Management's Discussion and Analysis

The following discussion should be read in conjunction with the unaudited interim condensed 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 September 30, 2010 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.

Key financial and operational results

	Nine months ended September 30, 2010	Change	Nine months ended September 30, 2009
Sales (millions of RR)	338,230	24.23%	272,264
Net income attributable to Group shareholders (millions of RR)	30,370	(34.58)%	46,423
EBITDA [(*)] (millions of RR)	52,967	(24.38)%	70,040
Basic and Diluted net income per share of common stock (RR)			
Common……………	13.42	(35.33)%	20.75
Preferred……………...	13.35	(35.04)%	20.55
Crude oil production by the Group (thousand of tonnes)	19,532	0.1%	19,521
Crude oil production by the Group (thousand of barrels)	139,129	0.1%	139,048
Gas production by the Group (millions of cubic meters)	607.5	(1.6)%	617.6
Refined gas products produced (thousand of tonnes)	804.3	(1.0)%	812.3

[(*)] *As defined on page 14*

Our net income for the nine-month period of 2010 was RR 30,370 million, which is RR 16,053 million, or 34.58%, less than in the corresponding period of 2009.

Despite higher sales in the nine months of 2010 compared to the corresponding period of 2009 our net income decreased on the back of increased export duties and unified production tax rates, transportation tariffs, selling, general and administrative expenses and foreign exchange loss recorded on credit facility denominated in foreign currency.

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 OAO Tatneft.

- **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 the nine months of 2010 the Group increased production by 0.1% from its fields compared to the corresponding period of 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 the nine months of 2010 the Company put 251 new production wells into operation and obtained one new E&P license 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 the nine-month period of 2010 the Group obtained 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. In Libya the Company continued its exploratory program, involving 2D and 3D seismic and exploratory wells drilling.

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.

Highly viscous oil (natural bitumen) production

The Company continued 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 the nine-month period of 2010 three pairs of wells produced 19.1 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.

Petrochemicals

In the nine-month period of 2010 the core entity of the Group's petrochemicals segment – OAO Nizhnekamskshina produced 8.0 million tires in comparison to 6.9 million tires in the corresponding period of 2009.
A new advanced rubber mix production line was launched in 2007 with monthly capacity of 1,200 tonnes, which allows Nizhnekamskshina to produce modern high performance tires. The Group continued to invest in the modernization and upgrading of Nizhnekamskshina's production facilities to strengthen its market competitiveness, including the construction of a new plant to produce modern solid steel cord tires for trucks and other heavy load vehicles, which was officially launched in December 2009 and will produce up to 1.2 million tires per year.

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 2009 year end.

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

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 the results of our exploration and production activities (daily volumes represent year average):

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Crude oil daily production, (thousand bbl per day)	509.6	509.3
Gas daily production (thousand boe per day)	13.1	13.3
Crude oil extraction expenses (RR per bbl)	167.4	151.6
	(RR millions)	
Sales of crude oil	271,525	213,704
Crude oil extraction expenses	23,296	21,074
Exploration expenses	1,487	1,845
Unified production tax	50,229	37,832

Crude oil production of the Group (including production of consolidated subsidiaries OAO Ilekneft, OOO Tatneft-Samara, ZAO Tatneft-Severny) increased by 0.1% to 19.53 million metric tonnes in the nine months of 2010 compared to the nine months of 2009. Our gas production decreased by 1.6% to 607.5 million cubic meters in the nine months of 2010 from 617.6 million cubic meters in the corresponding period of 2009.

Refining and marketing

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Refining of crude oil throughput (thousand bbl per day)	9.97	10.25
Refining of gas products throughput (thousand boe per day)	11.15	11.02
Number of petrol (gas) stations in Russia*	494	473
Number of petrol (gas) stations outside of Russia*	136	137

** including stations rented from third parties*

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 the nine-month period of 2010, the Group exported from Russia approximately 69% of all its crude oil sold compared with approximately 67% in the corresponding period of 2009.

In the nine-month period of 2010 the Company delivered 53% (26% in the nine months of 2009) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Hungary and Germany); 32% (47% in the nine months of 2009) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk); 12% (9% in the nine months of 2009) of crude oil exported through Baltic Sea port Primorsk and 3% (17% in the nine months of 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. After a significant decline attributed to the world's financial and economic crisis in 2008, in the beginning of 2009, the Brent crude oil price started to recover and fluctuated between $39 and $74 per barrel, reaching its maximum of $74.75 in August 2009.

