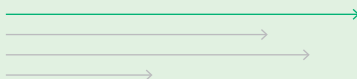


12013
7617
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95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12

Company's Mission: Strengthening the Company's status of an internationally recognized, financially stable company as one of the largest vertically integrated national companies producing oil and gas, oil products and petrochemical products, while ensuring a high level of corporate social responsibility.

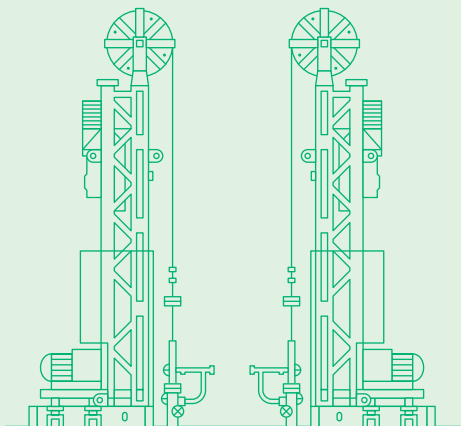
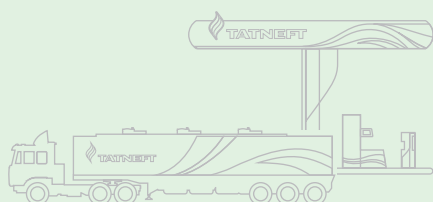


CAPITALIZATION
GROWTH

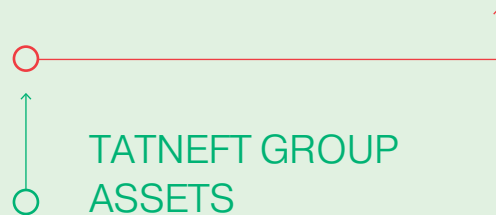
+37.8%

DIVIDEND YIELD
GROWTH

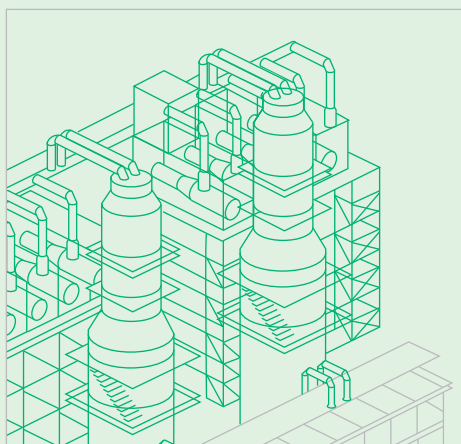
2012



OPERATING
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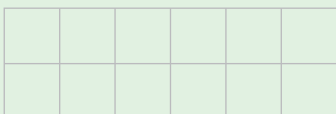
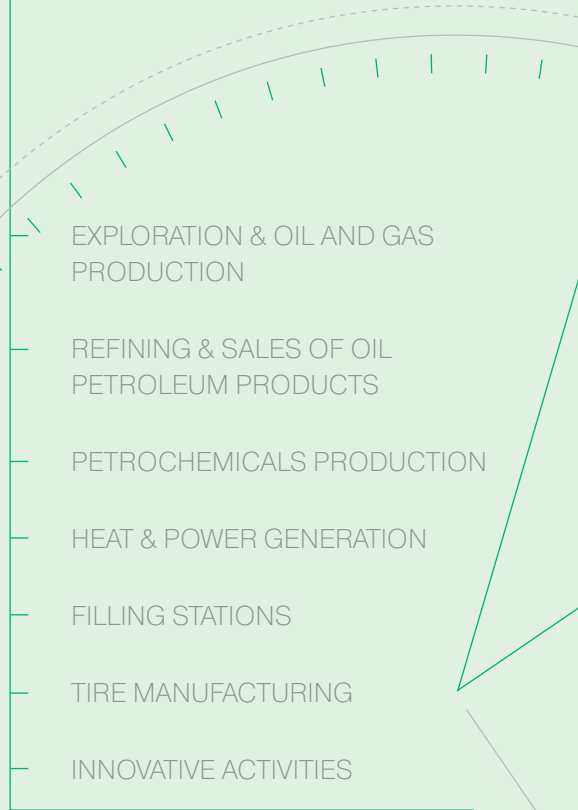
TATNEFT GROUP
ASSETS
CONSOLIDATION



CREDIT RATING –
OUTLOOK IS STABLE

STRENGTHENING
POSITIONS

ANNUAL
REPORT
2012





TATNEFT OPERATES IN THE GLOBAL FUEL AND ENERGY SECTOR, BEING AN INTERNATIONALLY RECOGNIZED PUBLIC COMPANY. THE COMPANY’S MAIN ACTIVITIES ARE CARRIED OUT IN THE TERRITORY OF THE RUSSIAN FEDERATION. A NUMBER OF BUSINESS PROJECTS ARE CARRIED OUT IN FOREIGN TERRITORIES.

475.0

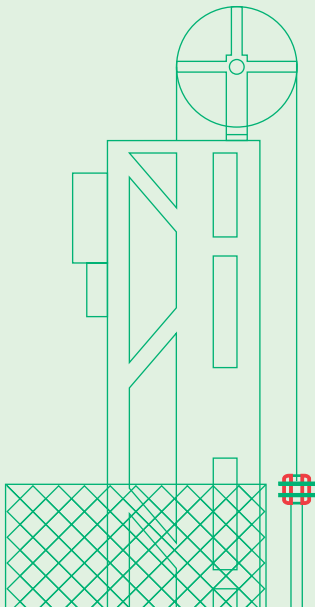
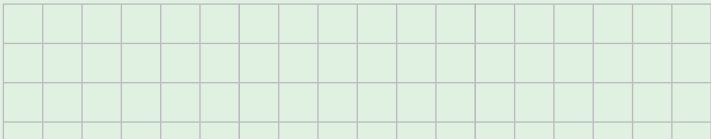
Capitalization by the Results of 2012 (rur bln)

378.5

Net Assets of JSC TATNEFT As of dec. 31, 2012 (rur bln)

869.2

Volume of Proved Oil & Gas Reserves According to Miller & Lents, Ltd As of jan. 01, 2013



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JOINT ADDRESS TO SHAREHOLDERS,
INVESTORS AND PARTNERS

DEAR SHAREHOLDERS, INVESTORS AND PARTNERS!

The year 2012 became a qualitatively new stage in the development of JSC TATNEFT, a year of successful implementation of strategic initiatives in all areas of the Company's activities.

During the year the Company carried out a lot of work to expand the resource base, including the continued development of extra-viscous oil reserves and the capacity build-up in the field of crude oil refining and petrochemistry.

A whole range of technological innovations allows the Company to involve new, previously inaccessible areas in the development, ensuring the oil recovery rate growth and further stabilization of crude oil production volumes.

A large amount of work on introduction of advanced technologies contributing to fold increase in well production was performed during the reporting year. This work will continue in the current year. A key challenge in this area is introduction of new drilling technologies, horizontal wells designs, multi-stage reservoir hydraulic fracturing and other reservoir stimulation technologies.

A significant effect was observed in the area of energy and resource saving through application of new equipment and improving the organization of work in the fields' operation. The task of achieving specific energy consumption at the 2007 level was accomplished. Savings amounted to more than 40,000 tons of reference fuel.

An important component of rational use of resources and improving the Company's efficiency of operations is development of the own energy sector. A considerable amount of work on the reconstruction of power generation capacity and improving the power supply system reliability was performed in 2012. Currently there are three mini-CHPs under construction in Almet'yevsk designed for combined generation of heat and electricity. Upgrading of Nizhnekamsk CHP has been started, which will provide for implementation of a single, closed-cycle: from oil production and processing to using petroleum coke for generation of electricity and heat.

2013 WILL BE A MILESTONE YEAR FOR THE OIL INDUSTRY OF THE REPUBLIC. WE SHALL CELEBRATE THE 70TH ANNIVERSARY SINCE THE BEGINNING OF OIL FIELDS DEVELOPMENT IN TATARSTAN. THE ACHIEVEMENTS AND SUCCESSES IN THE COMPANY'S DEVELOPMENT ARE SECURED BY THE TREMENDOUS AND SELFLESS WORK OF THE WHOLE STAFF OF THE TATNEFT GROUP OF COMPANIES. WE HIGHLY HONOR AND AUGMENT GLORIOUS LABOR TRADITIONS. WE REMEMBER AND HAVE THE GREATEST RESPECT FOR OUR VETERANS. WE THANK THE WORKERS, PROFESSIONALS AND MANAGERS FOR THE FRUITFUL WORK TO IMPROVE THE PERFORMANCE OF THE JOINT STOCK COMPANY.

WE THANK ALL OUR SHAREHOLDERS, INVESTORS AND PARTNERS FOR THEIR TRUST AND SUPPORT IN ADDRESSING THE ISSUES IMPORTANT FOR JSC TATNEFT!

TATNEFT has achieved considerable advances in the refining industry. Over 7 million tons of oil were processed during the reporting year at TANECO. The average refining depth was about 74%, which is above the industry average values in the Russian Federation. As a result of starting commercial operation of the Complex in 2012, the Republic for the first time surpassed the level of 14 million tons of processed hydrocarbons becoming the sixth region of the country in terms of oil refining. At present, the comprehensive testing operations are underway at the visbreaking installation and combined sulfur production installation. The construction of the combined hydrocracking installation is continued, which is scheduled for commissioning this year. The construction completion of the Refining and Petrochemical Plants Complex will allow accomplishing the task set by the country's leadership to increase the depth of oil refining and improving the quality of products yielded and also improve economical efficiency of TATNEFT performance.

During the reporting year the work was continued to expand the range of innovative tire products, including increase of solid steel cord truck tires and "KAMA- EURO" tires production. Despite the increasingly competitive environment the tire manufacturing complex of TATNEFT retains its leading position for the products output at the domestic market. At year-end 2012 more than 13 million tires were produced - the highest rate in terms of production in the history of the tire industry in the Republic of Tatarstan.

The results of many years extensive work on development of information technologies are reflected in the integration of all the key business processes, as well as in improving the system and structure of the production management. The Company is expanding geological targets modeling which allows rational development of hydrocarbon reserves. Wells construction and maintenance today is supported by a video recording system, which, along with the introduction of lean production method provides for increased labor productivity. The Company has now implemented round the clock monitoring of drilling wells ending with horizontal wellbores. An "intelligent deposit" project with application of information technologies and automation is being implemented in one of the Company's operation areas. A satellite system of monitoring fuel consumption by vehicles is operating quite efficiently. A single corporate information system covers all the resource management processes from financial and material to human ones. Modern information technologies are applied in the corporate personnel training system, in the Electronic Corporate University and Student Labor Exchange.

Meeting the production challenges has been aimed at accomplishing the strategic objectives with the primary focus on ensuring financial stability of the Company. The effective activity contributed to the growth of the market value and liquidity of TATNEFT's shares at the Russian and foreign stock exchanges. The market capitalization of our Company increased by 38% in 2012 and came to the amount of 475 billion rubles.

Vast production experience, great innovative potential and highly qualified staff are a guarantee of TATNEFT's stability and open up new opportunities and broad prospects for the Company's development.

R.N. MINNIKHANOV

President of the Republic of Tatarstan,
Chairman of the Board of Directors
of JSC TATNEFT

SH.F. TAKHAUTDINOV

General Director,
Chairman of the Management Board
of JSC TATNEFT

COMPANY’S MISSION

Strengthening its status of an internationally recognized, financially stable company as one of the largest vertically integrated national companies producing oil and gas, oil products and petrochemical products, while ensuring a high level of corporate social responsibility.

STRATEGIC INITIATIVES AND OBJECTIVES OF THE COMPANY

- Increasing equity capital value.
- Ensuring financial stability and economic stability.
- Stabilizing the volume of profitable oil and gas fields developed on license fields and active exploration of new fields, including high viscosity and hard to recover oil in the territory of the Republic of Tatarstan.
- Expanding the resource base outside the Republic of Tatarstan and the Russian Federation.
- Increasing production and sales of finished products of high competitiveness through development of refineries and petrochemical plants.
- Formulating and implementing innovative engineering and technology policy.
- Ensuring a high level of corporate social and environmental responsibility.

JSC TATNEFT EQUITY HOLDING STRUCTURE

As of December 31, 2012, according to the register of shareholders JSC TATNEFT had 46,837 shareholders. Of these, the largest owners (nominal holders) of the Company’s shares were:

- Joint stock company Central Depository of the Republic of Tatarstan (JSC CDRT) owns 33,595% of shares (nominal holder)
- ING Bank (Eurasia) (closed joint stock company) owns 33,065% of shares (nominal holder)
- Non-bank credit organization, closed joint stock company National Settlement Depository owns 21,613% of shares (nominal holder).

Shares of JSC TATNEFT have been traded in domestic and international stock markets for over 18 years and are among the most

liquid and representative securities in these markets. Its ordinary and preference shares participate in the A quotation list of the first level auction in the united JSC Moscow Stock Exchange. Shares of TATNEFT are included in the calculation base of RTS and MICEX, which are the main indicator of the Russian stock market.

Depository receipts of the Company are listed on the London Stock Exchange (under ATAD denomination) and traded in the Xetra group company Deutsche Bourse.

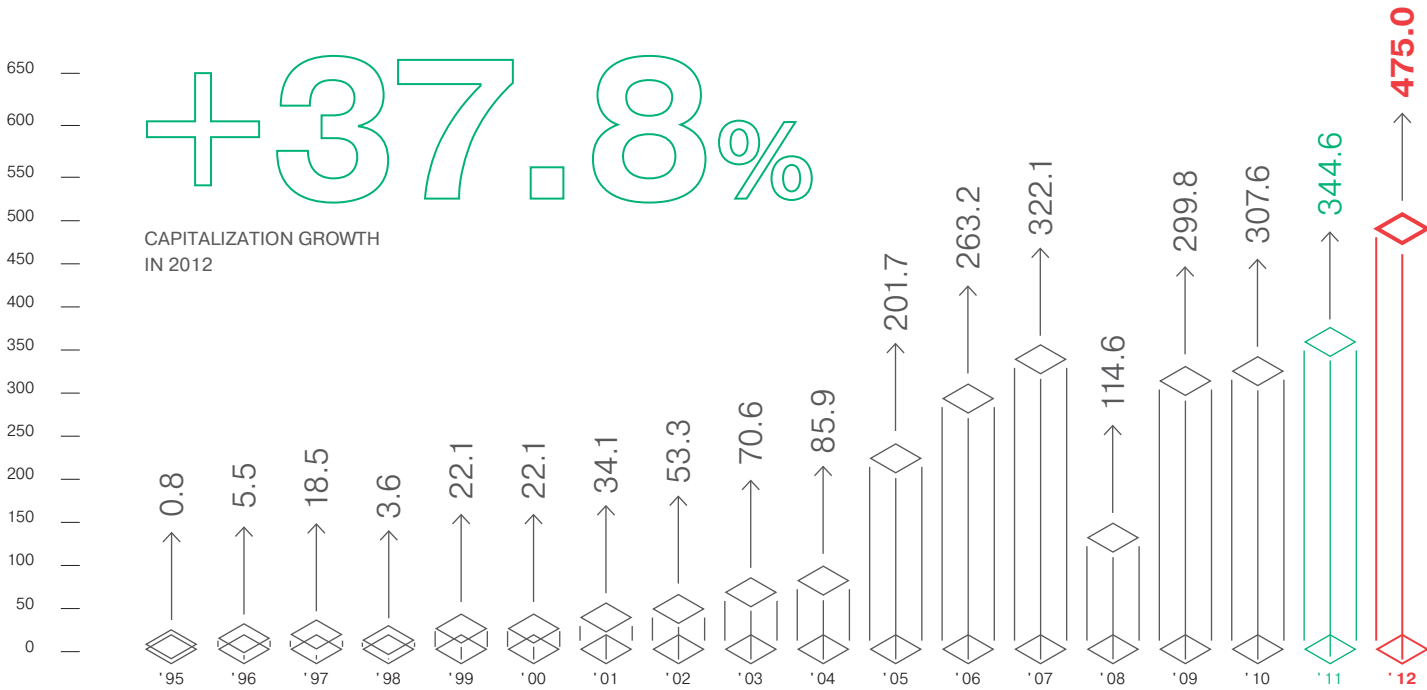
The current annual volume of trading on the Moscow stock exchange exceeds RUR 95 billion (USD 3.1 billion). 637,128,202 ordinary shares, or 29.9% of the equity, have been deposited to be converted into global American Depositary Receipts (ADRs) (conversion ratio 1 DR=20 shares was changed in 2009 to 1 DR=6 shares).

The annual trading volume of TATNEFT depository receipts exceeds 5.3 billion pounds in the London Stock Exchange and 10 million Euros in the Xetra system. In terms of trading in the Russian and London stock exchanges TATNEFT has sustained the fourth place among the Russian oil companies.

CAPITALIZATION OF JSC TATNEFT

Market capitalization as of the end of 2012 amounted to RUR 475 billion (USD 15.58 billion), compared to 2011 up by 37.8%. As of the end of 2012 the value of one ordinary share in JSC TATNEFT was RUR 218 (USD 7.15).

CAPITALIZATION DYNAMICS OF JSC TATNEFT (Bln rubles)



COMPANY’S STATUS

JSC TATNEFT is an internationally recognized public company. The Company performs most of its activities in the Russian Federation’s territory, while a number of business projects are also being run overseas.

The Company implements a strategy of vertical integration and represents the Group based on the following business segments: exploration and oil and gas production, oil and petroleum products processing and selling, and petrochemistry. These business segments represent individual areas of the Company’s operational activity, for which strategic investment decisions are made and performance indicators are determined. Management inside business segments is divided into sectors. The exploration/oil and gas production business segment includes sectors of geology, field development and oil and gas production. The oil and petroleum products processing/selling segment includes oil and gas processing, selling of oil and petroleum products, as well as selling of petroleum products through retailer network. The petrochemistry segment includes production and selling of petrochemical raw materials and ready products. The Company is developing the heat power business segment.

The Company possesses a high innovation and technical potential and modernizes its production and technological processes by developing and applying cutting edge technologies. This priority is one of TATNEFT’S most considerable competitive advantages, allowing it to increase production profitability. TATNEFT is also one of the leading companies in implementing IT technologies, which enables it to develop and improve production activities. Today virtually all stages of production in the Company are equipped with modern information systems, starting from the crew and enterprise level up to the corporate systems for the Company’s top management, which are

integrated into a single information space. The main task at this stage is deeper penetration of IT technologies into all business processes.

The Company’s activity complies with ISO 14001 and OHSAS standards of environmental and industrial safety. At the same time, the Company carries out voluntary actions aimed to improve ecological situation in the areas where it operates and where its employees live.

TATNEFT is one of the largest taxpayers in the Russian Federation. The overall amount of taxes and other payments to all budget levels in 2012 amounted to RUR 312 bln.

Social priorities are followed up using goal-oriented corporate programs to support development of the state healthcare, education, sports, youth creativity, as well as social actions for the local population, including support for developing small and average-sized businesses in all territories of the Company.

JSC TATNEFT adheres to principles of information transparency and accessibility by committing to all legal demands and regulations for information disclosure and additionally providing the most detailed data on its activity on a voluntary basis so that all stakeholders could have a deeper understanding of the Company’s current situation and development prospects.

POSITION OF JSC TATNEFT IN THE INDUSTRY. COMPANY’S ENVIRONMENT

JSC TATNEFT is one of the largest vertically integrated oil companies in the Russian Federation, carrying out its activities in the territory of Russia and abroad.

The main resource base of the Company has historically been in the territory of the Republic of Tatarstan, where the maximum oil production level in the last 16 years equal to 26 million 5 thousand tons was reached in 2012, which is 76.6 million tons more than in 2011.

Outside the Republic of Tatarstan, TATNEFT produced 302 tons of oil from its license areas in the Russian Federation, which exceeded last year’s production level by 13.5%.

The geography of oilfields in the Russian Federation, in which the Company currently operates outside Tatarstan, includes the Samara, Orenburg, and Ulyanovsk regions, Nenets Autonomous Okrug, and the Republic of Kalmykia. In 2013, a goal was set to increase the volume of crude oil outside of RT to 330 thousand tons.

Plans for 2013 also provide for resumption of activities in Libyan fields, for which TATNEFT acquired development rights in 2005 and 2007 as a result of auctions. Prior to the outbreak of the Libyan armed stand-off in 2011, the Company performed a large amount of exploration work in its license territories and discovered three fields in which high production rates of the first drilled wells were achieved.

As of January 1, 2013, the proved developed, undeveloped and undrilled reserves of JSC TATNEFT, according to estimates of the international independent consulting firm Miller & Lentz amounted to 869.2 million tons of oil, and in terms of availability of hydrocarbon resources (ratio between the current annual production and the amount of reserves) Company is a leader not only in Russia but also in the world.

Despite the fact that most of the deposits held by the Company are in their late or final stage of development, as of today TATNEFT is the only oil company in Russia that has managed to avoid any significant decline in production since 2000, constantly improving its oil recovery technology and enhanced oil recovery. As to the level of technological equipment and scale of innovative methods the Company is very competitive and in some aspects it has even gone ahead of its main Russian competitors, i.e. Rosneft, Lukoil, TNK-BP, Surgutneftegas, GazpromNeft and Bashneft. For example, Russian oil companies are greatly interested in the dual production technology in two or more layers via one well, which is actively implemented in TATNEFT. In addition, the Company is industry’s absolute leader in terms of the average turnaround time for wells, which in 2012 exceeded 3 years and reached 1,199 days. It should also be noted that TATNEFT maintains industry’s highest level of associated gas utilization, which exceeds the standard value of 95% set by the Government of the Russian Federation.

2012 was the first year for TATNEFT in the status of a refining company: 7 million tons of crude oil was processed in the TANECO complex, which is being constructed by JSC TATNEFT, with refining depth reaching 73.69%, thereby exceeding the average Russian industry’s indicators (71 %). The output of light oil products in TANECO in 2012 was about 50% (with the national average of 55%), however after completion of the construction of the hydrocracking unit it will reach 63%, and after launching the first phase of the entire refinery it will be about 90%.

GENERAL INDUSTRY TRENDS

The volume of oil production in Russia in 2012 amounted to 518.0 million tons, an increase of over 1% more than in 2011 (511.4 million tons). The increase in oil production was the result of a faster pace of growth in the new oil-bearing areas compared with the rate of decline in the old fields.

The changes in the global oil and gas production that occurred in recent years, in which shale hydrocarbons play an increasingly prominent role, could not help but reflect on the major trends and priorities for the development of the Russian oil industry. Domestic oil companies with the support of the Government of the Russian Federation have established three important directions for development of domestic oil production:

- improvement of the efficiency of oil field development through increasing the oil recovery factor (ORF);
- build-up in the volumes of the resource base;
- increase in the proportion of recoverable hydrocarbons in offshore fields.

Due to development and widespread adoption of know-how methods of EOR JSC TATNEFT managed to reach the highest values in Russia for oil recovery equal to 0.339 (current JSC TATNEFT’s ORF in group 6), which is significantly higher than the national average of 0.159. The noticeable difference in the values of ORF regulated for Russia as a whole and for the Republic of Tatarstan (0.31 and 0.41 (ultimate JSC TATNEFT’s ORF in group 6), respectively) serves as a convincing evidence of the Company’s high level of technological equipment and its advanced skills in oil production.

Since the main region of JSC TATNEFT’s activity, the Republic of Tatarstan, is highly explored from the geological viewpoint, the possibilities of a significant increase in reserves of conventional oil are quite limited. This is why development and formulation of the balance for heavy oil reserves in the territory of the Republic of Tatarstan is of particular importance for the Company, with the amount of resources estimated to be 1-7 billion tons.

The key trend in the Russian oil refining, as we approach higher export duty on heavy petroleum products from January 1, 2015, is a large-scale modernization of the existing refinery, aimed at increasing the depth of processing and maximum extraction of light oil. Major oil industry efforts are aimed at upgrading plants to improve environmental standards of its motor fuels, which is economically justified: the legislation provides for reduction in excise duty rates as the product quality increases. Preservation of high uncertainty in the tax legislation significantly affects oil refining in Russia and forces oil companies to lay significant risk premiums for investment projects.

In the world oil market, the influence of companies from China, India and the Middle East can be well felt, which continue construction of large export-oriented refining capacities. New global players will replace obsolete and inefficient refineries that have high production and logistics costs, depreciated fixed assets or those that offer unclaimed oil product assortment.

Among the major trends in the Russian retail market of petroleum products are the following:

- Ongoing consolidation of retailers vertically integrated companies (construction of new stations and purchase of existing independent operators);
- Improved environmental quality requirements for petroleum products: ban on the sale of fuels below Euro-3 grade.

Against this background, all market participants without exception, including JSC TATNEFT, are in the process of a large-scale modernization of their retail chains in order to improve sales proposition for the customer (both fuel and non-fuel).

The dominant trend of the Russian tire market in 2012 was the increased competition from both domestic producers and foreign tire manufacturers, especially from Korea and China.

The government exercised a notable influence on the electric power industry in 2012. State-owned companies continued consolidation of players, the government took steps to limit the increase in electricity prices for end users, the scope of which includes all participants in the industry: generation companies, transmission and distribution networks, and retail companies. In the past year, for the first time in the last few years, the annual indexation of tariffs for electricity was done not on January 1 but on July 1.

EVENTS THAT OCCURRED
IN THE REPORTING YEAR
THAT SIGNIFICANTLY AFFECTED
THE INDUSTRY

Overall, 2012 was a success for the Company in terms of achieved production and financial performance. Stability of oil production and close to the design parameters capacity utilization of the TANECO new oil refinery were maintained as was stipulated in the plan, combined with the expansion of the network of filling stations, active work in developing deposits of natural bitumen, and improved system of corporate governance. This was largely due to the positive trends in the Russian economy as a whole, which are still quite fragile - economic and industrial growth in some sectors are countered by a fall in others, and there is a decrease in the growth rate of the index of

industrial production in comparison with the previous year (2.6 % vs. 4.7%). Although the processing industry grew faster (up 4.1%) than the resource industry (up 1.1%), dependence of the Russian economy on the commodity sector remains strong and the main budget revenues were generated in production and export of hydrocarbons in recent years, with the share of oil and gas revenues in the budget growing: in 2012, 50.2% of revenues were received due to successful activities of the oil and gas complex.

The growth of oil production in Russia in 2012 (518 million tons, 101% of 2011) has been provided mainly by the commissioning of new fields in Eastern Siberia (Vankorskoye, Talakanskoye and Verkhnechonskoye). JSC TATNEFT remains the only Russian oil company, which consistently, year after year, achieves growth in production through the use of modern methods of enhanced oil recovery.

Despite the large number of tax innovations developed and adopted by the Government of the Russian Federation in 2010 - 2012 years, the bulk of oil revenues is taken in the form of taxes, which hinders the development of fully innovation-directed investment.

In 2012, the law came into force on the use of incentives in production of heavy oil: its volume is 90% of the export duty for a period of 10 years. The resulting benefit will be extended to dozens of licensed areas of the Company, which opens for JSC TATNEFT the real prospect of growth in oil production and involvement in development of previously uneconomic reserves, primarily in the Republic of Tatarstan.

The 60/66/90 system which was valid for the entire 2012 was an important step towards reforming the taxation sector. This system provided preferential production by reducing the export duty on crude oil and, as a consequence, increase in the profitability of production. In refining, the 60/66/90 system is designed to start the process of modernization of Russian refineries and expand capacities of re-refining: in 2012 production of motor fuels of Euro-5 standard in Russia increased five-fold.

Another highlight of the year was the purchase of TNK-BP by the state-owned Rosneft, which resulted in the emergence of the largest publicly traded oil company in the world and the further consolidation of the Russian oil industry.

The emergence of such major player in the Russian energy market will inevitably lead to a redistribution of market shares between public and independent companies in virtually all areas of the Russian oil majors, including production, oil and gas refining, wholesale trading and retail banking.

The continuing steady growth of all segments of the Russian transportation fleet, and, as a consequence, an increase in the market of automobile tires, were another important macroeconomic aspect influencing the activity of JSC TATNEFT in 2012. Increase in the share of foreign cars in the car park of Russia and the rise of population’s incomes lead to a shift in consumer preferences toward more expensive tire prices of B and A segments through which the tire market is growing. The C segment is not growing in the absolute values, which results in a decrease in its relative market share. SSC tire segment is also growing in the truck tires market and there is a shift in demand towards a larger register diameter (from R20 to R22.5).

Another significant event for the tire industry in 2012 was Russia’s accession to the WTO, which implies Russia’s acceptance of obligations to reduce import duties on the tires supplied to the domestic market.

The Russian tire market continues to be attractive for foreign tire companies opening in Russia local production facilities. The process of foreign companies creating their own production facilities in Russia has led to a significant increase in competition, especially in the sectors of passenger and light truck tires. In addition, many Chinese and Korean tire manufacturers consider the Russian market as strategic.

In 2012, regulations were adopted for pricing in the heat supply sector, and the development of a new model of the wholesale market of electric energy and power began. This model is being developed under the non-commercial partnership Market Council and is discussed in the Ministry of Energy of the RF. It should eliminate discrimination against heat power stations, which has been established in the wholesale market. With the adoption of the new model a mechanism will be built for elimination of cross-subsidies or its market compensation in electricity and heat generation.

MAIN ASSUMED NEGATIVE
FACTORS WHICH MAY IMPOSE
NEGATIVE IMPACT ON THE PACE
OF THE COMPANY’S DEVELOPMENT
IN THE NEAR FUTURE

The world prices for hydrocarbons (oil in particular) are the main external factor affecting the activity of JSC TATNEFT. A possible slowdown in global growth will inevitably lead to a reduction in demand for oil, and as a result, the decline in world prices.

Among the factors that could negatively affect development not only of the Company but also of the Russian oil and gas industry as a whole, is the ever-increasing importance of rapidly improving technologies for extracting shale hydrocarbons (especially oil), which could lead to an increase in their supply on the world energy market. Shale gas revolution has led to a decrease in prices and a decrease in gas imports to the U.S., with a high degree of probability and impact on the global energy market as a whole, causing the correction in commodity prices downward.

Consolidation of retail networks by state-owned vertically integrated oil companies (JSC Rosneft and JSC GazpromNefteft) can have the negative impact on the retail business of JSC TATNEFT. After JSC Rosneft purchased JSC TNK-BP, the market share (by sales volume) of the state oil majors in the regions of JSC TATNEFT’s operation has increased from 22% to 33%.

The commitments adopted by Russia for accession to the WTO to mitigate a number of barriers to the supply of tires foreign producers on the Russian market can become a limiting factor for the tire business of JSC TATNEFT in the next few years. This, in particular, concerns reducing import tariffs for passenger tires from the current 20% to 10% by 2017, and for truck and bus tires from 15% to 10% by 2015. Therefore, a substantial growth is expected in deliveries to the Russian tire market from the Asian region, with Chinese manufacturers already eager to supply its products to original equipment on the Russian car factories at a price below the cost of some Russian producers.

The government is planning a significant increase in gas prices in the domestic market of the Russian Federation, which may adversely affect the Power and Heat Generation business segment.

FACTORS AFFECTING COMPETITIVENESS OF JSC TATNEFT AND ITS SUBSIDIARIES ON THE MARKET BY BUSINESS SEGMENTS

Oil and Gas Sales

The decisive competitive advantage of TATNEFT in the segments of oil production and selling is, above all, the industry's highest supply of hydrocarbon resources: the resource base available to the Company's allows it maintaining the current production volume for more than 30 years. Despite the significant depletion of reserves, the Company increases production of oil, while maintaining a competitive cost level through the use of advanced innovative technologies to improve oil recovery year after year.

Improvement of bituminous oil extraction technology under the government's considerable benefits for development of heavy oil gives the Company a significant competitive advantage in terms of expanding the resource base and increasing oil production.

Another considerable advantage of TATNEFT is in the geographical proximity of oil production center to the major regions of selling and refining of oil and oil products. The Company has the lowest average tariff on crude oil transportation to the European markets among major Russian vertically integrated oil companies.

Oil and Gas Processing and Petroleum Chemistry

Completion of the TANECO refinery's construction with the capacity of 7 million tons per year is a sign of TATNEFT's increased integration in production of products with high added value, which will increase profits and improve the Group's financial sustainability in highly volatile global commodity markets.

The adopted concept of the Refinery's construction provides for a number of competitive advantages enabling TANECO to hold a strong position in the domestic and global oil markets: first, the Complex's focus on the petroleum products in high demand now and in the future, such as Euro-5 motor fuel, Jet A-1 jet fuel, high-index base oils, aromatics, and secondly, minimization of volumes in low-value products, such as heating oil, VGO, heavy gas oil, and thirdly, the high flexibility of processing units, allowing to process flows with high sulfur content (up to 3.8%) as well as work with a wide range of capacity utilization. The latter fact is against the background of the continuing unpredictability of the Russian tax system and deteriorating resource base will enable TANECO to better adapt to the changing external environment in comparison to its competitors.

Retail Business (Gas Stations)

The competitive advantage of the retail networks of TATNEFT is the extent of branching and broad, covering virtually all of the most attractive regions in Russia, especially Volga and Central Federal District, with high growth prospects and attractive retail margins.

Tire Business

Tire Business JSC TATNEFT has several competitive advantages over competitors such as the proximity to the source of supply of synthetic rubber, own production of carbon black, the significant scale of production, geographical proximity to large clusters of car assembly plants, the availability of modern meeting the highest market and the technical requirements of production lines.

Electricity and Heat Generation

The Company works constantly to improve power supply reliability and reduce the cost of energy. The key elements of the work in these areas are corporate programs to improve energy efficiency and reliability of power supply.

The availability of TATNEFT's own generation assets can provide a reliable power supply for the Company's needs (in the business areas of Oil and Gas Exploration and Production as well as Oil and Gas Processing) and requirements of external consumers of heat and electricity in the Republic of Tatarstan.

BASIC STEPS TO IMPROVE FUTURE COMPETITIVENESS OF THE COMPANY'S BUSINESS SEGMENTS

JSC TATNEFT is a recognized leader in development and application of EOR methods in developing hard to recover reserves. When producing from such deposits, the demand for research and advanced technology for innovative equipment increases and more jobs in steel industry, chemical industry, and machine construction are created. This is the multiplier effect shown by the projects that are being implemented in Tatarstan. A solemn ceremony of signing an agreement on establishing the Scientific and Technical Center of JSC TATNEFT in Skolkovo took place in December 2012. This STC will commence its work with developing a technology of re-using produced water for steam generation in viscous oil production. The second project will be the development of the nuclear magnetic resonance method for determining viscosity of crude oil at reservoir conditions. Another project on the site of the Company in Skolkovo is aimed at research and development of the microbiological method of enhancing oil recovery from carbonate reservoirs. All of these measures will enable our Company to maintain its leading positions in the development of hard-to-recover reserves.

JSC TATNEFT actively works on conservation of uneconomic wells and distribution of redundant investment between the most promising production targets using Schlumberger software products, which allow to select the most promising targets from an economic standpoint, as well as to evaluate and prioritize among a diverse group of investment projects.

In an effort to improve the efficiency of its production activities, JSC TATNEFT has developed and timely updates based on monitoring a comprehensive program of resource saving for the period up to 2020. Through introduction of resource-saving measures in 2012, TATNEFT Group saved 51.6 million tons of equivalent fuel. Over the past year 561 actions were taken, of which 220 were aimed at energy savings. At the end of the program the best effect was obtained through the following activities: reduction of water produced from oilfields by selective shutting off highly flooded wells; capital repair of pumps in the system to maintain reservoir pressure; and reduction of produced water volumes through the water shutoff techniques by applying enhance oil recovery. Company's contribution to the development of energy-efficient production was lauded at the government level. In 2012 JSC TATNEFT was announced as the best among the companies in the fuel sector at the republican Resource Efficiency and Energy Saving contest.

An important area of improving the competitiveness of refineries in JSC TATNEFT and, first of all, TANECO is the effective implementation of modern enterprise management systems: establishment of systems for cost monitoring and controlling, including regular industry benchmarking; application of modern optimization programs of the product basket; development of long-term marketing plans for products; training or involvement in the market of skilled professionals responsible for these areas.

To improve the competitiveness of the retail network and reduce the negative impact from consolidation of the retail market in the hands of government's vertically integrated companies JSC TATNEFT will continue modernization of its network, with an emphasis on improving the quality of non-fuel supply and improving the level of service at gas stations. In addition, the work will continue to improve the internal efficiency of the retail business (business process optimization, cost optimization, improved automation, etc.). Completion

of the TANECO complex will enhance the competitive position of JSC TATNEFT in the retail market: the Company will supply itself with quality Euro-5 fuel to the full extent.

JSC TATNEFT will continue to work on modernizing its tire production, improving product quality and production efficiency in order to increase its competitiveness. The Company is planning to pay particular attention to development of the marketing block: brand management, price positioning, range management, including acceleration of marketing for new lines of tires, etc. TATNEFT is considering the possibility of attracting an interested strategic partner for the joint development and improve sales as a leverage for its tire business competitiveness.

A project was launched to modernize the Nizhnekamsk CHP with the plan of increasing its capacity from 380 to 730 MW. Its commissioning and start-up, in the context of its modern turbines, will allow using thermal energy to generate additional electricity. This pretty much solves the problem of deficiency of electric power in the largest petrochemical plants in Nizhnekamsk, including TANECO.

Construction of three mini CHPs was started by Almetьевsk Heating Networks, designed for co-generation of heat and electricity. The generated electricity will be used to transfer hot water, for boiler needs and for selling to third-party customers.

INTERACTION WITH SHAREHOLDERS AND INVESTORS

PRINCIPLES OF INTERACTION WITH SHAREHOLDERS
Guaranteed equal ensuring and observance of legal rights and interests of all the shareholders of the Company, regardless of the number of shares they own, as set out by applicable laws of the Russian Federation, requirements and recommendations of stock markets regulators, where the shares of the Company circulate.

Continuous interaction of the Company’s management with all the shareholders in order to manage the Company effectively and ensure its sustainable and dynamic development.

Continuous improvement of existing and development of new mechanisms and forms of interaction with the shareholders and potential investors, which would increase efficiency and quality of interaction with the shareholders, taking into account emergence of new shareholders and formulation of further goals by the shareholders.

Identification and resolution of all possible general and specific issues related to exercising of the shareholder rights.

Taking all necessary and possible measures in case of a conflict between the Company’s bodies and its shareholder(s), as well as between the shareholders, if the conflict affects the interests of the Company, to fully settle the conflict and to create an environment that would prevent the conflict in the future.

PROCEDURE OF ENSURING INTERACTION WITH SHAREHOLDERS

The Company provides equal opportunities for shareholders through:

- 1. Procedure of holding the General Meeting of Shareholders, which guarantees equal opportunities to all the participants of the meeting to take part in discussing the meeting issues and express their opinions.
- 2. Developing and improving corporate mechanisms aimed at informing the shareholders of all significant events of the Company in full volume in accordance with all applicable requirements of the information disclosure.
- 3. Election of the Board of Directors members, General Director and the Company’s Management Board members in accordance with the transparency policy stipulating provision of the relevant information on each nominee to the shareholders.
- 4. Prohibition of transactions with the use of insider and confidential information.
- 5. Providing by the Board of Directors members, General Director and members of the Management Board of the information on transactions in which they can be recognized as stakeholders.
- 6. Application of all available modern communicative means to ensure the most effective and efficient communication with all the shareholders, regardless of any remoteness of the shareholders from the Company’s location.

The Company’s shareholders exercise their rights and responsibilities and participate in the activities of the Company under the applicable law, as well as on the basis of voluntary initiatives aimed at improving the management and operations of the Company. The shareholders should proceed in their actions taking into account the interests of the Company and not take any actions that are contrary to the interests of the Company. Execution of all their duties in a timely manner and in full volume by the shareholders will enable the Company to ensure implementation of all legal rights of the shareholders.

