto. In the opinion of the Company's management, the unaudited consolidated interim condensed financial statements and notes thereto reflect all known adjustments, all of which are of a normal and recurring nature, necessary to fairly state the Company's financial position, results of operations and cash flows for the interim periods.

The results for the nine-month period ended September 30, 2009 are not necessarily indicative of the results expected for the full year.

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

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 Ruble because the majority of its costs, property and equipment purchased, trade and other liabilities are either priced, incurred, payable or otherwise measured in Russian Rubles. Accordingly, transactions and balances not already measured in Russian Rubles (primarily those denominated in US Dollars) have been re-measured into Russian Rubles in accordance with the relevant provisions of US Statement of Financial Accounting Standards ("SFAS") No. 52, *"Foreign Currency Translation"*.

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 Rubles are recorded in a separate component of shareholders' equity entitled accumulated other comprehensive 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 September 30, 2009 and December 31, 2008 was RR 30.09 and RR 29.38 to US Dollar, respectively. Average rate of exchange for the nine months ended September 30, 2009 was RR 32.48 per US Dollar.

Note 2: Basis of Presentation (continued)

Recent accounting pronouncements:

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51." This statement establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement clarifies that a non-controlling interest in a subsidiary (sometimes called a minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements, but separate from the parent's equity. It requires that the amount of consolidated net income attributable to the non-controlling interest be clearly identified and presented on the face of the consolidated income statement. SFAS No. 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated, based on the fair value of the non-controlling equity investment on the deconsolidation date. Additional disclosures are required that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. In January 2009, the FASB ratified EITF Issue No. 08-10, "Selected Statement 160 Implementation Questions" ("EITF 08-10"). Both SFAS No. 160 and EITF 08-10 are effective January 1, 2009. The statements must be applied prospectively, except for the presentation and disclosure requirements which must be applied retrospectively for all periods presented in consolidated financial statements. With the adoption of FAS No. 160, ownership interests in the company's subsidiaries held by parties other than the parent are presented separately from the parent's equity on the consolidated balance sheet. The amount of consolidated net income attributable to the parent and the non-controlling interests are both presented on the face of the consolidated statement of income.

In November 2008, the Financial Accounting Standards Board ("FASB") ratified Emerging Issues Task Force ("EITF") Issue No. 08-6, "Equity Method Investment Accounting Considerations" ("EITF 08-6") which clarifies how to account for certain transactions involving equity method investments. The initial measurement, decreases in value and changes in the level of ownership of the equity method investment are addressed. EITF 08-6 is effective on a prospective basis on January 1, 2009 and for interim periods. Early application by an entity that has previously adopted an alternative accounting policy is not permitted. Since this standard will be applied prospectively, the adoption did not have a significant impact on the Company's results of operations, financial position or cash flows.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS No. 141(R)"). This statement significantly changes the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired, liabilities assumed and any non-controlling interest in the acquiree at their acquisition-date fair value with limited exceptions. The statement expands the definition of a business and is expected to be applicable to more transactions than the previous standard on business combinations. The statement also changes the accounting treatment for changes in control, step acquisitions, transaction costs, acquired contingent liabilities, in-process research and development, restructuring costs, changes in deferred tax asset valuation allowances as a result of a business combination and changes in income tax uncertainties after the acquisition date. Accounting for changes in valuation allowances for acquired deferred tax assets and the resolution of uncertain tax positions for prior business combinations will impact tax expense instead of impacting recorded goodwill. Additional disclosures are also required. In April 2009, the FASB issued an FSP on FAS 141(R), "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP FAS 141(R)-1"), which addressed SFAS No. 141(R) implementation issues related to contingent assets and liabilities acquired in a business combination. Both SFAS No. 141(R) and FSP FAS 141(R)-1 are effective on January 1, 2009 for all new business combinations. The Company's acquisitions subsequent to the effective date (Note 3) have been accounted for under the provisions of SFAS No. 141(R) and FSP FAS 141(R)-1.