In the nine months of 2010 crude oil markets were much stronger relative to the nine months of 2009 due to an overall recovery of the global markets and increase in demand. During the period Urals crude oil price averaged U.S. $75.9 per barrel and was 34% higher than in the corresponding period of 2009.

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 the nine months of 2010 and 2009, respectively.

	Average for the nine months ended September 30		Change	At September 30		Change
	2010	2009		2010	2009	
	(in US dollars per barrel, except for figures in percent)					
Brent crude	77.1	57.2	*35.0%*	81.0	65.7	*23.3%*
Urals crude (*CIF Mediterranean*)*	75.9	56.6	*34.1%*	79.8	65.7	*21.5%*
Urals crude (*CIF Rotterdam*)*	75.9	56.6	*34.3%*	80.1	65.9	*21.4%*

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.

	Nine months ended September 30, 2010	**Nine months ended September 30, 2009**
Ruble inflation	6.2%	8.1%
Period-end exchange rate (Ruble to US$)	30.40	30.09
Average exchange rate (Ruble to US$)	30.25	32.48
Nominal devaluation of the Ruble	(0.5)%	(2.4)%
Real Ruble appreciation	5.6%	5.5%

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:

	Nine months ended September 30, 2010	Nine months ended September 30, 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)]	2,948	2,136	*38.0%*	Metric tonne produced (crude oil)
Refined products excise tax:				
High octane gasoline	3,992	3,629	*10%*	Metric tonne produced and sold domestically [(2)]
Low octane gasoline	2,923	2,657	*10%*	
Diesel fuel	1,188	1,080	*10%*	
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	269.2	156.6	*71.9%*	Metric tonne exported
Refined products export duty average rates:				
Light refined products (gasoline products) and mid refined products (diesel fuel)	193.6	117.8	*64.4%*	Metric tonne exported
Fuel oil *(mazut)*	104.3	63.4	*64.4%*	

(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 the nine-month period of 2010 compared to the corresponding period of previous year. Unified production tax rate increased by 38%, average crude oil export duty rate by 72% and average refined products export duty rate by 64%.

The increase in unified production tax rate in the nine-month period of 2010 was a result of increase in the average Urals crude price by 34%. Excise taxes on refined products increased in the nine-month period of 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).

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 the nine-month period of 2010 of RR 7.5 billion (RR 4.9 billion in the nine-month period of 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 the nine months of 2010 attributed to that production of RR 56 million (RR 38 million in the nine-month period of 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 72% in the nine months of 2010 to US$ 269.2 per tonne (US$ 36.9 per barrel) from US$ 156.6 per tonne (US$ 21.4 per barrel) in the corresponding period of 2009. The increase in these comparative periods was associated with the increase of Urals prices by 34% to US$ 75.9 per barrel in the nine months of 2010 compared to US$ 56.6 per barrel in the corresponding period of 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; 0.335 for 2008 and 0.293 for 2007) 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 is not subject to export duty. Volumes of crude oil above this limit will be 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%.

Nine months ended September 30, 2010 compared to the nine months ended September 30, 2009

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

RR millions	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)	Change
Sales and other operating revenues	**338,230**	**272,264**	**24.2%**
Costs and other deductions			
Operating	46,809	42,773	9.4%
Purchased oil and refined products	41,834	26,816	56.0%
Exploration	1,487	1,845	(19.4)%
Transportation	12,745	10,644	19.7%
Selling, general and administrative	20,560	15,733	30.7%
Depreciation, depletion and amortization	10,086	9,404	7.3%
(Gain)/ loss on disposals of property, plant and equipment and investments and impairments	(100)	533	118.8%
Taxes other than income taxes	157,711	105,633	49.3%
Maintenance of social infrastructure and transfer of social assets	2,745	2,105	30.4%
Total costs and other deductions	**293,877**	**215,486**	**36.4%**
Earnings from equity investments	235	1,015	(76.8)%
Foreign exchange (loss)/gain	(1,448)	121	(1,296.7)%
Interest income	2,889	3,146	(8.2)%
Interest expense, net of amounts capitalized	(344)	(502)	(31.5)%
Other (expenses)/ income, net	(259)	2,722	(109.5)%
Total other income	**1,073**	**6,502**	**(83.5)%**
Income before income taxes and non-controlling interest	**45,426**	**63,280**	**(28.2)%**
Current income tax expense	(11,346)	(13,934)	(18.6)%
Deferred income tax benefit/(expense)	15	(474)	103.2%
Total income tax expense	**(11,331)**	**(14,408)**	**(21.4)%**
Net income	**34,095**	**48,872**	**(30.2)%**
Less: net income attributable to non-controlling interest	(3,725)	(2,449)	52.1%
Net income attributable to Group shareholders	**30,370**	**46,423**	**(34.6)%**