The Company provides for prompt review of all the shareholders’ appeals received in the written or electronic form or made personally and responds in a timely and appropriate manner.

In case of the shareholders’ problems identification (violations of the shareholders’ rights and conflict emergence), the Company takes immediate measures to address these problems, analyzes the circumstances that led to their emergence and organizes efficient mechanisms to resolve them.

The Company makes no exceptions in reviewing all facts regarding violations of the shareholders’ rights and taking necessary steps to address them, as well as measures to prevent re-emergence of such violations in the future.

DIVIDEND POLICY

ENSURING THE RIGHTS OF SHAREHOLDERS TO RECEIVE DIVIDEND INCOME

The Company has an authorized unit that coordinates the whole system of JSC TATNEFT interaction with its shareholders: the Securities Operation Office of the Company’s Property Department.

The Company strives to ensure the most reliable and effective methods and forms of communication, including advanced information technologies application for reaching the highest possible quality of interaction with the shareholders.

The Company considers it vital to maintain a constructive dialogue between the shareholders and the management of the Company to achieve the highest performance of the activities.

The Company provides the shareholders with an access to documents in accordance with the applicable law.

The dividend policy of JSC TATNEFT provides for a consistently high level of dividends at 30% rate of the net profit under RAS.

The dividend policy of TATNEFT is defined by the Federal Law "On Joint Stock Companies" and the Company’s Articles. In accordance with the Articles, the preferred shares owners are entitled to a fixed annual dividend of 100% of the shares nominal value, unless otherwise decided by the general meeting of shareholders (Article 5.4). The decision on the amount of dividends on ordinary shares is taken by the general meeting of shareholders following the Board of Directors recommendation.

In 2012, according to the results of JSC TATNEFT’s activities in 2011, the total amount of dividends for preferred and ordinary shares amounted to 16.5 billion rubles or 30% of the net profit. The dividend rate charged per 1 share amounted to 7.08 rubles (708% of the share face value).

The dividends profitability with regard to the market cost of ordinary shares amounted to 3.25 % by the end of 2012.

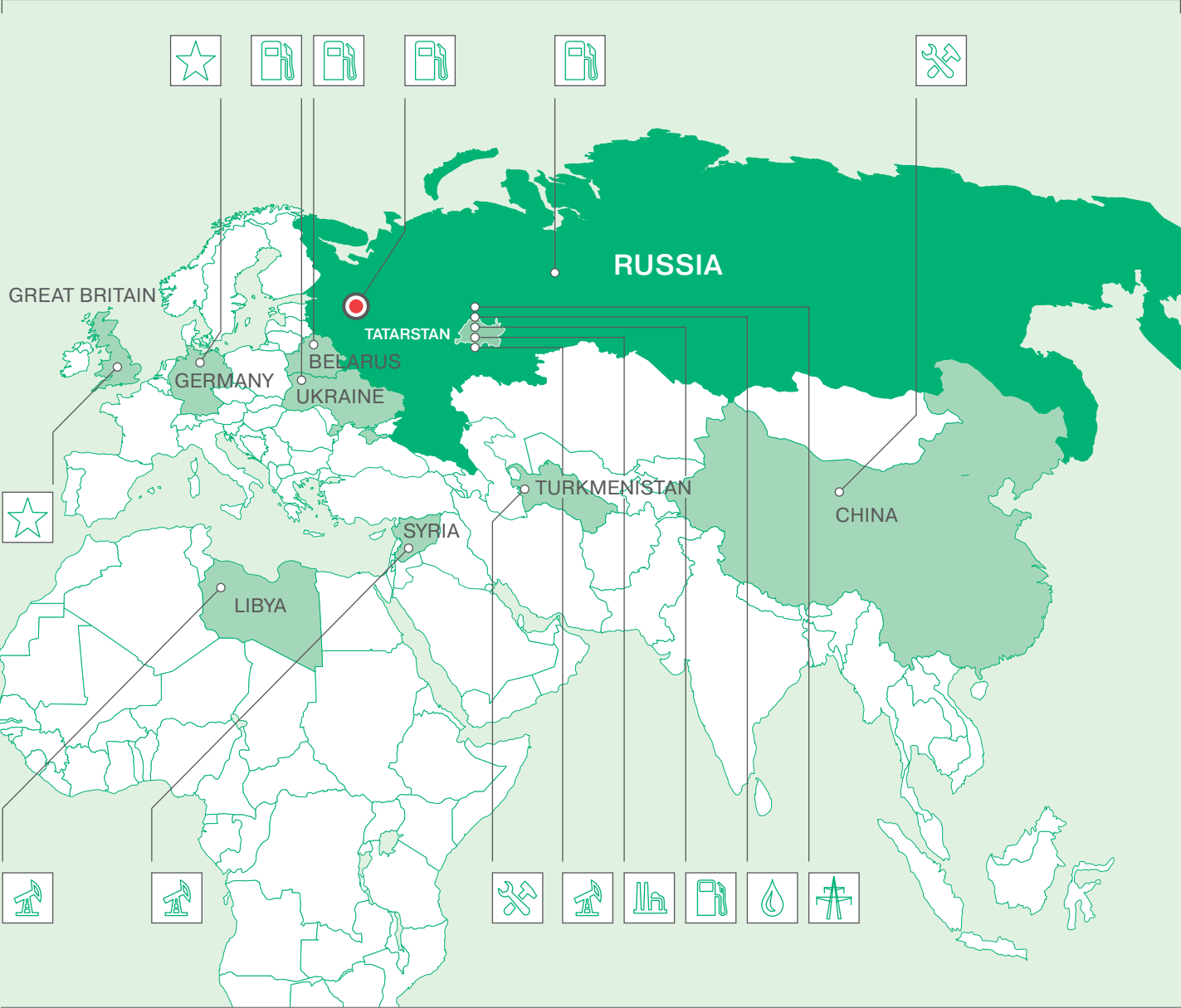
According to the results of 2012 the Board of Directors recommended the annual general shareholders meeting to approve dividends on ordinary and preferred shares in the amount of 860% of the nominal value (8.60 rubles per share).

DIVIDENDS PAYMENT HISTORY. DIVIDENDS ON PREFERRED AND ORDINARY SHARES (RUR per Share)

SHARE TYPE	2008		2009		2010		2011		2012*	
	% OF THE FACE VALUE	DIVIDEND AMOUNT	% OF THE FACE VALUE	DIVIDEND AMOUNT	% OF THE FACE VALUE	DIVIDEND AMOUNT	% OF THE FACE VALUE	DIVIDEND AMOUNT	% OF THE FACE VALUE	DIVIDEND AMOUNT
Total dividends amount (RUR bln)		10.3		15.3		11.7		16.5		20.012
Ordinary shares	442%	4.42	656%	6.56	502%	5.02	708%	7.08	860%	8.60
Preferred shares	442%	4.42	656%	6.56	502%	5.02	708%	7.08	860%	8.60

* amount of dividends recommended by the Board of Directors for decision-making by the Meeting of the Shareholders
The decision on dividend payment is made at the annual general meeting of shareholders by the end of each year.
Non-complete payment of dividends for the above reporting periods is due to the following reason: failure of the Joint Stock Company’s shareholders to provide relevant information about the address of their residence to the Joint Stock Company’s Registrar or directly to the Joint Stock Company.

GEOGRAPHY OF THE COMPANY'S ACTIVITY



LEGEND

Field development

Supply of equipment, technologies and services

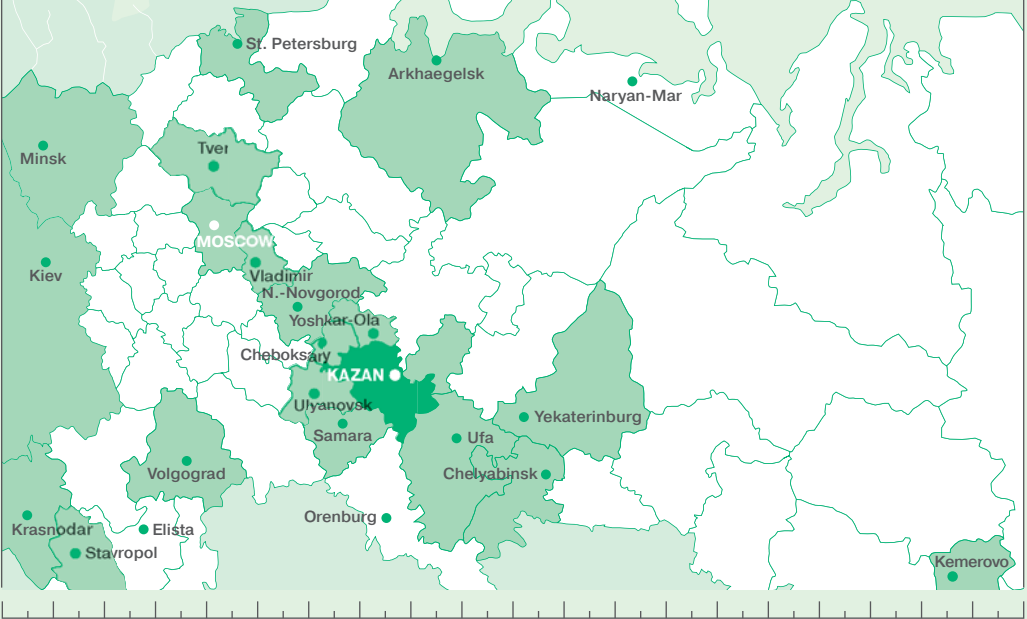
Oil refining

Petrochemicals production

Thermal/ electric power

Retail and Distribution Network

International stock exchanges where depositary receipts for shares of JSC TATNEFT are traded



RETAIL NETWORK

641

FILLING STATIONS

RUSSIA

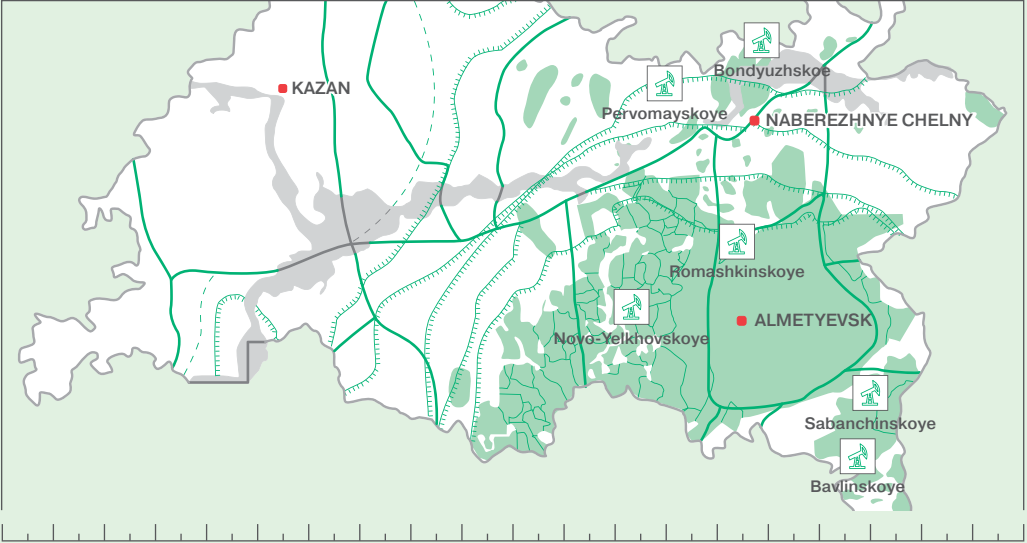
506

UKRAINE

127

BELARUS

8

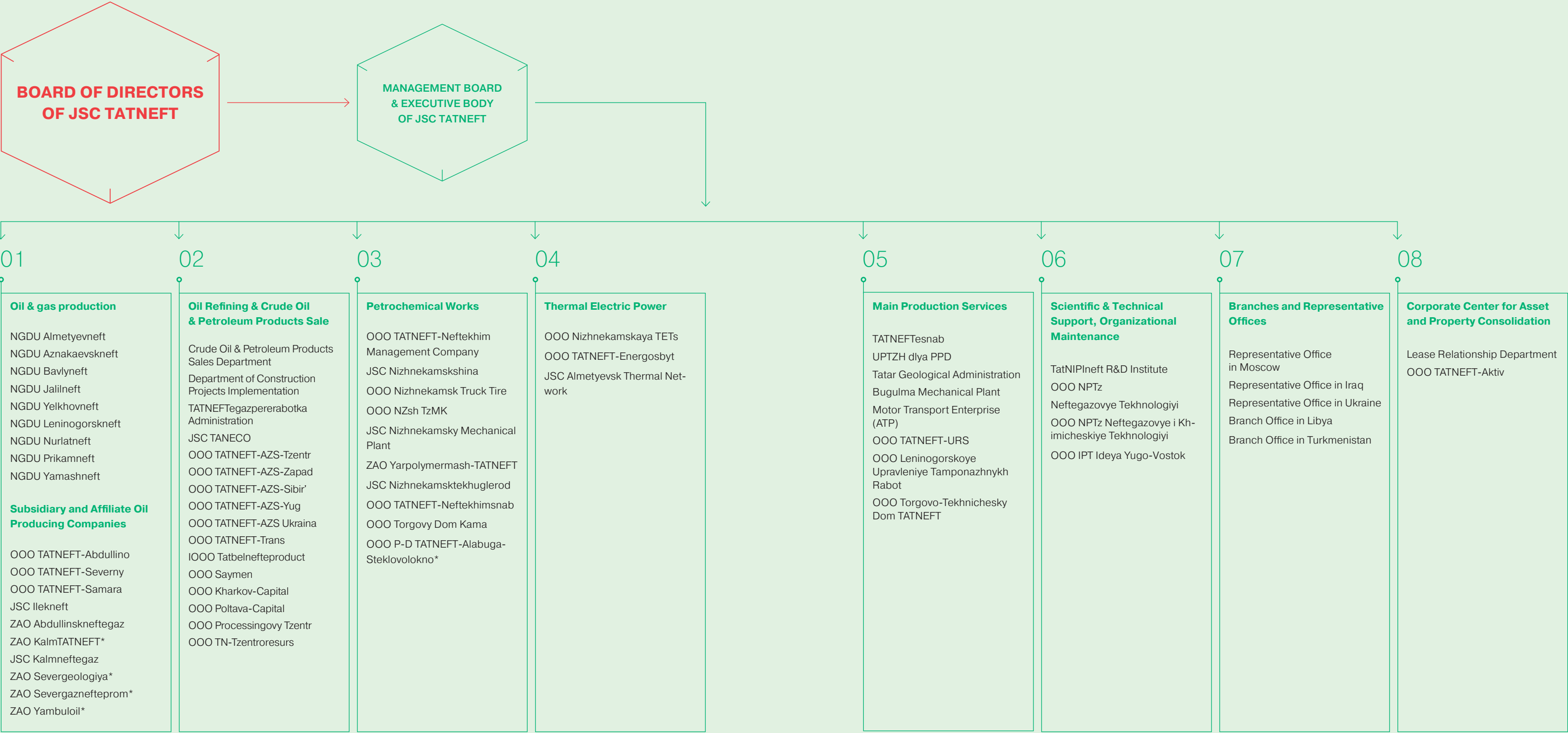


MAP OF MAJOR FIELDS OF JSC TATNEFT WITHIN THE REPUBLIC OF TATARSTAN

DELIVERIES OF OIL AND OIL AND GAS PRODUCTS

OIL DELIVERIES	DELIVERY OF OIL AND GAS PRODUCTS	TRANSPORTATION OF OIL	RAW MATERIALS SUPPLY	TIRE PRODUCTION
RUP PO Belorusneft	JSC Kazanorgsintez	JSC Transneft	JSC Yefremovsk Plant for Synthetic Rubber	JSC AvtoVAZ
Efremov-Kautschuk GmbH	JSC Nizhnekamskneftekhim		JSC Nizhnekamskneftekhim	JSC KAMAZ
TAIF	JSC EfremovPlant of Synthetic Rubber			SOLLERS
Tavit B.V.	Efremov-KautschukGmbH			Volkswagen
	Tavit B.V.			
	OOO Interservice			

TATNEFT GROUP STRUCTURE
MAIN ENTERPRISES CONSTITUTING THE TATNEFT GROUP



* affiliates

MAIN INDICES OF THE OIL JOINT-STOCK COMPANY BY THE RESULTS OF FY 2012
JSC TATNEFT STANDARD FOR STAKEHOLDERS’ INFORMING

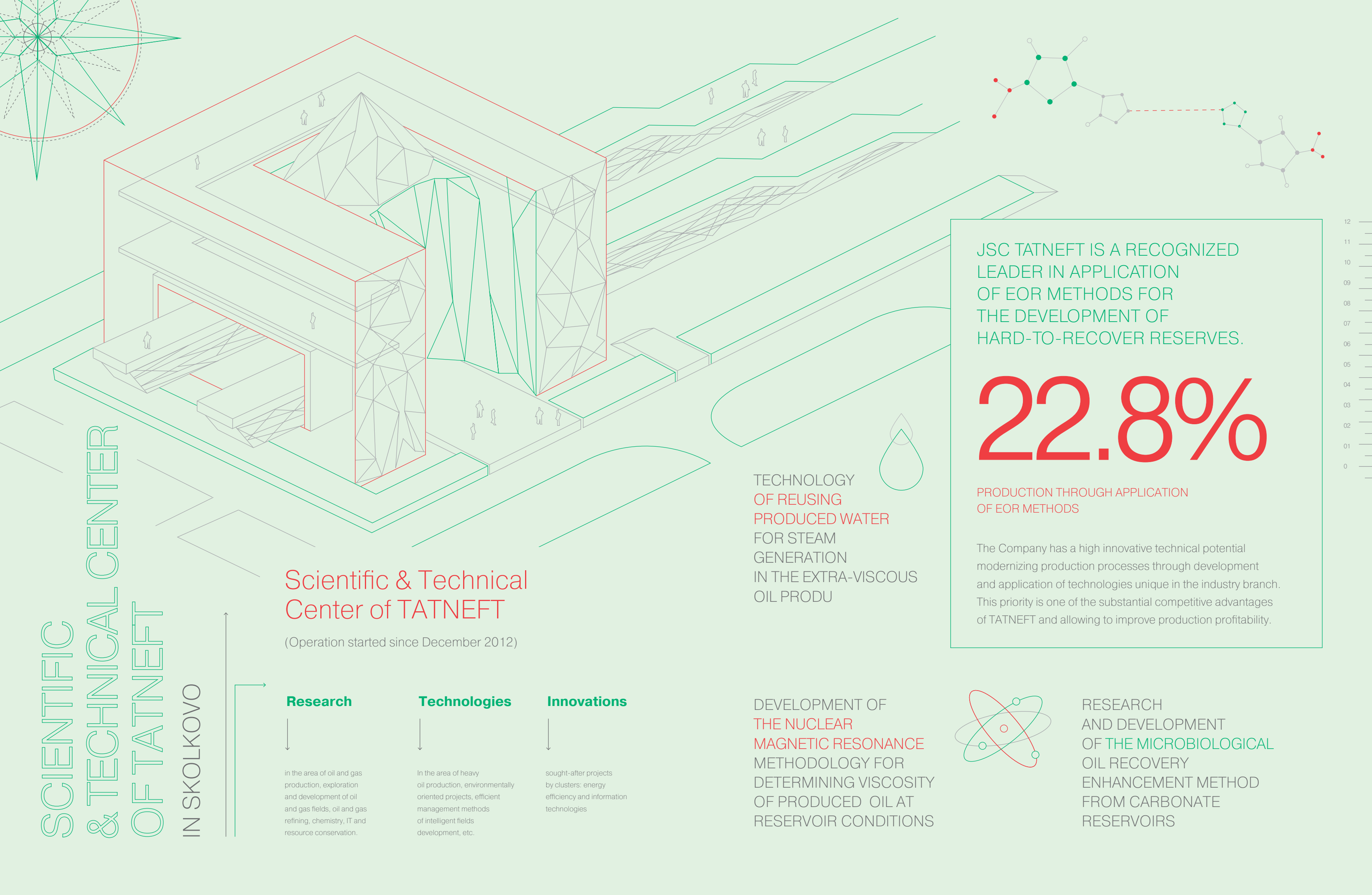
Nº	MAIN INDICES	NATIONAL MEASUREMENT UNITS	INTERNATIONAL MEASUREMENT UNITS
I. INDICES OF THE COMPANY SHAREHOLDER VALUE			
1.1.	Capitalization as of Dec. 31, 2012	RUR 475 bln	USD 15.58 bln
1.2.	Cost of an ordinary share as of Dec. 31, 2011	RUR 218 bln	USD 7.15 bln
1.3.	Dividends by the results of the Company's activity in 2011	RUR 16.5 bln	USD 543.30 bln
1.4.	Planned dividends by results of the Company's activity in 2012*	RUR 20.012 bln	USD 658.94 bln
1.5.	Total number of shares Including:	2,326,199,200	
	Ordinary	2,178,690,700	
	Preferred	147,508,500	
1.6.	Number of depositary receipts issued for shares of JSC TATNEFT (1DR:6 shares) as of Dec. 31,2012	637,128,202	
II. INDICES OF THE COMPANY’S PRODUCTION STATUS			
Oil and Gas Production Complex			
2.1.	Volume of proved oil reserves as of January 1, 2013 (according to Miller & Lents Ltd.) when using the average oil price for 12 months 2012	869.2 mln tons	6,191.5454 mln bbls
2.2.	TATNEFT Group Oil production volume	26.307 mln tons	187.3854 mln bbls
2.3.	JSC TATNEFT Oil production volume	26.005 mln tons	185.2354 mln bbls
2.4.	JSC TATNEFT Average daily production	71.052 thousand tons	506.103 thousand bbls
2.5.	Average oil production rate of the active production wells of JSC TATNEFT	3.8 t/day	27.1 bopd
2.6.	Average oil production rate of the new wells of JSC TATNEFT	8.5 t/day	60.545 bopd
2.7.	Associated petroleum gas production	843.5 mln cubic m	
2.8.	Liquefied petroleum gas production	285.6 thousand tons	
2.9.	Operational stock of producing wells	22,448 wells	
2.10.	Active stock of producing wells	19,821 wells	
2.11.	Total penetration meterage for JSC TATNEFT including	537.3 thousand meters	
2.12.	production drilling	515.3 thousand meters	
2.13.	prospecting & exploratory drilling	22.0 thousand meters	

Nº	MAIN INDICES	NATIONAL MEASUREMENT UNITS	INTERNATIONAL MEASUREMENT UNITS
Petrochemical Complex			
2.14.	Carbon black production volume	115.0 thousand tons	
2.15.	Commercial carbon black production volume of JSC Nizhnekamsktekhuglerod	RUR 3,554.4 mln	USD 114.3 mln
2.16.	Commercial commodity output of JSC Nizhnekamskshina	RUR 16,566.8 mln	USD 532.8 mln
2.17.	Total volume of produced commodity petrochemical products	RUR 41,893.7 mln	USD 1,347.4 mln
Infrastructure Complex			
2.18.	Total number of filling stations, including:	641	
2.19.	in Russia	506	
2.20.	in Ukraine	127	
2.21.	in Belarus	8	
Use of Property Complex			
2.22.	Number of real estate assets registered on the ownership right	RUR 8,762.4 mln	USD 288.52 mln
2.23.	Revenue from the property lease	RUR 1,560.0 mln	USD 51.37 mln
Human Resources Indices			
2.24.	Average headcount of the employees of JSC TATNEFT	21.1 thousand persons	
2.25.	Number of employees of the TATNEFT Group of Companies	77.0 thousand persons .	
III. INDICES OF COMMERCIAL ACTIVITY			
Oil and Gas Products Supply			
3.1	Oil export (far-abroad countries)	11,759.6 thousand tons	85 mln bbls
3.2.	Oil export (near-abroad countries)	618.1 thousand tons	4.5 mln bbls
3.3.	Supplies to the domestic market including TANECO	13,184.7 thousand tons	95.3 mln bbls
3.4	Gas products supply to the domestic market, export	1,050.47 thousand tons	
Oil and Gas Products Sales			
3.5.	Volume of oil products sold in Russia’s and Ukraine’s markets (including large wholesale)	1.465 mln tons	484.4 mln gal
3.6.	Volume of gas products sold through TATNEFT’s filling station network	122.2 thousand tons	

Nº	MAIN INDICES	NATIONAL MEASUREMENT UNITS	INTERNATIONAL MEASUREMENT UNITS
Petrochemical Complex Products Sales			
3.7.	Total tires delivered, including:	13,004 thousand pcs	
3.8.	Export	2,771 thousand pcs	
3.9.	Domestic market	10,233 thousand pcs	
IV. FINANCIAL AND ECONOMIC EFFICIENCY INDICES			
Revenues for JSC TATNEFT			
4.1.	Total sales revenueof JSC TATNEFT, total	RUR 344,563.27mln	USD 11,081.7 mln
4.2.	Oil sales revenues	RUR 208,810.10 mln	USD 6,715.7 mln
4.3.	Oil products sales revenues	RUR 102,277.03 mln	USD 3,289.4 mln
4.4.	Gas products sales revenues	RUR 12,192.53 mln	USD 392.1 mln
4.5.	Other products' sales revenues	RUR 21,283.61 mln	USD 684.5 mln
Profit			
4.6.	Income before taxation gained by JSC TATNEFT	RUR 86,933.41 mln	USD 2,862.48 mln
4.7.	Net profit of JSC TATNEFT	RUR 66,707.36 mln	USD 2,196.49 mln
Taxes and Payments to the Budget			
4.8.	Taxes and payments to the budget from JSC TATNEFT(inc. export duty): including:	RUR 312,183 mln	USD 10,279.32mln
4.9.	Minerals extraction tax (MET)	RUR 102,122 mln	USD 3,362.59 mln
4.10	Income tax	RUR 20,352 mln	USD 670.14 mln
4.11.	Added value share in the total volume of the JSC TATNEFT's products output	68.9%	
Balance Sheet Data as of Dec. 31, 2012			
	Fixed assets and incomplete construction	94,761.1 mln	USD 3,120.22 mln
	Long-term financial investments	41,341.4 mln	USD 1,361.26 mln
	Circulating assets	307,369.4 mln	USD 10,120.82 mln
	Equity capital	378,499.8 mln	USD 12,462.95 mln,
	Total liabilities	96,062.9 mln	USD 3,163.08 mln

Nº	MAIN INDICES	NATIONAL MEASUREMENT UNITS	INTERNATIONAL MEASUREMENT UNITS
V. FINANCIAL STABILITY INDICES			
5.1.	Owner's equity level	0.798	
5.2.	Net assets	RUR 378.5 mln	USD 12.46 bln
5.3.	Current liquidity (ratio)	5.539	
VI. INVESTMENT ACTIVITY INDICES			
6.1.	Total investments amount of JSC TATNEFT	RUR 63,617.7 mln	USD 2,094.75 mln
6.1.1	Investments into oil production in the territory of Tatarstan	RUR 25,807 mln	USD 849.75 mln
	drilling	RUR 11,916 mln	USD 392.36 mln
	capital construction	RUR 5,710 mln	USD 188.01 mln
	equipment not included in the construction estimate-sheets	RUR 1,814 mln	USD 59.73 mln
	geological and technical activities	RUR 6,062 mln	USD 199.60 mln
	redemption of property, land, etc.	RUR 305 mln	USD 10.04 mln
6.1.2.	Investments into development of retail business	RUR 834 mln	USD 27.46 mln
6.1.3.	Investments into non-production sphere	RUR 1,987 mln	USD 65.43 mln
6.2.	Investments into oil production outside the Republic of Tatarstan	RUR 3,038 mln	USD 100.03 mln
6.3.	Investments of the petrochemical complex works	RUR 1,278 mln	USD 42.08 mln
6.4.	Investments of the service and other works	RUR 1,476 mln	USD 48.60 mln
6.5.	Investments into foreign contracts	RUR 410.7 mln	USD 13.52 mln
6.6.	Investments into construction of the complex of oil refining and petrochemical plants	RUR 27,679 mln	USD 911.39 mln
6.7.	Financing for Nizhnekamsk CHP reconstruction	RUR 1,108 mln	USD 36.48 mln

The USD exchange rate of the Russian Federation Central Bank as of Dec. 31, 2012 amounted to 30.37 RUR;
Average US Dollar exchange rate RUR 31.093 has been used continued by items 2.15–2.17, 4.2–4.5
1 ton of oil contains 7.123 barrels,
With regard to oil supplies under clauses 3.1-3.4 the following conversion ratio is applied: 1 ton of oil contains 7.23 barrels (1 barrel equals 42 gallons)
JSC TATNEFT considers that the use of the average oil price for 12 months fairly reflects its oil reserves in the current economic conditions, particularly in the environment of high volatility of the oil price that occurred during 2012.
* The Board of Directors of JSC TATNEFT made a decision to recommend to the General Meeting of the Shareholders to approve payment of dividends for FY 2012 in the amount of 860 % for preferred shares, and in the amount of 860 % for ordinary shares of the nominal value.

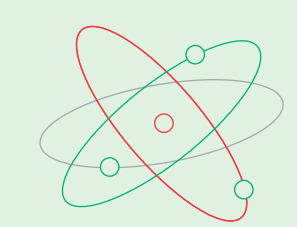


SCIENTIFIC & TECHNICAL CENTER OF TATNEFT IN SKOLKOVO

Scientific & Technical Center of TATNEFT
(Operation started since December 2012)

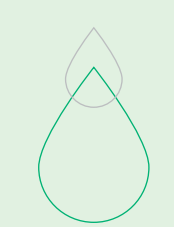
- Research**
↓
in the area of oil and gas production, exploration and development of oil and gas fields, oil and gas refining, chemistry, IT and resource conservation.
- Technologies**
↓
In the area of heavy oil production, environmentally oriented projects, efficient management methods of intelligent fields development, etc.
- Innovations**
↓
sought-after projects by clusters: energy efficiency and information technologies

DEVELOPMENT OF THE NUCLEAR MAGNETIC RESONANCE METHODOLOGY FOR DETERMINING VISCOSITY OF PRODUCED OIL AT RESERVOIR CONDITIONS



RESEARCH AND DEVELOPMENT OF THE MICROBIOLOGICAL OIL RECOVERY ENHANCEMENT METHOD FROM CARBONATE RESERVOIRS

TECHNOLOGY OF REUSING PRODUCED WATER FOR STEAM GENERATION IN THE EXTRA-VISCOUS OIL PRODU



JSC TATNEFT IS A RECOGNIZED LEADER IN APPLICATION OF EOR METHODS FOR THE DEVELOPMENT OF HARD-TO-RECOVER RESERVES.

22.8%

PRODUCTION THROUGH APPLICATION OF EOR METHODS

The Company has a high innovative technical potential modernizing production processes through development and application of technologies unique in the industry branch. This priority is one of the substantial competitive advantages of TATNEFT and allowing to improve production profitability.

12
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STEADY PRODUCTION LEVEL GROWTH

Through application of advanced
innovational technologies

Crude oil production by TATNEFT Group
in 2012

26.307 mln tons



HIGH HYDROCARBON RESERVES LEVEL

Proved oil reserves
as of Jan. 01, 2013

869.2 mln tons



PUTTING THE "TANECO" COMPLEX INTO OPERATION

Strengthening the Company's
integration in the production
of higher added value

Conversion ratio in 2012

73.69%

Complex technological level
Meets the highest standards



DEVELOPED NETWORK OF FILLING STATIONS

In the short term security
of the own high quality
petroleum products

**641
Filling Stations**

In Russia, Ukraine and Belarus

Increasing profitability with quality
high control level and expansion
of additional services range

TATNEFT operates in the segments of the oil and gas
exploration and production, refining and selling of oil
and petroleum products, petrochemicals, as well as heat
and power generation

ASSETS OF TATNEFT GROUP
in 2012 as of Dec. 31, 2012

630.6

RUR bln (IFRS statements)

STRENGTHENING OF OWN GENERATING ASSETS

Total power generated
by the Group enterprises in 2012

1.5 bln KWh

Heat energy sold

4.9 mln Gcal

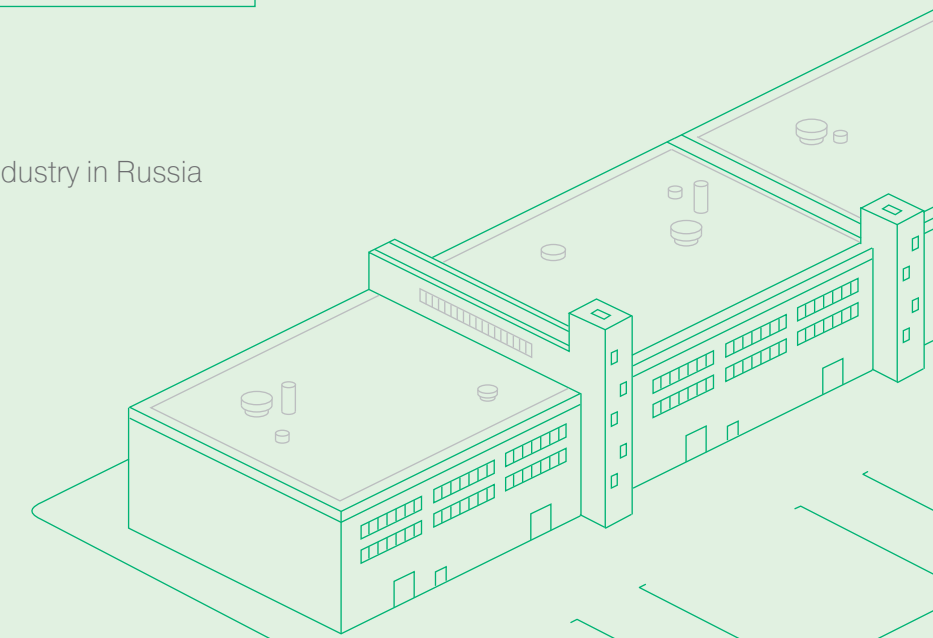
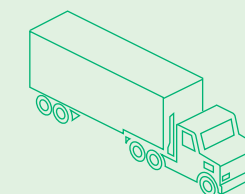
Electricity and heat generation of
for "TANECO", "Nizhnekamskshina",
"NZSH SSC" and other industrial
facilities, as well as the house and
utility sector and external consumers

HIGH TECH TIRE COMPLEX

ensures leading position in the tire manufacturing industry in Russia

Total tires production for TATNEFT Group
in 2012

13 mln tires



The aggregate production of TATNEFT Group amounted to **26.307 million tons** of crude oil in 2012

OIL AND GAS EXPLORATION AND PRODUCTION

The Company provides for a steady increase of the production level. In 2012, crude oil production of JSC TATNEFT increased by 0.3% compared with 2011 and amounted to 26.005 million tons of oil. 605 thousand tons of crude oil were produced over the plan. The maximum level of crude oil production was achieved in the last 20 years.

The bulk of the current crude oil production is accounted by six major fields: Romashkinskoye, Novo-Yelkhovskoye, Bavlinskoye, Bondyuzhskoe, Pervomayskoye and Sabanchinskoye.

KEY OPERATING PERFORMANCE INDICATORS FOR 2012

KEY PERFORMANCE INDICATORS	MU	2012
Volume of oil production at JSC TATNEFT	thousand tons	26,005.1
Volume of associated gas production	million cub. m	843.5
Liquefied Petroleum Gas production (delivery)	thousand tons	285.9
Total drilling for JSC TATNEFT, including		537.3
Production drilling by JSC TATNEFT	thousand m	515.3
Amount of exploration drilling by JSC TATNEFT	thousand m	22.0

CRUDE OIL PRODUCTION FROM THE LARGEST FIELDS IN 2012

NAME	THOUSAND TONS
Romashkinskoye	15,236
Novo-Yelkhovskoye	2,539
Bavlinskoye	1,081
Bondyuzhskoe	286
Pervomaiskoye	380
Sabanchinskoye	556

The average production rate per well of JSC TATNEFT for 2012 was 3.8 tons/day.

The aggregate production of TATNEFT Group amounted to 26.307 million tons of crude oil in 2012 (26.194 million tons of oil in 2011). Additional growth was provided by geological and technical activities.

CRUDE OIL PRODUCTION BY JSC TATNEFT GROUP OF COMPANIES (mln tons)

COMPANIES	2009	2010	2011	2012
JSC TATNEFT	25.850	25.863	25.928	26.005
Oil companies in the territory of the Russian Federation controlled by JSC TATNEFT	0.256	0.249	0.266	0.302
TATNEFT Group of Companies	26.106	26.112	26.194	26.307

CRUDE OIL AND GAS PRODUCTION OUTSIDE TATARSTAN

Outside Tatarstan JSC TATNEFT has rights for exploration and development of oil, gas and condensate in the Samara and Orenburg regions, Nenets Autonomous Okrug and the Republic of Kalmykia. 98 oil wells produced oil at 23 fields in these regions in 2012, including 92 wells in the Samara region and 6 wells in Orenburg.

The previously drilled stock was equipped for production in the Samara region and new wells were drilled. 24 new wells were put in operation. The average daily production rate of new drilled wells amounted to 14.3 tons.

CRUDE OIL AND GAS PRODUCTION OUTSIDE THE RUSSIAN FEDERATION

JSC TATNEFT and SC (State Company) "Turkmenneft" signed a service contracts in 2010 d for EOR crude oil production at Goterdepe oil field in Turkmenistan. The production program of the Contract was developed and approved. The planned additional oil for the entire Contract period amounts to 321 thousand tons. Currently, the certificate of JSC TATNEFT Branch registration Turkmenistan has been received. A residential township for workers of the JSC TATNEFT Branch has been built. The budget of the JSC TATNEFT Branch in Turkmenistan has been approved for 2013.

Performance of exploration programs has been suspended on the territory of JSC TATNEFT's contractual sites in Libya and Syria due to the political situation for an indefinite time till the situation stabilization.

WORKS AT THE EXTRA-VISCOUS OIL FIELDS

In 2012, under the Company's plans for the development of extra-viscous oil fields pilot operations were carried out on Sheshminsky horizon deposit of Ashalchinskoye EVO field.

37 horizontal wells have been drilled at Ashalchinskoye EVO field, including 36 horizontal wells (18 pairs) for the SAGD technology application and one well for huff and puff technology. construction of 8 well pairs was completed during the year under review and there are 11 well pairs in operation at present.

The daily oil production reached 275 tons by the year end. 73.282 tons of oil were produced in 2012. The volume of EVO oil produced since the beginning of the pilot development operations amounted to 180.067 tons.

The business project for the development of Ashalchinskoye field till 2030 envisages drilling 10 pairs of horizontal wells per year at Ashalchinskoye elevation and achieving maximum production in the amount 320 thousand tons in 2017.

The impetus for the efficient development of this project is to provide a 90% export duty reduction for 10-year for EVO oil fields.

The Company strives to increase oil reserves growth compensating the current oil production. According to Miller & Lents assessment proven crude oil reserves as of the beginning of 2013 amounted to 869.2 million tons of oil.

The main amounts of geological exploration work was carried at the licensed territories of Tatarstan, Orenburg, Samara and Ulyanovsk regions as well as in the Republic of Kalmykia, and the Nenets Autonomous Okrug.

In 2012 JSC TATNEFT with ten subsidiaries operating in the Russian Federation possessed 97 licenses for exploration and development of hydrocarbon fields. 2 new fields were discovered in the Samara region.

Deep drilling was started to 5 elevations in the Republic of Tatarstan in 2012, as well as 4 structures in Samara region

23 structures were prepared for deep drilling in the Republic of Tatarstan and Samara region.

CONSTRUCTION OF WELLS AND GEOLOGICAL EXPLORATION FACILITIES

326 production wells were drilled and completed by construction in 2012 (324 wells by the plan). 263 wells were put into operation after drilling with oil production rate 9.3 tons per day.