In April 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," ("FSP FAS 107-1"). FSP FAS 107-1 amends SFAS No. 107 and Accounting Principles Board ("APB") Opinion No. 28 to require disclosures about fair value of financial instruments in interim reporting periods for publicly traded companies. This FSP is effective for the second quarter of 2009 and does not require disclosures for earlier periods presented for comparative purposes. The Company has adopted the new disclosure provisions in the second quarter of 2009; however, the adoption of this standard did not have a significant impact on the Company's consolidated results of operations, financial position or cash flows.

Note 2: Basis of Presentation (continued)

In December 2008, the FASB issued FSP FAS 132(R)-1, “Employers Disclosures about Postretirement Benefit Plan Assets” which provides guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plans. This would require additional disclosures about investment policies and strategies, the reporting of fair value by asset category and other information about fair value measurements. Upon initial application, the provisions of FSP FAS 132(R)-1 are not required for earlier periods that are presented for comparative purposes. The Company will expand its disclosures in accordance with FSP FAS 132(R)-1 in its consolidated financial statements for the year ending December 31, 2009. The adoption of this standard is not expected to have a significant impact on our consolidated results of operations, financial position or cash flows.

In May 2009, FASB issued FASB Statement No. 165, “Subsequent Events” (FAS No. 165). FAS No. 165 establishes the principles and requirements for the disclosure of subsequent events. In particular, the Statement sets forth the period after the balance sheet date during which management of a reporting entity will evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity will recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity will make about events or transactions that occurred after the balance sheet date. FAS No. 165 is effective for interim and annual periods ending after June 15, 2009. The Company adopted the provisions of FAS No. 165 during the nine month period ended September 30, 2009 and the Company’s evaluation of subsequent events is disclosed in Note 13 Subsequent Events.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets—an amendment of FASB Statement No. 140.” SFAS No. 166 removes the concept of a qualifying special purpose entity and the exception from applying FASB Interpretation No. (“FIN”) 46(R) to variable interest entities that are qualifying special-purpose entities. SFAS No. 166 requires that a transferor recognize and initially measure at fair value all assets obtained and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The standard also requires additional disclosures about any transfers of financial assets and a transferor’s continuing involvement with transferred financial assets. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS No. 166 on its financial position, results of operations and cash flows.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R),” which changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the purpose and design of the other entity and the reporting entity’s ability to direct the activities of the other entity that most significantly impact its economic performance. SFAS No. 167 also requires additional disclosures about a reporting entity’s involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity’s financial statements. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS No. 167 on its financial position, results of operations and cash flows.

In June 2009, the FASB issued SFAS No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162.” The FASB Accounting Standards Codification (the “Codification”) will become the source of authoritative generally accepted accounting principles in the United States of America. The Codification changes the referencing of financial standards but is not intended to change or alter existing U.S. GAAP. The Codification is effective for interim or annual financial periods ending after September 15, 2009. The adoption of FAS No. 168 did not have an impact on the Company’s consolidated financial statements.

In December 2008, the U.S. Securities and Exchange Commission (SEC) announced that it had approved revisions to its oil and gas reporting disclosures. The new disclosure requirements include introducing a new definition of oil and gas producing activities, report oil and gas reserves using an unweighted arithmetic average of the price on the first day of each month during the prior 12-month, permit disclosures of probable and possible reserves and other maters. On September 15, 2009 the FASB issued a proposed accounting standard update to align current US GAAP accounting standards with the SEC’s new rules. If finalized, the Company will begin complying with the disclosure requirements in its supplemental information on oil and gas exploration and production activities for the year ending December 31, 2009. The Company is currently evaluating what impact these new requirements may have on its financial position, results of operations or cash flows.

(in millions of Russian Roubles)

Note 3: Acquisitions and Divestitures

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

In June 2009, Osmand Holdings Ltd ("Osmand"), a 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 accounting for its investments in Osmand under the equity method which amounts to RR 2,592 million as of September 30, 2009.

At December 31, 2008, Osmand owned 39.9 million Tatneft ordinary shares which were accounted for as treasury shares of the Group. As a result of the Group's change in interest in Osmand during 2009 28.1 million shares previously classified as treasury shares of the Group were no longer reflected as treasury shares recognizing an increase additional paid in capital of RR 1,223 million.