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	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Crude oil	271,525	213,704
Refined products	36,659	31,878
Petrochemicals	16,891	14,342
Corporate and other sales	13,155	12,340
Total sales and other operating revenues	**338,230**	**272,264**

Sales and other operating revenues increased in the nine months of 2010 by 24.2% to RR 338,230 million from RR 272,264 million in the corresponding period of 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 27.1% to RR 271,525 in the nine months of 2010 from RR 213,704 million in the corresponding period of 2009. The table below provides an analysis of the changes in sales of crude oil:

	Nine months ended September 30, 2010	Change	Nine months ended September 30, 2009
Domestic sales of crude oil			
Revenues (RR millions)	47,677	*19%*	40,060
Volume (thousand tonnes)	*6,589*	*(0.3)%*	*6,611*
Realized price (RR per tonne)	*7,235.8*	*19.4%*	*6,060*
CIS export sales of crude oil [1]			
Revenues (RR millions)	14,835	*17.8%*	12,598
Volume (thousand tonnes)	*1,722*	*38.8%*	*1,241*
Realized price (RR per tonne)	*8,615*	*(15.1)%*	*10,151*
Non-CIS export sales of crude oil			
Revenues (RR millions)	209,013	*29.8%*	161,046
Volume (thousand tonnes)	*12,952*	*5.7%*	*12,257*
Realized price (RR per tonne)	*16,137.5*	*22.8%*	*13,139*

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

Sales of refined products

Sales of refined products increased by 15% to RR 36,659 million in the nine-month period of 2010 from RR 31,878 million in the corresponding period of 2009. The table below provides an analysis of the changes in sales of refined products:

	Nine months ended September 30, 2010	Change	Nine months ended September 30, 2009
Domestic sales of refined products			
Revenues (RR millions)	30,210	*8%*	27,961
Volume (thousand tonnes)	*1,908*	*(12.5)%*	*2,180*
Realized price (RR per tonne)	*15,833.3*	*23.4%*	*12,826*
CIS export sales of refined products			
Revenues (RR millions)	1,797	*146.5%*	729
Volume (thousand tonnes)	*83*	*(3.5)%*	*86*
Realized price (RR per tonne)	*21,650.6*	*155.4%*	*8,477*
Non-CIS export sales of refined products			
Revenues (RR millions)	4,652	*45.9%*	3,188
Volume (thousand tonnes)	*295*	*9.3%*	*270*
Realized price (RR per tonne)	*15,769.5*	*33.6%*	*11,807*

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 the nine months of 2010 we increased sales volumes of diesel fuel and petrol, realized prices for which on CIS export sales were 54% higher than that of other refined products.

Sales of petrochemical products

The table below provides an analysis of petrochemical products sales.

RR millions	Nine months ended September 30, 2010	Change	Nine months ended September 30, 2009
Tires sales	16,085	*17.5%*	13,685
Other petrochemicals sales	806	*22.7%*	657
Total sales of petrochemical products	**16,891**	***17.8%***	**14,342**

The increase in sales of petrochemical products was primarily due to the higher volumes of tires sold. The Group's production of tires in the nine months of 2010 increased by 16.7% compared to the corresponding period of 2009 and amounted to 8.06 million tires due to increase in production of vehicles by major clients of Nizhnekamskshina.