WELL STOCK AS OF JANUARY 1, 2013

STOCK CATEGORY	NUMBER OF WELLS
Active producing stock	19,821
Idle producing stock	2,623
Operating producing stock	22,448
Producing stock in completion stage and waiting for completion	4

ENHANCING THE EFFECTIVENESS OF OIL/GAS PRODUCTION AND ENERGY SAVING

The Company implements targeted program activities aimed at enhancing effectiveness of performance indicators and monitoring production profitability through application of modern technologies for optimization of the wells stock and field development systems.

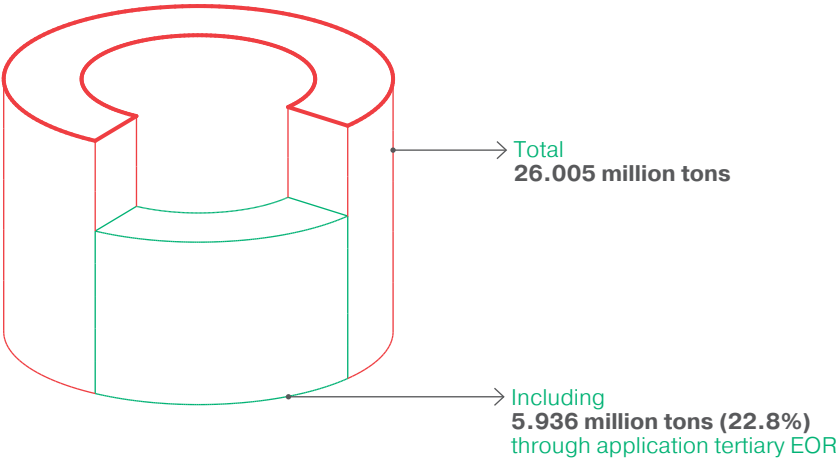
Improving the data processing performance in the search of new deposits is provided by new technologies applied in addition to traditional seismic methods. Prediction of oil prospective targets is made with application of artificial intelligence method, identification of prospective targets with application of field geophysics and geochemistry using a complex probability parameter for defining oil bearing prospectivity. Passive adsorption of hydrocarbons; low-frequency seismic sounding; geological and geophysical technology for optimization of well drilling location selection; electromagnetic sounding and a new Stratimegic software package for processing 3D seismic data are used in application of geochemical method of oil and gas detection. NMR-tomography sounding method was applied for identification of extra-viscous oil saturated layers at small depths.

43 technologies were applied in drilling in 2012. The most effective technologies in terms of improving the quality of the well

casing include setting of silicate baths in the interval of productive strata; application of grade G cement, application of collar cementing tools, and in terms of achieving high oil production rates – construction of horizontal wellbores and downhole splitters.

The technology of drilling small diameter holes proved to be effective. 54 wells of small diameter were drilled in JSC TATNEFT in 2012, of which 51 wells were commissioned for oil production (produced oil volume amounted to 54.550 thousand tons). The average production rate was 6.3 tons per day. The total stock of small diameter wells was 256 wells.

TOTAL OIL PRODUCTION OF JSC TATNEFT



27 horizontals and 6 downhole splitters were drilled in the past year with oil produce by these wells amounting to 55 thousand meters. The total amount of horizontals drilled from the beginning of application amounted to 530 pieces and the number of downhole splitters amounted to 92 wells.

Application of modern enhanced oil recovery methods provided for the Company's incremental production in the amount of 5,936.001thousand tons in 2012 with the planned target in the amount of 5,480 thousand tons (108.3% to the target). The share of the oil produced through EOR application accounted for 22.8% of the total production in 2012 was.

TATNEFT Company is actively employing the technology of dual completion and oil production of two or more layers through one well. In 2012, the number of such installations increased to 1,179 units. The average increase in oil production in 1well amounted to 4.4 tons per day.

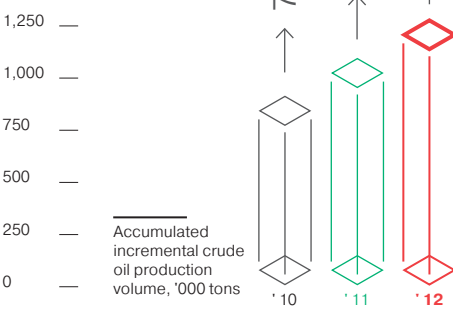
The technology of dual injection was introduced in 122 wells last. Additional production by from the responding producers from the beginning of dual injection technology application amounted to 855.9 thousand tons.

The program of protecting injection wells downhole equipment from the effects of high pressure and corrosive attacks was successfully implemented: more than half of the injection well stock had been equipped with packers of different designs.

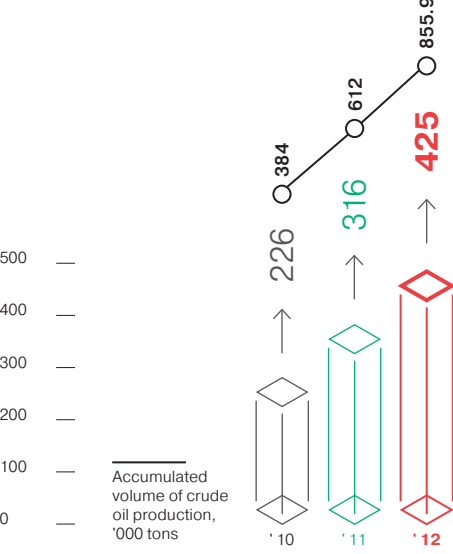
Tubing with polymer coating was run into 505 injection wells in the past year. Protection of existing sewage and produced water wells is currently 86.4%.

The number of chain drives at the company's producers increased to 1,532 units.

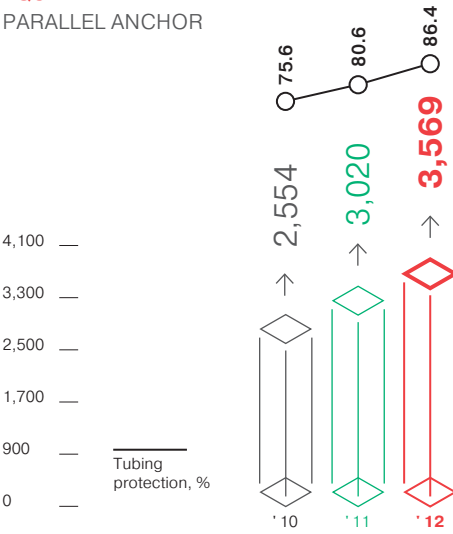
PROFILE OF THE WELL STOCK WITH DUAL COMPLETION/ PRODUCTION AND ACCUMULATED INCREMENTAL OIL PRODUCTION OF JSC TATNEFT



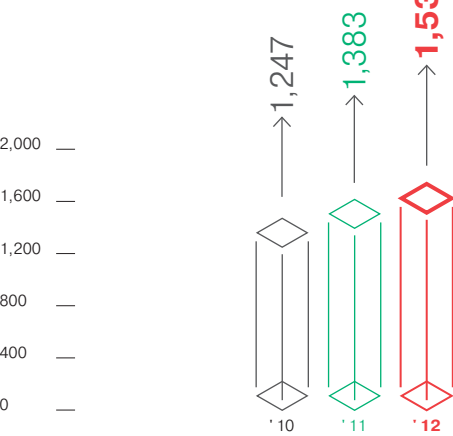
DUAL INJECTION TO RESERVOIRS



DUAL WELLHEAD EQUIPMENT PARALLEL ANCHOR



PROFILE OF THE ACTIVE WELL STOCK EQUIPPED WITH CHAIN DRIVES (pcs)



OIL AND GAS PROCESSING

In 2012, the Company strengthened its own refining unit in accordance with a long-term strategy to increase the volume of production and sales of high competitiveness finished products.

"TANECO" REFINERY AND PETRO-CHEMICAL PLANTS COMPLEX

During the year of report, the production operation of the Complex was brought to its design 7 million tons of oil processing capacity. The refining depth was more than 73.69%, which is higher than the average value in Russia, given the fact that most of the other refineries run with light oil. Commissioning operations were completed and the refinery started the operation in the mode of comprehensive testing of the visbreaking and combined sulfur production installation. The first start-up Complex facilities were put into commercial operation, including crude oil distillation installation CDU/VDU-7, naphtha stabilization unit, flare system, crude oil tank farm and loading racks, engineering system facilities (water supply and sewage, steam supply, gas supply, instrumentation air supply, process air and nitrogen) and power supply facilities.

The marketable products range included liquefied gas (LPG), straight-run gasoline, bulk kerosene, heating oil, vacuum gas oil, mazut M 100, visbreaking naphtha and granulated sulfur.

The next phase of the project implementation is construction of the hydrocracking complex with production of lubricating oils. The detailed design and delivery of basic technological equipment is being carried out. The plans provide for starting commissioning operations at the combined hydrocracking installation in 2013.

The project had been initiated in 2005. Commercial operation of the first stage began on December 2, 2011.

REFINING FACILITY OF NGDU "YELKHOVNEFT"

Loading of the refining production facilities was high during the year of report. The transition to the production of class 5 Regular-92 gasoline and class 4 winter diesel fuel was performed.

Plans for 2013 provide for continuation of works on technical re-equipment of production facilities, catalyst replacement of the diesel hydrotreater section and the transition to the production of class 5 diesel fuel.

GAS REFINING FACILITIES

In the reporting year gas processing facilities of Tatneftegazpererabotka Administration collected 843.1 mln. m³ of associated petroleum gas, which was 52.7 mln. m³ more than in 2011. The associated petroleum gas utilization ratio of for the reporting year period amounted to 95%. Admission of associated gas for the processing in 2012 was about 759.7 mln. m³, which was 45 mln. m³ more than the volume of petroleum gas in the same period of the previous year.

OUTPUT OF PETROLEUM PRODUCTS BY THE REFINING PLANT OF NGDU YELKHOVNEFT IN 2012 ('000 tons)

PRODUCT DESCRIPTION	2012
Oil volume processed	406.019
Product yield, including:	176.655
Diesel duel	86.724
Gasoline, including:	76.768
Regular-92	63.792
Normal-80	12.976
Fuel oil	12.556
Sulfur	0.471
Straight-run gasoline	0.023
Bitumen	0.112

285,100 tons of gas liquids were accepted for processing in 2012 from UKPN (Crude oil treatment installations) and 285,600 tons of LPG were processed.

The volume of processed sour gas increased in 2012 with about 120 mln. m³ of sour gas (8 million cubic meters more than in 2011) subjected to sweetening. A cryogenic installation was put into operation last year to ensure advanced processing of dry stripped gas.

OUTPUT OF THE FINISHED PRODUCTS BY TATNEFTEGAZPERERABOTKA ADMINISTRATION IN 2012

PRODUCT DESCRIPTION	MU	OUTPUT IN 2012
Stripped gas	million cubic meters	369,582
Liquid products, total	thousand tons	624,142
Liquefied gases, including:	thousand tons	389,847
Propane	thousand tons	222,259
Isobutane	thousand tons	45,727
Normal butane	thousand tons	121,861
Isopentane	thousand tons	10,236
Gas liquids from UTNGP	thousand tons	35,504
Stable gasoline	thousand tons	188,555
Ethane	thousand tons	122,130
Sulfur	thousand tons	4,424
Nitrogen	thousand cubic meters	408,148
Oxygen	thousand cubic meters	334,044

SALE OF OIL AND OIL/GAS PRODUCTS

In 2012, JSC TATNEFT treated and delivered 25,527.6 thousand tons of resources to the transportation system, and, taking into account the balance volume delivered to the consumers, 25,596.5 thousand tons, which accounts for 296.3 thousand tons or 1.2% increase versus a similar period of 2011.

In addition to its own resources the JSC TATNEFT Crude Oil and Petroleum Products Sales Department sold 1,427.8 thousand tons from independent oil companies, including:

- export (far abroad and CIS commission) – 845.7 thousand tons;
- domestic Market – 582.1 thousand tons.

Outside the Republic of Tatarstan, bypassing "AK" Transneft oil the Company sold resources of enterprises with participation of JSC TATNEFT in Orenburg region in the amount of 21,3 thousand tons in 2012.

MAIN AREAS OF JSC TATNEFT RESOURCES DELIVERY DISTRIBUTION (thousand tons)

DESCRIPTION	2012
Export, far abroad	11.759/6
Export, CIS	618.1
Oil refineries in Russia: including:	13,184.7
JSC TAIF-NK Refinery	5,789.0
JSC TANECO	7,000.0
JSC Moscow Refinery	50.0
ZAO Ryazan Refinery	99.9
JSC Slavneft-YANOS	79.9
JSC LUKOIL-NORSI	99.3
JSC Novoshakhtinsk Refinery	64.1
JSC Saratov Refinery	–
Other deliveries	2.6

The following volumes of the "TANECO" refinery petroleum products were sold through the Department for the sale of crude oil and petroleum products in 2012 (thousand tons):

PRODUCT DESCRIPTION	EXPORT (CIS, F.A.)	DOMESTIC MARKET
Gas liquids	–	81.4
Straight-run gasoline	981.6	–
Visbreaking naphtha	69.9	–
Household fuel oil	638.3	1,423.8
Marine low viscosity fuel	–	13.0
Vacuum gas oil	1,595.9	–
Mazut	1,969.2	235.6
Bulk kerosene	–	9.5

The following volumes of gas products were shipped in 2012 to ensure stock resources and secure the optimal loading of the production capacities of the petrochemical enterprises in the Republic of Tatarstan:

DESCRIPTION	THOUSAND TONS
Iso-butane	41.0
Gas liquids from UTNGP	36.2
Ethane	122.1
Gas liquids from JSC TANECO	81.4
n-butane	–
Propane	22.0

29.7 6 thousand tons of liquefied gas were delivered in 2012 to meet the needs of the residents.

CORPORATE RETAIL NETWORK OF FILLING STATIONS

The Company is consistently implementing a long-term program for the development of its own retail network, as part of the strategy aimed at strengthen the refining block and improving the efficiency of retail business, carried out through the construction of new filling stations, acquisition, modernization and reconstruction of the existing filing stations. Of particular current priority is the improvement of profitability with high quality control level and development of the additional service format.

The amount of investments assimilated for the year in the frame of the investment program for development of JSC TATNEFT's distribution infrastructure in the Russian Federation was 692.2 million rubles and 141.4 million rubles in the Republic of Belarus (the amounts without VAT). The TATNEFT filling stations network includes 641 facilities in the Russian Federation and CIS countries.

TATNEFT's filling stations sell all grades of gasoline and diesel fuels. Keeping in pace with the current trend of vehicles transfer to gas fuel, 10- 15 gas units are put into operation at the facilities of JSC TATNEF annually or additional gas dispensers are installed at the filling stations. Automatic filling stations are also put into operation.

Modern technologies and equipment (double-walled tanks, imported fuel dispensers, automated systems for measuring parameters of light oil products, etc.) are applied during construction and reconstruction operations.

Costs reduction is provided by the energy efficiency through introduction of energy-saving technologies at the retail network facilities. Pilot projects of vapor recovery units (VRU) are being implemented the filling station with application of engineering developments that will allow reducing the loss of petroleum products as a result of "natural in and out breathing" in the tanks and significantly improve environmental friendliness of the filling stations.

During the reporting period total retail and small-scale wholesale of petroleum and gas products through the JSC TATNEFT's

network of filling stations amounted to 1,587.6 thousand tons.

SALE OF OIL AND GAS PRODUCTS THROUGH THE FILLING STATIONS NETWORK

DESCRIPTION	2012	
	TONS	'000 RUBLES*
RF, including:	1,459,261	48,069,255
oil products	1,348,319	46,004,785
gas products	110,941	2,064,470
Ukraine, including:	84,757	3,996,730
oil products	73,762	3,555,884
gas products	10,996	440,846
Balarus, including	43,618	1,022,183
oil products	43,350	1,015,905
gas products	268	6,278
Total	1,587,636	53,088,168

*including taxes

PETROCHEMICALS PRODUCTION

The petrochemicals production segment of the Company's activities is formed by "Tatneft-Neftekhim" Management Company and complex of enterprises, "Nizhnekamskshina", Nizhnekamsk Truck Tire Factory, Nizhnekamsk SSC Tire Factory, "Tatneft - Neftekhim-snab", "Nizhnekamsktekhuglerod", Nizhnekamsk Mechanical Plant , "Yarpolimermash - Tatneft", "Energoshinservis", "Kama" Scientific- and Technical Center and "Kama"Trading House. In 2012, the volume of commodity products output by the petrochemical complex (including the "NZSH" SSC" Company) amounted to 41.9 billion rubles, which was 16.5% higher than in 2011. Sales revenues in 2012 amounted to 38.9 billion rubles (18.9% up versus 2011).

MAIN TECHNICAL AND ECONOMIC INDICATORS OF THE JSC TATNEFT PETROCHEMICAL SEGMENT

PERFORMANCE INDICATORS	2011	2012
Production of tires, thousand pieces.	11,013.2	13,014.2
Volume of carbon black production, thousand tons	114.0	115.0
Total volume of commodities output, million rubles.	35,864.0	41,893.7
Proceeds from sales, million rubles.	36,341.3	38,890.7

NEW MODELS OF PASSENGER CAR AND LIGHT TRUCK TIRES IN 2012

TIRE SIZE/MODEL	MAIN APPLICATION
215/55R16 V-130	Acura, Audi, BMW, Cadillac, Mercedes, Renault, Volvo
205/70R15C V-524	VW Transporter, Ford Transzit
205/70R15C V-525	VW Transporter, Ford Transzit
205/55R16 V-522	Acura, Alfa Romeo, Audi, BMW, Chery, Chrysler, Citroen, Fiat, Ford, Great Wall, Honda, Hyundai, Jaguar, Kia, Mazda, Mercedes, Opel, Peugeot, Renault, Saab, Seat, Skoda, Subaru, Toyota, Volkswagen, Volvo
215/65R16 V-523	Chery, Chevrolet, Chrysler, Daihatsu, Dodge, Ford, Honda, Hyundai, Kia, Land Rover, Mitsubishi, Nissan, Pontiac, Subaru, Toyota, Volkswagen, Volvo, GAZ
195/75R16C V-524	VW Transporter, Ford Transzit
195/75R16C V-525	VW Transporter, Ford Transzit

NEW MODELS OF TRUCK TIRES IN 2012

TIRE SIZE/MODEL	MAIN APPLICATION
295/80 R 22.5 NR 202	Suburban and intercity buses, long-haul trucks (drive axle)
215/75R17.5 NF202	Light commercial vehicles and small class buses
275/70R22.5 NU301	City buses, street cars and trucks
285/70R19.5 NF202	Medium duty trucks
265/70R19.5 NT202	Semi-trailers, trailers (trailer axle)
235/75R17.5 NT202	Semi-trailers, trailers (towing axle)
12,00R20 NR701	Transport and modernized extra-load vehicles

THERMOELECTRIC POWER

Company continued development of thermoelectric power block in the reporting year, including "Tatneft-Energosbyt" Management Company, "Nizhnekamsk CHP" and "Almetyevsk heat network" companies implementing programs of upgrading generating capacities with application of effective and innovative technologies and advanced production equipment.

NIZHNEKAMSK CHP

Nizhnekamsk CHP is one of the largest generating companies of electric and thermal energy in the Republic of Tatarstan. The design power capacity now amounts to 380 MW in terms of electricity and 1,580 Gcal/h in terms of heat.

Thermal energy consumers are JSC "Nizhnekamskneftekhim", JSC TANECO and the city of Nizhnekamsk.

The Company produced 1,510,248 thousand kWh electricity in 2012. The total electricity generation increased by 7.5% versus 2011with the co-generation amount increasing by 8.4% to 78.2%. The increase in condensing electric power generation was due to the station's operation at the wholesale electricity market.

The thermal energy was sold in the amount of 4,077,795 Gcal in 2012. The total heat output increased by 36.5% versus 2011, which is associated with heat/15 ata steam stem delivery increase to TANECO.

Effective results achieved were achieved in terms of specific indicators in 2012: specific fuel consumption for the electric power sold amounted to 299.2 g/kWh, which was below the standard by 1.6 g/kWh, while specific fuel consumption for the heat energy delivered was 141,9 kg/Gcal, that below the standard by 0.7 kg/Gcal

ALMETYEVSK HEAT SUPPLY NETWORK

The output by the results of 2012.amounted to 776.9 thousand Gcal. Heat sales amounted to 648.3 thousand Gcal.

Modernization of the Almetyevsk heat supply program envisages the switch-over from the open heat supply arrangement to the closed one, centralized thermal power generation, establishment of cogeneration: combined generation of heat and electrical energy in the form of three CHP with total power capacity to 25 MW.

In the future, the Company's heat/power generation block will unite all major areas of the energy business, including generation, transmission and distribution of heat and electricity, including small-scale power that allows guaranteed provision of power for facilities of "TANECO", oil production and other production facilities as well as the needs of external consumers in heat and electricity at a significantly reduced cost of acquisition

Sales revenues of the main production amounted to 4,142 million rubles in 2012. Gross proceeds from the sale of thermal energy was 2, 277 million rubles (55.0% of the core production sales). Including:

- sale of heat energy in the form of steam and hot water - 2,012 million rubles.
- heat-carrying agent sales – 265 million rubles.

Gross proceeds from the sale of electric energy and power exercised at the wholesale electricity and capacity market totaled 1,865 million rubles (45% of the main product sales) revenues including the sale of the electricity purchased in providing for free contracts. Including:

- electricity sales -1,536 million rubles,
- capacity sales - 329 million rubles.

OOO "Nizhnekamsk CHP" production activity rate of return amounted to 4.3%. Including:

- Electricity production profitability accounted for 16.0%;

Net profit of "Nizhnekamsk CHP" activity for 2012 amounted to 43.9 million rubles.

As part of the modernizing the Nizhnekamsk CHP the plans provide for increasing its installed capacity by adding new generating facilities: modern turbines operating on low-potential steam. At the same time the issue of using petroleum coke produced as a result of deep oil conversion at the "TANECO" facilities is under consideration.

RUR 475 bln

Company/s market capitalization by the results of 2012

THE COMPANY'S MANAGEMENT SYSTEM

The management system of TATNEFT Company and the Group complies with the standards set out by the legislation of the Russian Federation and international standards of corporate practice, based on the principles of strengthening financial stability and economic growth, the activity transparency, maintaining reliable and trust-based relationship of investors and shareholders with the Board of Directors and the Company's executive bodies to jointly develop objectives and make effective decisions.

The Company operates on the basis of a strategic and investment planning, as well as the mechanisms of the monitoring and risk management. Disclosure of information is provided in full compliance with applicable laws and regulatory requirements of the stock market.

JSC TATNEFT is a parent company of TATNEFT Group. The Group status, forms of management and relations between the members of the Group are regulated by the Provision on TATNEFT Group approved by the Board of Directors of JSC TATNEFT.

Organization of the management of subsidiaries and affiliated companies is carried out with prevailing participation in the authorized capital of the mentioned companies through managing bodies of the subsidiary with an appropriate indication in the founding documents; the Management Companies within the Group through the conclusion of agreements between these companies and other economic entities - members of the Group on the transfer of the Executive Management Board functions to the Management Companies, as well as through other ways provided by the legislation of the Russian Federation.

Organization of TATNEFT Group management is based on a single mission and priorities of development safeguarding interests of all the members of the Group.

The Company published annual and quarterly consolidated financial statements in accordance with the US GAAP principles. Verification of the Company's financial and economic activities is performed by the external auditor elected by the General Meeting of Shareholders.

In order to fully inform all interested parties on economic, social and environmental aspects of its activities the Company publishes an Annual Report on Social Responsibility and Sustainable Development. The report is based on the international standard of the Global Reporting Initiative (GRI) and the standard of interaction with concerned parties AA1000SES.

The most important components of the management system are personnel policy aimed at attracting highly skilled workers and managers at all levels, as well as staff development and ensuring motivation mechanisms of the senior executive management and each employee.

**RUSTAM N. MINNIKHANOV**

President of the Republic of Tatarstan, Chairman of the Board of Directors of JSC TATNEFT

**SHAFAGAT F. TAKHAUTDINOV**

General Director, Chairman of the Management Board of JSC TATNEFT

The competence of the Company's management bodies is defined by the Articles of JSC TATNEFT, as well as regulated by the internal documents: Provision on the General Meeting of the Company's Shareholders, Provision of the Board of Directors, Provision on the Management Board, Provision on the General Director, Provision on the Audit Commission and Provisions on the Committees of the Board of Directors.

The General Meeting of the Company's Shareholders delegates general management of the Company's activities to the Board of Directors. The Company's Board of Directors is composed of 15 persons including three independent directors.

Chairman of the Board of Directors is elected by the members of the Board of Directors at the first organizational meeting of the Board of Directors from its members by a majority vote. Chairman of the Board of Directors shall organize the work of the Board of Directors convening its meetings and chairing them.

There are Committees under the Board of Directors on Corporate Management, Information Disclosure, Human Resources and Remuneration and Auditing. The Board of Directors also established the Insider Information Protection Committee in 2011.

Management of the Company is performed by the General Director, who is appointed by the Board of Directors and is the sole executive body (Chief Executive Officer). General Director solves all the issues of the Company's everyday activities, except for the matters within the competence of the General Meeting of Shareholders, the Board of Directors or the Management Board.

General Director ensures execution of the General meeting of shareholders resolutions, presents to the Board of Directors of the nominees for the Management Board, allocates responsibilities of the Management Board members, organizes the Management Board work, presides at meetings of the Management Board, determines the

organizational structure of the Company, performs control over rational use of material, human and financial resources, and decides the issues of the everyday Company's activities.


The collegial executive body of the Company is the Management Board headed by the General Director. The General Director and the Management Board are accountable to the Board of Directors and the General Meeting of Shareholders. The control over the performance of the financial and economic activities of the Company is carried out by the Audit Commission.

For the purpose of effective management of TATNEFT Group the Company has established the system of distributing Powers among the members of the Board of Directors and the Management Board, including General Director Deputies.


DISTRIBUTION OF POWERS AMONG MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD OF JSC TATNEFT

PRODUCTION ACTIVITY


OIL AND GAS PRODUCTION BUSINESS



Nail G. IBRAGIMOV
Member of the Board of Directors and the Management Board. First Deputy General Director for Production – Chief Engineer of JSC TATNEFT.




Mirgaziyan Z. TAZIYEV
Member of the Board of Directors. Head of Almeteyvneft Oil and Gas Production Board of JSC TATNEFT.




Rafail S. NURMUKHAMEDOV
Member of the Management Board. Head of Leninogorskneft Oil and Gas Production Board of JSC TATNEFT.

GEOLOGY AND FIELD DEVELOPMENT



Rais S. KHISAMOV
Member of the Board of Directors. Deputy General Director – Chief Geologist of JSC TATNEFT. Member of the Board of Directors' Corporate Management Committee.



RENAT KH. MUSLIMOV
Member of the Board of Directors. Advisor to the President of the Republic of Tatarstan on the issues of oil and oil/gas field development.

SALES AND PROCESSING OF HYDROCARBON RAW MATERIALS. PRODUCTION OF PETROCHEMICALS




NAIL U. MAGANOV
Member of the Board of Directors and the Management Board. First Deputy General Director – Head of Department for Sale of Oil and Petroleum Products of JSC TATNEFT.




ZAGIT F. SHARAFEYEV
Member of the Management Board. Deputy General Director of JSC TATNEFT for Petrochemical Production – Director of JSC TATNEFT-Neftekhim Management Company.


SUPPORT OF CORE PRODUCTION



RIFKAT M. RAKHMANOV
Member of the Management Board. Deputy General Director for Workover, Drilling and Oil Recovery Enhancement of JSC TATNEFT.



FEDOR L. SHCHELKOV
Member of the Management Board. Deputy General Director for General Issues of JSC TATNEFT.




NIKOLAY M. GLAZKOV
Member of the Management Board (since April 26, 2012. Deputy General Director for Capital Construction.


DISTRIBUTION OF POWERS AMONG MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD OF JSC TATNEFT

CORPORATE MANAGEMENT


CORPORATE MANAGEMENT




Vladimir P. LAVUSHCHENKO
Member of the Board of Directors and the Management Board. Deputy General Director of JSC TATNEFT for Economics. Chairman of the Board of Directors' Information Disclosure Committee.




Viktor I. GORODNIY
Member of the Management Board. Deputy General Director of JSC TATNEFT – Head of Property Department. Chairman of the Board of Directors' Corporate Management Committee, Vice Chairman of the Board of Directors' Information Disclosure Committee.



Iskandar G. GARIFULLIN
Member of the Management Board. Head of Bookkeeping and Accounting Department – Chief Accountant of JSC TATNEFT.




Evgeniy A. TIKHTUROV
Member of the Management Board. Head of Finance Department of JSC TATNEFT. Member of the Board of Directors' Information Disclosure Committee.




Valeriy D. YERSHOV
Member of the Management Board. Head of Legal Department of JSC TATNEFT. Member of the Board of Directors' Corporate Management Committee.


COOPERATION WITH STATE ADMINISTRATION BODIES AND COORDINATION OF ACTIVITY WITH INDUSTRY ENTERPRISES



RADIK R. GAIZATULLIN
Member of the Board of Directors. Minister of Finance of the Republic of Tatarstan. Member of the Board of Directors' Audit Committee.




AZAT K. KHAMAYEV
Member of the Board of Directors. Minister of Land and Property Relations of the Republic of Tatarstan.




RINAT K. SABIROV
Member of the Board of Directors. Assistant to President of the Republic of Tatarstan. Member of the JSC TATNEFT Board of Directors' Corporate Management Committee. Member of the JSC TATNEFT Board of Directors' HR and Remuneration Committee.

SOCIAL POLICY









RUSTAM N. MUKHAMADEYEV
Member of the Management Board. Deputy General Director of JSC TATNEFT for HR and Social Development.



SEMEN A. FELDMAN
Member of the Management Board (till April 26, 2012). Advisor to the General Director of JSC TATNEFT. Director of Almetyevsk Branch of the National Non-Governmental Pension Fund.

DISTRIBUTION OF POWERS AMONG MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD OF JSC TATNEFT

CORPORATE MANAGEMENT

PROTECTION OF SHAREHOLDERS' AND INVESTORS' INTERESTS		
		
<p>GHOSH SUSHOVAN Member of the Board of Directors. Managing Director of SGI Group LTD. Chairman of the Board of Directors' Audit Committee.JSC TATNEFT Board of Directors' HR and Remuneration Committee member.</p>	<p>MARIYA L. VOSKRESENSKAYA Member of the Board of Directors. Director of Brentcross Co. LTD. JSC TATNEFT Board of Directors' Audit Committee member.</p>	<p>DAVID W. WAYGOOD Member of the Board of Directors. Director of Waygood Limited Company. Chairman of the Board of Directors' HR and Remuneration Committee. JSC TATNEFT Board of Directors' Audit Committee member.</p>
		
<p>VALERIY YU. SOROKIN Member of the Board of Directors. General Director of JSC Syazinvestneftekhim.</p>	<p>VLADLEN A. VOSKOBONIKOV Member of the Management Board. Head of Department for consolidated financial accounting of JSC TATNEFT. Member of the JSC TATNEFT Board of Directors' Information Disclosure Committee.</p>	<p>ALEKSANDR T. YUKHIMETS Member of the Management Board. Secretary of the JSC TATNEFT's Board of Directors., Member of JSC TATNEFT Board of Directors' Information Disclosure Committee.</p>

THE SYSTEM OF POWERS DISTRIBUTION IS AIMED AT IMPROVING THE RESPONSIBILITY AND COMPETENCE AT ALL LEVELS OF MANAGEMENT. THE POWERS ARE IN LINE WITH THE COMPANY'S ACTIVITY MANAGEMENT STRUCTURE BY BUSINESS SECTORS AND THE GENERAL CORPORATE MANAGEMENT ISSUES.

OIL AND GAS PRODUCTION
Management in the area of oil and gas production. Organization of planning oil and gas production and implementation of measures for sustainable development of energy supply and industrial facilities, introduction of advanced technologies.

GEOLOGY & OIL FIELDS DEVELOPMENT
Management in the areas of geology and oilfield development, engineering design, analysis, monitoring, controlling and improving of oilfield development.

SALES AND PROCESSING OF HYDROCARBON RAW MATERIALS. PRODUCTION OF PETROCHEMICALS
Management in the area of crude oil sale and oil and other hydrocarbons refining. Organization of oil, gas and petrochemical products sale, development of the marketing structure and production facilities for processing.

SUPPORT OF CORE PRODUCTION
Support of core production in the following areas: workover, well drilling and enhanced oil recovery, capital construction. General material and technical support for core business of the Company.

CORPORATE MANAGEMENT
Development of targeted programs to improve the corporate equity and consolidation of the Company's assets, efficiency of operations and the property complex management. Corporate financial planning organization of the economic activity, control and economic analysis of of the planned targets implementation. Provision of a system of interaction with shareholders, investors and other stakeholders, respect for their legitimate interests and information disclosure. Coordination of cooperation with the state authorities and industry enterprises. Realization of the corporate social responsibility principles.

JSC TATNEFT BOARD OF DIRECTORS IN 2012

Rustam N. MINNIKHANOV, born in 1957. 1978 – graduated from Kazan Agricultural Institute, specialty – mechanical engineer. 1986 – graduated from the correspon- dence Institute of Soviet Trade. 1996-1998 – Minister of Finance of the Republic of Tatarstan. From July 1998 till March 2010 headed the Government of the Republic of Tatarstan. President of the Republic of Tatarstan since March 2010. Doctor of Science, Economics. Share in the Authorized Capital of the Company, % – none Portion of ordinary shares of the Company, % – none

David W. WAYGOOD

, born in 1950. He has an education certificate issued in the United Kingdom of Great Britain and Northern Ireland; graduated from the bank- ing courses of the Bank Institute. Director of ICDS Ltd. since August 2001. Share in the Authorized Capital of the Company, % – none Portion of ordinary shares of the Company, % – none

Mariya L. VOSKRESENSKAYA, born in 1955. 1977 – graduated from Moscow Financial Academy. Has a US CPA certificate, and she is a certified Russian auditor. Director of Brentcross Ltd. since 2004. Member of the Board of Association of Independent Directors of Russia. Share in the Authorized Capital of the Company, % – none Portion of ordinary shares of the Company, % – none

Radik R. GAIZATULLIN, born in 1964. 1985 – graduated from Kazan Agricultural Institute, specialty – accounting and analy- sis of economic activity in agriculture. Head of the Ministry of Finance of the Republic of Tatarstan since June 2002. Doctor of Science, Economics. Share in the Authorized Capital of the Company, % – none Portion of ordinary shares of the Company, % – none

Sushovan GOSH, born in 1957. Graduated from the college of Queen Maria, London University of Electric and Electronic Developments and Institute of Accountants-Experts in England and Wales. Managing Director of SGI Group Ltd. since 2002. Share in the Authorized Capital of the Company, % – none Portion of ordinary shares of the Company, % – none

Nail G. IBRAGIMOV, born in 1955. 1977 – graduated with honors from Moscow Institute of Petrochemical and Gas Indus- try n.a. I.M. Gubkin. First Deputy General Director for Production – Chief Engineer of JSC TATNEFT since 2000. Doctor of Science, Engineering. Share in the Authorized Capital of the Company, % – 0.019586 Portion of ordinary shares of the Company, % – 0.020673

Vladimir P. LAVUSHCHENKO, born in 1949. Graduated from Moscow Institute of Petro- chemical and Gas Industry n.a. I. M. Gubkin and the postgraduate course of VNIIOENG. 1997 – appointed Deputy General Director for Economics of JSC TATNEFT. Doctor of Science, Economics. Share in the Authorized Capital of the Company, % – 0.045465 Portion of ordinary shares of the Company, % – 0.048194

Nail U. MAGANOV, born in 1958. 1983 – I.M. graduated from Tatar evening faculty of Moscow Institute of Petrochemi- cal and Gas Industry n.a. I.M. Gubkin. From July 2000 – first Deputy General Director – Head of Crude Oil and Petroleum Products Sales Department of JSC TATNEFT. Share in the Authorized Capital of the Company, % – 0.000176 Portion of ordinary shares of the Company, % – none

Renat Kh. MUSLIMOV, born in 1934. 1957 – graduated from Kazan State Univer- sity, specialty – geology and exploration of oil and gas fields. From June 2007 – appointed State Consultant to President of the Republic of Tatarstan on development of crude oil and gas fields, Professor of the Crude Oil and Gas Geology Chair of Kazan State University. Doctor of Geological and Mineralogical Sciences. Share in the Authorized Capital of the Company, % – 0.065734 Portion of ordinary shares of the Company, % – 0.069624

Rinat K. SABIROV, born in 1967. 1991 – graduated with honors from the physics faculty of Kazan State University; 1994 – graduated from the postgraduate course of Kazan State Technological Uni- versity. 1998 – had a training course under the President’s program for managerial staff. In 2012 he completed the course in the program “Master of Business Adminis- tration” of Colorado State University (USA). Since 2006 headed the Division of Oil and Gas Complex of the Cabinet of Ministers of the Republic of Tatarstan. In June 2010 he was appointed Assistant to the President of the Republic of Tatarstan. PhD, Chemical Science. Share in the Authorized Capital of the Company, % – none Portion of ordinary shares of the Company, % – none

Valery Yu. SOROKIN, born in 1964. 1986 – graduated from Kazan State University. General Director of JSC Svyazinvestneftekhim since 2003. Share in the Authorized Capital of the Company, % – none Portion of ordinary shares of the Company, % – none

Mirgaziyan Z. TAZIYEV, born in 1947. 1972 – graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. Head of NGDU Almeteyevneft since January 2005. PhD, Engineering. Share in the Authorized Capital of the Company, % – 0.006448 Portion of ordinary shares of the Company, % – 0.006541

Shafagat F. TAKHAUTDINOV, born in 1946. 1971 – graduated from Moscow Institute of Petrochemical and Gas Industry n.a. I.M. Gubkin. Appointed General Director of JSC TATNEFT in 1999. Doctor of Science, Economics. Share in the Authorized Capital of the Company, % – 0.116503 Portion of ordinary shares of the Company, % – 0.123914

Azat K. KHAMAEV, born in 1956. Graduated from Kazan Aviation Institute, specialty – mechanical engineer. 2000 – graduated from the Law Faculty of Kazan State University. Appointed First Deputy Minister of Land and Property Relations of the Republic of Tatarstan in December 2008. Appointed Head of the Ministry of Land and Property Relations of the Republic of Tatarstan in March 2009. Share in the Authorized Capital of the Company, % – none Portion of ordinary shares of the Company, % – none

Rais S. KHISAMOV, born in 1950. 1978 – graduated from the evening department of Moscow Institute of Petro- chemical and Gas Industry n.a. I.M. Gubkin. Appointed Chief Geologist – Deputy General Director of JSC TATNEFT in October 1997. Doctor of Geological and Mineralogical Sciences, Professor. Share in the Authorized Capital of the Company, % – 0.01876 Portion of ordinary shares of the Company, % – 0.019746.

LIST OF MAIN
ISSUES REVIEWED
AT THE MEETINGS
OF THE BOARD
OF DIRECTORS IN 2012

1. Annual General Meeting of Shareholders of JSC TATNEFT on the results of 2011.

2. Candidates to the Board of Directors and the Audit Commission of JSC TATNEFT and proposals for the agenda of the annual general meeting of shareholders on the results of 2011.

3. JSC TATNEFT's activity at the securities market, dynamics of the Company's capitalization and activities to increase it.

4. Progress in development of extra-viscous oil and bitumen deposits.

5. Effectiveness of new methods application for geophysical studies and geological exploration.

6. New technologies applied in well workover and enhanced oil recovery at the facilities of JSC TATNEFT.

7. Real time control of horizontal wellbore drilling process.

8. Technological efficiency of drilling new wells, development of horizontal drilling technologies.

9. The condition status of using the drilled wells stock at the oil & gas production boards of JSC TATNEFT.

10. Experiences of swellable packers application at JSC TATNEFT.

11. Plans for oil production, geological and engineering activities of JSC TATNEFT for 2013-2014.

12. Results of the financial and economic activities of JSC TATNEFT in 2011.

13. Audit results of the JSC TATNEFT business and financial performance in 2011 by the Company's Audit Commission and by ZAO "Energy Consulting/Audit".