Note 4: Accounts Receivable

Accounts receivable are as follows:

	At September 30, 2009			At December 31, 2008		
	Total accounts receivable	Accounts receivable from related parties (Note 10)	Accounts receivable from third parties	Total accounts receivable	Accounts receivable from related parties (Note 10)	Accounts receivable from third parties
Trade - domestic	9,941	222	9,719	9,861	476	9,385
Trade - export	21,563	6	21,557	10,913	-	10,913
Other receivables	3,513	182	3,331	2,852	302	2,550
Total accounts receivable, net	**35,017**	**410**	**34,607**	**23,626**	**778**	**22,848**

Export trade receivables consist of US $717 million and US $371 million at September 30, 2009 and December 31, 2008, respectively.

Accounts receivables are presented net of an allowance for doubtful accounts of RR 10,130 million and RR 12,980 million at September 30, 2009 and December 31, 2008, respectively.

In the nine-month period of 2008 the Group recorded a bad debt provision on accounts receivables related to its crude oil sales to ChMPKP Avto till October 2007 in the amount of RR 11,093 million (US$ 439 million). During the nine months of 2009 part of debt was collected in the amount of RR 3,174 million resulting in a decrease of the bad debt provision amount to RR 10,060 million (US$ 334 million) as of September 30, 2009 (Note 11).

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

Note 5: Inventories

Inventories are as follows:

	At September 30, 2009	At December 31, 2008
Materials and supplies	5,701	5,113
Crude oil	2,804	4,599
Refined oil products	1,332	1,405
Petrochemical supplies and finished goods	1,687	3,004
Total inventories	**11,524**	**14,121**

(in millions of Russian Roubles)

Note 6: Debt

	At September 30, 2009	At December 31, 2008
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	60,517	-
Other foreign currency denominated debt	6,579	5,112
Rouble denominated debt		
Current portion of long-term debt	13	76
Other rouble denominated debt	932	623
Less: due to related parties (Note 10)	(1)	(21)
Total short-term debt	**68,040**	**5,790**
Long-term debt		
Foreign currency denominated debt		
BNP Paribas	60,184	43,336
Other foreign currency denominated debt	8,873	1,377
Rouble denominated debt	219	176
Total long-term debt	**69,276**	**44,889**
Less: current portion	(60,530)	(76)
Total long-term debt, net of current portion	**8,746**	**44,813**

Short-term foreign currency denominated debt. In December 2003 the Group entered into a RR 1,739 million (US $58 million) one month revolving credit facility with Credit Suisse Zurich. The monthly revolving loan bears interest at 1 month LIBOR plus varying margin of about 1.8% per annum and is collateralized by crude oil sales.

In 2008 and 2009 the Group entered into credit agreements with BNP Paribas Geneva for RR 4,213 million (US $140 million) in aggregate. The loans bear interest from 4.03% to 5.78% per annum and are collateralized by total crude oil sales of 344 thousand tons. During nine months ended September, 30 2009 the Group partially repaid the credit received of RR 3,912 million (US $130 million).

In June the Company entered into a 6-month RR 4,514 million (US $150 million) unsecured loan agreement with Tavit B.V., a subsidiary of Vitol. The loan was repaid in October 2009.

In November 2007, TANECO entered into a senior secured credit facility arranged by ABN AMRO (now RBS), BNP Paribas (Suisse) SA, Citibank International PLC, Bayerische Hypo-und Vereinsbank AG, Sumitomo Mitsui Finance Dublin and WestLB AG, for US$ 2.0 billion to be used in the construction of TANECO’s refinery and petrochemical complex. The amount outstanding under this loan as of September 30, 2009 and December 31, 2008 was RR 60,184 million (US $2,000 million) and RR 43,336 million (US $1,475 million), respectively. The loan bears interest at LIBOR plus 1.65% and matures in January 2010 (unless an optional six months extension is exercised by TANECO).

Short-term Russian Ruble denominated debt. Russian Ruble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 932 million and RR 623 million bear contractual interest rates of 7.3% to 19.5% and 7% to 15% per annum for the nine months ended September 30, 2009 and year ended December 31, 2008, respectively.

Long-term foreign currency denominated debt. The loan is fully guaranteed by OAO Tatneft and the guarantee is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than three million metric tones of oil per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios.