Other sales

Other sales increased by 6.6% to RR 13,155 million in the nine months of 2010 from RR 12,340 million in the corresponding period of 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	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Crude oil extraction expenses	23,296	21,074
Petrochemical production expenses	15,571	12,148
Other operating expenses	7,802	8,860
Change in operating expenses in inventory of crude oil produced by the Group*	140	691
Total operating expenses	**46, 809**	**42,773**

** 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 167.4 per barrel in the nine months of 2010 compared to RR 151.6 per barrel in the corresponding period of 2009. The increase in equipment service costs, which were a primary driver of the increase in lifting expenses in the nine months of 2010 by 10.5%, was due to an increase in costs paid to service companies.

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 28.2% to RR 15,571 million in the nine months of 2010 compared to the corresponding period of 2009 primarily due to increase in volumes of petrochemicals produced.

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 7,802 million, or by 11.9%, compared to the nine-month period of 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 the corresponding periods of 2010 and 2009, respectively, is as follows:

RR millions	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Purchased crude oil (RR millions)	17,482	5,076
Volume (thousand tonnes)	*2,072*	*438*
Average price per tonne (RR)	*8,437*	*11,589*
Purchased refined products (RR millions)	24,352	21,740
Volume (thousand tonnes)	*1,516*	*1,631*
Average price per tonne (RR)	*16,063*	*13,329*
Total purchased oil and refined products	**41,834**	**26,816**

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

Purchases of refined products increased by 12% to RR 24,352 million in the nine months of 2010 from RR 21,740 million in the corresponding period of 2009 due to increase in average purchase price per tonne by 21% partly offset by decrease in volumes of purchased refined products for trading by 7%.

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 1,487 million in the nine-month period of 2010 from RR 1,845 million in the corresponding period of 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 19.7% to RR 12,745 million in the nine-month period of 2010 from RR 10,644 million in the corresponding period of 2009 in line with the increase in transportation tariffs.

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 4,827 million to RR 20,560 million in the nine-month period of 2010 compared to the corresponding period of 2009. In the nine months of 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, increase in selling, general and administrative expenses by 9% was mainly attributed to an increase in certain administrative expenses in our subsidiaries and other expenses (transportation and general) compared to the corresponding period of 2009.

(Gain)/ loss on disposals of property, plant and equipment and impairment of investments. In the nine-month period of 2010 we recorded gain on disposals of property, plant and equipment and impairment of investments amounted to RR 100 million compared to a RR 533 million loss in the corresponding period of 2009. The gain in the nine-month period of 2010 primarily included a gain from disposal of equity investments in IPCG Fund in the amount of RR 566 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:

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Export duties	104,517	65,754
Unified production tax	50,229	37,832
Property tax	1,458	1,423
Excise taxes	284	255
Penalties and interest	(110)	90
Other	1,333	279
Total taxes other than income taxes	**157,711**	**105,633**

Taxes other than income taxes increased by 49.3% to RR 157,711 million in the nine months of 2010 from RR 105,633 million in the corresponding period of 2009. The increase was primarily a result of an increase in export duty and unified production tax rates, which are linked to crude oil market prices. In the nine months of 2010 compared to the corresponding period of 2009, our export duties increased by 59%. The Group's unified production tax expense increased by 32.8%. Our expenses on excise taxes increased to RR 284 million from RR 255 million in the nine months of 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 the nine months of 2010 of RR 7.5 billion in comparison to RR 4.9 billion in the nine months of 2009, driven 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 the nine months of 2010 tax benefit of RR 56 million in comparison to RR 38 million in the nine months of 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 2,745 million in the nine-month period of 2010 from RR 2,105 million in the corresponding period of 2009 mainly due to write-off of social asset in the amount of RR 638 million.

Other (expenses) income

The Group recorded a gain from equity investments amounted to RR 235 million in the nine months of 2010 compared to a RR 1,015 million gain in the corresponding period of 2009. This decrease was due to the IPCG Fund loss, RR 362 million of which was attributed to the Group in the nine months of 2010, before the redemption, in comparison to a gain of RR 302 million in the corresponding period of 2009.

The Group also recorded foreign exchange loss amounted to RR 1,448 million in the nine-month period of 2010 compared to a foreign exchange gain of RR 121 million in the corresponding period of 2009. This was mainly due to foreign exchange loss in the amount of RR 1,680 million on US dollars denominated debt incurred under the long-term credit facilities of the Group, partly offset by foreign exchange gain on dollar denominated sales of crude oil.