14. Results of the Internal Audit Department work in 2011 and work plan for 2012.

15. Innovational program in the area of subsoil usage and the strategy of J SC TATNEFT development till 2030.

16. Implementation progress of the JSC TATNEFT's investment program in oil production in 2012 and the investment program for 2013.

17. Implementation results of the investment program for 2011 on the core activity, petrochemicals production and filling stations.

18. On the concept of constructing a heavy residues deep processing complex and the construction progress of the JSC TANECO hydrocracking complex.

19. Introduction of modern technologies in automation of production processes in the oil producing and refining sectors of JSC TATNEFT.

20. Financial and economic performance effectiveness of subsidiaries and affiliates of TATNEFT Group of Companies.

21. Discussing the results of executing the budget of JSC TATNEFT for the previous month and approval of the budget for the next month on a monthly basis.

22. Implementation progress of the JSC TATNEFT's Environmental Program.

23. Experience of "Capstone" gas turbines application for associated petroleum gas utilization by ZAO "TATEX".

24. Results of the joint work of JSC TATNEFT and the Academy of Sciences of the Republic of Tatarstan.

CRITERIA FOR DETERMINING THE AMOUNT OF REMUNERATION
PAID TO THE MEMBERS OF THE COMPANY'S MANAGEMENT BODIES IN 2012

The remuneration of the members of the Board of Directors of JSC TATNEFT is paid on the basis of "Regulations on payment of remuneration to members of the Board of Directors and the Audit Committee of JSC TATNEFT".

The remuneration amount is formed of a fixed and a variable part.

The fixed part of the remuneration is defined by the Regulations and indexed simultaneously with the change in tariffs and salaries of JSC TATNEFT employees.

The variable part of the remuneration of members of the Board of Directors is formed according to the following key indicators: the ratio of the Company's level of capitalization at year end compared to the previous year, the ratio of the expenses for dividends to net income (as compared to the previous year) and the amount of the additional profit margin in relation to the base profitability.

The total remuneration amount paid out by the results of the reporting year to the Members of the Company's Collegial Executive Body and the Board of Directors Members including compensation for participation in the work of the management body, wages, bonuses, reimbursement of expenses, and other types of remuneration

- The total remuneration amount of all the members of the Board of Directors for 2012 was 450.6 mln rubles.
- The total remuneration sum paid out to all the members of the Collegial Executive Body for 2012 amounted to 195.0 mln rubles.

Remuneration of the sole executive body ((CEO) and other persons belonging to the Board of Directors and the collegial executive body (Management Board) is taken into account in the amount of remuneration of all members of the Board of Directors.

JSC TATNEFT MANAGEMENT BOARD IN 2012

NAME	YEAR OF BIRTH	POSITIONS DURING LAST 5 YEARS	SHARE IN THE COMPANY'S AUTHORIZED CAPITAL, %	PROPORTION OF THE COMPANY'S ORDINARY SHARES, %
Shafagat F. TAKHAUTDINOV	1946	2007 – present time – General Director of JSC TATNEFT	0,116503%	0,123914%
Vladlen A. VOSKOBOYNIKOV	1965	2007 – present time – Head of Consolidated Financial Reporting Department of JSC TATNEFT	None	None
Iskandar G. GARIFULLIN	1960	2007 – present time – Head of Accounting and Reporting Department – Chief Accountant of JSC TATNEFT	0,009806%	0,010396%
Victor I. GORODNY	1952	2007 – present time – Deputy General Director – Head of Property Department of JSC TATNEFT. Doctor of Science, Economics	0,000254%	None
Nikolay M. GLAZKOV	1960	2007-2010 – Head of Capital Construction Department of JSC TATNEFT 2010 – present time – Deputy General Director of JSC TATNEFT, Capital Construction	None	None
Valery D. ERSHOV	1949	2007 – present time – Head of Legal Department of JSC TATNEFT	None	None
Nail G. IBRAGIMOV	1955	2007 – present time – First Deputy General Director for Production, Chief Engineer of JSC TATNEFT. Doctor of Science, Engineering	0,019586%	0,020673%
Vladimir P. LAVUSHCHENKO	1949	2007 – present time – Deputy General Director of JSC TATNEFT on Economics. Doctor of Science, Economics	0,045465%	0,048194%
Nail U. MAGANOV	1958	2007 – present time – First Deputy General Director – Head of Oil and Petroleum Products Sales Department of JSC TATNEFT	0,000176%	None
Rustam N. MUKHAMADEEV	1952	2007 – present time – Deputy General Director of JSC TATNEFT on HR and Social Development	0,004204%	0,004264%
Rafael S. NURMUKHAMETOV	1949	2007 – present time – Head of NGDU Leninogorskneft of JSC TATNEFT	0,010465%	0,010107%
Rifkat M. RAKHMANOV	1948	2007 – present time – Deputy General Director of JSC TATNEFT on Well Workover and Oil Recovery Enhancement	0,020604%	0,021678%
Evgeny A. TIKHTUROV	1960	2007 – present time – Head of Financial Department of JSC TATNEFT	0,0020%	None
Semen A. FELDMAN	1936	2007 – present time – Advisor to General Director of JSC TATNEFT (Member of JSC Management Board till April 26, 2012)	0,016877%	0,017483%
Zagit F. SHARAFEEV	1956	2006 – present time – Deputy General Director of JSC TATNEFT on Petrochemical Production – Director of OOO TATNEFT-Neftekhim, PhD, Economics	None	None
Fedor L. SHCHELKOV	1948	2007 – present time – Deputy General Director of JSC TATNEFT on General Issues	0,029929%	0,031524%
Alexander T. YUKHIMETZ	1949	2007 – present time – Secretary of Board of Directors of JSC TATNEFT	0,004583%	0,00459%

LIST OF MAIN ISSUES REVIEWED AT THE MEETINGS OF THE MANAGEMENT BOARD IN 2012

1. Oil and Gas Production Boards' performance profile changes since 2008 to 2011.

2. Crude oil production for December and twelve months of 2011.

3. Comparative evaluation of the JSC TATNEFT's oil and gas production boards' operation for H2 of 2011.

4. Prospects of work to develop extra-viscous oil deposits (EVO) till 01.01.2023.

5. Financial and economic condition of JSC TATNEFT and the credit market situation.

6. Current financial and economic condition and results of JSC TATNEFT fulfilling the indicators of orders No. 1, 2 and 3 for 2011, H1 and 9 months.

7. Production financing for five months in 2012 and accounts receivable and payable for Q1 of 2012.

8. Current financial and economic condition and results of JSC TATNEFT fulfilling the indicators of orders No. 1, 2 and 3 for Q1 of 2012.

9. Innovational program in the area of subsoil usage and the strategy of JSC TATNEFT development till 2030.

10. Execution of the JSC TATNEFT's investment program for 2011 in the core activities.

11. Analysis of executing the earlier adopted (approved) for 2011 investment project passports.

12. Progress in developing the JSC TATNEFT's investment program for 2013.

13. Implementation progress of the JSC TATNEFT's investment program for crude oil production in H1 of 2012 and information about the investment program for 2013 - 2014.

14. Implementation of investment projects in the area of "Oil and gas treatment".

15. Implementation of investment projects in the area "MET Differentiation" at NGDU "Prikamneft" and NGDU "Yelkhovneft".

16. Implementation of investment projects in the area of "Energy" at NGDU "Almetyevneft", NGDU "Aznakaevskneft" and NGDU "Bavlyneft".

17. Implementation of the 2011 investment program for the petrochemicals production sector.

18. Investment assimilation for the construction of the combined plant hydrocracking installation of the Refining and Petrochemical Plants Complex in 2011.

19. Implementation of investment projects in the area of "Environmental Protection", "Engineering".

20. Profile of geological and technical activities payback periods from 2006 to 2011 versus the investment program parameters.

21. Progress in obtaining governmental authorities permits for construction and commissioning of completed wells.

22. Progress of the state registration of the JSC TATNEFT's real estate units for 2011.

23. Usage of the insider information.

24. Analysis of energy consumption and energy expenditures for 2011.

25. Analysis of the injection profile of Oil and Gas Production Boards and the activities to maintain the reservoir pressure at the sites of operation.

26. Organization of wells workover and drilling at NGDU "Almetyevneft".

27. Implementation progress of the JSC TATNEFT's program for chain drives operation.

28. Technical upgrading of the Yelkhovo refining plant.

29. Reconstruction of the Yelkhovo refining plant for outputting Class 3, 4 and 5 oil products.

30. Implementation of investment projects in "Associated petroleum gas utilization" area.

31. Stages and implementation progress of the "Drilling facilities upgrading program".

32. Commissioning of capital construction facilities in QII of 2012 subject to the State registration.

33. Efficiency of the additional cargo tire shipments Program in H1 of 2012.

34. Progress in executing Federal Law № 223-FZ of 18.07.11 "On procurement of goods, works and services by individual types of legal persons".

35. Collaboration of JSC TATNEFT and service management companies in establishing small business entities.

COMMITTEES
OF THE BOARD
OF DIRECTORS

CORPORATE MANAGEMENT
COMMITTEE

The Corporate Management Committee has been a standing committee of the Board of Directors since 2004 and it is authorized to render assistance to the Board of Directors of JSC TATNEFT in improving the Corporate Management system and mechanisms in the Company and providing for interaction of the concerned parties on the corporate issues.

Composition of the Corporate Management Committee in 2012

CHAIRMAN:

Viktor I. Gorodny – member of the Management Board of JSC TATNEFT, Deputy General Director, Head of Property Department of JSC TATNEFT, Deputy Chairman of the Information Disclosure Committee, Doctor of Economics.

MEMBERS OF THE COMMITTEE:

Rais S. Khisamov – member of the Board of Directors of JSC TATNEFT, Deputy General Director – Chief Geologist of JSC TATNEFT, Doctor of Geological and Mineralogical Sciences.

Rinat K. Sabirov – member of the Board of Directors of JSC TATNEFT, Assistant to President of the Republic of Tatarstan, member of the HR and Remuneration Committee, Candidate of Chemical Sciences.

Valery D. Ershov – member of the Management Board, Head of Legal Department of JSC TATNEFT.

Rustam M. Khisamov – Head of Securities Office of the Property Department of JSC TATNEFT, PhD, Economics.

Vasiliy A. Mozgovoy - Assistant to General Director of JSC TATNEFT, Corporate Finances.

Denis V. Tsovma - Deputy Head of Securities Office of the Property Department

Main Activity Areas
of the Corporate Management
Committee in 2012:

1. Stock market analysis.
2. Monitoring of the JSC TATNEFT capitalization indices and the key factors analysis of the market capitalization profile.
3. Assistance in ensuring the Company's interaction with the shareholders.
4. Monitoring the rights and interests of shareholders safeguarding.
5. Assistance in the implementation of the Plan of working with shareholders and investors.
6. Participation in formulating recommendations for amendments to the Charter of JSC TATNEFT.
7. Assistance to the Board of Directors and the interaction with the Information Disclosure Committee to ensure the information disclosure in accordance with applicable law and the stock market regulators requirements.
8. Assistance to the Insider Information Protection Committee.
9. Formulation of proposals to the executive bodies to improve the system of corporate standards.

HR AND REMUNERATION
COMMITTEE

The HR and Remuneration Committee has been established since 2004 to assist the Board of Directors in creating conditions to attract highly skilled professionals to the management of the Company and providing for necessary incentives for their efficient work.

Composition of the HR and Remuneration Committee in 2012:

CHAIRMAN:

David William Waygood, member of the Board of Directors of JSC TATNEFT, Independent Director, Director of ICDS Ltd.

MEMBERS OF THE COMMITTEE:

Sushovan Ghosh, member of the Board of Directors of JSC TATNEFT, Managing Director of SGI Group LTD.

Rinat K. Sabirov, member of the Board of Directors of JSC TATNEFT, Assistant to President of the Republic of Tatarstan, member of the Corporate Management Committee.

Main Activity Areas
of the HR and Remuneration
Committee in 2012:

1. Preparation of recommendations for remuneration of the Company's personnel according to the results of 2012.
2. Consideration of the JSC TATNEFT employees' incentive system for energy savings.
3. Making recommendations for the creation and development of: the Electronic Corporate University as a system of corporate training and development of the JSC TATNEFT's personnel and the Students' Labor Exchange as a tool for selecting and attracting talented young people into the Company.

AUDIT COMMITTEE

The Audit Committee has been a standing committee of the Board of Directors of JSC TATNEFT since 2004. The mission of the Committee is rendering assistance to the Board of Directors in exercising control of authenticity of JSC TATNEFT financial reports, providing independent audit, functioning of the internal audit system of the Company, as well as compliance with regulatory and legal requirements.

Composition of the Audit Committee in 2012:

CHAIRMAN:

Sushovan Ghosh, member of the Board of Directors, Managing Director of SGI GROUP LTD, member of the HR and Remuneration Committee.

MEMBERS OF THE COMMITTEE:

David William Waygood, member of the Board of Directors, Director of ICDS Ltd, Chairman of the HR and Remuneration Committee;

Mariya L. Voskresenskaya, member of the Board of Directors, Director of Brent Cross Ltd.;

Radik R. Gayzatullin, member of the Board of Directors, Minister of Finance of the Republic of Tatarstan.

Main Activity Areas of the Audit
Committee in 2012:

1. Activities coordination of external auditors and the Internal Audit Department, as well as regular review of their reports.
2. Review and analysis of quarterly financial statements.
3. Review and application of independent auditors' reports on the condition of the JSC TATNEFT's internal control systems.
4. Discussing the scope, areas of emphasis and timing of their audits with the independent auditors and the Internal Audit Department.
5. Verification of the external auditors' independence.
6. Provision of recommendations to the Board of Directors regarding selection of the JSC TATNEFT auditors.
7. Work coordination on compiling and issuing US GAAP financial statements, measures for the transition to reporting in accordance with IFRS.

INFORMATION DISCLOSURE
COMMITTEE

The Information Disclosure Committee has been a standing committee of the Board of Directors since 2004.

Composition of the Information Disclosure Committee in 2012:

CHAIRMAN:

Vladimir P. Lavushchenko, member of the Board of Directors, member of the Management Board, Deputy General Director of JSC TATNEFT on Economics, Doctor of Science, Economics.

DEPUTY CHAIRMAN:

Viktor I. Gorodny, member of the Management Board, Deputy General Director, Head of the Property Department of JSC TATNEFT, Head of the Corporate Management Committee, Doctor of Science, Economics.

MEMBERS OF THE COMMITTEE:

Vladlen A. Voskoboynikov, member of the Management Board, Head of the Consolidated Financial Reporting Department of JSC TATNEFT;

Yevgeny A. Tikhturov, member of the Management Board, Head of the Financial Department of JSC TATNEFT;

Vasiliy A. Mozgovoy – Assistant to General Director of JSC TATNEFT, Corporate Finances;

Aleksander T. Yukhimets, member of the Management Board, Secretary of the Board of Directors of JSC TATNEFT;

Denis V. Tsovma – Deputy Head of Securities Office of the Property Department;

Nuriya Z. Valeyeva, Head of Technical and Economic Information and Advanced Experience Extension Office.

Main Activity Areas
of the Information Disclosure
Committee in 2012:

1. Control of the disclosure procedures in all areas of the Company's operations.
2. Generation and approval of press releases on compulsorily and voluntarily disclosed facts.
3. Coordination of the work plan with shareholders and investors in 2012.
4. Control over the use of the insider information.
5. Coordination of the activities on formulation of essential facts, quarterly and annual reports of the Company, as well as consolidated financial statements, RAS reports and U.S. GAAP reports.
6. Coordinating the work of the corporate media "Oil and Life," "Oil News," "Khazina" "Oil newspaper" electronic publication and mass-circulation newspapers, improving the communication quality with the outside media, strengthening of the corporate media activities for effective coverage of the Company's strategic objectives.
7. Coordination of the activities for information coverage of the Company's strategic projects implementation in the corporate and regional media:
 - construction of the JSC "TANECO" Complex;
 - environmental program of the Company.
8. Control and coordination of the development of the TATNEFT Group Web-resources, including:
 - pilot operation of the Company unified portal;
 - placement of the electronic "Oil Newspaper" on the Internet portal;
 - creation of 15 new sub-portals.
9. Activities coordination for the development of the corporate photo-bank.

ENSURING THE INSIDER INFORMATION PROTECTION

In order to avoid the use of the privileged position by members of management bodies and the management (insiders) in comparison with the shareholders the Company has adopted regulations governing standards for the treatment of the insider information: "Regulations on the use of the insider information and the procedure of the information presentation on transactions with securities".

There are the following documents that have been developed and approved by the Board of Directors of JSC TATNEFT for abidance with Federal Law No. 224-FZ "On Combating illegal use of insider information and market manipulation and on Amendments to Certain Legislative Acts of the Russian Federation":

- Provision on the access procedure to the insider information of JSC TATNEFT n.a. V.D. Shashin and rules for the protection of confidentiality;
- Control rules to monitor compliance with the requirements of the Russian Federation legislation on combating illegal use of insider information and market manipulation;
- The list of information relating to the insider information.

Amendments and changes were introduced in the list of the insider information during the year reviewed and the amendments are timely introduced into the list of insiders of JSC TATNEFT, the insider information carriers are notified of their inclusion on the list of insiders and warned about the ban on the distribution of the insider information. 4,725 notifications of transactions with the Company's securities were received from insiders during 2012.

INSIDER INFORMATION PROTECTION COMMITTEE

Composition Committee in 2012:

CHAIRMAN:

Ilshat R. Bariev – Deputy Head of Economic Security Department – Head of Information Security Office (till oct.29, 2012);

Denis V. Tsovma – Deputy Head of Securities Office of the Property Department: person overseeing the implementation of the Law on the Prevention of Unlawful Use of Insider Information.

MEMBERS OF THE COMMITTEE:

Valery D. Ershov – member of the Management Board, Head of Legal Department of JSC TATNEFT;

Alexey P. Bespalov – Head of the Information Technologies Department – Deputy Chief Engineer;

Ildar A. Rakhmatullin – Head of Internal Control Department;

Rustam M. Khisamov – Head of Securities Office of the Property Department of JSC TATNEFT, PhD, Economics;

Rimaz Sh. Yamilov – Head of New Structures Office, Property Department;

Vasily A. Mozgovoy – Assistant to General Director on Corporate Finance;

Petr A. Glushkov – Head of International Law Office, Consolidated Statements Department;

Rifdar R. Khamadyarov – Head of Personnel Office.

COMPANY'S INVESTMENT POLICY AND STRATEGIC PRIORITIES FOR THE INVESTMENT ACTIVITIES

Investment operations are carried out in accordance with the strategy of TATNEFT Group. Priorities of the Company's corporate investment policy are ensuring the investments efficiency and increasing of profitability in each area of the activities.

The work was continued in 2012 on improving the system of planning and monitoring of the investments:

- the process of managing the investment project was automated at all stages of its implementation with application of SAP RPM and the work was started on automating the process of forecasting sources of investment.
- the system of increasing motivation and responsibility for achieving the investments' efficiency during the year and by the year operation results was improved;
- maintenance of a single database of passports for investment projects implemented by JSC TATNEFT was continued;
- methods of the investments economic evaluation by the development targets was developed jointly by the specialists from the Executive Office and TatNIPneft;
- on the basis of the refined methods the work was organized on the economic evaluation of business plans for the development of fields and areas until 2030 with the aim of further ranking and determining the most efficient targets for investments;

- a software tool was implemented in the CIS "TATNEFT-oil production" for forecasting base production based on TatNIPneft's methodologies data, forecasting performance for a period of the well intervention effect time taking into account the actual performance of the wells and the macro-economic conditions;
- further work was carried out to refine the "Modem" software package, which will allow for works on the design and estimated cost calculation of wells' construction, monitoring and analysis of the cost parameters change causes in the automatic mode; - work was continued on standards development for the newly applied technologies, equipment and adjustment of the drilling contractor daily payment rates in connection with the drilling facilities modernization;
- transition to a 3-year planning, which would reduce the error in calculating the investment amount required for the wells' completion, and optimize the costs of developing design sheet documents;
- project implementation monitoring was organized for acquisition and lease of land areas for the wells' construction over the long term up to 2040.

The current standard of review, expertise, risk assessment system and decision making on the investment projects involves the development of passports containing technical and economic performance of the projects and assessment of geological, industrial, financial/economic, legal and land property risks of the Company. There is a manager appointed for each project, who is responsible for the effective implementation of the project and achievement of the announced objectives.

The overall organization and coordination of the Investment Committee activities is provided by the Investment Department.

The Company's Investment Committee considered over 60 investment issues during the year under review and assessed the implementation results of 19 projects. The plans for 2013 provide for reviewing the effectiveness of the 27 priority projects implementation, of which 10 most important ones will be considered by the Management Board of the Company.

MAIN INVESTMENT PROJECTS OF 2012

"Crude Oil Production Program"

The planned volume of additional oil production and production rate (increment) of the wells were over fulfilled in 2012 in all areas of investment activity in the territory of the Republic of Tatarstan. The actual effectiveness of investments was 9% higher than the planned figure.

Pilot operations were continued at Ashalchinskoye natural bitumen field. TatNIPneft Institute executed a feasibility study of Ashalchinskoye development options providing for maximum advantage usage of the grace period in terms of the EVO export duty.

Following the discussion of the project the Investment Committee accepted for implementation the option, which would provide for the expected production of 117 thousand tons of extra-viscous oil in 2013, and 320 thousand tons in 2017. The investments amount (including 2012) is estimated at 9.4 billion rubles. The net present value is estimated at 7.2 billion rubles.

The investment amount of 1.1 billion rubles was spent in 2012, while the investments from the beginning of the project implementation amounted to more than 3.1 billion rubles.

Implementation of the projects under the approved "JSC TATNEFT's Action Program for utilization of associated petroleum gas (APG) at the Company's facilities in 2009-2013" was continued.

Taking into consideration the energy potential of associated gas, its volume, as well as experience gained from application of various technologies, the most appropriate areas for the Company APG utilization are collecting and processing APG at the gas refinery, power and heat generation, heating of oil in gas-fired furnaces and the use of multiphase pumps.

Construction of Capstone micro-turbine based power generating plants working on APG was completed at four sites of JSC TATNEFT in 2012: UPS- 102k of Tat-Kandyzskoye oilfield of NGDU "Bavlyneft"; DNS-21 of Sokolkinskoye oilfield (NGDU "Yelkhovneft"); GZNU- 1331 of Yamashinskoye oilfield (NGDU "Yamashneft") and GZNU-206 of Shegurchinskoye oilfield (NGDU "Yamashneft".

This investment project is classified as a high-tech one with incorporation of innovative elements and will provide for processing up to 12 million m³ of APG per year. The total project cost amounted to 406 million rubles. The payback period will be 5.5 years.

As part of this project tax exemption on the property was granted in 2013 in accordance with the Republican legislation. The appropriate agreement was signed by the Ministry of Economy of the Republic of Tatarstan, Ministry of Finance of the Republic of Tatarstan and JSC TATNEFT.

A strategic area for JSC TATNEFT is the expansion of the resource base and crude oil production outside the Republic of Tatarstan. Disbursement of investments by companies and the own areas of JSC TATNEFT located outside the Republic of Tatarstan in the Russian Federation amounted to 3 billion rubles. 78% of this amount was invested in the drilling of production and exploration wells, 8.6% was spent for capital construction and about 7% was spent for seismic exploration methods application and in-office geological exploration studies.

The amount of 410.7 million rubles was invested in the external projects in 2012. A production program implementation was started under the Contract with the State Concern "Turkmenneft".

"TANECO" Refining and Petrochemical Plants Complex Construction in Nizhnekamsk
Implementation of the "Oil Refining and Petrochemical Plants Complex in Nizhnekamsk" project intended for processing of Tatarstan crude oil is a strategic area of JSC TATNEFT development.

Funding for the project from the beginning of its implementation amounted to more than 220.0 billion rubles, including 27.7 billion rubles spent in 2012 (w/t VAT).

During 2012 JSC "TANECO" operated the facilities placed in service earlier and also performed the construction and commissioning of Phase 1A1 facilities. Operation of the following previously commissioned facilities was carried out: CDU/VDU-7 installation, naphtha stabilization unit and auxiliary process and offplot facilities.

Opinions of the Russian Federation Ros-tekhnadzor on the compliance of the JSC "TANECO"'s Optimized starting complex 1A1 with the requirements of technical regulations and other regulatory legal acts and project documentation were received in November 2012.

Construction of the Combined Hydrocracking Installation of JSC TATNEFT
In 2012 JSC TATNEFT continued construction of the Oil Refining and Petrochemical Complex Phase 1B facilities, including the combined hydrocracking installation.

The project cost in 2012 prices amounted to 53.71 billion rubles (w/t VAT). The amount of 29.63 billion rubles was allocated during 2011-2012 for the construction of the Phase facilities, including the amount of 19.16 billion rubles allocated for the year 2012.

Funding is provided at the expense of JSC TATNEFT. Over 21.3 billion rubles have been absorbed, including 15.6 billion rubles during 2012. Construction and installation works accounted for the amount of 7.5 billion rubles.

Reconstruction of Nizhnekamsk CHP with Installation of low-grade steam turbines
In the 2nd half of 2012 JSC TATNEFT started the implementation of a new investment project: "Reconstruction of Nizhnekamsk CHP with installation of low-grade steam turbines". The project implementation will increase the installed electric capacity of the plant to meet the needs of the industrial, petrochemical and refining industries. Investments in the amount of 217.2 million rubles (w/t VAT) were used in 2012.

Investments in the amount of 2,747 million rubles are planned to be absorbed in 2013 and power equipment installation will begin.

Development of the Petrochemical Complex
The amount of 1.28 billion rubles was invested into the development of the petrochemical complex in 2012.

Implementation of the "Increasing the production of high performance tires by 1,300 thousand per year" project started from the 2nd quarter of 2012. This project is the initial phase of the project "Bringing the production capacity to 18 million tires per year". As a result of this project implementation the amount of high-performance tires will increase to 4.5 million tires per year. The cost of the project is 1.1 billion rubles.

The mass tire factory JSC "Nizhnekamsk-shina" acquired and put into operation a modern assembly machine VMI248S, which increased the production of high performance "Kama-Euro" tires by 224 thousand tires per year, and allowed for expanding the range of the products output.

Implementation of "Modernization of the carbon black production" project was continued at the JSC "Nizhnekamsktekhoglerod". The project activities allowed increasing the production of carbon black to 115.0 thousand tons (realization of the whole project will increase the amount to 134.0 thousand tons). Upon the whole the Company produces 13 carbon black grades of the world standard.

Retail Marketing Business Development
In the frame of the retail marketing network development investment program in 2012 the sum of capital investments in the territory of the Russian Federation amounted to 692.2 million rubles. The volume of petroleum products sold in the Russian Federation for the year amounted to 1.465 million tons.

The work was continued on the development of JSC TATNEFT's retail marketing network in the Republic of Belarus. Construction of six filling stations was completed in 2012, including one with a gas terminal, and the amount of 141.5 million rubles was invested

Production of fiberglass and fiberglass based products
Implementation of the high-tech investment project "Production of fiberglass and fiberglass based products" on the basis of OOO "PD TATNEFT-Alabuga Steklovolokno" founded by OOO "TATNEFT-Aktiv" and German PD Glasseiden GmbH Ochatz Company was continued in 2012.

42,109 tons of molten glass have been produced since 2011, including the amount of 23,255 tons in 2012, which was 23% higher than in 2011. 33,350 tons of commercial products were output, which included 59.8% of direct roving, 18.4% of assembled roving, 14.4% of fiberglass mats, 7.2% of fiberglass mesh, 0.2% of woven roving fabrics and chopped fiberglass filament.

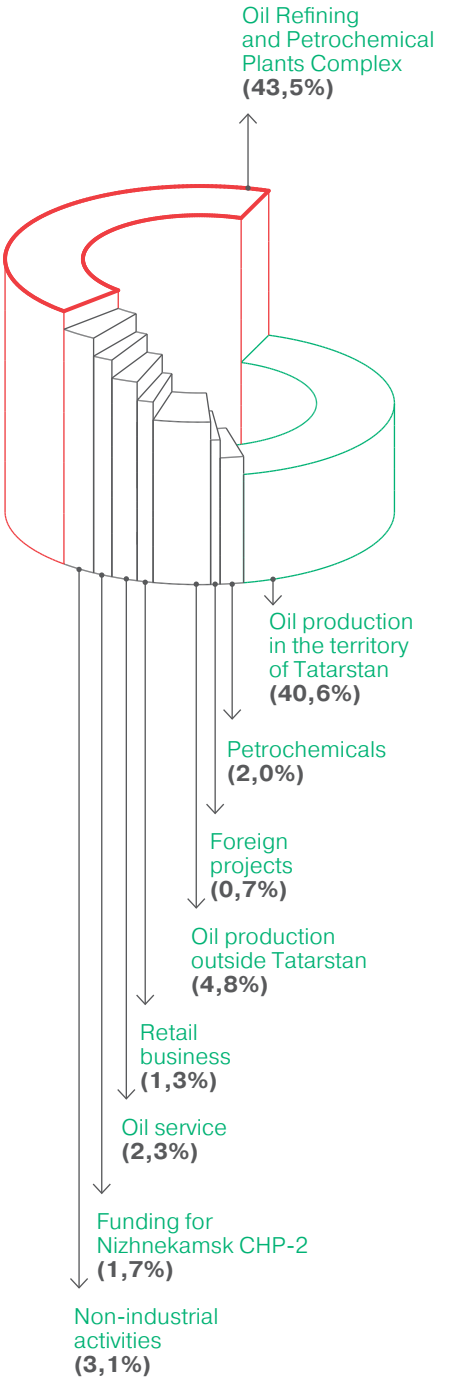
Proceeds from the sale of finished products amounted to 725.4 million rubles in 2012 or they were 65% higher than in 2011 with the growth due to the increased sales volume by 30%, increase in average prices by 27% (from 36.74 RUR/kg in 2011to 46.76 RUR/kg in 2012).

Organizational and technical activities carried out in 2012 allowed reducing the cost of goods manufactured by 8%.

MAIN FIELDS OF INVESTMENT ACTIVITIES IN 2012
Total investments amount for TATNEFT Group of Companies amounted to 63,617.7 million rubles in 2012.

No.	DESCRIPTION	MLN. RUBLES
1.	Investments into crude oil production in the territory of Tatarstan	25,807
	Drilling	11,916
	Capital construction	5, 710
	Equipment not included in construction estimate-sheets	1,814
	Geological engineering activities	6,062
	Redemption of property, land, etc.	305
2.	Investments into oil production outside the Republic of Tatarstan	3,038
3.	Investments into construction of the Oil Refining and Petrochemical Plants Complex in Nizhnekamsk	27,679
4.	Investments of the Petroleum Chemical Complex enterprises	1,278
5.	Investments into development of retail business	834
6.	Funding for reconstruction of Nizhnekamsk CHP (without VAT)	1,108
7.	Investments of service and other enterprises	1,476
8.	Financing of foreign projects	410.7
9.	Investments into development of social area	1,987
TOTAL for the Company		63,617.7

INVESTMENT PORTFOLIO STRUCTURE
IN 2012



INVESTMENT COMMITTEE

The effectiveness of the Company's investment management system is ensured by the Investment Committee. The Investment Committee reviews all the investment projects of the Company. The Committee's activity is headed by General Director of JSC TATNEFT.

The Investment Committee has established a standard for review procedures, expertise, system of risk and decision-making assessment on investment projects. Since 2007 a passport is drawn for each project containing key investment characteristics and parameters, as well as the risk map showing the assessment of geological, production, financial/economic, legal, land and property risks of the Company. A manager responsible for the effective project implementation and achievement of the announced objectives is appointed on the recommendation of the Investment Committee.

The overall organization and coordination of the Investment Committee activities is provided by the Investment Department.

FINANCIAL MANAGEMENT

The corporate policy priorities in financial management are to ensure financing of production, investment, and social activities of the Company and the effective use of financial resources.

JSC TATNEFT fulfilled on time and in full all obligations to pay for works, services, delivered products, payment of taxes and payments to non-budgetary funds. The Company's activities in 2012 were carried out in the conditions of essential instability expressed by sharp fluctuations in oil prices and the national currency exchange rate.

JSC TATNEFT used to place temporarily disposable monetary resources on the financial market in 2012. When placing the funds the Company gives preference to reliability, therefore the deposits are made only in the largest banks. The result of such placements is the income from the deposits and other placements in the amount of about 3 billion rubles.

Reduction in outstanding loans, optimal placement of temporarily disposable monetary resources and flexible policy in controlling the short-term indebtedness allowed the interest income to exceed the interest expense by the results of the activities in 2012.

No new long-term loans were tapped in 2012. The Company was working in the mode of previous loans repayment. As a result, the indebtedness decreased by 1,150 million U.S. dollars.

In order to reduce distraction of monetary resources the Company makes extensive use of bank guarantees for payments of

excise duties to the budget due to which the Company managed to reduce such guarantees cost from 0.32% to 0.15% during the year, i.e. more than two-fold.

To solve the problem of funds shortage the Financial Department carried out a large body of work on optimization of payments to counterparties. This will be done in the future. In view of reducing distractions from the Company's turnover and accelerating settlements with permanent counterparties reciprocal obligations are redeemed through the Mutual Claims Set-Off Center (MCSC). The settlements turnover through the Center amounted to more than 12.99 billion rubles in 2012. The number of active center participants amounted to 71 companies in 2012.

BUDGET PLANNING SYSTEM. DISTRIBUTION OF BUDGET BY CCAS (CENTERS OF CONTROL AND ACCOUNTABILITY)

The JSC TATNEFT's balanced budget of payment means movement was executed in 2012. The budget funds of the Company are planned and distributed between 13 Control and Accountability Centers. Each CCA is guided by a Deputy General Director or Head of Department for respective activity, which provides operative financial management and responsibility for purposeful and effective use of funds.

IN 2011-2012 THE COMPANY'S EXPENSES WERE DISTRIBUTED BETWEEN THE CCA AS FOLLOWS:

No.	CCA	ADMINISTRATOR	AREAS OF FUNDS SPENDING	2011, %	2012,%
1.	URNiN (Oil and Oil Products Sales Department)	N.U. Maganov, First Deputy General Director, Head of URNiN (Oil and Oil Products Sales Department)	Business expenses related to sale of oil, petroleum products, gas products and petrochemical products; funding of the investment program for development of selling infrastructure	47	42
2.	Service of Deputy General Director, Economics	V.P. Lavushchenko, Deputy General Director, Economics	Expenses for salaries; travel allowance; expenses for introduction of SAP R/3 and other information systems; expenses from profit	2	2
3.	Financial Department	E.A. Tikhturov, Head of Financial Department	Repayment of credits and interests on credits, granting of loans, redemption of own bills, commissions of banks, expenses for investment activity (in terms of financing construction and revamping of the Petrochemical Complex, foreign projects and projects outside the Republic of Tatarstan), payments for services of monopolists in the power sector and other services	16	15
4.	Accounting & Reporting Department	I.G. Garifullin, Head of Accounting and Reporting Department	Tax payments	17	19
5.	Production Department	V.G. Fadeev, Head of Production Department	Expenses for the main production (in terms of capital repair of other fixed assets and services of production nature); other production payments (in terms of communication services, software, rational proposals and inventions, participation in exhibitions, etc.); research and development; ecological payments	3	3
6.	Capital Construction Department	N.M. Glazkov, Deputy General Director for Capital Construction	Expenses for capital construction of production and non-production facilities, capital repair, liquidation of facilities, landfill operations for temporary access roads, water lines and power lines (during drilling)	2	2
7.	Service of Logistics and Transport	F.L. Shchelkov, Deputy General Director for General Issues	Purchase of materials and equipment; payment for transport services, maintenance of roads and roadsides	2	2
8.	Service of Chief Geologist	R.S. Khisamov, Deputy General Director - Chief Geologist	Geophysical services and hydrodynamic survey of wells, topographic and geodetic works, scientific and technical services and exploration works	1	1
9.	Property Department	V.I. Gorodny, Deputy General Director, Head of Property Department	Expenses for property matters, lease payments, securities servicing, participation in other organizations: contributions to authorized capitals of third companies, acquisition of shares	3	4
10.	Service of Deputy General Director for HR and Social Development	R.N. Mukhamadeev, Deputy General Director for HR and Social Development	Expenses for social area issues and HR, expenses for mass media, image of the Company, advertizing	1	1
11.	Reserve of General Director	Sh.F. Takhautdinov, General Director	Distributed between other Centers of Control and Accountability acc. to the results of actual application of budget funds	1	1
12.	Structural Divisions	Managers of Structural Divisions	Decentralized expenses for current activities of structural divisions	4	5
13.	Service of Deputy General Director for Well Workover, Drilling and EOR	R.M. Rakhmanov, Deputy General Director for Well Workover, Drilling and EOR	Expenses for well workover and drilling and oil recovery enhancement, production services during well workover	1	3
				100%	100%

ASSETS
MANAGEMENT

Formation of the Company’s assets structure is made in accordance with the Company’s development strategy in its capacity as a vertically integrated oil and heat/power generating holding with the priorities of consolidating production assets (expansion of the resource base), oil refining, petrochemical and heat/power generating capacities.

Corporate assets provide for efficiency of the Company’s business segments: exploration and production, refining and sale of oil and oil products, petrochemicals production and heat/power generation, which is a new activity area.

TATNEFT Group assets amounted to 630.6 billion rubles as of 2012 end (under IFRS).

There is a unified corporate center functioning in the Company to consolidate the assets and manage the property within the Property Department of JSC TATNEFT, which ensures the functions of maintaining records, legal protection and control of movable and immovable property.

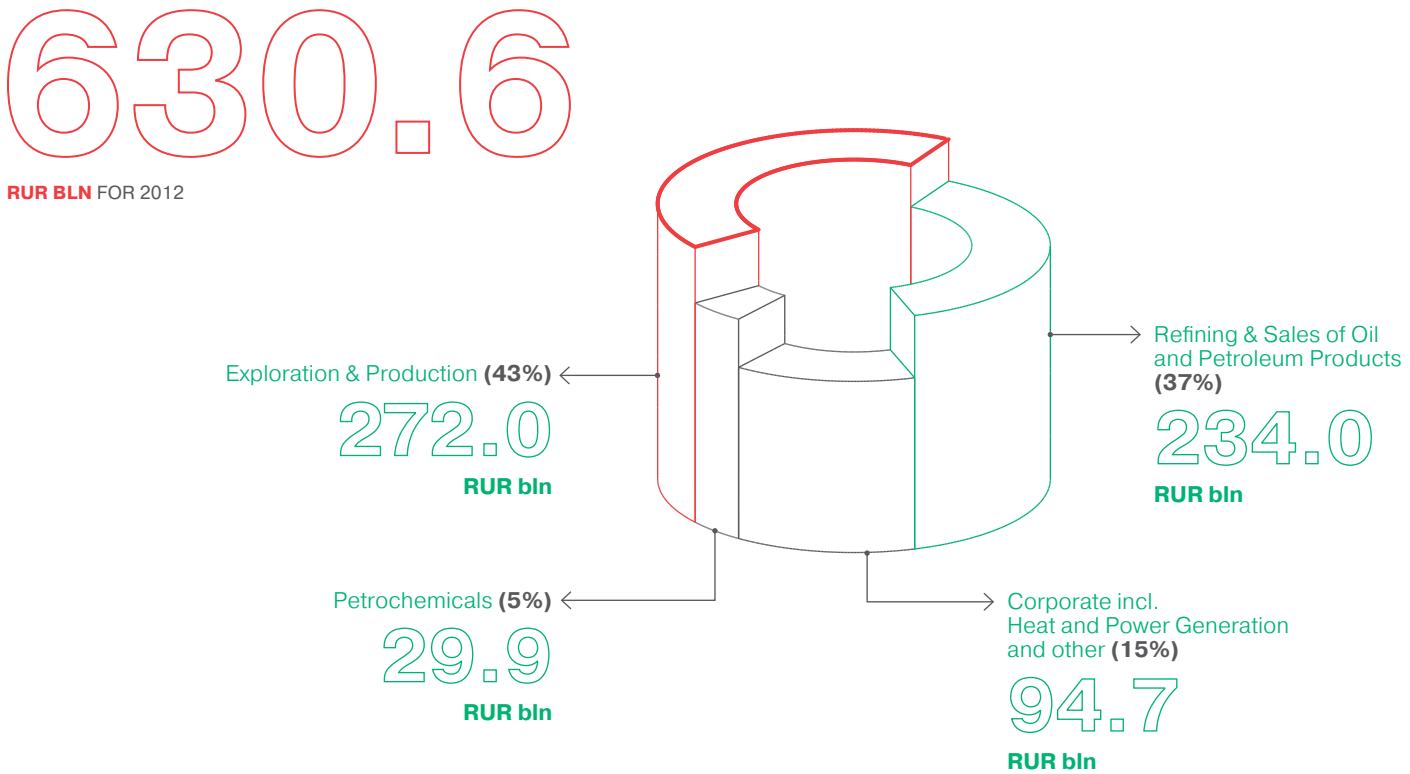
Ownership of registered immovable property items amounted to 8.8 billion rubles in 2012.