In September 2009, the Company entered into a two-years US $300 million unsecured loan agreement with Bank of Moscow. The amount outstanding under this loan as of September 30, 2009 was RR 7,523 million (US $250 million).

(in millions of Russian Roubles)

Note 7: Taxes

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

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Export duties	65,754	113,085
Unified production tax	37,832	67,445
Property tax	1,423	1,098
Excise taxes	255	239
Penalties and interest	90	67
Other	761	711
Total taxes other than income taxes	**106,115**	**182,645**

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.

Effective January 1, 2009, the threshold crude oil price up to which the tax rate is zero was raised from $9.00 to $15.00 per barrel which leads to a $1.30 per barrel decrease in crude oil extraction tax expenses in Russia. Also, the list of regions where, depending on the period and volume of production, a zero crude oil production tax rate applies has been extended to include the Nenetsky Autonomous District, an area where the Company currently has operations.

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% effective from 1 January 2009.

Note 8: Fair Value Measurements

The Company implemented FASB Statement No. 157, Fair Value Measurements (FAS 157), as of January 1, 2008. FAS 157 was amended by FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the Company’s application of FAS 157 for nonrecurring nonfinancial assets and liabilities until January 1, 2009. The implementation of FAS 157 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, FAS 157 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. Beginning January 1, 2009, Level 3 inputs may be required for the determination of fair value associated with certain nonrecurring measurements of nonfinancial assets and liabilities.

Note 8: Fair Value Measurements (continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Marketable securities: The Group has RR 6,474 million in marketable securities as of September 30, 2009. The Group calculates fair value for its marketable securities based on quoted market prices for identical assets and liabilities.

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 is RR 3,780 million at September 30, 2009.

Note 9: Segment Information

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

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

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

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

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

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

(in millions of Russian Roubles)

Note 9: Segment Information (continued)

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

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Exploration and production		
Domestic own crude oil	33,602	42,795
CIS own crude oil	12,598	13,060
Non – CIS own crude oil	154,157	214,316
Other	4,281	3,453
Intersegment sales	7,872	11,268
Total exploration and production	**212,510**	**284,892**
Refining and marketing		
Crude oil purchased for resale	6,458	14,724
Refined products	27,961	36,356
Domestic sales	34,419	51,080
Crude oil purchased for resale	-	-
Refined products	729	798
CIS sales(1)	729	798
Crude oil purchased for resale	6,889	16,731
Refined products	3,188	5,322
Non – CIS sales(2)	10,077	22,053
Other	2,471	2,012
Intersegment sales	1,180	1,922
Total refining and marketing	**48,876**	**77,865**
Petrochemicals		
Tires - domestic sales	10,593	13,307
Tires - CIS sales	2,533	2,118
Tires - non-CIS sales	558	969
Petrochemical products and other	1,059	1,321
Intersegment sales	933	906
Total petrochemicals	**15,676**	**18,621**
Total segment sales	**277,062**	**381,378**
Corporate and other sales	6,606	10,784
Elimination of intersegment sales	(9,985)	(14,096)
Total sales and other operating revenues	**273,683**	**378,066**

(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.

For the nine months ended September 30, 2009, the Group had four customers which accounted for RR 158,256 million in crude oil sales, comprising 23%, 22%, 14% and 12% respectively of the total tons of crude oil sold by the Group during the nine months. For the nine months ended September 30, 2008, the Group had three customers which accounted for RR 193,840 million in crude oil sales, comprising 25%, 21% and 19% respectively of the total tons of crude oil sold by the Group during the nine months. Management does not believe the Group is dependent on any particular customer.

(in millions of Russian Roubles)

Note 9: Segment Information (continued)

Segment earnings.

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Segment earnings (loss)		
Exploration and production	56,704	44,461
Refining and marketing	5,591	10,043
Petrochemicals	2,722	1,344
Total segment earnings	**65,017**	**55,848**
Corporate and other	(8,436)	(10,713)
Other income / (expenses)	6,826	(435)
Income before income taxes and non-controlling interest	**63,407**	**44,700**

Segment assets.