Interest income decreased by 8.2% to RR 2,889 million in the nine-month period of 2010 compared to the corresponding period of 2009 due to decrease of interest income received on loans receivable.

Interest expense, net of amounts capitalized, decreased from RR 502 million to RR 344 million in the nine-month period of 2010 in comparison to the corresponding period of 2009, which was a result of decrease in other debt, beyond the syndicated credit facilities.

Other expense, net, in the nine-month period of 2010 amounted to RR 259 million compared with RR 2,722 million of other income, net, in the corresponding period of 2009. The change was primarily due to realized losses recorded on our trading marketable securities.

Income taxes

The effective income tax rate in the nine months of 2010 was 24.9%, 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	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income attributable to Group shareholders	30,370	46,423
Add back:		
Non-controlling interest	3,725	2,449
Income tax expense	11,331	14,408
Depreciation, depletion and amortization	10,086	9,404
Interest expense	344	502
Interest and dividend income	(2,889)	(3,146)
EBITDA	**52,967**	**70,040**

EBITDA is a non-US GAAP financial measure, defined as net income before interest, taxes and 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.

Financial Condition Summary Information

The following table shows certain key financial indicators:

RR millions	At September 30, 2010	At December 31, 2009
Current assets	136,907	135,914
Long-term assets	422,531	359,828
Total assets	**559,438**	**495,742**
Current liabilities	82,234	110,894
Long-term liabilities	143,764	71,341
Total liabilities	**225,998**	**182,235**
Shareholders' equity	**333,440**	**313,507**
Working capital	54,673	25,020

Working capital position

As of September 30, 2010 working capital of the Group amounted to RR 54,673 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	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net cash provided by operating activities	43,361	62,208
Net cash used for investment activities	(53,285)	(68,328)
Net cash provided by financing activities	17,931	21,396
Increase in cash and cash equivalents	8,007	15,276

Net cash provided by operating activities

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities decreased by 30.3% to RR 43,361 million in the nine-month period of 2010 from RR 62,208 million in the corresponding period of 2009.

Net cash used for investing activities

Net cash used for investing activities decreased by 22.0% to RR 53,285 million in the nine months of 2010 from RR 68,328 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.

Net cash provided by financing activities

Cash flow provided by financing activities amounted to RR 17,931 million in the nine-month period of 2010 compared to RR 21,396 million provided by financing activities in the corresponding period of 2009. This was primarily due to net debt proceeds of RR 24,305 million in the nine-month period of 2010 compared with net debt proceeds of RR 26,534 million in the corresponding period of 2009.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment) were made in the nine-month period of 2010, compared to the corresponding period of 2009:

RR millions	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Exploration and production	13,759	13,450
Refining and marketing	43,768 (1)	46,876
Petrochemicals	1,326(2)	4,408
Corporate and other	814	1,844
Total additions to property, plant and equipment	**59,667**	**66,578**

(1) *Includes RR* 42,230 *million expenditures related to the refinery construction by TANECO*
(2) *Includes RR* 848 *million expenditures related to the new solid steel cord tires plant*

Analysis of Debt

At September 30, 2010, long-term debt, including the current portion of long-term debt, amounted to RR 110,056 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 41,279 million (US$ 1,358 million) under this credit facility were outstanding as of September 30, 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 60,806 million (US$ 2,000 million) under this credit facility were outstanding as of September 30, 2010).

In August 2010 the Company reached an agreement with the lenders under the US$ 1,500 million 2009 Facility to decrease the margins and substantially decrease the amount of crude oil volumes used as collateral for this facility. The margins were decreased to LIBOR plus 3.10% and 4.10% for the 3 and 5 year tranches and crude oil volumes used as collateral decreased from 750,000 to 480,000 metric tones of oil in a calendar quarter, respectively.

In September 2010, the Group issued rouble 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 September 30, 2010 were as follows:

RR millions	At September 30, 2010
September 2010 - September 2011	25,467
September 2011 - September 2012	37,423
September 2012- September 2013	26,325
September 2013- September 2014	10,956
September 2014 and thereafter	9,885
Total long-term debt	**110,056**