In accordance with the corporate program of increasing the efficiency of the Company’s assets package the structural divisions sold (including deferred payment deals) unclaimed property valued at ~ 425 million rubles in the reporting year.

Sale of little used and non-used property provides for additional cash flow, helps reducing the cost of maintaining the property complex, and as a result reduces the production cost of products sold by JSC TATNEFT.

JSC TATNEFT has built a single, integral, flexible lease relations system that allows to respond to the changing dynamics of the rent, taking into account the economic situation and solvency of entities taking the property on lease. The rent payments in the amount of ~ 1.56 billion rubles were received in 2012.

ASSETS STRUCTURE
BY BUSINESS-SEGMENTS UNDER IFRS



INTANGIBLE ASSETS,
INTELLECTUAL PROPERTY
Intangible Assets
Management System

As part of long-term corporate priorities for managing intangible assets and intellectual property of JSC TATNEFT the work was continued in the reporting year on the procedures for commercialization of intellectual property items, a commercial portfolio of JSC TATNEFT’s intellectual property and the most promising patents was built up to identify opportunities for their promotion on the Russian and international markets. During the period since 2004 the share of intangible assets in the currency balance sheet of the Company has doubled, thereby enhancing the image and competitiveness of JSC TATNEFT in the Republic of Tatarstan.

An inventory of useful service life of inventions and utility models, which are on the balance of the JSC TATNEFT’s structural divisions, is annually made according to the provisions of the accounting standard (PBU 14/2007g) in order to optimize and reduce costs in the production area. Revision of useful service life and depreciation rates of intangible assets is related to the duration of the future profits receiving period and increasing the profitability of JSC TATNEFT in general.

To ensure efficient use of the intellectual property items the Company maintains on an ongoing basis a single register of intangible assets. As of December 31, 2012 the number of intellectual property items amounted to 4,271 items, the bulk of which was related to the technological assets that are essential for current operations (1,319 inventions and 333 utility models), 244 patent applications for inventions (utility models) were filed.

Being a high-tech company, JSC TATNEFT provides its research and development works and production technologies to outside companies on a commercial basis, and also makes the contribution of intangible assets to the authorized capital of the newly established enterprises.

The work was continued in 2012 on the management of the Company’s trademark, as one of the property assets involved in production activities (oil production, processing, sale, promotion of technologies) that provides for additional income and strengthens the image of the Company. Registration of the JSC TATNEFT’s trademark was completed abroad in the Madrid Agreement countries.

The work was done on registration of "Filling Station" of JSC TATNEFT and “Devon” trademarks and certificates were received.

The Company initiated formation of a unified register of the intellectual property of TATNEFT Group, which is aimed at ensuring safety and efficiency of intangible assets, and is consistent with the goals of the republican program "Development of the Intellectual Property Market in the Republic of Tatarstan in 2012 - 2020". In the frame of discussing the program R.N. Minnikhanov, President of the Republic of Tatarstan, pointed out the high level of development and the intellectual activity results management in JSC TATNEFT. The high evaluation of the Company’s intangible assets management was confirmed by Peter Lindholm, the World Bank expert.

11,115 rationalization proposals were put into production in 2012 with the economic effect of introducing inventions, utility models and rationalization proposals amounting to 5,424.4 million rubles.

CLASSIFICATION OF INTELLECTUAL
PROPERTY ITEMS BY ACTIVITY TYPES

ACTIVITY AREAS	%
Fields development	23
Wells workover	21
Oil and gas production	20
Well drilling	13
Formation pressure maintenance	5
Corrosion control and environment protection	4
Oil and gas treatment	3
Mechanics	3
EOR	3
Geology	2
Power engineering	1
Automation (IT)	1
Gathering and transport	1

PROGRAM OF INCREASING PRODUCTION MANAGEMENT EFFICIENCY AND STRENGTHENING OF JSC TATNEFT FINANCIAL AND ECONOMIC STATUS FOR THE PERIOD OF 2008-2015

DESCRIPTION	RESULTS OF 2012
1. SOLVING THE TASK OF CRUDE OIL PRODUCTION INCREASE AND RESERVES STOCK GROWTH WAS ACHIEVED THROUGH THE FOLLOWING ACTIVITIES	
Maintaining the achieved crude oil production level	Volume of crude oil produced by JSC TATNEFT in 2012 amounted to 26.005 million tons accounting for an increase in the amount of 77 thousand tons versus the level of 2011.
Maintaining the annual drilling volumes	Volume of production and exploration drilling amounted to 537 thousand meters.
Geological survey and field development in new territories outside the Republic of Tatarstan	Volumes of oil production from deposits outside the Republic of Tatarstan in the Russian Federation amounted to 302 thousand tons in 2012, which was 13.6% above the level of 2011. 31 new wells were drilled.
	303 new producing wells were put into operation with the average production rate of 8.5 t/day. Crude oil production from new wells amounted to 396 thousand tons.
	According to the assessment of Miller and Lents, independent Company, the proved reserves of JSC TATNEFT amounted to 869.2 million tons.
Production of bituminous oil (development of extra-viscous oil fields)	73.3 thousand tons of extra-viscous oil were produced from Ashalchinskoye field in 2012. Total production rate for the area amounted to 270 tons of oil per day by the end of 2012.
	180 thousand tons of oil were produced from the beginning of the pilot field development operations.
2. IMPLEMENTATION OF THE COMPLEX PROGRAM TO FURTHER INCREASE OF ASSOCIATED PETROLEUM GAS UTILIZATION	
Engineering design of associated petroleum gas gathering and utilization facilities	The volume of associated petroleum gas in the reporting period amounted to 843.5 million cubic meters.
Reconstruction of the Minnibaev Gas Refinery for the purpose of increasing the ethane production to 140 thousand tons per year	Introduction of crude oil heating furnaces operated with associated petroleum gas at Bastryk and Novo-Suksinskaya crude oil treatment plants of NGDU Prikamneft and at the facilities of NGDU Nurlatneft.
	Construction of gas engine generator plants was continued at the Yelabuga crude oil treatment plant of NGDU Prikamneft.
	Pilot operations are in progress on introduction of gas engine generator plants at the facilities of NGDU Yamashneft.
	Construction of the associated petroleum gas gathering system from the facilities of NGDU Almeteyevneft and NGDU Aznakaevskneft and NGDU Bavlyneft.
3. DEVELOPMENT AND APPLICATION OF NEW EQUIPMENT AND TECHNOLOGIES IN DRILLING AND CRUDE OIL PRODUCTION	Putting into operation of Capstone micro-turbine based power generating stations at four sites of the Company with the total capacity of 4.8 MW.
	81 side tracking jobs and horizontal wellbore drilling were performed with the average production rate amounting to 7.2 tons per day.
	54 slim holes with an average production rate of 6.3 tons per day were drilled.
Drilling of horizontal wells, downhole splitters, side tracking jobs with drilling of laterals and horizontal wellbores, drilling of slim hole wells	Two horizontal wells were drilled with wellbores divided into sections, which allow for individual production from each section without shutting off the entire well in the event of water coning into the well.
	Works were started on drilling horizontal wells with application of geo–steering support: gamma-module telesystems and near-bit module. 30 wells were drilled with application of this technology in 2012.
	88 swellable TAM packers were installed in 59 wells.

DESCRIPTION	RESULTS OF 2012
Implementation of sucker-rod pumps chain drives and implementation of the system of dual production of two and more layers, implementation of M1-X packers, etc.	The well stock equipped with chain drives amounted to 1,532 wells.
	261 wells were equipped with dual production systems. Totally 1,179 wells were equipped with these systems.
	Additional oil production from the beginning of dual completion units operation amounted to 4 million 102 thousand tons, while an average increase of the production rate per one well amounted to 3.66 tons per day.
	Dual completion and injection technology was implemented in 122 injection wells during the reporting period, accounting for 425 wells from the beginning of the systems’ introduction. The accumulated volume of the influenced wells crude oil production as a result of dual completion implementation amounted to 855.9 thousand tons.
	M1-X packers were installed in 3,500 injection wells.
	Formation hydrofracking operations were performed in 376 wells, including 5 large-scale hydraulic fracturing jobs, which accounts for 33% increase versus the level of 2011 with the average daily production rate increment amounting to 5.1 tons per day.
	The well MTBF index reached 1,199 days.
4. INTRODUCTION OF INFORMATION TECHNOLOGIES	
Improvement of the integrated control system on the basis of SAP products	The following SAP based systems were put into commercial operation in 2012:
	<ul style="list-style-type: none">• A unified system of analytical production cost recording in the accounting systems in all the NGDUs.• "Investment Management" System: first phase of SAP RPM platform based solutions at the Executive Office and at all the NGDUs. Processes for long-term investment planning and control of the investment program progress were implemented.• Pilot operation of the system was started for planning, adjusting and monitoring the expenditures of JSC TATNEFT was started.
Development of the motor transport navigation system	Over 8.2 thousand motor transport vehicles were equipped and connected to the system of satellite navigation.
	Implementation of the navigation system on the motor transport provided for reducing the number of groundless machinery orders and reducing the average daily machinery run by 25%.
	The work is underway at TATNEFT Group of companies on the implementation of the fuel consumption control system. Fuel flow sensors were installed on 17% of vehicles and 55 drilling rigs in 2012.
5. RESOURCE SAVING PROGRAM	
“Energy saving” program	Fulfillment of the “Energy saving program” in 2012 allowed saving over 51.8 thousand tons of reference fuel.
	Specific energy consumption for production of 1 ton of crude oil decreased by 0.9% down to 116.6 kWh/ton compared to 2011.
Optimization of the electricity payment expenses resulting from switchover to hourly planning	Economic effect resulting from implementation of the hourly planning system for a day ahead amounted to 255 million rubles in 2012.
Implementation of corrosion-resistant tubing	Corrosion protected tubing with polymer coating was installed in 505 injection wells in 2012.
	Corrosion protection of the active well stock operating with effluent water reached the level of 86.4%.
6. ENVIRONMENTAL SAFETY	
Air protection	Emissions of harmful (polluting) substances into the air are within the admissible limits.
Protection and rational use of land and water resources, conservation of mineral resources	1613.3 km of corrosion protected pipes were manufactured. 17.6 thousand m² of the vertical tanks internal surface and 5 thousand m² of horizontal settlers were protected with application of paint and varnish.
	Casing string cathode protection was applied in 1,018 wells.
	State of the environment in the area of new deposits development is consistently maintained at the standard acceptable level.

DESCRIPTION	RESULTS OF 2012
7. STRATEGY OF MANAGING VERTICAL INTEGRATION AND DEVELOPMENT OF CRUDE OIL REFINING AND JSC TATNEFT'S FILLING STATIONS NETWORK	
Construction of the Refining and Petrochemical Plants Complex	7 million tons of crude oil were refined at TANECO. The refining depth amounted to 73.69%, which is higher than the average all-Russia value.
Development of the filling stations network	Total number of filling stations amounted to 641 units in Russia, Ukraine and the Republic of Belarus as of the end of 2012. The volume of retail and wholesale marketing through the network of JSC TATNEFT's filling stations amounted to more than 1.6 million tons of oil and gas products.
8. PETROCHEMICALS PRODUCTION DEVELOPMENT PROGRAM	
Organization of SSC Tires production	Enterprises of the Company's Petrochemical Complex manufactured more than 13 million tires in 2012. The production of SSC tires amounted to 480.1thousand pieces in 2012.
Carbon black production	115 thousand tons of carbon black were produced and sold in 2012.
9. CAPITALIZATION INCREASE AND STRENGTHENING OF THE TRADEMARK	
Capitalization increase and strengthening of the trademark	The Company's market capitalization increased by 38% compared to 2011 and amounted to 475 billion rubles. A new system of qualified personnel training using a "Corporate University" Internet resource gained extensive development. The external site hosted the corporate portal and electronic "Oil Newspaper".
10. INVESTMENT BUSINESS PROJECTS	
Implementation of projects in OEZ "Alabuga ".	The joint Russian-German venture "P-D TATNEFT-Alabuga Steklovolokno" produced 23.3 thousand tons of liquid glass melts, which is 23% above the level of 2011. 33.4 thousand tons of commercial products were produced.
Expertise of individual design and construction documents for well drilling and construction	In 2012, the transition was made to the contractual prices of well construction on the basis of individual cost estimates for all areas. Such a transition allowed making settlements with drilling companies at a fixed price.
11. SOCIAL DEVELOPMENT PROGRAM	
Program of mortgage crediting	1007 apartments with total area of 70.55 thousand square meters were built under the mortgage crediting system for the employees of TATNEFT Group of Companies in 2012. Reconstruction of the city park in Almet'yevsk was continued in 2012. The sixth phase of ponds' cascade was built, as well as a two-level car parking lot near the "Panorama" shopping center and a motor road in Potashnaya Polyana.
Implementation of social projects	A sports hall, fountain and warm cross-walk were constructed at "Romashkino" sanatorium and an indoor swimming pool was built at "Ivolga" sanatorium.

ENERGY AND RESOURCE EFFICIENCY PROGRAM OF JSC TATNEFT FOR THE PERIOD TILL 2020

JSC TATNEFT attaches particular importance to resource saving. In order to reduce production costs and, accordingly, the product cost, improving competitiveness in the situation of permanently

escalating tariffs of natural monopolies (for energy resources, transport services) and increasing hydrocarbon production costs resulting from complicating subsurface usage conditions the Company is taking integrated efforts to create a maximum allowance savings in all business areas, including energy conservation.

The cost of the resources saved as a result of the program activities by the end of 2012 amounted to 52 thousand tons of reference

fuel with the greater part of the saving in the amount of 45% accounted for electric power.

According to the approved program for resource conservation 561 activities were carried out during the reporting period with 220 of them aimed at electric power saving.

The specific energy consumption for 1 ton of crude oil production amounted to 116.5 kWh/t last year.

PRODUCTIVITY IMPROVEMENT

TATNEFT adopted a productivity improvement program in 2005. As a result of the planned activities fulfillment the total number of employees in the oil and gas production sector dropped by 21% and by 8% in the tire manufacturing business during the period from 2006 to 2012.

At the same time a 4% output increase was observed in the oil and gas production sector in comparable prices during in the mentioned period. These changes have increased the workforce productivity index: the output per 1 person increased in comparable prices by 31% to the level of 2006. At current prices the production growth amounted to 1.5 times and to 2.1 times in terms of the added value. The output per man in crude oil production volume increased by 29 %.

Positive changes occurred in the petrochemical sector as well. The products output in comparable prices increased by 38%. The output per worker in 2012 prices increased by 50% and twice in the current prices, while the added value increased by 2.1 times. Production of tires per 1 person increased by 16%.

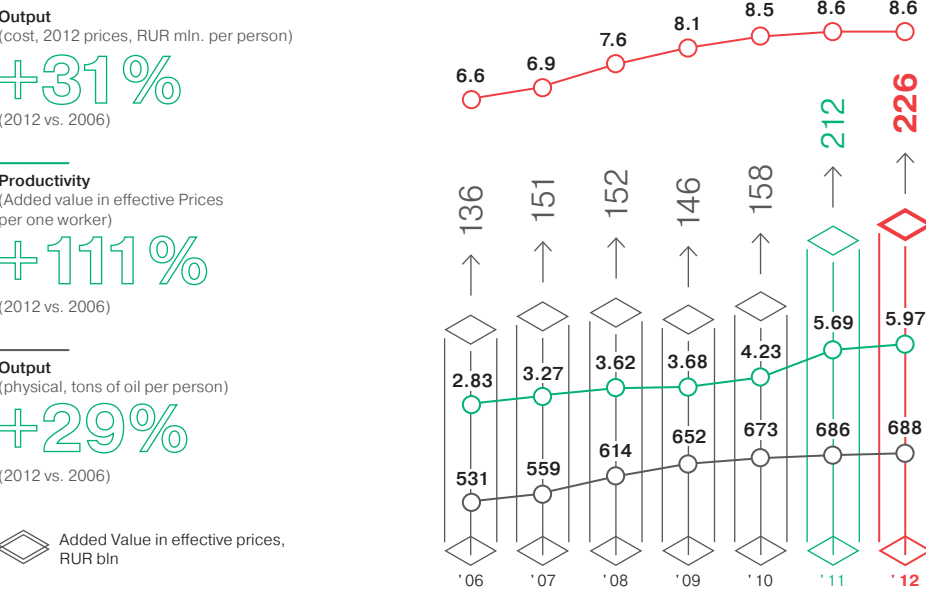
In February 2013 the Cabinet of Ministers of the Republic of Tatarstan adopted Resolution No. 99 on the long-term targeted program to improve productivity. In view of this Resolution labor productivity in the oil and gas production sector will grow at current prices by 1.8 times and by 1.7 times in the petrochemicals production in the next 5 years.

Accomplishment of performance targets will be ensured by modernization measures of the oilfield and drilling equipment, increasing the share of horizontal wells drilling and performance of hydraulic fracturing of the multi-branched down-hole splitters, as well as by expanding the range of innovative tire products.

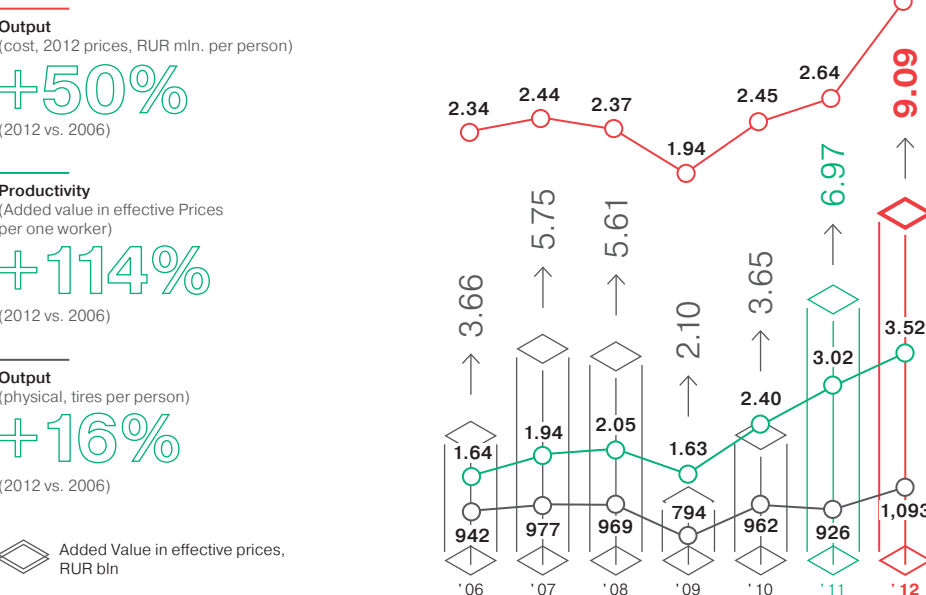
The plans envisage implementation of works video recording at all enterprises, application of daily performance metering and resource consumption devices, as well as the expansion of the GPS vehicle

monitoring system. The work is being continued on further automation of job sites, extensive use of information technologies and application of the "lean production" approach.

PRODUCTIVITY INDICATORS CHANGE IN THE OIL AND GAS PRODUCTION SECTOR



PRODUCTIVITY INDICATORS CHANGE PETROCHEMICALS PRODUCTION SECTOR (tire manufacturing)



CORPORATE
MANAGEMENT
STANDARDS

In the frame ensuring a common approach and transparency of TATNEFT Group business processes implementation, in 2006 the Company put in place a system of unified corporate standards as part of corporate management system.

The system includes single production and management standards in all activity areas, including subsidiaries and affiliates.

The standards are regulations that define the norms and mechanisms of implementing production processes and ensuring environmental and industrial safety and occupational health.

The managerial standards cover the system of the Group entities cooperation in the area of financial and economic activities, including planning and reporting, human resources and social aspects.

The registry of the Company's corporate standards includes 1,200 positions.

The registry is updated each year with addition of new standards and the relevance analysis of the of the existing standards is performed annually. In view of complying with the standards the Company's employees are regularly subjected to testing and certification under the dedicated program of the Corporate University.

In general, the system of standards aims at improving production efficiency and minimizing whatever kind of corporate risks.

CORPORATE
CONTROL AND
INTERNAL AUDIT

Mechanisms of internal control and audit are integral parts of corporate management that allow for the effectiveness of the Company's operation and protection of the shareholders and investors interests.

The internal control procedures include purposive actions of the Board of Directors, the Company's management and other aspects aimed at improving risk management process and increasing the likelihood of achieving the goals and objectives.

The audit is performed under the annual plan approved by the Board of Directors. The internal control system for operational effectiveness of processes, legal compliance and property security is the focus area of the audit. Audit is performed based on the risk-oriented approach. Report on results of the internal audit is directed to the Company's management and the Audit Committee.

The internal audit department monitors performance of all measures and informs the Company's management and the Audit Committee on the progress of revealed shortcomings elimination.

The current Company's system of internal audit provides for a submission of independent and objective information aimed at improving economic activity to the Board of Directors and the Executive Directorate. The internal audit function helps achieving targets through application of a systematic and consistent approach to evaluating and improving the effectiveness of risk management, control and corporate management systems.

The main functions of the internal audit are as follows:

- Evaluating the effectiveness of the internal control and the corporate management systems;
- Advising the management of the Company on internal control, risk management and corporate management.
- Evaluating the effectiveness of control over the completeness and authenticity of financial and managerial information.
- Evaluating abidance by internal policies and procedures of the Company, as well as the ones of the legislation.
- Elaboration of recommendations for improving the systems of internal control, risk management and corporate management.
- Monitoring implementation of measures (corrective steps) elaborated by the management on the basis of the audit results.

11 audits were performed in 2012 as planned. In addition to this, as per the orders of the Company's management, 10 non-planned internal audits were carried out on various issues of financial and economic activities.

In 2012, monitoring of the planned events execution was performed on the audit results of the 2009-2012 period. The information on the implementation of the action plan was brought to the Audit Committee.

INFORMATION SECURITY

The priorities of the JSC TATNEFT in the field of information security, which can be reached at the present time, are:

- establishing a uniform system of requirements and measures to ensure the security of the Company;
- increasing effectiveness of measures to provide and maintain information security in the Company.

The Company has built a multi-level security system, which includes a system of protection of personal computers, servers and mobile devices. Work is being done on a program to increase awareness of TATNEFT information resources users in the field of information security. Constant monitoring of the antivirus protection for workstations JSC TATNEFT and updates of the entire list of licensed software are performed. As a result of the activities from 2003 to the present, not a single fact of viral epidemics or loss of documents containing confidential information has been registered.

RISK MANAGEMENT

There is an integrated system of risk management operating in the Company based on the analysis and evaluation of possible factors that could affect indicators of production and financial and economic activity of JSC TATNEFT and Group's enterprises, as well as cause direct or indirect impact on the current activity and/or strategic plans of the Company. Risk management includes also control over compliance with uniform corporate standards regulating the main processes of production and financial and economic activity of JSC TATNEFT and Group's enterprises

The corporate risk management system is designed to identify potential risks in order to take prompt measures to eliminate or minimize them, which allows adjusting business planning, investment activity and social policies of the Company.

External as well as internal factors are considered when analyzing the risk factors.

The internal corporate factors include management, production, HR, social, environmental and others.

The external factors include market, industry, socio-economic, political, financial, and competitive and other conditions of the Company's, its subsidiaries and affiliates activity.

INDUSTRY RISKS
Risk of Oil Prices

Revenues, profitability and future growth rates largely depend on existing prices for crude oil and petroleum products. In the past, oil prices varied widely with respect to changes of many factors. he factors causing this swing in particular include:

- international and regional supply and demand (as well as expectations about future supply and demand) for oil and petroleum products;
- uncertainty of the market;
- weather conditions;
- local and foreign government regulation;
- prices and availability of alternative fuels;
- prices and availability of new technologies;
- ability of members of the Organization of Petroleum Exporting Countries (OPEC) and other oil-producing countries to establish and maintain certain levels of production and prices;
- political and economic developments in the oil producing regions, in particular - in the Middle East;
- normative acts and actions of the governments of Russia and other countries, including export restrictions and taxes;
- recent tensions and warfare in Iraq and related activities;
- international and regional economic situation.

Technical risks

Exploration, development and equipping for new fields, maintenance of old wells, drilling of new ones, and transport of oil are a very complex and capital-intensive process. Enhanced oil recovery also requires additional investments. In the future, as the depletion of the old fields grows, the role of special methods of oil recovery will increase. Accordingly, the cost of material and technical base of the field development will also increase.

Environmental Risks

The oil and gas sector of the economy is subject to a high degree of environmental risk. Even when operating under current environmental standards of the Republic of

Tatarstan there is a risk of penalties due to their violation. In addition, there is a risk of possible revision of the federal and regional environmental standards in the direction of further tightening.

The Company has a comprehensive program of measures to overcome adverse situations related to industry risks. This includes continuous monitoring, analysis and prediction of the dynamics of oil prices with a corresponding adjustment of strategic development plans, as well as a number of technical and organizational measures that minimize the impact of technical and environmental risks.

COUNTRY AND REGIONAL RISKS

The Company is registered as a taxpayer and conducts its main business activity in the Russian Federation.

The main production assets of the Company are located in and the main production activities are carried out in the territory of the Republic of Tatarstan, a subject of the Russian Federation.

The political situation in the Russian Federation and the Republic of Tatarstan in particular is stable.

The risks of a possible military conflict, a state of emergency or a major strike in the region of the Company are rated as low. At the same time, the Company approved procedures that may be applied in the case of an emergency to reduce the impact of this situation on the life, health and safety of workers as well as the production activity of the Company.

Geographical features of the region, the major activities of the Company are not characterized by increased risk of natural disasters, which may have a significant impact on the normal production activities. In planning and execution of production, treatment, transportation and storage of oil and gas production, oil and gas, as well as the materials involved in the production of, the Company takes into account geographical, including climate, especially in the region of activity.

In case of a negative impact on the activities of the Company, which may be caused by natural disasters such as floods, earthquakes, mudslides, etc., the Company approved procedures and policies aimed at the prompt elimination of such effects. The Company has established procedures for monitoring with the use of modern technology to prevent the possibility of adverse effects of natural phenomena and to inform people of the Company's region of activity about the possibility of such damages. The Company's region of core business is not remote from the viewpoint of transport and other infrastructure.

FINANCIAL RISKS

Significant changes in foreign currency exchange rates increase the Company's liabilities denominated in foreign currencies as well as the cost of their maintenance and, as a consequence, lead to a decrease in profits and reduce the possibility of the Company's debt service. A significant devaluation can impede performance of these obligations by the Company. As a result of significant changes in foreign currency exchange rates may change, including in an unfavorable direction, the liquidity of the Company. Deterioration of the macro-economic situation and increase in interest rates may affect the amount of interest expense.

Changes in interest rates can have an effect on the Company in what concerns transactions of the Company in borrowing money. In particular, in the case of borrowing in the form of bank loans with a 'floating' interest rate, raising the general level of interest rates in the international market would increase the amount of funds to be paid to the interest that would adversely affect the financial condition of the Company. The decrease in interest rates on the Russian market, other things being equal, reduce the effectiveness of existing debt of the Company at a fixed interest rate.

Currency Risk

The Company is exposed to risks of adverse changes in exchange rates, the main of which is the strengthening of the ruble against the U.S. dollar. This is due to the fact that a significant proportion of revenues of the Company denominated in U.S. dollars, while most of its expenses are denominated in rubles. Therefore, the strengthening of the ruble against the dollar leads to a decrease in revenues of the Company in ruble terms, which could affect the Company's ability to meet its obligations.

However, the Company's revenues from sales of crude oil and petroleum products in the domestic market of the Russian Federation are denominated in rubles. This reduces the negative effect of a possible strengthening of the ruble against the U.S. dollar. In addition, the currency structure of the debt of the Company as a whole reflects the structure of its revenues, which also reduces the dependence on fluctuations in exchange rates.

Effects of Inflation

The current inflation rate has no significant effect on the financial position of the Company. In line with predicted inflation, it should not have a material impact on the solvency of the Company, in particular, payments on the securities.

It is not possible to predict the critical rate of inflation for the Company since in addition to the consumer price level it is necessary to take into account changes in the real purchasing power of the ruble, the situation on the Russian and international oil markets and future government policy on tariffs.

In recent years, the prices of crude oil and petroleum products have remained consistently high. Prices for crude oil and petroleum products may not further increase and even might decrease. Falling prices

for oil and oil products could adversely affect the results of operations and financial condition of the Company. Falling prices may lead to a decrease in the volume of commercial oil produced by the Company, which will lead to a decrease in the effective development of the Company's reserves and will reduce the cost-effectiveness of exploration programs.

It should be noted that at the moment, in the opinion of the Company, a significant deterioration of the situation in the industry is not expected, given the stable level of oil consumption and the lack of alternative fuel sources on a mid-term horizon that could replace oil and oil products to any significant extent. Therefore, the effect of possible deterioration of the situation in the industry on the financial statements of the Company and the fulfillment of obligations under the Company's securities is unlikely.

LEGAL RISKS

The main activities of TATNEFT Group are performed within the Russian Federation. The legislation of the Russian Federation (including tax, corporate and for the use of natural resources) is undergoing changes, some of which may cause additional costs, diversion of resources, changes in the procedure of the Company's and its divisions' managing bodies formation and functioning. Responsible services of the Company carry out continuous monitoring of changes in the legislation, and take steps to comply with regulations and requirements, as well as take part in the consultative councils and other associations on legislative changes affecting the operations of TATNEFT Group of Companies.

HR MANAGEMENT

The Company has a comprehensive system of personnel management aimed at maintaining a high professional level of workers and professionals involved in all areas of the Company activities, including: maximally efficient involvement of human resources, development of the employees' skills on an ongoing basis, as well as strengthening motivation of the Company's employees in general and ensuring a decent standard of living of each employee. The Company's personnel management policy is aimed at maintaining the status of the best employer of choice at the regional market for workers with the skills and motivation to bring the maximum benefit to the Company.

The basic principles of personnel management are: focus on the efficiency and quality of work, priority of internal promotion, ample opportunities for training and improving, decent working conditions and benefits, flexibility and professionalism, high culture and continuity, comprehensiveness and consistency, talented individuals support, responsibility and cooperation.

STAFF HEADCOUNT

The average headcount of staff working in JSC TATNEFT amounted to 21,1thousand persons in 2012. Total number of personnel for the Group amounted to 77 thousand persons.

STRUCTURE OF THE PERSONNEL INCOME

The main income gained by the staff is formed by the salary and employment benefits. The salary includes a rated (permanent) part according to the uniform wage rate schedule, and a bonus (variable) part. The employment benefits provide workers with an appropriate volume of medical and other social guarantees.

Social payments accounted for 9.6% in the structure of the personnel's aggregate income in 2011.

INFORMATION ABOUT THE STRUCTURE OF JSC TATNEFT'S EMPLOYEES' INCOME FOR 2012

DESCRIPTION	VALUE
	100%
Salary share, including:	90.4%
permanent part	55%
variable part	45%
hare of social payments	9.6%

RECRUITMENT, TRAINING, SKILL DEVELOPMENT AND RETRAINING OF STAFF

JSC TATNEFT considers its employees as a key resource in the implementation of the corporate strategy, therefore their development and training is the most important area of the personnel management policy aimed at creating an integrated system of ongoing education with continuous improvement and development of employees

JSC TATNEFT pays special attention to attracting highly skilled specialists, professional development of the staff to strengthen the Company's position in the oil and gas business.

The Company has unique conditions for training and development of all categories of the staff. In the reporting year, JSC TATNEFT continued improvement of the on-going professional education system, including training and skills development of workers, professionals, middle level managers and senior managerial staff.

Training of workers for JSC TATNEFT is performed by the non-governmental educational institution TATNEFT Personnel Training Center and its eight branches located in the south-eastern part of the Republic of Tatarstan.

In 2012, the training at TATNEFT Personnel Training Center and its branches was arranged for 286 occupations, including 140 occupations controlled by Rostekhnadzor of Russia. The Center has a modern material and technical base and vast experience in training working personnel.

The priority for the Company is versatile and consistent training of senior and middle level management. Development of their skills is performed at educational institutions with the highest ratings in training of oil and gas industry sector professionals.

Training and professional development for middle managers is arranged in accordance with the program of training managers and professionals of JSC TATNEFT approved by the General Director of JSC TATNEFT, as well as with skill development programs for divisions and is conducted on the basis of specialized universities in the region and in the Russian Federation.

Training of the higher managerial staff is performed by the non-state educational institution Institute of Oil and Gas Business (Moscow), where JSC TATNEFT annually sends prospective employees of TATNEFT of Group Companies for training after competitive selection.

14,625 employees of the Company went through professional training and skills development in 2011, which is commensurate with the level of 2011 and represents 66.7% of the listed personnel of JSC TATNEFT, including 8,261 workers, 3,321 managers and 3,043 specialists and clerks. The amount of RUR 123.8 million was spent for this purpose, which is 6 % more than in 2011.

CORPORATE UNIVERSITY

The Company continues to develop its innovative tool in the field of training and development – the Electronic Corporate University of JSC TATNEFT on simulators of which more than 5.5 thousand people were trained last year.

The Student Employment Exchange was launched in 2012. This web-based resource was created to strengthen the relationship between schools and employers and it contains a database of vacancies of the TATNEFT Group.

These electronic projects have proven their relevance. At the 3rd “Russian Fuel and Energy Complex, from Human Resources to Human Capital” All-Russian HR conference, JSC TATNEFT was awarded a diploma for development of the human capital in the fuel and energy complex and introduction of innovative educational resources implemented in 2011-2012.

In 2012, JSC TATNEFT completed another stage of the SAP-based staff management project and received the first results.

A unified database for staff development and HR processes was created for 22 subdivisions, criteria of an objective assessment of the strengths and weaknesses of employees were determined, and transparency and control HR-processes, including related to cost planning, were provided.

In the reporting year, 811 types of courses of compulsory education, 705 qualifications in compulsory education, 715 families of the positions, 1,897 position profiles and 1,986 qualification requirements for the positions were formed.

Monitor for the Head of Human Resources was also introduced, which displays standard analytical sections of information for managers at all vertical levels of HR.

INFORMATION TECHNOLOGY MANAGEMENT

At present JSC TATNEFT (hereinafter - the Company) is actively expanding areas of activity and geography, organizing new production and improving the system of governance. In all areas of activity and at all levels of management of the Company information technology (hereinafter - IT) is present in one form or another.

IT today not only supports work processes, but also provides a powerful incentive for their improvement and development up to the stage of use of new production technologies and management.

IT-service of JSC TATNEFT serves as a full participant in discussions on the Company's development and decision-making, both at the tactical and strategic level.

The strategy of JSC TATNEFT in the field of IT is to provide support and continuous balanced development of production processes and management systems of the Company under the existing potential of information technology. This approach is based on the fundamental principles outlined in the Code of Corporate Culture of the Company, such as:

- openly inform shareholders, customers and employees about the Company's activities;
- use resources as efficiently as possible;
- use the latest technological advances.

The strategy of JSC TATNEFT in IT aims to create competitive advantages in production, sales, administrative, economic, social and other spheres of activity. Information technology provides business with complex intelligence technologies and unique solutions that make businesses more competitive, transparent and efficient, and most importantly structured and manageable.

To date, the Company's information technology lies in the following spheres:

- information support of the company's processes;
- computer and office equipment;
- telecommunications;
- information security;
- metrological support of production;
- automated process control system (PCS);
- automated production control system (ACS);
- system of automated document and records management;
- integrated SAP-based business management for the group of companies;
- a single system of reference data (SI RD);
- web-technology and portal solutions.

The functions performed by information systems are organically connected with the functions of control and form a single management technology.

To achieve the strategic objectives in IT the Company implements the following:

- ensuring legal requirements, compliance with accepted international standards in the field of IT. Provision of standards and requirements for IT-supported production and management processes;
- ensuring the integrity and security of corporate information systems and repositories of information;
- creation and gradual development of integrated IT solutions designed to reduce total cost of ownership and increase the use of existing resources;
- standardization and unification of the IT architecture, including hardware and software platform, the development of licensing policy;
- increase in the efficiency of automated systems and reliability of information management, reducing the information gap between the verticals of management;
- support for operation of automated systems with the required reliability;

- creation and support of a common information space between enterprises of the Group of companies in reorganization and creation of new industries;
- transparency, predictability, continuity and efficiency in the IT field by using the principles of process and project management;
- creation of agreements on the service level of operated information technology with the owners of production and management processes;
- organization of work in the field of IT and HR policy formation, including training, development, motivation and retention of highly qualified specialists in demand in the labor market.

These activities are carried out by business areas in accordance with corporate standards, regulations and other regulatory documents.

CORPORATE INFORMATION SYSTEMS IN ENSURING PRODUCTION AND MANAGEMENT SYSTEM
Production Information Systems

With the role of information technology increasing every year, JSC TATNEFT is one of the industry leaders for their use. As the President of the Republic of Tatarstan has pointed out, in JSC TATNEFT information technology reached the tip of the bit.

Implementation of an automated control system for drilling provides a high level of organization and control of the drilling process (from planning and design to commissioning), as well as operational information support for monitoring technical and economic parameters and increasing the transparency of the company in the construction of wells. In 2012, integration with other enterprise information systems and tools for accounting non-productive time, normalization of complications, engineering calculations, preparation of technical specifications, cost estimation and construction programs wells were developed. When modernizing the system, the specifics of well development for extra-viscous oil is taken into account and information security solutions are enhanced.

In 2011 TATNEFT completed research and development and in 2012 experimental work was carried out to support telemetry in 7 wells with information transfer in real time to the data analysis portal of TATNEFT with its subsequent analysis using sector geological and hydrodynamic models. The technology allows geological services and professionals of NGDUs and LLC Bureniye monitor and plan in real time the process of drilling trajectory based on the actual geological section. There is no need to install additional software, only a browser is needed. This allows workers to get information even in the absence of access to the work computer with the use of mobile devices. The effect of the technology is to increase the productivity of wells due to the optimal arrangement of the well and to maximize contact with the formation. In addition to the main objective, the logging-while-drilling when constructing horizontal lateral wellbores allows penetrating productive horizons without reference logging or constructing horizontal wellbores without reference logging for the production string. This leads to a reduction in the cycle of drilling and geophysical costs.