	Nine months ended September 30, 2009	At December 31, 2008
Assets		
Exploration and production	232,202	218,509
Refining and marketing	117,380	72,720
Petrochemicals	22,381	18,768
Corporate and other	101,308	82,983
Total assets	**473,271**	**392,980**

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

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

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Depreciation, depletion and amortization		
Exploration and production	7,898	5,774
Refining and marketing	786	665
Petrochemicals	360	537
Corporate and other	755	645
Total segment depreciation, depletion and amortization	**9,799**	**7,621**
Additions to property, plant and equipment		
Exploration and production	13,236	16,366
Refining and marketing	45,978	16,147
Petrochemicals	4,408	3,612
Corporate and other	834	1,141
Total additions to property, plant and equipment	**64,456**	**37,266**

(in millions of Russian Roubles)

Note 10: Related Party Transactions

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

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

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Sales of crude oil	-	3
Sales of refined products	13	127
Sales of petrochemical products	-	895
Other sales	634	23
Purchases of crude oil	(3,239)	(3,040)
Volumes of crude oil purchases (thousand tons)	241	238
Purchases of refined products	-	(18)
Volumes of refined products purchases (thousand tons)	-	1
Purchases of petrochemical products	-	(6)
Purchases of electricity	(4,359)	(3,417)
Other purchases	(267)	(1,357)

	At September 30, 2009	At December 31, 2008
Assets		
Accounts receivable (Note 4)	410	778
Notes receivable	1,203	3,352
Short-term certificates of deposit	7,271	11,666
Loans receivable	1,644	1,809
Due from related parties short-term	**10,528**	**17,605**
Long-term certificates of deposit	5,740	500
Long-term loans receivable	5,152	4,925
Long-term accounts receivable	3	6
Due from related parties long-term	**10,895**	**5,431**
Liabilities		
Other accounts payable	(116)	(285)
Notes payable	-	(22)
Short-term debt (Note 6)	(1)	(21)
Trade accounts payable	(565)	(453)
Due to related parties short-term	**(682)**	**(781)**

Note 11: Commitments and Contingent Liabilities

Guarantees. The Group has no outstanding guarantees at September 30, 2009 and December 31, 2008.

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

Recent volatility in global financial markets. The ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding and lower liquidity levels across the Russian Federation. The uncertainties in the global financial market, has also led to bank failures and/or bank rescues. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Additionally, the uncertainty in the global markets combined with other local factors has led to very high volatility in the Russian Stock Markets during 2009.

Management believes the Group's current and long-term capital expenditures program can be funded through cash generated from existing operations or existing lines of credit. The TANECO refinery project is currently being funded by as US$ 2.0 billion line of credit, of which only US$ 1,000 million has been drawn as of September 30, 2009. Furthermore, TANECO has the ability to extend this line of credit through July 2010. Management also believes the Company has the ability to obtain syndicated loans and other financings as needed to fund business acquisitions and other transactions that may arise in the future.

The Group currently holds RR 6,474 million of investments in debt or equity securities as well as an RR 3,780 million investment in IPCG Fund and RR 4,115 investment in Bank Zenit that may be subject to declines in fair value as a result of the recent market turbulence.

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

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

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

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

Note 11: Commitments and Contingent Liabilities (continued)

Ukrtatnafta

In December 2007 the Company acquired a substantial interest in AmRUZ Trading AG ("AmRUZ") and a controlling interest in Seagroup International Inc. ("Seagroup"), whose principle activities are investments in Closed Joint Stock Company Ukrtatnafta ("Ukrtatnafta"), the owner of the Kremenchug refinery located in the Ukraine. As of September 30, 2008, the Company's investments in Ukrtatnafta totalled RR 3,342 million.

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 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$1.1 billion. The Group is in the process of preparing similar requests for arbitration on behalf of Seagroup and AmRUZ.

In November 2009 the Business Court of the City of the Poltava Region invalidated the initial purchase of 8.6% of Ukrtatnafta shares by the Company without payment of any compensation to the Company. This decision has not become effective and is currently under appeal.

There are a number of legal proceedings currently in process in the Ukraine, Russian Federation and international courts to recover the Group's assets. As a result of the ongoing legal dispute over shareholding interests, as of September 30, 2009 the Company has fully provided for its indirect investments in Ukrtatnafta.

Note 12: Subsequent Events

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, the Bank of Moscow and Nordea Bank.