The use of the ARMITs corporate information system facilitates making timely management decisions aimed at reducing production costs. In 2012, a project was initiated to build the storage of historical data on primary production, processing power was extensively deployed, and testing of the system aimed to build complex reports and technologies of business intelligence tasks was performed. A new version of ARMITs CIS was put into operation, which allows for working with the stock of wells with complex structure. Implementation of tasks aimed at providing information support for interaction between NGDUs and service companies continued. A project of developing a system of well design graphical visualization using such details as the profile and curvature of the wellbore, downhole pumping and ground equipment was completed. Some preliminary work was done on organizing a directory of downhole pumps and surface equipment used in the Company with elements of the 3D visualization. Further devel-

opment continued in such core production areas as submersible pump monitoring, technological regime, geophysical research, hydrodynamic studies, idle time of oil production facilities and pressure maintenance, and integration of CIS ARMITs with other systems.

The Company focuses on digitalization of design processes, which allows not only to simplify the work of the designers, but also to provide control and transparency of project planning. Under this program, the design process automation system and distributed project documentation archive were implemented. In 2012, as part of overall improving, unification of systems and functionality enhancement were done to provide more opportunities to end users, including the following:

- reuse of project documentation during development of working documentation was automated;
- a mechanism to generate electronic original copy of project and work documentation in all computer-aided design (CAD) systems standardized by JSC TATNEFT was developed;
- this solution was replicated for other structural units of JSC TATNEFT;
- a technology of version control for project documentation was introduced;
- interaction between design engineers was simplified to ensure prompt receipt of relevant information;
- full functionality was provided for the work with contract documents in order to obtain financial reporting on current projects;
- a communication mechanism was set up between the system and the integration bus for obtaining the information required in the design process on the number and composition of the wells, as well as for controlling allocated limits for the design.

JSC TATNEFT actively develops simulation technology and design in the field of geology and development, implementing measures to improve the geological and geophysical database, developing cartography, automating exploration project drafting and selection and planning of well

intervention and EOR, which will provide improved quality and speed of work on drawing up project documents (exploration designs, reserve calculations, test production designs, feasibility studies based on oil recovery ration, process schemes, development designs, etc.) and select intervention methods and EOR technologies for certain oil production facilities.

Production Automation

In order to optimize oil production and reduce operating costs (including increasing well production by optimizing operation of the pumping unit - formation system, reducing the time of emergency downtime, reducing the length of suspensions for downhole pumping equipment with the corresponding savings in tubing, rods, reducing the time for tripping when performing well workover, etc.) in 2012, a program was continued for implementation of automation in the wells put into operation from drilling and operated in dual production regime, etc.

The total number of producing wells with pumping rods equipped with a microprocessor-based control station software and hardware systems from Lufkin Automation and Naftamatika, as of December 31, 2012, amounted to 3,183 units. The level of remote control for wells with pumping rods was 42.9% of the total active stock of pumping rod-equipped wells (an increase of 7.1%).

As for the wells operated through ESPs, the total number of wells equipped with controllers was 2,973 units. (76.5% of the total number of wells with ESPs), of them with IRS controllers – 784 units, with RUMB 2,117 units (including with AFU – 1545 units), and others - 72 units. The growth of automated wells with ESPs is mainly due to the introduction of control stations equipped with RUMB.

The overall count of telemetry-equipped wells in JSC TATNEFT as of December 31, 2012, was 44.7% (an increase of 9.5% compared to 2011).

In 2012, work continued on equipping wells operated through dual completion with depth measurement systems to provide accurate information when producing from the main and added reservoirs; wells on which the packer unit isolates casing leaks in production interval; and wells with downhole transfer technology to ensure control of hydrodynamic characteristics. The total number of wells equipped with depth measurement systems is 685 wells, including 575 complexes installed on wells with single-lift dual production units, representing 83.2% of the existing wells with single-lift dual production units.

The work on enhancing wells of the Ashalchi extra-viscous oilfield with automation tools was continued in 2012 with the aim of controlling the process of production and steam injection as well as establishing the balance of steam injection and fluid production and controlling manageability of steam injection:

- 1) 5 pairs of wells of the Ashalchi field with steam assisted gravity injection technology are equipped with modern means of automation and measurement;
- 2) the information and analysis portal of Ashalchi has been put in its pilot operation;
- 3) as part of its regulatory and technological services, the Office of Information Technology of TatNIPneft Institute developed a guidance document entitled Guidelines for Pressure Measurement in the High Temperature Wells of the Ashalchi Field;
- 4) As part of the further implementation of the project to develop the Ashalchi Field, examination and approval was performed for the following technical requirements:
 - expansion of industrial boiler for the project: "Ashalchi extra-viscous oilfield. Upgrading of Ashalchi Boiler to the capacity of 150 tons of steam/hour".
 - design of the Lease Automatic Custody Transfer (LACT) for the facility "LACT unit in the Ashalchi extra-viscous oilfield of NGDU Nurlatneft".

As part of implementation of intelligent technologies for water flooding under the interwell pumping technology, NGDU Dzhaliineft performed automation of injection wells operated using submersible pumps and telemetry with implementation of control algorithms for injection based on Karat controllers (at the end of the year the total number of wells was 48).

To improve the efficiency and reliability of the monitoring and process control for the pressure maintenance system, in 2012 NGDU Leninogorskneft initiated the SCADA project of process reconstruction, which stipulates the following:

- equipping facilities of the pressure maintenance system with modern ITR equipment (as of 01.01.2013 the work was performed on 23 booster pump stations);
- switching of channels to broadband wireless access and a radio channel with a higher data transfer rate;
- using higher-level software that meets modern requirements of functionality and reliability.

To provide automatic data collection and recording of data on the volume of flaring and utilization of associated gas, LLC Tatintek developed and implemented information system of PTC APG-Control in order to optimize:

- the process of accounting for and controlling the use of APG in JSC TATNEFT;
- the process of calculating fees for emissions of harmful substances (pollutants) resulting from the use of or flaring APG in JSC TATNEFT.

Metrological Support of Production

In order to receive benefits under MET, separate accounting of oil in these subsurface areas of JSC TATNEFT has been organized since 01.01.2012 falling under the following criteria:

- depletion of up to 80%: New Yelkhovskoye field of NGDU Yelkhovneft and the Orel field of NGDU Prikamneft;

- depletion of up to 0.05 and with initial recoverable reserves of up to 5 million tons: West Bersutsky license area of NGDU Prikamneft, Shadkinsky license area of NGDU Prikamneft, Scherben-sky license area of NGDU Nurlatneft, Tlyanchi-Tamakskaya exploration zone of NGDU Prikamneft and NGDU Aznakae-vskneft.

A separate measuring scheme was organized for four extra-viscous oilfields of NGDU Nurlatneft (Aksubayevo-Mokshinskoye, Pionerskoye, Studenoye, South-Suncheleyevskoe) in license areas with application of LACTs (produced by Tatintek, 4 units) for the purpose of obtaining tariff preferences starting from 01.01.2013.

Work has been organized to apply a differentiated rate of mineral extraction in 2013 by subsoil areas:

- falling under the criterion of depletion of 80%: Azevo-Salaushskoe and Zychebashskoe fields of NGDU Prikamneft and South Nurlatsky field of NGDU Nurlatneft;
- falling under the criterion of extra-viscous oil (more than 200 mPa*s): Arkhangelskoye field of NGDU Yamashneft, Stepnoozerskaya development area (TAT NE 14137, Vishnevo-Polyanskaya (TAT NE 10537), South Suncheleevskaya (TAT NE 10578) zones of West Tyurnyasevskoye field of NGDU Nurlatneft, Pionerskoye Field (Bashkirian horizon) of NGDU Nurlatneft, and Aksubaev-Mokshinskoe field (additional 6 wells) of NGDU Nurlatneft;
- falling under the criteria of depletion up to 0.05 and with initial recoverable reserves of up to 5 million tons - South Suncheleevsky license area (without Bobrikovian extra-viscous oil) NGDU Nurlatneft.

The Information Technology and Energy Department of JSC TATNEFT incorporated automated commercial power accounting systems of JSC TATNEFT into the State Register of Measuring Instruments. Order No.6420 of the Federal Agency for Technical Regulation and Metrology of December 26, 2011 approved the type of measurement and registered the automated measuring system

of metering electric energy (power) Electric Power Fiscal Metering Station in the State Register of Measuring Equipment.

GLONASS Satellite Navigation System and Satellite Vehicles Monitoring

Pursuant to Resolution No.720 of the Government of the Russian Federation of 10.09.2009 (as amended on 06.10.2011) On Approval of Technical Rules on Safety of Wheeled Vehicles and Order No.20 of the Ministry of Transport of the Russian Federation dated 26.01.2012 On Approval of the Procedure of Vehicles in Operation, Including Special Vehicles, M Category Used for Commercial Transportation of Passengers, and N Category Used for Transportation of Dangerous Cargo with GLONASS or GLONASS/GPS, within the period before January 1, 2013, 700 vehicle units of the Company's enterprises have been equipped with GLONASS or GLONASS/GPS.

Number of vehicles connected to the satellite monitoring system has reached 8,261 vehicles operated by 49 transport companies and structural divisions. Workstations have been installed for 822 users.

Mobile Teams and Staff Control System

To date, individual satellite navigation units are used in 7 subdivisions and service companies. Since the beginning of 2012, 264 individual satellite monitoring units have been in operation, which is up 85% compared to 2011. Individual units were used for the following areas: bypassing pipelines, monitoring well construction, control of bypassing power lines, movement of automation workshop and ground equipment repair crews.

Video Surveillance System on Company's Processing Facilities

The entire stock of drilled wells was accompanied by video surveillance in the construction process.

Performed Work on the Project in Turkmenistan

As part of the work on the contract of TATNEFT in Turkmenistan, the following IT systems have been constructed and put into operation:

- MEGA system of data collection and transmission control;
- ARMITs, CIS of TATNEFT-Neftedobycha, Delo-96;
- communication and telecommunication systems.

Integrated Corporate Management System of JSC TATNEFT Based on SAP Products

Construction of a fully functional and integrated management system based on SAP products is being carried out in accordance with the strategic initiatives and projects of JSC TATNEFT. Active development and implementation of solutions is designed to provide the Company's management with complete and reliable information to make effective management decisions, improve the quality of planning, optimization and reduction of operating costs, providing mobile access to data from corporate systems.

The system is currently open for about 3 million people, with about 9500 roles distributed between them. Extensive work is being done to expand and improve functionality for many solutions. The necessary procedures, regulations, manuals and standardized business transactions are developed during the implementation of projects.

As part of standardization and harmonization of analytical accounts of costs and expenses in JSC TATNEFT, a uniform procedure for formation and distribution of costs for all cost chains that are involved in the process of closing the period was implemented in all accounting systems of oil and gas administration boards.

With the use of modern solutions in the field of investment management, the Company performs long-term investment planning, oversees implementation of investment programs and compares actual data with planned data in the real time.

All structural parts of the Company have implemented a solution for human resource accounting of the staff and replication of payroll solutions will soon be completed. Such advanced functionality to optimize talent management processes, selection, evaluation and training was introduced in Russia for the first time.

In order to fulfill the requirements established by the Federal Law 152-FZ of 27.07.2006 On Personal Data, work was completed on designing a system and technical infrastructure for deployment and operation of the personnel management system with desired characteristics, as well as on designing a subsystem of information security for personal data.

A system of planning, adjusting and monitoring costs of JSC TATNEFT was launched and put in pilot operation in 2012. These implemented solutions aim at harmonization and standardization of reporting, provide alternative prediction calculations for rapid response to changes in the internal and external factors of planning, as well as obtaining real-time summary of planned and actual costs of the Company for monitoring and making management decisions.

During the year, work continued on the transfer of the remaining divisions into a single information environment based on SAP. The developed and adapted typical design solutions for automation of financial and economic activity of the structural units will provide end-to-end operational accounting and control of internal settlements between them, formation of consolidated financial statements of the Company, as well as reduce the cost of integration and support for solutions.

Solutions for operational accounting are supplemented by the Head Monitor information analysis system based on SAP's Business Object product line. On the basis of operational and periodic reporting on all aspects of activity the system forms different levels of visual representation of dynamics

of the major industrial and economic indicators for the management. This software allows the manager to work with reports interactively, without unproductive distraction of employees.

Information Analytical System

In 2012, work continued on implementation of the Head Monitor information analysis system based on SAP BI and Business Objects. The system allows automated collection, consolidation of data from existing information systems and calculation of performance indicators that reflect the Company's activities in various fields. Thus, this information analysis system is a single point of entry to the indicators in supervised activities for making decisions.

E-Document Flow System

The Company is implementing an electronic document management system PRACTIKA providing for possibility of remote operation from the workplace including mobile devices.

Business Ideas Auction

The TATNEFT Company actively promotes a set of innovative web-sites: Center of Excellence, Problem Bank, Bank of Ideas, Corporate Order, Business Incubator, and Knowledge Base, the creation of which is aimed at developing processes of managing the Company's creative potential and increasing efficiency of solving topical issues and problems with the participation of all employees of the TATNEFT Company and the interested public.

Currently there are 259 people registered in the Business Ideas Auction, 197 questions were presented for collective solution and 47 ideas were proposed.

Corporate Internet Resources TATNEFT Group Portal

At present, the portal of the TATNEFT Group has 57 sub-portals, of which 15 were introduced in 2012, including two specialized sub-portals (Oilman Day and Professional Contest).

During the reporting period, work continued on content filling at the corporate website, as well as on regular updates of information on work-related and social events of TATNEFT (for example, in such sections as Press Releases and Photo Gallery).

In order to meet the needs of the target audience, basic functionality of some sub-portals corporate website was expanded in 2012. For example, the section Social Facilities of the TATNEFT Group was modernized, with updates of information on corporate sanatoriums and a special reservation system was established, which provides an opportunity to book trips to recreational facilities through sub-portals. On February 1, 2012, the "Oil Newspaper" was uploaded on the TATNEFT Group corporate portal. As part of the development of the media resource, the Public Eye project was created aiming to cover construction of social and industrial facilities of TATNEFT and public control over the progress of construction.

Pilot operation of Manage the Project interactive training was conducted.

During the 2012, 550,000 unique users from 173 countries visited the Portal of TATNEFT site and viewed more than 3 million pages overall.

Internal Corporate Intranet Portal

The outer and inner contours of the corporate portal are unified in order to provide uniform information space for the Company's employees based on a single platform. This has contributed to avoiding duplication of information on the corporate web-resources, support process optimization and creation of the Participant's Personal Cabinet (PPC).

Electronic Corporate University

"Fundamentals of Project Management" training course has been started (over 400 students), the following modules have been developed and implemented:

- Remote Learning Courses Center
- Literary Club

LOGISTICS AND PROCUREMENT DEPARTMENT (LPD)

The Logistics and Procurement Department to support production is based on the principles of transparency and maximum efficiency. In 2012, the Group continued centralization and further development of the network of consignment stores, implementation of the Electronic Store project, and optimization and automation of supply.

CONSIGNMENT SOFTWARE

Smooth logistics for the Companies and service companies is provided through consignment stores.

JSC TATNEFT operates 64 consignment stores. The volume of sales of inventory items (inventory holdings) through consignment warehouses amounted to RUR 2,315 million in 2012 (1,957 million in 2011).

Cost of the inventory holdings in the Tatneft-esnab storage remaining in the ownership of the consignee until the delivery of goods

to a structural unit in the reporting year amounted to RUR 233 million (217 million in 2011), which prevented diversion of working capital for creation and storage of the Company's own reserves for this amount.

ELECTRONIC TRADING PLATFORM

In order to improve procurement activities of the TATNEFT Group of Companies, a complex electronic trading platform has been in operation since December 2009. Performance of procurement in the electronic form allows complying with such fundamental principles of openness, transparency and equal competitive opportunities for suppliers, and selection of the winner for the best combined performance (quality, delivery conditions, and price). Starting from the second half of 2010, virtually all service subsidiaries of the TATNEFT Group of Companies have carried out competitive procedures through an electronic trading platform in what relates to procurement. In the future, electronic trading platform will integrate all enterprises of the TATNEFT Group of Companies.

The procurement and logistics department held 1,508 two-stage procurement procedures for a total of RUR 8,779 million in 2012. The first stage is the request for quotations, while the second stage is the auction for price reduction among participants who put the price on the whole lot. 865 auctions were held successfully for the amount of USD 3,659.76 million, with additional savings on the price determined at the first stage for the amount of RUR 230.8 million.

Contractors of JSC TATNEFT are invited to participate in the electronic auction. A contractor purchases materials at the electronic platform, which means that it had gone through established procedures before coming to a specific price, which in the long run reduces the cost of services for the TATNEFT, reduces labor costs and time for the logistics and procurement department to audit the accounts of contractors. During 2012 the Company's subsidiaries and service enterprises performed 1,488 procurement procedures in the amount of RUR 3,491.67 million.

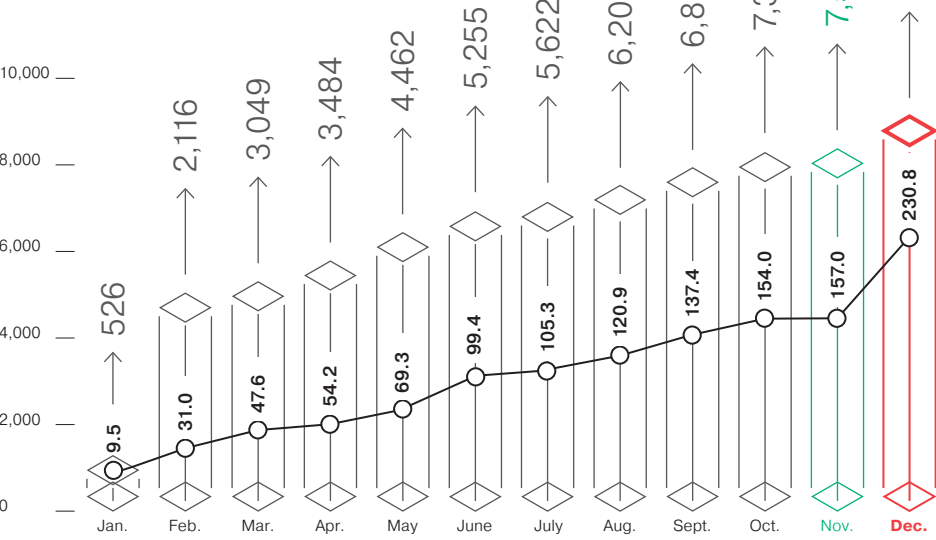
The electronic marketplace has accelerated tenders and paperwork has virtually disappeared, including sending mail through the postal service. Prices are transparent, and there is information who and how appraised the lot. All trading take place online. The number of accredited participants in tenders has increased. Accredited suppliers of TATNEFT are suppliers who have passed security check and have been entered in a special register of the Company. The quality-to-price ratio is still a priority when choosing a supplier, which determines the winner.

E-STORE

The fundamental solution for the managing logistics of the Company is the E-Store, which is a tool of the corporate technology policy in organizing procurement within the allocated budgets and funding in accordance with the calendar of supply.

In 2012, more than 80,000 applications were placed through the E-Store (goods' items) from the structural divisions of the Company, its subsidiaries and affiliated companies.

ACCUMULATED DYNAMICS OF VOLUMES PRESENTED FOR TENDERS AND EFFECT FROM ADDITIONAL REDUCTION in 2012 (million rubles)



CENTRALIZED SHIPMENT

The inventory worth RUR 18.4 billion was shipped according to the scheme of centralization in 2012, which is RUR 3.6 billion more than in 2011.

The share of transport costs for centralized delivery in the cost of goods remained at the level of 1.1%.

COMMERCIAL AND TECHNICAL HOUSE OF TATNEFT

The Company sells its production for external consumers via the TATNEFT Trade and Technology House. In 2012, these sales amounted to RUR 1,621 million, which is RUR 96 million (6.3%) more than in 2011.

Out of the total sales volume external companies purchased inventory for RUR 1,120 million (RUR 1,153 million in 2011), whereas internal deliveries accounted for RUR 501 million (RUR 372 million in 2011).

In the structure of the bulk of sales the main areas were as follows:

- Pipes for various purposes – in the amount of RUR 426.5 million (2011 – RUR 477 million).;
- Chain drives - in the amount of RUR 382 million (2011 - RUR 213 million).;
- Oilfield equipment – in the amount of RUR 480 million (2011 - RUR 423 million);
- Cables and wires - in the amount of RUR 164 million (2011 - RUR 230 million).

TATNEFTESNAB ADMINISTRATION

In 2012, it concluded more than 5.1 thousand contracts and specifications in the amount of RUR 20.7 billion. 38% of all orders were placed in the enterprises of the Republic of Tatarstan.

During 2012, work was conducted on the operational performance of the contract, TATNEFTesnab Administration brought 532 claims against contractors for non-compliance with contractual obligations in the amount of RUR 2,188 million. RUR 1,593 million worth of production was collected or delivered as a result of the claiming procedure (including the remaining claims as of 01.01.2013).

SOCIAL POLICY

The Company considers maintaining social welfare, decent quality of life and abilities of professional development of its staff one of the main conditions of its activities. This is reflected in the level of wages, social guarantees, and personnel development programs. Improvement of the quality of level contributes to employees' interest in responsible achievement of best results of the Company's activities.

COLLECTIVE AGREEMENT

Company's obligations to the staff are put on paper in the Collective Agreement of JSC TATNEFT. The Collective Agreement significantly expands safeguards established by law, and provides additional benefits for employees, social protection of young workers, and support for veterans and retirees. In 2012, all commitments established by the Collective Agreement were completed. Salaries were paid on time twice a month in the full amount.

NON-STATE PENSION FUND

One of the most important areas of social policy of the Company is provision of a non-state pension for its employees. Since 1997, the Company has run the Program of Non-State Pension Provision based on accumulation of savings for non-state pension provision through transfer of funds by the employees themselves.

VOLUNTARY HEALTH INSURANCE

Voluntary health insurance (VHI) is a major source for maintaining and strengthening health of the workers. The VHI program for the staff of JSC TATNEFT includes four areas: Outpatient Services, Inpatient Services, Rehabilitation and Remedial Treatment, and Integrated Health Care. In accordance with the Treaty of Voluntary Health Insurance of Employees signed between JSC TATNEFT and Chulpan insurance company, the total number of insured employees amounted to 21,683. The total amount of the VHI contracts was RUR 240.5 million.

Through implementation of VHI programs, employees are able to receive free medical care and spa vouchers. During 2012, 4,734 employees improved their health, including 400 in spas and resorts of RT and RF.

JSC TATNEFT allocated RUR 5.8 million on organize sanatorium treatment of employees with children working in its structural units (the Mother and Child program).

MORTGAGE CREDITING

The Company operates a social mortgage program aimed at improving living conditions through providing access to housing by purchasing housing units in installments, as well as it provides support for young families in obtaining housing.

In 2012, as part of this program ten residential buildings were commissioned in the cities of Almetyevsk, Leninogorsk, Aznakaevo, Nurlat, Nizhnekamsk, Bavly, Yelabuga, and Bugulma. Employees of the Company received 1,007 apartments with the total area of 70.55 thousand square meters, with young families receiving 30% of the commissioned apartments. TATNEFT allocated RUR 8.18 million for acquisition of furniture in these residential units.

In the current year, JSC TATNEFT paid the initial payment in the amount of RUR 147.2 million for its employees, which is 25.1% of the cost of allocated housing. The size of the lump-sum loan for young families was 30%.

SUPPORT PROGRAM FOR DEVELOPMENT OF SMALL AND MEDIUM-SIZED BUSINESS

A special corporate project of JSC TATNEFT to support the development of small and medium sized businesses has been implemented since 2005. It aims at developing prospective production facilities and creating new jobs in the regions of TATNEFT activity.

INDUSTRIAL SAFETY AND LABOR PROTECTION

The industrial and ecological safety activities and the activities on the labor protection are performed in JSC TATNEFT according to ISO 14001:2004 international ecological safety standard and the standard of industrial safety and health OHSAS 18001:2007 under the integrated management system of industrial safety, labor and environmental protection.

In August (September) 2012 the Company's integrated system of industrial safety, labor and environmental protection management successfully passed compliance re-certification audit and received new certificates.

For the purpose of establishing unified requirements to the components of the integrated management system of industrial, fire, electric power, radiation safety and labor protection the Company continued in 2012 elaboration of relevant industrial safety standards. The approved provisions and standards apply to all structural divisions and are recommended to all subsidiary companies and enterprises of TATNEFT Group.

The work on industrial safety and labor protection, prevention of occupational accidents and professional diseases is carried out in accordance with the System of Securing Industrial Safety in JSC TATNEFT and the Regulation on Monitoring Compliance with Industrial Safety Requirements at Hazardous Production Facilities of JSC TATNEFT, which establish uniform regulations to ensure industrial, fire, electricity, radiation safety, labor protection and production control in all structural divisions and subsidiaries of the Company. It envisages attraction of main experts and specialists of production and technical services and departments for taking preventive measures.

The amount of RUR 2.0 billion was spent during the reporting year to ensure industrial safety and labor protection.

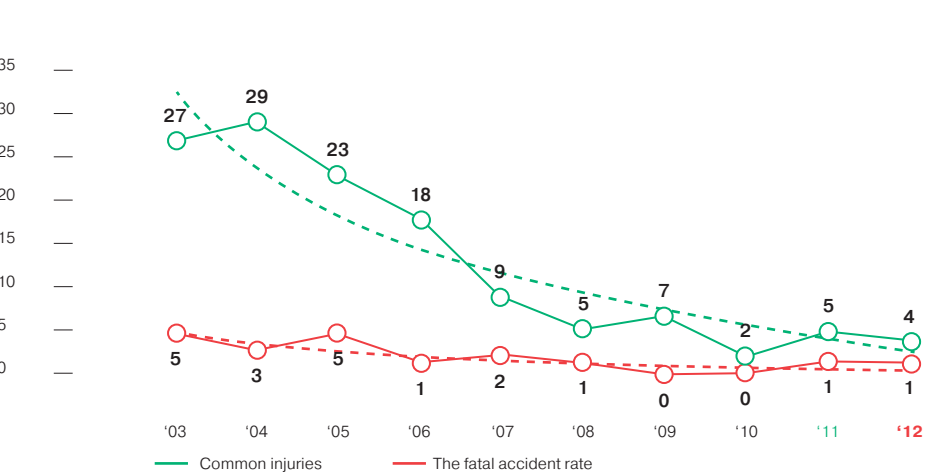
INDUSTRIAL INJURIES PROFILE IN 2006-2012

YEAR	NUMBER OF ACCIDENTS
2006	18
2007	9
2008	5
2009	7
2010	2
2011	5
2012	4

EXPENDITURES ON HEALTH AND SAFETY, INCLUDING PER PERSON EXPENDITURES

YEAR	AMOUNTS SPENT FOR LABOR PROTECTION, THOUSAND RUBLES	SPENDING FOR LABOR PROTECTION ACTIVITIES FOR 1 WORKING PERSON, RUBLES
2006	313,726.9	7,394
2007	298,745.9	7,513
2008	212,357.6	8,012
2009	200,540.5	8,566
2010	207,121.2	9,727
2011	265,780.4	12,635
2012	319,827.3	15,122

INJURIES PROFILE



ENVIRONMENTAL
ACTIVITY

The environmental activities of the Company are performed in accordance with current laws, meet all environmental and regulations, and take into account international environmental standards. The Company passed certification of management systems ensuring environmental safety, labor protection and industrial safety in accordance with the requirements of ISO 14001:2004 and OHSAS 18001:2007 international standards.

The Integrated System of Industrial Safety, Labor and Environmental Protection Management of JSC TATNEFT successfully passed oversight audits for compliance with the international standard ISO 14001:2004 and OHSAS 18001:2007 in 2012.

Activity of the Company is performed in accordance with the JSC TATNEFT policy of industrial, occupational and environmental safety and in the framework of the special prolonged Environmental Program of JSC TATNEFT designed for the period from 2000 to 2015.

The program is aimed at supporting the environment of the TATNEFT region of activity at the regulatory acceptable level consistent with self-healing potential of natural ecosystems. The program envisages further improvement of process equipment reliability and reduction of production activities’ negative impact on the environment, lowering of stress based on the continuing renovation of the main assets, as well as construction of special nature protection facilities. As part of this program the Company provides for performance of complex organizational and technical measures, including introduction of a broad industrial environmental control in the area of the Company’s divisions operation.

INDICES OF ECOLOGICAL SAFETY
AND ENVIRONMENTAL IMPACT

Air protection

44.5 km of gas pipelines were repaired and 58.6 km of gas pipelines were constructed and put into operation in 2012. Anti-corrosion protection was applied for 19 process tanks (11 vertical tanks and 8 horizontal settlers) on the facilities of crude oil gathering and crude oil treatment of the oil and gas production boards.

As a result of carrying out air protection measures in total in the Company over the last 20 years the overall were reduced by 2.2 times. Specific emissions per one ton of produced oil amounted to 3.338 kg in 2012.

The introduction of technology to capture light hydrocarbon fractions (LHF) allowed to reduce carbon emissions by 4.3 times in comparison with 1991. At present, the number of active LHF capturing units in TATNEFT is 44.

In order to comply with established standards of maximum permissible emissions (MPE) of pollutants into the air, 2,000 tests were performed in 2012.

Monitoring of the air condition was done in 110 communities located in the area of the Company’s operations and buffer zones of 53 production facilities. When performing these tests, 13,058 analyzes were done to determine the current state of the atmospheric air.

Research on the air basin was carried out for 33 ingredients (hydrocarbons, hydrogen sulfide, nitrogen dioxide, carbon monoxide, etc.) along with meteorological observations, such as measurements of wind speed and direction, temperature, and relative humidity.

All air emissions from stationary sources of the Company are within the standards of maximum permissible emissions.

Protection and Management
of Water Resources

A network of local observation points over water bodies operates within TATNEFT license areas.

The system of observations currently consists of 2,688 sampling points. This includes points of observation of surface (springs, rivers, reservoirs) and of ground-water bodies (boreholes and wells).

Water analysis is conducted on the following parameters, which are characteristic for oil production: chloride ion, sulfate ion, total hardness, hydrocarbonates, pH, calcium, anionic surface-active agents (surfactants), oil and oil products in the dissolved and emulsified state.

In 2012, the central chemical analytical laboratory of the Administration for Preparation of Process Liquid performed 20,278 tests from selected water samples.

In total, the Company performed more than 130,000 analyzes of natural water in 2012 as part of production control for environmental protection.

According to the results of laboratory chemical analysis in 2012, water quality in major rivers area of the Company’s operations was stable. Chloride content, crude oil and petroleum products in the dissolved and emulsified state in rivers and springs in the vast majority of cases did not exceed the approved standards of maximum permissible concentrations of harmful substances in the waters of fishery water bodies and sanitary standards for the maximum permissible concentration (MPC). Currently, there is a process of steady decline of their concentration in the groundwater.

Protection and Management
of Land Resources

Optimal placement of oil facilities and prevention of violations in soil fertility are the top priorities for land conservation.

The Company conducts scientific research, develops regulatory documentation, improves its equipment and technology, and takes special actions to reduce the anthropogenic impact on the land.

Treatment of Industrial Waste

The Company constantly puts a lot of effort in reduction and recycling of waste generated during oil production processes by recycling, reuse and disposal.

The total amount of waste generated by production compared to 2011 decreased by 8.4 tons and was 81.4 thousand tons. The specific waste generation per 1 ton of oil was 3.13 kg in 2012.

In 2012, JSC TATNEFT collected and sent for recycling 25.852 tons of scrap metal.

To solve the problem of disposing of certain specific types of waste, the Company has special recycling units evenly spaced throughout the field development territory. For instance, there are 4 specialized units for sludge processing, which fully meet requirements of the Company for this type of activity. There is a specialized production facility to recycle worn-out cable, which turns this type of waste into secondary raw materials.

KEY PERFORMANCE INDICATORS OF THE COMPANY TO ENSURE ENVIRONMENTAL SAFETY AND REDUCE ENVIRONMENTAL IMPACT

DESCRIPTION	MEASUREMENT UNIT	2012
Gross emission of harmful substances into the air	thousand tons	86.792
Total harmful substances recovered and neutralized	tons	196.350
Associated petroleum gas utilization	million cubic meters	843.5
Associated petroleum gas utilization level	%	about 95
Fresh water intake for own needs	thousand cubic meters	29,657.58
Contaminated land area	hectare	0.0
Failure induced ecological damage	thousand rubles	0.0
Commissioning of facilities for recovery and neutralization of waste gas harmful substances	thous.cub.m/hour thousand rubles	0.43 404,563.0
Investments into the main capital, used for environmental protection purposes:		
Planned	thousand rubles	510,134.9
Actual, total:	thousand rubles	510,134.9
including		
water protection	thousand rubles	0.0
atmospheric air protection	thousand rubles	404,563.0
land resources protection from production waste and consumption	thousand rubles	58,412.6
land recultivation	thousand rubles	47,159.3
Current environmental protection expenses	thousand rubles	3,947,361

INFORMATION DISCLOSURE

REGISTERS OF COMPULSORILY DISCLOSED INFORMATION AND VOLUNTARILY DISCLOSED INFORMATION IN 2012*

No.	CONTENT	DATE OF DISCLOSURE
BY RUSSIAN STANDARDS (IN THE FORM OF A MESSAGE ABOUT AN ESSENTIAL FACT OR MESSAGES ABOUT THE INFORMATION WHICH CAN ESSENTIALLY AFFECT THE COST OF THE JOINT-STOCK COMPANY'S SECURITIES) ACCORDING TO ORDER OF FFMS OF RUSSIA 11-46/PZ-N		
1.	Notice of the date of preparing a list of holders of equity securities of the Company or documentary Company's equity securities with mandatory centralized custody for the purposes of implementation (realization) of the rights entitled with such equity securities	February 28, 2012
2.	Message about the procedure of accessing the information contained in the quarterly report.	By the 15-th day of the month following the quarter under review
3.	Message about disclosure of the affiliated entities list of the Joint Stock Company on the Internet site.	By the 2-nd of the month following the quarter under review
4.	Notice on the meeting of the Board of Directors (Supervisory Board) of the Company and its agenda, as well as individual decisions taken by the Board of Directors (Supervisory Board) of the Company.	Monthly
5.	On the General Meeting of Participants (Shareholders) of the Company and its agenda, as well as on decisions taken by the General Meeting of Participants (Shareholders) of the Company.	February 28, 2012
6.	Notice of the date of compiling a list of holders of equity securities of the Company or documentary Company's equity securities with mandatory centralized custody for the purposes of implementation (realization) of the rights entitled with such equity securities	March 14, 2012, September 12, 2012
7.	Notice on accrued and/or paid revenues for the Company's securities	March 23, 2012
8.	Notice of disclosure of the Annual Financial Reporting of the joint-stock company	March 27, 2012
9.	Notice of individual decisions taken by the Board of Directors (Supervisory Board) of the Company	April 26, 2012, May 25, 2012, June 29, 2012, June 29, 2012, November 30, 2012
10.	Notice on awarding the rating for the Company's securities and (or) for their Company or on changes of the rating by a rating agency based on the contract signed with the Company	June 21, 2012, July 05, 2012
11.	Notice on the procedure of accessing the information contained in the Annual Report for 2011.	June 29, 2012
12.	Notice on decisions taken by the General Meeting of participants (shareholders) of the Company	July 03, 2012
13.	Notice on the change in the internet address used by the Company for information disclosure	September 19, 2012
14.	Notice on accrued and/or paid revenues for the Company's securities	September 24, 2012
15.	Notice on paid revenues for Company's securities	September 26, 2012
16.	Notice on disclosure of the interim (quarterly) accounting (financial) reporting for the 3 rd quarter of 2012	November 01, 2012

REGISTERS OF COMPULSORILY DISCLOSED INFORMATION AND VOLUNTARILY DISCLOSED INFORMATION IN 2012*

No.	CONTENT	DATE OF DISCLOSURE
ACCORDING TO INTERNATIONAL STANDARDS (IN THE FORM OF PRESS RELEASES AND PUBLICATION OF REPORTS AS PER THE LONDON STOCK EXCHANGE REGULATIONS)		
17.	Publication of the review procedure of the consolidated financial statements of JSC TATNEFT as per U.S. GAAP for 2011 (audited).	April 16, 2012
18.	Publication of the consolidated financial statements of JSC TATNEFT as per U.S. GAAP procedures for the first quarter of 2011 (unaudited).	June 18, 2012
19.	Publication of the consolidated interim abbreviated financial statements as per U.S. GAAP procedures for the first half of 2011 (unaudited)	October 02, 2012
20.	Publication of the consolidated interim abbreviated financial statements as per U.S. GAAP procedures for nine months of 2011 (unaudited).	December 06, 2012

* main facts and events, including major transactions and transactions with interest performed by the Company during the year

For the purpose of providing maximum full information on the current activities to the Company's environment the Company voluntarily disclosed information in distributing 235 press releases messages in 2012.

INFORMATION ABOUT COMPLIANCE
WITH THE CORPORATE BEHAVIOR STANDARDS
AT JSC TATNEFT IN 2012

LIST OF CORPORATE Nos. BEHAVIOR STANDARDS		COMPLIANCE WITH STANDARDS (FULL, PARTIAL, NO COMPLIANCE)	NOTE
1.	The Company shall form a Board of Directors.	Full compliance	<p>1) Document with details fixing this provision and Item/Article number</p> <p>Document Name: Articles of Association Item/Art. No.: Article 8 Approved by: General Meeting of the Shareholders Decision Date: June 29, 2012 Minutes No.: 19 Minutes date: June 29, 2012</p> <p>2) Board of Directors composition as of the report compiling date</p> <p>Rustam N. Minnikhanov Waygood David William Maria L. Voskresenskaya Radik R. Gaizatullin Sushovan Ghosh Nail G. Ibragimov Vladimir P. Lavushchenko Nail U. Maganov Renat Kh. Muslimov Rinat K. Sabirov Valeriy Yu. Sorokin Shafagat F. Takhautdinov Mirgazyan Z. Taziev Azat K. Khamaev Rais S. Khisamov</p> <p>3) Date of holding the General Meeting of the Shareholders, which elected the acting Board of Directors members, Minutes date and No. of the a/m meeting</p> <p>Decision Date: June 29, 2012 Minutes No.: № 19 Minutes date: June 29, 2012</p>

LIST OF CORPORATE Nos. BEHAVIOR STANDARDS		COMPLIANCE WITH STANDARDS (FULL, PARTIAL, NO COMPLIANCE)	NOTE
2.	<p>The Company's Board of Directors shall consist of at least 3 members in compliance with the following requirements:</p> <ul style="list-style-type: none">• at the time of election they are not and they have not been officials or employees of the Company (manager) within 1 year preceding the election;• they are not officials of another business entity in which any of the officers of this company is a member of the Board of Directors' HR and Remuneration Committee;• they are not spouses, parents, children, brothers and sisters of the officials (manager) of the Company (an official of the Company's controlling organization);• they are not affiliated persons of the Company, except a member of the Board of Directors of the Company;• they are not parties to the obligations with the Company, in accordance with which they can acquire property (receive money) with a value of 10 percent or more of the aggregate annual income of the mentioned persons in addition to receiving compensation for their participation in the activities of the Company's Board of Directors;• they are not representatives of the State, i.e. the persons, who are representatives of the Russian Federation, constituents of the Russian Federation and municipal entities in the Board of Directors of joint stock companies, who have been mandated to use a special right ("golden share") and the individuals elected to the Board of Directors out of the candidates nominated by the Russian Federation, as well as a constituent of the Russian Federation or a municipal entity, if such Board of Directors members must vote on the basis of written directives (instructions, etc.) of the Russian Federation, constituent of the Russian Federation or municipal entity, respectively.	Full compliance	<p>1) Full Names of Independent Directors:</p> <p>Sushovan Ghosh David W. Waygood Mariya L. Voskresenskaya</p> <p>2) Document with details fixing this requirement to the directors and number of the Item/Article Document name: Provision on the Board of Directors Item/Art. No.: Article 4.2</p> <p>Approved by: Decision of the General Meeting of the Shareholders Decision date: June 28, 2002 Minutes No.: Minutes Date: Amendments: Changes and amendments were introduced by the General Meeting of the Shareholders on June 23, 2011</p>

LIST OF CORPORATE BEHAVIOR STANDARDS		COMPLIANCE WITH STANDARDS (FULL, PARTIAL, NO COMPLIANCE)	NOTE
3.	<p>1) The Company's Board of Directors shall have a Committee, the exclusive functions of which are assessment of candidates to the auditors of the Joint-Stock Company, assessment of the auditor's conclusion, assessment of the Company's internal control efficiency and preparation of proposals on their improvement (the Audit Committee), headed by the director who meets the requirements of Item 2 hereof.</p> <p>3) The Audit Committee shall only consist of the members of the Board of Directors, who meet the requirements of Item 2 hereof; in case it is impossible due to certain reasons – only of the members of the Board of Directors who meet the requirements of Item 2 hereof and the members of the Board of Directors who are not the sole executive body and/or members of the Company's Collegial Executive Body.</p> <p>3) Assessment of the Company's auditor's opinion executed by the Audit Committee shall be presented as materials to the annual General Meeting of the Company's participants.</p>	Full compliance	<p>1) Document with details fixing functions of the Committee Document Name: Provision on the Audit Committee Item/Art. No.: Article 4 Approved by: Decision of the Board of Directors Date of decision: Oct 29, 2004 Minutes number: No. 6 Minutes date: Amendments: Amendment into Provision on the Audit Committee was approved by the Board of Directors decision No. 6 dated November 30, 2012</p> <p>2) Full names of the Committee's Head and members (indicating independent and/or non-executive directors). If by the end of the reporting quarter the Committee of the Board of Directors has not been formed as a result of re-electing the Company's Board of Directors, then it is necessary to indicate the Board of Directors' composition acting till the date of holding the general shareholders meeting.</p> <p>Committee: Elected Full name, Composition, Status Sushovan Gosh, Chairman (Independent Director); R.R. Gaizatullin, member of the Committee (Non-Executive Director); David William Waygood, member of the Committee (Independent Director); M.L. Voskresenskaya, member of the Committee (Independent Director).</p> <p>Date of the Board of Directors meeting Decision Date: June 29, 2012 Minutes number: No. 2 Minutes date:</p> <p>3) Document with details fixing the mentioned provisions or information for submission of such data to the annual shareholders meeting. Name of the document: Minutes of the Board of Directors Meeting Item/Article No.: i. 4 Approved by: Decision of the Board of Directors Decision date: April 26, 2012 Minutes No.: No. 6 Minutes date:</p> <p>Information about submission of such materials to the annual meeting Disclosure of the information about the decisions of the Audit Committee is on the website of JSC TATNEFT: http://www.TATNEFT.ru/wps/wcm/connect/TATNEFT/portal_rus/infoactsinvest/comaudit/</p>

LIST OF CORPORATE BEHAVIOR STANDARDS		COMPLIANCE WITH STANDARDS (FULL, PARTIAL, NO COMPLIANCE)	NOTE
4.	<p>1) The Company's Board of Directors shall have a HR and Remuneration Committee with the following exclusive functions:</p> <ul style="list-style-type: none">elaboration of principles and criteria for determining the remuneration amount of the Board of Directors members and members of the Collegial Executive Body and the person performing the functions of the sole executive body of the Company, including the controlling organization or manager;elaboration of proposals for definition of essential terms of contracts with the members of the Board of Directors, members of the Collegial Executive Body and the person performing the functions of the sole executive body of the Company;definition of the criteria of selecting candidates for members of the Board of Directors, members of the Collegial Executive Body and the position of the sole executive body of the Company, and a preliminary assessment of the mentioned candidates;regular assessment of the person performing the functions of the sole executive body (the controlling organization, manager) and the members of the Collegial Executive Body of the Company and preparation of proposals for the Board of Directors for their possible re-appointment. <p>2) The HR and Remuneration Committee shall only consist of the members of the Board of Directors, who meet the requirements of Item 2 hereof; in case it is impossible due to certain reasons – only of the members of the Board of Directors who meet the requirements of Item 2 hereof and the members of the Board of Directors who are not the sole executive body and/or the members of the Company's Collegial Executive Body.</p>	Full compliance	<p>1) Document with details fixing the functions of the Committee Document Name: Provision on the HR & Remuneration Committee Item/Art. No.: Approved by: Decision of the Board of Directors Date of decision Sept. 28, 2004 Minutes number: No.7 Minutes date: Changes and amendments: The amendment in the Provision on HR and Remuneration Committee was approved by the decision of the Board of Directors No. 6 of November 30, 2012</p> <p>2) Full names of the Committee's Head and members (indicating independent and/or non-executive directors). If by the end of the reporting quarter the Committee of the Board of directors has not been formed as a result of re-electing the Company's Board of Directors, than it is necessary to indicate the Board of directors' composition acting till the date of holding the general shareholders meeting. Committee: elected</p> <p>Full name, Composition, Status David William Waygood, Chairman, Independent Director; Sushovan Gosh, member of the Committee, Independent Director; Rinat K. Sabirov, member of the Committee, Non-Executive Director</p> <p>Date of the Board of Directors meeting Decision date: June 29, 2012 Minutes No.: No. 2 Minutes date:</p>
5.	The Company shall form a Collegial Executive Body.	Full compliance	<p>1) Document with details fixing this provision and Item/Art. No. Document Name: Provision on the Management Board Item/Art. No.: Approved by: Decision of the general shareholders meeting Date of decision: June 29, 2007 Minutes number: No.14 Minutes date:</p> <p>2) Composition of the Collegial Executive Body acting at the moment of the report compiling, date of the meeting of the Company's authorized body, which elected the acting composition of the Collegial Executive Body, the date and number of minutes of the above mentioned meeting Decision date: June 28, 2002 Minutes number: Minutes of the Board of Directors meeting No. 3 Minutes date:</p>

LIST OF CORPORATE BEHAVIOR STANDARDS		COMPLIANCE WITH STANDARDS (FULL, PARTIAL, NO COMPLIANCE)	NOTE
6.	The Company's internal documents shall stipulate the duties of the members of the Board of Directors, the members of the Collegial Executive Management Body, the person exercising the functions of the sole executive body, including the Management Company and its officials, to disclose the information about the possession of the Company's securities, and about the sale and/or purchase of the Company's securities.	Full compliance	<p>Documents with details fixing the duties of each managing body and numbers of items/ articles</p> <p>Board of Directors</p> <p>Document name: Corporate Management Code Item/Art. No.: Art. 2.3.14 Approved by: Decision of the Board of Directors Date of decision: December 27, 2006 Minutes No.: No. 8 Minutes date: December 27, 2006 Amendments: Amendment was introduced by the decision of the Board of Directors No. 6 of November 30, 2012</p> <p>Collegial Executive Body</p> <p>Document name: Corporate Management Code Item/Art. No.: Art. 2.4.12 Approved by: Decision of the Board of Directors Date of decision: December 27, 2006 Minutes No.: No. 8 Minutes date: December 27, 2006 Amendments: Amendment to the Corporate Management Code was approved by the Board of Directors decision No. 6 of November 30, 2012</p> <p>The person performing functions of the sole executive body, including the controlling organization and its officials</p> <p>Document name: Corporate Management Code Item/Art. No.: Art. 2.4.12 Approved by: Decision of the Board of Directors Date of decision: December 27, 2006 Minutes No.: No. 8 Minutes date: December 27, 2006</p> <p>Amendments: Amendment to the Corporate Management Code was approved by the Board of Directors decision No. 6 of November 30, 2012</p>
7.	The Company's Board of Directors shall approve the document which defines the rules and approaches towards disclosure of the information about the Company.	Full compliance	<p>Document with details fixing these provisions and Item/Art. No.</p> <p>Document Name: Provision on Information Policy Item/Art. No.: Approved by: Decision of the Board of Directors Date of decision: April 29, 2004 Minutes No.: - Minutes date: April 29, 2004</p>

LIST OF CORPORATE BEHAVIOR STANDARDS		COMPLIANCE WITH STANDARDS (FULL, PARTIAL, NO COMPLIANCE)	NOTE
8.	The Company's Board of Directors shall approve the document for using the information about the Company's activities, about the Company securities and transactions with them, which is not generally accessible, and disclosure of which can make an essential impact on the market cost of the Company's securities.	Full compliance	<p>Document with details or provisions fixing this norm within another document and Item/Art. No. Document Name: Provision on the use of insider information and order of informing on transactions with securities of JSC TATNEFT Item/Art. No: - Approved by: Decision of the Board of Directors Date of decision: October 27, 2006 Minutes No.: No. 6 Minutes date: October 27, 2006</p>
9.	The Company's Board of Directors shall approve the document which stipulates the procedures for internal control of the Company's financial and economic activities. The control of observance of such procedures is provided by the individual structural subdivision of the Company, which informs the Audit Committee about all revealed violations.	Full compliance	<p>1) Name of such division</p> <p>Internal Audit Department of JSC TATNEFT</p> <p>2) Document with details confirming establishment of such a division (for example, order or minutes). Order of General Director No. 207 of June 8, 2006 " On establishment of the Internal Audit Department in the Executive Board", Provision on the Internal Audit Department of JSC TATNEFT, Decision of the Board of Directors No. 4 of February 02, 2009</p> <p>3) Document with the details defining the procedures of internal control over financial and economic activities of the Company, which observance control is carried out by a separate structural division of the Company, stating the violations found to the Audit Committee, and the number of item/ article and the body, which approved the required document. Document Name: Corporate Management Code Item/Art. No: Article 5.2 Approved by: decision of the Board of Directors Decision Date: December 27, 2006 Minutes No.: No. 8 Minutes Date: December 27, 2006</p> <p>Amendments: Amendment to the Corporate Management Code introduced by decision of the Board of Directors No. 6 of November 30, 2012.</p>
10.	The Company's Articles should provide that the notice of holding the general meeting of shareholders shall be made at least 30 days before the meeting, unless the legislation of the Russian Federation provides for a longer period.	Full compliance	<p>1) Item/Article of the Articles. Article 7, i. 1</p>
Additional information: Personal membership of the Management Board has been approved by decision No. 3 of the Board of Directors of June 28, 2002 Amendments introduced by the Board of Directors: <ul style="list-style-type: none">• decision No. 4 of April 3, 2003• decision No. 5 of April 1, 2004• decision No. 10 of April 1, 2004• decision No.7 of July 30, 2004• decision No. 6 of June 30, 2005• decision No.11 of December 29, 2005• decision No 6 of April 26, 2008• decision No.6 of April 29, 2010• decision No.1 of April 26, 2012			

* Independent Director" is a member of the Board of Directors meeting the requirements of Item 2 of the Report.

MAIN CORPORATE
EVENTS OF 2012

JANUARY

JSC TATNEFT employees' conference summarized the results of the financial and economic activities of TATNEFT Production Group in 2011.

Collective bargaining agreement for 2012 was concluded between the Management and employees of JSC TATNEFT.

Commencement of well workover operations within the terms and conditions of the service contract between JSC TATNEFT and State Company "Turkmennebit" in Turkmenistan.

New technology of produced water dumping was implemented at the well cluster at Arkhangelskoye oil field of NGDU "Yamashneft".

Grand opening of the I-st Working Hockey League championship among the employees of TATNEFT Production Group.

FEBRUARY

Drilling of small diameter wells with horizontal wellbore completion was successfully performed at JSC TATNEFT. The wells were constructed for NGDU "Nurlatneft" (Bashkir productive reservoir of Ashalchinskoye oil field) and NGDU "Almetyevneft" (Tournaisian productive bed of Romashkinskoye oil field).

Tire manufacturing complex of TATNEFT started a new series production of KAMA EURO 519 passenger car tires of 175/70 R14 and 185/60 R14 sizes and KAMA NF 202 truck tires of 215.75 R 17.5 size.

Representatives of JSC TATNEFT participated in the Collegiums work of the Ministry of Ecology and Natural Resources of the Republic of Tatarstan, Ministry of Education and Science of the Republic of Tatarstan and presented the Company's activities in the respective areas.

MARCH

A thousandth dual completion and production (DCP) installation was put into operation at JSC TATNEFT. The equipment was installed in the well of NGDU "Almetyevneft."

New tubing recovery technology through lining method application was started at the Bugulma Mechanical Plant.

A 350 millionth tire of KAMA310 brand rolled off the conveyor of Nizhnekamsk Truck Tire Factory.

TATNEFT and "AvtoVAZ" signed a strategic partnership agreement providing for the supply of tires manufactured by JSC "Nizhnekamskshina" to Togliatti Automobile Factory in 2012-2014.

Two new JSC TATNEFT's filling stations were opened in Penza region.

APRIL

JSC TATNEFT received a 5,000th patent for invention.

Multifunctional modular measurement system for performance of commercial oil production check measurements was developed at JSC TATNEFT.

Products of JSC TATNEFT tire manufacturing complex were presented at the XX1st "World of Cars" International Exhibition held in St. Petersburg.

The corner stone was laid for a new school for 1224 students in the "Yashlek" neighborhood, Almetyevsk, with the construction scheduled for 2012-2013.

Young hockey players "Ak Bars" ("Ak Bars-95" and "Ak Bars-96") became national champions, winning the ice hockey championship of Russia.

MAY

Program of cooperation in trade, economic, cultural and humanitarian fields between Turkmenistan and the Republic of Tatarstan for 2012-2014 was signed in Kazan.

Delegation of Turkmenistan visited JSC TATNEFT in the frame of its official visit to the Republic of Tatarstan.

Annual conference of inventors and innovators, which summed up results of innovation activities in 2011, was held at JSC TATNEFT.

New edition of JSC TATNEFT's Policy in the field of industrial safety, health and environment was approved.

Large group of specialists from the Ministry of Ecology and Natural Resources of the Republic of Tatarstan visited JSC TATNEFT for hands-on experience with the Company's system of production and environmental monitoring of water bodies in the areas of its activities.

"Electronic Corporate University" (ECU) and "Students' Labor Exchange" innovative projects of JSC TATNEFT in the field of e-learning received high marks at the Silicon Valley, USA.

Delegation of scientists from the Academy of Sciences of the Republic of Tatarstan visited the "TANECO" Oil Refining and Petrochemical Plants Complex.

Four days' training course on the technology of reservoir hydraulic fracturing was arranged at JSC TATNEFT in the premises of NGDU "Almetyevneft". The classes were given by Dr. Ali Daneshy, President of "Daneshy Consulting International".

Yellkhovo Refinery Administration celebrated its 20th anniversary.

Management of JSC TATNEFT decided to allocate 18 million rubles for victims of the spring floods in Almetyevsk district.

JUNE

Annual JSC TATNEFT's shareholders general meeting was held.

Fitch Ratings agency announced that it had raised the long-term Company's default rating of JSC TATNEFT n.a. V.D. Shashin to BB+, outlook - "stable".

JSC TATNEFT representatives attended the XVI International Economic Forum in St. Petersburg.

5,000,000 tons of Tatarstan oil were used and processed at the "TANECO" Oil Refining and Petrochemical Plants Complex since the start of integrated equipment testing and in the process of commercial operation.

"Predkombinatetskaya" railway station for the Oil Refining and Petrochemical Plants Complex was opened with participation of R.N. Minnikhanov, President of the Republic of Tatarstan.

First million tons of JSC "TANECO" products were delivered to the trunk pipelines system of JSC "Middle Volga Transnefteproduct".

The first batch of products was shipped from the JSC "TANECO" synthetic oils plant for JSC "AvtoVAZ". 65 tons of synthetic gear oil "TATNEFT Translux" were sent to the Consumer.

Nizhnekamsk truck tire factory produced a 70 millionth tire since the start of production.

Tire manufacturing complex of JSC TATNEFT presented its products at REIFEN-2012, XXVIIth World Fair of tires, technologies, equipment and materials for manufacturing in Essen (Germany).

"Tatneftegazpererabotka" Administration celebrated its 10th anniversary.

Main and leading experts of JSC TATNEFT participated in the examination jury during online defense of graduation works by the promising graduates from field-specific higher education institutions.

JULY

Summit of oil companies of the Republic of Tatarstan was held with participation of R.N. Minnikhanov, President of the Republic of Tatarstan.

Moody's Investor Services rating agency announced increasing the corporate group default probability rating of JSC TATNEFT n.a. V.D. Shashin to level Ba1, outlook - "stable."

Celebrations to mark the 50th anniversary of NGDU "Elkhovneft" were held.

Logistics Administration of JSC TATNEFT celebrated 10 years.

Humanitarian aid collected by TATNEFT Group of Companies was sent for flood victims in Krasnodar territory.

New fountain was opened in the "Romashkino" sanatorium.

AUGUST

Celebrations to mark the 60th anniversary of NGDU "Almetyevneft" were held with participation of R.N. Minnikhanov, President of the Republic of Tatarstan.

Press tour of federal and national media representatives around the facilities of NGDU "Almetyevneft" was organized.

Alexander Novak, Energy Minister of the Russian Federation, visited JSC TATNEFT and highly praised the Company's activities.

Hugo Jose Garcia Hernandez, Ambassador Extraordinary and Plenipotentiary of the Bolivarian Republic of Venezuela in the Russian Federation, and Hoglis Martinez, Minister-Counselor for Energy, visited TATNEFT Company as part of their working tour of the major industrial enterprises of Tatarstan.

Mounting of the unique hydrocracking fractionator manufactured by "Atom mash" in Volgodonsk was completed at the Oil Refining and Petrochemical Complex site.

Granulated sulfur production was started at OAO "TANECO" marking the technological completeness of the whole production chain of Stage 1A1.

Recertification audit of JSC TATNEFT was held. The Company confirmed compliance with the international requirements of the integrated management system for industrial safety, labor and environmental protection ISO 14001:2004 and OHSAS 18001:2007.

The first dual production from the well with horizontal wellbore completion was carried out at NGDU "Aznakaevskneft".

A sixth ponds cascade phase, built with JSC TATNEFT funding, was commissioned in Almetyevsk, a memorial stone dedicated to production of 1 billion tons of oil was laid in the new park and a bust of N.K. Baibakov was unveiled in the Alley of Heroes of the Almetyevsk recreation park named after the 60th anniversary of Tatarstan's oil.

Annual professional skills contest among the young workers of TATNEFT Production Group was held. For the first time in the contest's history it was possible to watch it live broadcast on the TV "Luch" Company's channel and via the internal corporate Intranet.

JSC TATNEFT acquired the latest diagnostic equipment for the city clinic.

SEPTEMBER

Celebrations in honor of Oil and Gas Industry Workers Day with participation of R. N. Minnikhanov, President of the Republic of Tatarstan were held in Almetyevsk.

The XXXth All-Russian scientific and production conference of NTO n.a. I.M. Gubkin on "Environmental protection at oil and gas sector facilities" was held at JSC TATNEFT.

The IIIrd All-Russian scientific practical conference "Status and further development of basic principles of oil fields development" in memory of N. N. Lisovski was held at JSC TATNEFT. The conference was attended by Alexander Popov, Head of the Federal Agency for Subsoil Use.

The XIIth Youth Scientific and Practical Conference of JSC TATNEFT timed to the 50th anniversary of NGDU "Elkhovneft" was held in Almetьевsk.

150 thousand tons of extra-viscous oil were produced at Ashalchinskoye oil field from the start of its development.

The design voltage was supplied to main step-down substation No. 2 feeding the voltage to JSC "TANECO"'s second stage facilities.

A third JSC TATNEFT's filling station was opened in Belarus.

Nizhnekamsk SSC Tire Factory put into production tires of a new model KAMA NU-301, size 275/70 R22 with universal tread for city buses.

OCTOBER

Celebrations to mark the 60th anniversary of OOO "Burenye" (Drilling Company) were held in Almetьевsk.

"TATNEFTesnab" Administration turned 60 years.

Media office of JSC TATNEFT turned 20 years.

Celebrations to mark the 60-th anniversary of OOO "Almetьевski UTT-1" were held.

Sergey Donskoy, Minister of Natural Resources of the Russian Federation, visited JSC TATNEFT and highly praised the Company's activities.

Project for development and content filling of the positions profiles and profiles of the Company's Employees was successfully completed at JSC TATNEFT. The pilot project had been implemented for TATNEFT Group of Companies by the experts of Energy Consulting on the basis of NGDU "Yelkhovneft", which is one of the major TATNEFT's Oil & Gas Production Boards with the participation of experts including specialists of the Company's Executive Office, Engineering Center, NGDU "Almetьевneft" and NGDU "Yamashneft".

Young specialists of OAO "Surgutneftegas" completed practical training at the JSC TATNEFT's facilities within the scope of experience exchange between the oil companies.

Fair of TATNEFT Group of Companies' scientific and technical ideas and proposals was organized jointly with the Scientific and Technical Society of petroleum and gas engineers of the Republic of Tatarstan.

NOVEMBER

Nizhnekamsk SSC Tire successfully passed the certification environmental audit.

Three days' training seminar on new technologies of drilling, well workover and construction of horizontal, lateral horizontal and downhole splitters was for the first time arranged at JSC TATNEFT for managers and experts of structural divisions and management oil service companies.

DECEMBER

Design voltage was supplied to the technological facilities of the combined hydrocracking unit of the Oil Refining and Petrochemical Plants Complex in Nizhnekamsk. The event was held with participation of the RT President R.N. Minnikhanov.

Press tour of federal and national media representatives around the facilities of the JSC TATNEFT's petrochemical and refinery complexes was organized.

The XIIIth report and election conference of JSC TATNEFT young workers was held.

National Company "KazMunaiGas" delegation visited JSC TATNEFT.

New pressure pipeline "Pervomaysky tank farm - Naberezhnye Chelny pumping station" of NGDU "Prikamneft" was put into operation.

The Company signed an agreement on the creation and location of OOO "Research and Technology Center TATNEFT" in the "Skolkovo" technopark.

New Music College, built at the expense of JSC TATNEFT, was opened in Jalil.

AWARDS AND NOMINATIONS OF JSC TATNEFT IN 2012

INTERNATIONAL AWARDS AND NOMINATIONS

1. Grand Prix "Gold Archimedes", two gold, six silver and eight bronze medals, as well as the Cup and Diploma "For high level of inventiveness in the Republic of Tatarstan" of the XVth International Salon of Inventions and Innovation Technologies "Archimedes-2012".

2. Financing of the construction of "TANECO" Refining and Petrochemical Plants Complex with participation of expert crediting agencies of Denmark (EKF) and Italy (SACE) was named "Deal of the Year" and distinguished by the prestigious award of the International rating of structured and trade finance.

3. JSC TATNEFT was rated the best company of Eastern Europe in refining and sales in 2012.

4. Bronze statuette of a winged horse "PEGAZ Zlatokryly" was presented to the Company's press-service team, while the first prize was awarded to the editorial staff of the "Oil News" newspaper and a special prize was awarded to the team of JSC TATNEFT TV studio in the nomination "For the best material about the modern hero of labor in a newspaper, magazine, on television, radio and the Internet" at the XVIIIth "PEGAZ" International media contest.

5. Diploma of Ministry of Petroleum and Mineral Resources of Turkmenistan for participation in exhibition's events of the XVIIth International Specialized Exhibition "Oil and Gas of Turkmenistan-2012".

6. Five awards were conferred to JSC TATNEFT by the results of the XIXth International Exhibition arranged in the frame of the International Exhibition "Oil and Gas. Petrochemicals": four engineering developments of TatNIPneft and one of Bugulma Mechanical Plant.

ALL-RUSSIA AWARDS AND NOMINATIONS

1. Shafagat Takhautdinov, General Director of JSC TATNEFT was awarded a commendation by the order of the Russian Federation President for labor achievements and many years of diligent work.

2. Shafagat Takhautdinov, General Director of JSC TATNEFT, was named among ten most influential managers of fuel and energy complex in the ranking of APEC.

3. The "Environmentalist of the Year" Badge was awarded to Shafagat Takhautdinov, General Director of JSC TATNEFT, at the VIth All-Russia contest "100 best companies in Russia. Ecology and Environmental Management".

4. Top managers of JSC TATNEFT joined the list of the best managers in Russia.

Shafagat Takhautdinov, General Director of JSC TATNEFT headed the ten business leaders list in the fuel sector.

Nail Maganov, First Deputy General Director of JSC TATNEFT – Head of Crude Oil and Petroleum Products Sale Department was named among the top five commercial directors of the energy and fuel sector companies.

Victor Gorodniy, Deputy General Director – Head of Property Department of JSC TATNEFT was named among the best five Directors on Corporate Management of the energy and fuel sector.

Fedor Shchelkov, Deputy General Director for General Issues was named among the best three marketing directors.

Azat Yagafarov, Deputy General Director – Director of the JSC TATNEFT's Representative Office in Moscow was named among the five best directors of the energy and fuel complex for interaction with public authorities.

Alexey Bespalov, Deputy Chief Engineer -Head of Information Technologies Department of JSC TATNEFT took the second place among the best IT-directors of the energy and fuel sector in the XIIIth annual ranking "Top-1000 Russian Managers."

5. JSC TATNEFT was awarded a diploma "For the development of human capital of the fuel and energy sector, introduction of innovative educational resources, implemented in 2011-2012" at the IIIrd All-Russian HR Conference "Russian fuel and energy sector: from human resources to human capital".

6. Geologists of JSC TATNEFT became winners in the category "Innovative technologies implementation in exploration operations" at the All-Russian contest for the prize of the Russian Geological Society (RosGeo) and Federal Agency for Subsoil Use (Rosnedra) of the Ministry of Ecology and Natural Resources of the Russian Federation.

7. Teams of TATNEFT's filling stations were presented industry-branch rewards of the Ministry of Energy, National Energy Saving Alliance and Russian Union of Oil and Gas Producers at the All-Russian conference "The Russian petroleum products market: regulation, competition, pricing."

8. JSC TATNEFT twice entered the TOP 10 with the highest level of transparency in the rating of information transparency of the Russian fuel and energy complex companies.

9. JSC "Nizhnekamskshina", petrochemical complex enterprise of JSC TATNEFT, was awarded the winner diploma of "Environmental Leader in Russia-2012" at the National contest "Environmental Leader in Russia."

10. Academician I.M. Gubkin Prize was awarded to four teams of JSC TATNEFT professionals for the following scientific and technical engineering developments and monographs:

"New approaches to thermal and hydro-dynamic studies of wells and reservoirs" (JSC TATNEFT); "Several technologies to develop complicated structure carbonate reservoirs" (NGDU "Leninogorskneft"); "Advances in technologies for reservoir pressure maintenance at the late stage of oil field development" (NGDU "Bavlyneft"), "A new approach to the operation of highly watered oil field areas with application of the well bore products gravity separation technology followed by injection of water into absorbing layers without lifting it to the surface "(NGDU "Yamashneft").

11. Two young professionals of NGDU "Bavlyneft": Airat Khafizov (Section "The annual All-Russian contest within the scope of the international conference. Innovative environmental management") and Roman Chernov (Section "State and Municipal Management") were named among the winners at the "Lomonosov-2012" International Conference of Students, Post-graduates and Young scientists.

12. The Annual Report of JSC TATNEFT took the second place in the nomination "Best Report on the Corporate Social Responsibility and Sustainable Development" at the XVth annual reports contest.

AWARDS AND NOMINATIONS OF THE REPUBLIC OF TATARSTAN

1. The following representatives of JSC TATNEFT were named prize winners of the Republican contest "Manager of the Year in the Republic of Tatarstan":

Victor Gorodniy, Deputy General Director, Head of Property Department of JSC TATNEFT in the category "Top level competitiveness";

Ravil Ibatullin, Director of TatNIPneft, in the category "Achievements in innovative activities";

Rustam Mukhamadeev, Deputy General Director for Human Resources and Social Development of JSC TATNEFT, in the category "Active development of human resources".

2. By the results of the Republican review contest for the best inventions, rationalization and licensing work organization among the enterprises, organizations and institutions of the Republic of Tatarstan the following persons were awarded Badges "For merits in the Society of Inventors and Rationalizers":

Nail Ibragimov, First Deputy General Director for Operations – Chief Engineer of JSC TATNEFT;

Ravil Ibatullin, Director of TatNIPneft.

3. 9 engineering developments of JSC TATNEFT won prizes and awards:

The first, second, third prizes and four incentive bonuses in the "Oil Production" nomination;

The third prize in the "Chemistry" nomination;

A prize of the "Best Invention of Tatarstan" contest in the "Utility Model" nomination.

4. At the VIIIth Republican contest for the prizes of the Government of the Republic of Tatarstan for quality the Diploma holding title was awarded to:

OOO "Nizhnekamsk Truck Tires Factory", headed by Michael Mokhnatkin, Executive Director; OOO "TATNEFT-AZS Center" headed by Vyacheslav Chichkov, Director;

NOU "Personnel Training Center – TATNEFT", headed by Vladislav Kirillov, Director.

5. JSC TATNEFT was awarded the winner diploma and the memorable prize in the nomination "Fuel industry branch". JSC TATNEFT was awarded the memorable plaque and the first degree diploma in the "Energy efficient equipment and technologies" nomination, the second degree diploma in the "Energy efficient products" nomination. The corporate media ("Oil and Life" magazine – 1st place, "Oil News" newspaper – 2nd place, TV studio " TATNEFT's Time " – 3rd place) were awarded diplomas of winners for the promotion of energy saving programs in various categories in the Republican contest "Resource Efficiency. Energy saving."

6. The State Prize of the Republic of Tatarstan in the field of science and technology in 2012 was awarded to professionals and scientists of JSC TATNEFT: V.G. Bazarevskaya, I.M. Bakirov, R.Sh. Dinmukhamedov, V.A. Ekimenko, E.G. Kormishin, L.I. Motina, T.I. Tarasova and R.I. Shafigullin for the work "Scientific fundamentals and industrial introduction of methods and technologies for the development of the JSC TATNEFT's resource base".

7. 10 projects submitted by the enterprises of TATNEFT Industrial Group were named among the winners of the VIIth Republican contest of innovative ideas ("50 best innovative ideas for the Republic of Tatarstan" in 2012).

8. Winner diplomas were awarded to OOO "Nizhnekamsk Truck Tires Factory" and OOO "Nizhnekamsk SSC Tire Factory" in the nomination "Industrial and technology products"; three diplomas and the "Quality Leader of Tatarstan – 2012" prize were awarded to the Medical Unit (Medsanchast) of JSC TATNEFT and the city of Almet'yevsk. Laureate title was awarded to the "Yan" sanatorium and the "Yan" mountain ski complex of NGDU "Yamashneft" in the "Services" nomination and the 1st degree diploma was awarded to "Yan" golf club of NGDU "Yamashneft" in the Republican contest "Best Goods and Services of the Republic of Tatarstan".

9. "TATNEFT's Time" TV studio took the 1st place in the "Corporate media" nomination of the Republican "Crystal Pen" journalistic contest.

10. The "Oil News" newspaper won the 1st place in the Republican journalistic contest "Strong civil defense means a well protected state" in the nomination "Best material on subjects of civil defense in the press".

AWARDS AND NOMINATIONS OF THE TRADE UNIONS FEDERATION OF THE REPUBLIC OF TATARSTAN

1. Trade union organizations of TATNEFT Industrial Group enterprises: OOO "TATNEFT-Neftekhim" Management Company and OOO "TATNEFT-Energoservice" Management Company, OOO "Drilling", OOO "Nizhnekamsk CHP" were nominated in the "Trade Union Activists School" contest.

2. Among the media representatives the winner diploma was awarded to the large-circulation newspaper "Gazopererabotchik Tatarstana" in the nomination "Best print publication", while JSC TATNEFT's TV studio was awarded third place in the "Best video" category in the contest of the Federation of Trade Unions of the Republic of Tatarstan in 2012 for "Best media coverage of trade unions activities".

ANNOTATION TO THE REPORT ON SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY OF JSC TATNEFT FOR 2012

The Report on Sustainable Development and Social Responsibility of JSC TATNEFT for 2012 has been prepared in order to more fully inform all concerned parties about the activities of the Company aimed at achieving sustainable development objectives. The report reflects the technical and economic performance parameters of the Company's activities in the areas of environmental protection, issues related to occupational safety and social welfare of employees, personnel training and development, as well as implementation of socially important programs and projects in the regions of the Company's activities.

This Report of the Company has been prepared on the basis of the Guide to reporting on sustainable development of the Global Reporting Initiative (GRI) and the Standard of interaction with concerned parties AA1000 taking into account the principles of International standard ISO 26000 "Guidance on social responsibility" and the Social Charter of Russia's Business (RSPP).The report has been certified by an independent party ZAO "Bureau Veritas Certification Rus" and passed the procedure of public assurance by the RSPP Board of non-financial reporting.

The Report on Sustainable Development and Social Responsibility complements the Company's Annual Report detailing the Company's social aspects and areas of its corporate activities. The Report on Sustainable Development and Social Responsibility and Annual Report offer to the interested parties complete information for in-depth and comprehensive analysis of the Company's activities taking into account long-term prospects.

Electronic versions of the Report on Sustainable Development and Social Responsibility are available on the Company's Internet portal www.TATNEFT.ru.

AUDIT OPINION

AUDIT OPINION OF ACCOUNTING (FINANCIAL) STATEMENTS
for the period from January 01 till December 31, 2012

AUDIT OPINION

To Shareholders of the Open Joint Stock Company TATNEFT named after V.D.Shashin

Audited Entity

Full name: Open Joint Stock Company TATNEFT named after V.D. Shashin (hereinafter referred to as the Company).
Abbreviated Name: JSC TATNEFT n.a. V.D. Shashin.
State Registration Number 1021601623702.
Location: 75, Lenin Street, Almetyevsk 423450, Republic of Tatarstan, Russian Federation

Auditor

Name: ZAO ENERGY CONSULTING/Audit
State Registration Number: 1047717034640.
Location: 7 Pavlovskaya St., Moscow 115093, Russia.
Postal address: 7 Pavlovskaya Street, Moscow 115093, Russia.
Member of NP "Institute of Professional Auditors of Russia (IPAR)", basic state registration number: 10202014620.

We have audited the accompanying financial statements of the Company comprising the balance sheet as of December 31, 2012, the profit and loss statement, attachments to the balance sheet and the profit and loss statement (the statement of changes in equity and the statement of cash flows for the year 2012), other attachments to the balance sheet and the profit and loss statement (explanatory notes).

Responsibility of the Audited Entity for Financial Statement

The Company's management is responsible for compiling and authenticity of the submitted financial statements in accordance with the rules of accounting reports compiling in the Russian Federation and for the system of internal control necessary for preparation of financial statements free of material misstatement due to fraud or errors.

Responsibility of the Auditor

Our responsibility is to express an opinion on authenticity of the financial statements based on our audit results. We have carried out the audit in accordance with the federal auditing standards of the Russian Federation. These standards require that we comply with relevant ethical requirements and perform the audit to obtain reasonable assurance that the financial statements are free of any material misstatement.

The audit included performance of audit procedures aimed at obtaining audit evidence supporting the numerical indicators of the financial statements and disclosure of the information contained therein. The choice of the audit procedures is the subject of our judgment, which is based on the assessment of the risk of material misstatements, made due to fraud or errors. In assessing this risk, we considered the system of internal control, providing for compiling and authenticity of the financial statements in order to select the relevant conditions for setting the auditing procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control system.



JSC TATNEFT named after V.D. Shashin

AUDIT OPINION OF ACCOUNTING (FINANCIAL) STATEMENTS
for the period from January 01 till December 31, 2012

The audit also included the assessment of appropriateness of the accounting policies applied and the reasonableness of the estimated figures received by the management of the audited entity as well as the overall assessment of the financial statements presentation in general.

We believe that the audit evidence provides a reasonable basis for expressing an opinion on the authenticity of the financial statements.

Opinion

In our opinion, the financial statements authentically present in all material respects the financial position of JSC TATNEFT named after V.D. Shashin as of December 31, 2012, the results of its financial and business performance and cash flows for the year 2012 in accordance with the established rules of compiling financial statements in the Russian Federation.

March 28, 2013

General Director
ZAO ENERGY CONSULTING



L.A. Antonenko
Auditor's qualification certificate of Sept.08, 2011
No. 02-000014, ORNZ 29702011544



JSC TATNEFT named after V.D. Shashin

FINANCIAL STATEMENTS
OF JSC TATNEFT FOR 2012

BALANCE SHEET (thousand RUR.)

INDICATOR DESCRIPTION	LINE CODE	AS OF DECEMBER 31, 2012	AS OF DECEMBER 31, 2011	AS OF DECEMBER 31, 2010
ASSETS				
I. FIXED ASSETS				
Intangible assets	1110	199,857	201,468	212,034
incl. non-completed works for creation of intangible assets	1111	150,422	118,203	95,598
Results of studies and developments	1120	140,440	90,875	113,395
incl. non-completed R&D works	1121	128,527	80,401	98,508
Intangible development assets	1130	4,239,122	4,275,474	4,182,408
Tangible development assets	1140	765,985	868,591	1,041,367
Fixed assets	1150	94,761,135	76,559,242	63,488,268
incl. incomplete construction	1151	16,788,581	7,162,480	4,022,112
Equipment for installation	1152	5,848,485	3,542,457	88,880
Income-bearing investments in tangible assets	1160	5,532,106	5,832,537	6,035,729
Financial investments	1170	41,341,354	41,567,542	56,073,711
Deferred tax assets	1180	–	–	–
Other non-current assets	1190	20,213,287	7,884,544	2,153,568
incl. advance payments given for procurement and construction of fixed assets	1191	17,221,231	7,062,868	1,468,077
TOTAL for section I	1100	167,193,286	137,280,273	133,300,480
II. CURRENT ASSETS				
Reserves	1210	25,283,687	19,280,102	13,501,302
incl. feedstock, materials	1211	1,243,692	1,382,972	785,247
Non-completed production expenses	1212	7,038,008	6,836,399	5,952,176
finished products and goods for resale	1213	15,259,334	10,003,092	6,574,282
goods shipped	1214	1,673,416	986,580	87,185
other reserves and expenses	1215	69,237	71,059	102,412
Input value added tax for acquired values	1220	3,667,200	3,830,658	3,331,334
Receivables	1230	75,310,109	85,327,875	80,371,150
incl. receivables, payments for which are expected later than 12 months after the report date	1231	5,081,390	9,596,916	14,385,751
incl. buyers and customers	1232	2,952,290	6,276,669	10,307,013
advance paid out	1233	539	2,825	3,346
Other debtors	1234	2,128,561	3,317,422	4,075,392
incl. receivables, payments for which are expected later than 12 months after the report date	1235	70,228,719	75,730,959	65,985,399
incl. buyers and customers	1236	44,701,410	53,598,749	48,710,983
advance paid out	1237	14,981,399	12,368,687	12,178,465
other debtors	1238	10,545,910	9,763,523	5,095,951
Financial assets (except cash equivalents)	1240	194,749,775	200,472,862	184,454,534
Cash and cash equivalents	1250	8,056,963	15,719,038	3,994,733
Other current assets	1260	301,640	332,158	388,951
TOTAL for section II	1200	307,369,374	324,962,693	286,042,004
BALANCE	1600	474,562,660	462,242,966	419,342,484

BALANCE SHEET (thousand RUR.)

INDICATOR DESCRIPTION	LINE CODE	AS OF DECEMBER 31, 2012	AS OF DECEMBER 31, 2011	AS OF DECEMBER 31, 2010
LIABILITIES				
III. CAPITAL AND RESERVES				
Authorized capital (share capital, registered fund, contributions of partners)	1310	2,326,199	2,326,199	2,326,199
Own shares repurchased	1320	(-)	(-)	(-)
Revaluation of current assets	1340	9,548,876	9,638,151	9,125,551
Additional fund (without revaluation)	1350	10,353	(9,231)	
Reserve fund	1360	1,265,940	1,197,142	1,195,856
Undistributed profits (uncovered loss)	1370	365,348,442	315,721,541	272,732,296
TOTA for Section III	1300	378,499,810	328,873,802	285,379,902
IV. LONG-TERM LIABILITIES				
Loans and borrowings	1410	34,026,859	58,831,609	74,256,907
Deferred tax liabilities	1420	7,433,542	6,865,859	4,671,779
Estimated liabilities	1430	5,466	-	-
Other liabilities	1450	17,931	121,813	289,141
TOTAL for Section IV	1400	41,483,798	65,819,281	79,217,827
V. SHORT-TERM LIABILITIES				
Loans and borrowings	1510	25,831,964	37,977,561	33,052,910
Credit indebtedness	1520	25,390,863	27,947,958	20,906,223
incl. suppliers and contractors	1521	9,903,302	8,138,832	6,759,019
Debt to the state non-budgetary funds	1522	276,771	220,044	112,276
Taxes and dues payable	1523	9,106,492	9,657,722	8,041,803
Advances received	1524	1,859,202	3,727,482	2,652,158
Indebtedness to participants (incorporators) for income distribution	1525	101,477	95,551	105,536
Other creditors	1526	4,143,619	6,108,327	3,235,431
Deferred revenues	1530	6,433	7,714	8,693
Estimated liabilities	1540	1,373,622	1,224,531	545,019
Other liabilities	1550	1,976,170	392,119	231,910
TOTAL for Section V	1500	54,579,052	67,549,883	54,744,755
BALANCE	1700	474,562,660	462,242,966	419,342,484

PROFIT AND LOSS STATEMENT FY 2012 (thousand RUR.)

INDICATOR DESCRIPTION	LINE CODE	JANUARY-DECEMBER 2012	JANUARY-DECEMBER 2011
Revenues	2110	344,563,268	318,594,183
Production cost of sales	2120	(207,395,142)	(198,332,856)
Gross profit	2100	137,168,126	120,261,327
Selling expenses	2210	(35,083,893)	(24,485,140)
Management expenses	2220	–	–
Mineral exploration and evaluation costs	2230	(59,806)	(74,850)
Profit (loss) from sales	2200	102,024,427	95,701,337
Profits from participation in other organizations	2310	214,560	564,532
Interests receivable	2320	3,891,121	2,193,112
Interest payable	2330	(2,939,719)	(3,620,561)
Other incomes	2340	7,325,554	8,413,433
Other expenses	2350	(23,582,524)	(28,177,034)
Profit (loss) before taxation	2300	86,933,419	75,074,819
Current income tax	2410	(20,606,585)	(16,274,726)
incl. constant Tax Liabilities (assets)	2421	(3,787,584)	(3,453,842)
Changes of deferred tax liabilities	2430	(567,683)	(2,194,080)
Changes of deferred tax assets	2450		
Any other	2460	693,426	(1,784,656)
Redistribution of income tax inside consolidated taxpayer group	2465	254,783	–
Net profit (loss)	2400	66,707,360	54,821,357

INFORMATIONAL

Result of fixed assets revaluation not included in the net income (loss) for the period	2510	405,484	609,626
Result from other operations not included in the net income (loss) for the period	2520	(19,584)	(9,231)
Cumulative financial result for the period	2500	67,132,428	55,421,752
Basic earnings (loss) per share	2900	30.04	24.68
Diluted earnings (loss) per share	2910	–	–

ESSENTIAL ASPECTS OF THE ACCOUNTING POLICY AND INFORMATION REPRESENTATION IN FINANCIAL STATEMENTS FOR 2012

MAIN APPROACHES TO PREPARATION OF ANNUAL FINANCIAL STATEMENTS

Financial accounting in the Company is carried out in accordance with Federal Law No. 129-FZ of Nov. 21, 1996 “On Accounting”, Provision on Accounting and Reporting in the Russian Federation approved by order of the Russian Federation Ministry of Finance No.34n dated July 29, 1998 (PBU), as well as the accounting policy of the Company. Financial statements of the Company for 2012 were executed in compliance with Federal Law No.402-FZ of December 06, 2011 “On Accounting”, accounting and reporting policy, as well as the assumption of the organization activity continuity. Annual financial statements for 2012 were compiled according to the forms developed and approved by the Company in accordance with the Order of the Ministry of Finance No. 66n of July 02, 2010 “On Forms of Organizations’ Accounting”. The data in financial statements is presented in thousands of rubles

ASSETS AND LIABILITIES EXPRESSED IN FOREIGN CURRENCY

Accounting for assets and liabilities denominated in foreign currencies is carried out in accordance with PBU 3/2006, “Accounting for Assets and Liabilities Denominated in Foreign Currencies”, and approved by Order No. 154n of the Finance Ministry of the Russian Federation dated November 27, 2006.

The exchange rate difference is reflected in the accounting and financial statements for the concerned reporting period with the due date of payment or which the financial statements were executed for.

The exchange rate difference arising from translation of the organization's assets and liabilities denominated in foreign currency used for performing activities outside the Russian Federation into rubles is credited to the organization's additional capital. The exchange rate difference is credited to financial results of the organization as other income and expenses. The currency exchange rate gains and losses are recognized in the Profit and Loss account in the “Other income” or “Other expenses”.

When accounting for business transactions in foreign currencies the official foreign currency exchange rate to the ruble was used valid for the day of the transaction. Cash in foreign currency accounts in banks and on hand, financial investments (except shares), and settlement funds in foreign currencies (except the funds received and given as advances and pre-payment or earnest money) are reflected in the financial statements as amounts calculated on the basis of the currencies’ official exchange rates in effect for December 31, 2012. The currency exchange rates for that date amounted to 32.1961 rubles for USD 1 (32.1961 rubles for December 31, 2011 and 30.4769 rubles for December 31, 2010); 41.6714 rubles for 1 Euro (41.6714 rubles for December 31, 2011 and 40.3331 rubles for December 31, 2010).

INTANGIBLE ASSETS

Reflected as part of intangible assets are software programs for computers; inventions; useful models; production secrets (know-how); trademarks and service marks, licenses for mineral geological exploration and production, and licenses for mineral production.

The costs associated with creation of computer programs and databases, which are not planned for registration with a federal executive authority on the intellectual property, are also taken into account as part of intangible assets.

Acc. to PBU 14/2007 “Accounting of Intangible Assets”, intangible assets are accepted for accounting at their original cost.

The original value of intangible assets acquired under contracts providing for execution of non-monetary obligation, is determined based on the value of the assets transferred or subject to transfer by the organization. The cost of the assets transferred or subject to transfer is set on the basis of the price, at which the value of similar assets is usually determined in comparable circumstances.

If it is impossible to establish the value of assets transferred or subject to transfer by the organization, then the value of obtained intangible assets is determined based on the price, at which similar intangible assets are usually purchased.

The value of intangible assets shall be repaid by the straight-line depreciation method at the rates specified on the basis of the due date of their useful life.

Depreciation is not charged for intangible assets with an indefinite period of useful service life.

Depreciation charging is performed through accumulation of appropriate amounts in a separate account. Depreciation on intangible assets is reflected in the accounting period, which it refers to and is charged regardless of the organization’s activity outcome during the reporting period.

The useful life period of intangible assets is verified every year with the purpose of clarification. In case of a substantial change (by more than twenty percent) of the period duration of the intended asset's useful life the latter is subject to change. The resulting adjustments are reflected in the accounting and financial reporting at the beginning of the year as changes in the estimated values.

Revaluation of homogeneous intangible assets groups at fair market value is not carried out.

EXPENSES FOR SCIENTIFIC/RESEARCH, EXPERIMENTAL DESIGN AND ENGINEERING WORKS

Expenses for scientific/research, experimental/ design and engineering works are accounted in the amount of actual expenses incurred during performance of these works.

The expenses for scientific/research, experimental design and engineering, which yielded positive results and began to be used in the work are written off as expenses of ordinary activities starting with the month following the month when the actual application of the mentioned works’ results in production manufacturing (work performance, service rendering) or in meeting administrative needs of the organization began.

Writing off the costs of each completed research, development, design and technological engineering work, which yielded positive results, is done during the period of R & D results’ useful application specified in the minutes of the research and technological board (but should not exceed 5 years).

Expenditure on research, experimental design and engineering works that have not yielded positive results are written off to financial result as miscellaneous expenses in the reporting period.

EXPLORATION ASSETS

The Company considers the following to be exploration assets as part of tangible exploration assets:

- expenses for acquisition and construction of exploratory and advance operation wells, as well as other oilfield facilities;
- expenses for acquisition and rig-up of equipment for exploratory and advance operation wells.

According to the Company, the following types of exploration expenses are a part of intangible exploration assets:

- costs of purchasing licenses for geological study of subsurface, as well as licenses for geological study and production of mineral resources;
- expenses for prospecting, evaluation and exploration of mineral resources: expenses for geological, geochemical, geophysical works, as well as expenses for acquiring geological information on the subsurface from the third parties, including state authorities, and expenses for drilling key, appraisal and core holes.

The Company considers the following exploration costs as expenses for regular types of activity: expenses for maintaining structural divisions created solely for organizing or coordinating works on exploration, evaluation and prospecting mineral resources, as well as expenses for maintenance and repair of tangible exploration assets.

Tangible exploration assets are depreciated by the linear method during the period of their useful application.

The period for useful application of tangible exploration assets is set by JSC TATNEFT as per RF government regulation of January 1, 2002 No.1 On Classification of Fixed Assets Included in Depreciation Groups.

Depreciation costs for targets of tangible exploratory assets are included in the costs of prospecting, evaluation and exploration of mineral resources for relevant license subsurface areas.

Intangible exploration assets as licenses for geological subsurface study are depreciated by linear method during the period of their useful application.

Depreciation costs for aforementioned targets are included in the costs of prospecting, evaluation and exploration of mineral resources for relevant subsurface areas.

The economic expedience of oil production is considered to be confirmed at the moment of approval of the oilfield's development process scheme in the territory of the mineral resources' license area.

The Company performs annual verification of exploration assets for depreciation as of December 31 of the calendar year, as well as in the case of cessation of their recognition when confirming commercial expedience of oil production in the relevant subsurface license area.

For the purposes of verifying exploration assets for depreciation, the aforementioned assets are categorized by mineral resources' subsurface areas indicated in licenses.

The Company ceases recognition of exploration assets in relation to a certain mineral resources' subsurface area when confirming commercial expedience of oil production in such subsurface license area or confirming that production of mineral resources in such area is unpromising.

When confirming commercial expedience of oil production in a mineral resources' subsurface license area, the Company performs reclassification of exploration assets:

- tangible exploration assets are included in the category of fixed assets as per their residual value;
- intangible exploration assets are included in the category of intangible assets as per their residual value.

JSC TATNEFT writes exploration assets off to other expenses in case they are not capable of yielding economic benefits.

FIXED ASSETS

Land plots, buildings, installations, machinery, equipment, transport means and other facilities with the life time over 12 months and with the cost exceeding 40,000 rubles are reflected in the fixed assets category.

The Company performs revaluation of fixed asset items based on the current (replacement) value once a year (at the end of the reporting period).

Depreciation of the fixed assets placed in service before January 1, 2002, is carried out following a single depreciation rates pattern approved by the Council of Ministers of the USSR Order No. 1072 of November 22.10, 1990 "On Uniform Norms of Depreciation for Complete Recovery of Fixed Assets of the Soviet Economy" and of the ones put into service from January 1, 2002 with regard to the rates calculated on the basis of their useful life period. The classification of the fixed assets included in depreciation groups approved by the Government of the Russian Federation Order No. 1 of January 01, 2002 is used as a source of information about the useful life periods.

For this purpose, useful time periods for fixed assets (which have been put into operation since January 1, 2002) have been divided into the following depreciation groups:

1 group	13 months
2 group	30 months
3 group	48 months
4 group	72 months
5 group	96 months
6 group	132 months
7 group	192 months
8 group	252 months
9 group	312 months
10 group	372 months

Depreciation is calculated using a linear method.

FIXED ASSETS GROUPS	TIME PERIODS OF FACILITIES USEFUL LIFE (YEARS)	
	BEFORE JAN. 01,2002	AFTER JAN. 01,2002
Buildings	25-50	6-31
Facilities, including:	10-25	4-31
Wells	10-15	4-11
Machinery and equipment	5-15	2-21

Depreciation is not charged on the land plots and natural resources sites.

Changing of fixed assets original value as they as they were included for accounting purposes is allowed in cases of completion, retrofit, renovation, modernization, partial liquidation, and the revaluation of the fixed assets.

In accordance with paragraph 11 of PBU 6/01 "Accounting for Fixed Assets" the fixed assets obtained under contracts providing for in-kind fulfillment of obligations (payment of) are estimated as follows:

- at the cost of goods (values) that were transferred or are subject to transfer. The cost of goods (values) that were transferred or are subject to transfer shall be determined on the basis of the price, which in comparable circumstances usually determines the cost of similar goods (values).
- If it is impossible to establish the cost of goods (values) that have been transferred or are subject to transfer, then the cost of fixed assets obtained under contracts providing for in-kind fulfillment of obligations (payment of) shall be determined on the basis of the price, which in comparable circumstances shall be paid to acquire similar fixed assets.

The expenses of fixed assets repairs are included for accounting purposes for a period in which they were made.

The fixed assets in the "Non-Completed Construction" line include the costs of construction and erection works, acquisition of buildings, facilities, equipment and other tangible long use objects, capital works and other expenses. This line reflects the cost of capital construction before putting them into operation, after which the structures are transferred to fixed assets.

In addition to this, the "Non-Completed Construction" line reflects the costs associated with the lease of land for constructing future wells.

FINANCIAL INVESTMENTS

Financial investments are accepted for accounting at their original cost.

Financial investments defining the current market cost are reflected in the statements by the end of the reporting year by their current market cost through their assessment adjustment for the previous reporting date.

Financial investments for which there is no definition of the current market cost are reflected in reporting information as of the reporting date after deduction of the reserve amount formed for their depreciation.

Financial investments are included in the current assets if the expected duration of possession is less than 12 months after the reporting date. Other investments are included in fixed assets.

The cost of information, consultancy services, valuation services and other similar services related to taking a decision on acquisition of financial investments made prior to the acquisition of financial investments are recorded in the

line "Other Current Assets" (in case the decision to acquire the investments will be made within 12 months from the date of the expenditure). In other cases they are included in the line "Other Non-Current Assets".

On disposal of financial investments, for which the current market value cannot be determined, their value is formed on the basis of the assessment determined by:

- at disposal of shares or bonds – by the original cost of the first-time financial investments acquisition (method FIFO);
- at disposal of bills – by the original cost of each unit of financial investments accounting.

The cost of information, advisory services, valuation services and other similar services related to the disposal of financial investments made prior to the financial investments disposal of are reflected in the line "Other Current Assets".

In case of financial investments disposal, for which the current market value is not determined, their value is determined by the organization on the basis of the last assessment.

Gains and losses of financial investments disposal are reflected in the profit and loss statement as part of other income and expenses.

REPO transactions are reflected in the financial statements as giving or receiving a loan against securities.

INVENTORIES

The "Raw Materials and Supplies" line of the balance sheet reflects raw materials, basic and auxiliary materials, purchased semi-finished products and components, fuel, packaging, spare parts, construction and other materials.

The line of the material inventories also reflect the assets, which meet the conditions necessary for the recognizing them as the fixed assets provided that their cost is no more than 40,000 rubles per unit.

The inventories are recorded at the actual cost of their acquisition with the exception of VAT and other recoverable taxes (except as provided by the legislation of the Russian Federation).

Disposal of the inventories is carried at the average production cost.

The inventories, which are obsolete, wholly or partially lost their original quality, or which current market value decreased, are reflected in the balance sheet net of the reserve provision for impairment of the property costs.

NON-COMPLETED PRODUCTION, FINISHED PRODUCTS, GOODS AND SALES EXPENSES

Expenditures incurred for performance of activities under the Agreement for the exploration and production sharing with Libya during the exploration period are reflected as part of the production in progress. The plans provide that the mentioned expenditures for petroleum operations will be offset through delivery of finished products (crude oil, liquid hydrocarbon by-products and natural gas), which JSC TATNEFT will receive as a result of production sharing during the operational period.

Finished products are reflected in the balance-sheet at the full actual production cost (including management expenses).

In shipment of oil, petroleum products and gas products assessment is carried out by the average cost method for each group of products.

Sales expenditures are written off to the results of the Company's financial and economic activities without differentiating between the sold and unsold products.

GOODS SHIPPED

The accounting item "Goods Shipped" reflects shipped products, the title for which was not transferred to buyers.

This line also reflects the real estate property transferred to the buyer by the delivery-acceptance act before the moment of state registration of the transfer ownership.

INDEBTEDNESS

Indebtedness of buyers and customers is determined on the ground of prices established by contracts concluded between the Company and buyers (customers) taking into account all discounts (extra charges). Indebtedness unrealistic to be recovered is written off from the balance if it is proved to be such.

The indebtedness not paid within the time limits stipulated in contracts and not secured with respective guarantees is shown after deduction of accrued reserves for bad debts. These reserves constitute a conservative assessment carried out by the Company with regard to the part of debts which is likely not to be paid. The reserve is created for each doubtful debt outstanding (depending on the financial condition (solvency) of the debtor and an estimated probability of debt repayment in whole or in part) on the basis of the receivables inventory, made for the last day of the reporting month.

Income and expenses generated in the creation and recovery of allowance for doubtful debts in one financial year are reflected in the profit and loss statement in the lines "Other Income" or "Other Expenses".

CASH AND CASH EQUIVALENTS
In accordance with the regulations on accounting, "Report of Cash Flows," approved by Order No. 11n of the Ministry of Finance of Russia dated February 02, 2011 and entered into force starting with the financial statements for 2011, cash equivalents include highly liquid investments that can easily be converted into a known amount of cash and are subject to an insignificant risk of changes in value.

The Company considers bank deposits placed for the period up to 12 months under the contracts the terms of which provide for the possibility of early vindication, as cash equivalents.

In the Statement of Cash Flows:

- balances of cash and cash equivalents in foreign currency at the beginning and the end of the reporting period are reflected in the rubles amount, which is determined in accordance with PBU 3/2006. Differences arising in connection with the conversion of the organization's cash flows and cash equivalents in foreign currency exchange rates on different dates are reflected in the cash flows statement as the impact of foreign currency exchange rate changes against the ruble.
- indirect taxes (VAT and excise duties) as part of the proceeds from buyers and customers, payments to suppliers and contractors and payments to the Russian Federation budget system or reimbursement of out of it are reflected in the "Other Income" ("Other Payments") line as the balanced outcome as part of the other income (payments) from operating activities.

AUTHORIZED AND ADDITIONAL CAPITAL
The authorized capital is reflected in the amount of the face value of ordinary and preferred shares purchased by the shareholders.

The additional capital of the Company includes exchange differences arising from translation of the organization's assets and liabilities value expressed in foreign currency used to perform activities outside the Russian Federation into rubles. In addition, the revaluation surplus of fixed assets resulting from revaluation included in the additional capital is reflected the "Revaluation of Fixed Assets" line. Revaluation surplus in case of the fixed asset disposal is transferred from the additional capital to retained earnings of the Company.

In accordance with the legislation the Company established a reserve fund in the amount to 5% of the authorized capital, formed at the account of the Company's net profit. The reserve fund is intended to cover the losses of the Company for bonds redemption and repurchase of the Company's shares in the absence of other funds.

In accordance with the constituent documents the Company establishes an employees' shareholding fund, which is formed from the Company's net profit. Contributions to this fund are made in accordance with the methodology approved by "Regulations on Bonus Certificates of JSC TATNEFT".

ESTIMATED LIABILITIES
The Company acknowledges its estimated liability for bonus payment based on the results of the year.

The amount of monthly payments under the estimated liability is determined based on the monthly deduction payments and the actual expenses amount of the labor costs. Percentage of contributions under the estimated liability is calculated by the ratio of the annual planned expenditure for the labor payment to the planned total labor costs.

Based on the Provision "Estimated Liabilities, Contingent Liabilities and Contingent Assets (PBU 8/2010)" becoming effective the Company introduced amendments in terms of recognizing estimated liabilities to the employees for unused vacations.

The estimated liability value of unused employees' vacation for accrual of relevant allowance is determined based on the total number of days of the unused vacation for each employee of the average daily earnings and insurance premiums accrued on the specified reserve.

The actual amount of the vacation allowance (including the compensation amount for unused vacation) accrued to the employee in the accounting is ascribed due to the acknowledged amount of the estimated liability to the unused vacation payment.

An inventory of the estimated liability for unused vacation payment is carried out as of the last day of each quarter, which results are reflected by the estimated liability adjustments.

BORROWINGS AND CREDITS
In accordance with PBU 15/01 "Accounting of expenses on borrowings and credits" approved by Order No. 107n of the Ministry of Finance of Russia from October 06, 2008, the principal amount of the debt as per the loan (credit) received from the lender is taken into account in accordance with the terms of the loan agreement (credit agreement) in the amount of actually received cash or in the valuation of other things, which was provided for in the contract.

Loan and credit indebtedness, as well as accrued interest are reflected in the balance sheet of the "Borrowings" line.

Loan and credit indebtedness, as well as accrued interest in accounting is divided into short-term (the maturity of which does not exceed 12 months according to the contract) and long-term (the repayment period of which exceeds 12 months according to the contract).

Transfer of the long-term debt into the short term one is made at the time when 365 days are left before the debt principal amount repayment.

Interest on loans and credits received is recognized as other expense of the period in which they were incurred, except for the part to be included in the value of the investment asset.

Expenses of received loans and credits that are directly attributable to the acquisition and/or the creation of an investment asset are included in the cost of the asset and are repaid through depreciation unless the rules of accounting depreciation do not provide for depreciation charging.

Inclusion of the received loans and credits expenses in the original value of the investment asset is terminated on the first day of the month following the month of accepting the asset for accounting as a fixed asset, intangible asset or R & D expenditures.

RECOGNITION OF REVENUES FROM GOODS SALES
Proceeds from the sale of goods, products and service rendering (work execution) are recognized when the products are shipped to the buyers (services are rendered to the customers).

Proceeds from the sales under contracts providing for the fulfillment of obligations (payment) by non-monetary assets, are determined by the cost of the things of value, received or receivable by the Company, calculated on the basis of the prices which in comparable circumstances the Company generally determines in the evaluation of similar property.

Revenues are reflected in the accounts net of the value added tax, excises and similar compulsory payments.

According to contracts for hydrocarbons sale majority of the settlement documents must be handed over to the buyers no later than 15 days after shipment month date, with the price of raw materials to be determined by calculation on the basis of market quotations or it is fixed in the contract as agreed between the parties.

EXPENSES
Administrative expenses are written off for production in full on a monthly basis.

Distribution of the administrative expenses at the oil and gas production boards is made between the calculation items for crude oil and associated petroleum gas, the production of other goods (works, services) is made in proportion to the overall cost of their production net of royalties, taxes and other obligatory payments.

Distribution of the administrative expenses at the other structural divisions is carried out in proportion to the actual remuneration expenses for the labor of the main production workers.

PROPERTY ASSESSMENT
According to i. 1 of article 11 of Federal Law No. 129-FZ valuation of property and liabilities is performed for their reflection in the accounting and financial statements in terms of money.

Valuation of property acquired for a fee, is carried out by summing the actual costs incurred for its acquisition; the property received free of charge is evaluated at the market value at the date of recognition, and the property produced in the organization is evaluated at the actual cost of production.


Depreciation of fixed assets and intangible assets is made regardless of the organization's economic performance in the reporting period.

ACCOUNTING OF PROFIT TAX CALCULATIONS
During execution of the financial statements, the accounting balance-sheet reflects balanced (folded) sums of deferred tax asset and deferred tax liability.

CORRECTION OF ERRORS IN THE ACCOUNTING AND REPORTING
The error identified in the accounting records and financial statements is recognized as an essential one if the ratio of this error to the gross total of the relevant balance sheet article of JSC TATNEFT, or a line in the profit and loss statements of JSC TATNEFT for the reporting period amounts to at least five percent. In other cases the error is not significant.

IFRS CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011



Independent Auditor's Report

To the Shareholders and Board of Directors of OAO Tatneft

We have audited the accompanying consolidated financial statements of OAO Tatneft and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2012, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for 2012 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

5 April 2013

Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit, 10 Butyrsky Val, Moscow, Russian Federation, 125047

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Independent Auditor's Report (Continued)


T.S. Mityayeva, Director (licence no. 01-000496), ZAO PricewaterhouseCoopers Audit


State registration certificate № 632, issued by Ministry of Finance of the Republic of Tatarstan on 21 January 1994
Certificate of inclusion in the Unified State Register of Legal Entities № 1021601623702 issued on 18 July 2002
75, Lenina St., Almet'yevsk, Tatarstan, Russia, 423400

Independent auditor: ZAO PricewaterhouseCoopers Audit

State registration certificate № 008.890, issued by the Moscow Registration Bureau on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities № 1027700148431 issued on 22 August 2002

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

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IFRS CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (In millions of Russian Roubles)

	NOTE	31 DECEMBER 2012	31 DECEMBER 2011	1 JANUARY 2011
ASSETS				
Cash and cash equivalents	6	13,083	16,901	7,977
Restricted cash		1,369	1,178	2,897
Accounts receivable, net	7	53,553	62,094	54,707
Short-term financial assets	8	14,931	19,205	20,831
Inventories	9	28,590	25,238	15,119
Prepaid expenses and other current assets	10	28,806	26,677	27,030
Total current assets		140,332	151,293	128,561
Long-term accounts receivable, net	7	1,530	2,038	2,275
Long-term financial assets	11	25,782	18,439	16,314
Investments in associates and joint ventures	12	6,711	7,419	11,365
Property, plant and equipment, net	13	448,903	417,873	392,458
Deferred income tax assets	19	2,633	3,430	2,980
Other long-term assets	14	4,716	5,085	4,486
Total non-current assets		490,275	454,284	429,878
Non-current assets classified as held for sale	15	-	1,808	-
Total assets		630,607	607,385	558,439
LIABILITIES AND SHAREHOLDERS' EQUITY				
Short-term debt and current portion of long-term debt	16	32,096	41,997	35,620
Accounts payable and accrued liabilities	17	31,019	35,178	29,968
Taxes payable	19	13,435	14,123	10,582
Total current liabilities		76,550	91,298	76,170
Long-term debt, net of current portion	16	37,991	59,747	72,939
Other long-term liabilities	18	3,710	2,744	3,297
Decommissioning provision, net of current portion	13	51,089	53,655	62,324
Deferred tax liability	19	15,034	14,514	11,486
Total non-current liabilities		107,824	130,660	150,046
Total liabilities		184,374	221,958	226,216
SHAREHOLDERS' EQUITY				
Preferred shares (authorized and issued at 31 December 2012, 2011 and 1 January 2011 – 147,508,500 shares; nominal value at 31 December 2012, 2011 and 1 January 2011 – RR1.00)	20	746	746	746
Common shares (authorized and issued at 31 December 2012, 2011 and 1 January 2011 – 2,178,690,700 shares; nominal value at 31 December 2012, 2011 and 1 January 2011 – RR1.00)	20	11,021	11,021	11,021
Additional paid-in capital		87,482	87,482	87,174
Accumulated other comprehensive income		726	1,995	1,932
Retained earnings		333,072	275,675	224,975
Less: Common shares held in treasury, at cost (55,543,000 shares, 55,556,000 shares and 58,641,000 shares at 31 December 2012, 2011 and 1 January 2011, respectively)		(3,093)	(3,094)	(3,252)
Total Group shareholders' equity		429,954	373,825	322,596
Non-controlling interest	20	16,279	11,602	9,627
Total shareholders' equity		446,233	385,427	332,223
Total liabilities and equity		630,607	607,385	558,439

Approved for issue and signed on behalf of the Board of Directors on 5 April, 2013

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In millions of Russian Roubles)

	NOTE	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Sales and other operating revenues, net	23	444,099	417,586
COSTS AND OTHER DEDUCTIONS			
Operating	21	86,675	74,760
Purchased oil and refined products		53,900	73,827
Exploration		1,740	2,230
Transportation		29,108	21,762
Selling, general and administrative	21	40,910	33,986
Depreciation, depletion and amortization	13	17,770	12,223
Loss on disposals of property, plant and equipment, investments and impairments		1,997	220
Taxes other than income taxes	19	106,293	100,435
Maintenance of social infrastructure and transfer of social assets		4,031	3,561
Total costs and other deductions		342,424	323,004
OTHER INCOME (EXPENSES)			
Foreign exchange gain/(loss)		1,665	(3,033)
Interest income	22	3,872	2,656
Interest expense, net of amounts capitalized	22	(6,978)	(5,842)
Earnings/(losses) from equity investments	12	739	(677)
Other income/(expenses), net		845	(1,569)
Total other income/(expenses)		143	(8,465)
Profit before income taxes		101,818	86,117
INCOME TAXES			
Current income tax expense		(21,816)	(19,224)
Deferred income tax expense		(1,554)	(2,683)
Total income tax expense	19	(23,370)	(21,907)
Profit for the year		78,448	64,210
Foreign currency translation adjustments		(430)	246
Actuarial loss on employee benefit plans		(990)	(16)
Unrealized holding gains/(losses) on available-for-sale securities, including share of associates, net of tax		151	(167)
Other comprehensive (loss)/income		(1,269)	63
Total comprehensive income for the year		77,179	64,273
Profit attributable to:			
Group shareholders		73,473	62,104
Non-controlling interest		4,975	2,106
		78,448	64,210
Total comprehensive income is attributable to:			
Group shareholders		72,204	62,167
Non-controlling interest		4,975	2,106
		77,179	64,273
Basic and diluted earnings per share (RR)			
Common	20	32.35	27.37
Preferred		32.33	27.34
Weighted average shares outstanding (millions of shares)			
Common		2,123	2,121
Preferred		148	148

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In millions of Russian Roubles)

	ATTRIBUTABLE TO GROUP SHAREHOLDERS										
	NUMBER OF SHARES (THOUSANDS)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	TREASURY SHARES	ACTUARIAL LOSS ON EMPLOYEE BENEFIT PLANS	FOREIGN CURRENCY TRANSLA- TION AD- JUSTMENTS	UNREALIZED HOLDING GAIN/ (LOSSES) ON AVAILABLE- FOR-SALE SECURITIES, INCLUDING SHARE OF ASSOCI- ATES, NET OF TAX	RETAINED EARNINGS	TOTAL SHARE- HOLDERS' EQUITY	NON-CON- TROLLING INTEREST	TOTAL EQUITY
At 1 January 2011	2,267,558	11,767	87,174	(3,252)	512	938	482	224,975	322,596	9,627	332,223
Profit for the year	–	–	–	–	–	–	–	62,104	62,104	2,106	64,210
Other comprehensive (loss)/income for the year	–	–	–	–	(16)	246	(167)	–	63	–	63
Total comprehensive (loss)/income for the year	–	–	–	–	(16)	246	(167)	62,104	62,167	2,106	64,273
Treasury shares:	3,085	–	308	158	–	–	–	–	466	–	466
Acquisitions	(2,365)	–	–	(353)	–	–	–	–	(353)	–	(353)
Disposals	5,450	–	308	511	–	–	–	–	819	–	819
Acquisition of non- controlling interest in subsidiaries	–	–	–	–	–	–	–	–	–	57	57
Dividends declared	–	–	–	–	–	–	–	(11,404)	(11,404)	(188)	(11,592)
Balance at 31 December 2011	2,270,643	11,767	87,482	(3,094)	496	1,184	315	275,675	373,825	11,602	385,427
Profit for the year	–	–	–	–	–	–	–	73,473	73,473	4,975	78,448
Other comprehensive (loss)/income for the year	–	–	–	–	(990)	(430)	151	–	(1,269)	–	(1,269)
Total comprehensive (loss)/income for the year	–	–	–	–	(990)	(430)	151	73,473	72,204	4,975	77,179
Treasury shares	13	–	–	1	–	–	–	–	1	–	1
Acquisitions	(80)	–	–	(15)	–	–	–	–	(15)	–	(15)
Disposals	93	–	–	16	–	–	–	–	16	–	16
Acquisition of non- controlling interest in subsidiaries	–	–	–	–	–	–	–	–	–	267	267
Dividends declared	–	–	–	–	–	–	–	(16,076)	(16,076)	(565)	(16,641)
Balance at 31 December 2012	2,270,656	11,767	87,482	(3,093)	(494)	754	466	333,072	429,954	16,279	446,233

CONSOLIDATED STATEMENTS OF CASH FLOWS (In millions of Russian Roubles)

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
OPERATING ACTIVITIES		
Profit for the year	78,448	64,210
Adjustments:		
Depreciation, depletion and amortization	17,770	12,223
Income tax expense	23,370	21,907
Loss on disposals of property, plant and equipment, investments and impairments	1,997	220
Transfer of social assets	4	183
Effects of foreign exchange	(4,830)	3,469
Equity investments (earnings)/losses net of dividends received	(724)	1,117
Change provision for impairment of financial assets	655	(245)
Change in fair value of trading securities	(392)	279
Interest income	(3,872)	(2,656)
Interest expense	6,978	5,842
Other	461	385
Changes in operational working capital, excluding cash:		
Accounts receivable	8,550	(6,407)
Inventories	(6,929)	(10,024)
Prepaid expenses and other current assets	(684)	(10)
Trading securities	37	440
Accounts payable and accrued liabilities	(6,397)	3,294
Taxes payable	(439)	3,491
Notes payable	(78)	(9)
Other non-current assets	(399)	(373)
Net cash provided by operating activities before income tax and interest	113,526	97,336
Income taxes paid	(23,503)	(18,840)
Interest paid	(3,258)	(3,576)
Interest received	3,872	2,656
Net cash provided by operating activities	90,637	77,576
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(50,795)	(49,929)
Proceeds from disposal of property, plant and equipment	1,798	3,466
Proceeds from disposal of investments	1,809	806
Purchase of investments	(2,192)	(97)
Proceeds from certificates of deposit, net	1,554	554
Issuance of loans and notes receivable, net	(502)	(887)
Change in restricted cash	(191)	1,719
Net cash used in investing activities	(48,519)	(44,368)
FINANCING ACTIVITIES		
Proceeds from issuance of debt	42,278	88,914
Repayment of debt	(71,458)	(101,675)
Repayment of capital lease obligations	–	(34)
Dividends paid to shareholders	(16,070)	(11,404)
Dividends paid to non-controlling shareholders	(565)	(188)
Purchase of treasury shares	(15)	(13)
Proceeds from sale of treasury shares	16	13
Proceeds from issuance of shares by subsidiaries	9	–
Net cash used in financing activities	(45,805)	(24,387)
Net change in cash and cash equivalents	(3,687)	8,821
Effect of foreign exchange on cash and cash equivalents	(131)	103
Cash and cash equivalents at the beginning of the period	16,901	7,977
Cash and cash equivalents at the end of the period	13,083	16,901

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in millions of Russian Roubles)

NOTE 1:
ORGANISATION

JSC 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 23).

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

The Group does not have the ultimate controlling party.

As of 31 December 2012, 2011 and 1 January 2011 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, holds approximately 36% of the Company's voting stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company (see Note 20). 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 Company is domiciled in the Russian Federation. The address of its registered office is Lenina St., 75, Almet'evsk, Tatarstan Republic, Russian Federation.

NOTE 2:
BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group first adopted IFRS for the fiscal year ended 31 December 2012, with a date of transition to IFRS on 1 January 2011.

These consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities measured at fair value.

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 IFRS. The principal differences between RAR and IFRS relate to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) consolidation; (6) share based payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for decommissioning provision; (10) pensions and other post retirement benefits and (11) business combinations and goodwill.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

TRANSITION TO IFRS

These consolidated financial statements are the Group's first annual financial statements that comply with IFRS. The accounting policies set out in Note 3 have been applied in preparing the consolidated financial statements for the year ended 31 December 2012, the comparative information presented in these consolidated financial statements for the year ended 31 December 2011 and in the preparation of an opening IFRS consolidated statement of financial position as of 1 January 2011 (the Group's date of transition to IFRS).

The Group has applied IFRS 1 "First time adoption of International Financial Reporting Standards", in preparing these consolidated financial statements. In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with US GAAP. An explanation of how the transition from US GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the tables and notes that accompany the tables.

Subject to certain exceptions, IFRS 1 requires retrospective application of the version of standards and interpretations effective as of 31 December 2012, the date of the Group's first annual IFRS consolidated financial statements. This version was applied in preparing the opening IFRS consolidated statement of financial position as of 1 January 2011 and in subsequent periods up to the end of the first IFRS reporting period.

In preparing these consolidated financial statements, the Group has applied the relevant mandatory exceptions and certain optional exemptions from full retrospective application of IFRS, as detailed below.

Exceptions from retrospective application, which are mandatory under IFRS 1, are:

- Estimates under IFRS at 1 January 2011 are consistent with estimates made for the same date under US GAAP.
- Hedge accounting exception. The Group does not apply hedge accounting.

Other exceptions were not applicable because there were no significant differences as to management application of US GAAP in these areas.

The Group has applied the following optional exemptions:

- The Group has elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1. As such the Group has measured the provisions according to the US GAAP based on the estimated cost of decommissioning, discounted to its net present value upon recognition. However, adjustments to the discount rate are not reflected in the provisions under US GAAP unless there is a corresponding upward revision in the future costs estimates. The Group has taken the exemption for liabilities to which IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities, applies and has remeasured the decommissioning provision as at 1 January 2011 under IAS 37 using a current discount rate as at 1 January 2011. In the subsequent periods the decommissioning provision is remeasured using a current discount rate as at the end of each reporting period.

The Group has early-adopted the following standards, together with the consequential amendments to other IFRSs, for the financial year ended 31 December 2012.

- IFRS 10, "Consolidated financial statements": IFRS 10 was issued in May 2011 and replaces all the guidance on control and consolidation in IAS 27, "Consolidated and separate financial statements", and SIC-12, "Consolidation – special purpose entities".

- IFRS 12, "Disclosure of interests in other entities": IFRS 12 was issued in May 2011, and provides disclosure requirements on interests in subsidiaries, associates, joint ventures, and unconsolidated structured entities.
- IAS 27, "Separate financial statements": IAS 27 was amended in May 2011 following the issuance of IFRS 10. The revised IAS 27 deals only with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company.

The Group has applied the above standards retrospectively. The above standards did not result in significant changes to the Group's financial statements.

The following reconciliations provide a quantification of the effect of the transition from US GAAP to IFRS at 31 December 2011, 1 January 2011 and for the year ended 31 December 2011:

TOTAL EQUITY RECONCILIATION

	REF	31 DECEMBER 2011	1 JANUARY 2011
Total equity under US GAAP		403,411	350,546
EFFECTS OF TRANSITION TO IFRS:			
Property, plant and equipment componentisation	(ii)	(9,786)	(9,167)
Property, plant and equipment replacement accounting	(iii)	(509)	(451)
Measurements of financial assets and liabilities at fair value, and accounting at amortised cost	(iv)	(2)	(79)
Capitalisation of foreign exchange differences	(v)	3,898	2,623
Changes in Group structure	(vi)	(2,622)	(2,254)
Decommissioning provision	(VII)	(12,850)	(12,987)
Deferred taxes	(VIII)	3,887	3,992
Total equity under IFRS		385,427	332,223

TOTAL COMPREHENSIVE INCOME RECONCILIATION

	REF	YEAR ENDED 31 DECEMBER 2011
Total comprehensive income under US GAAP		64,035
EFFECTS OF TRANSITION TO IFRS:		
Property, plant and equipment componentisation	(II)	(619)
Property, plant and equipment replacement accounting	(III)	(58)
Measurements of financial assets and liabilities at fair value, and accounting at amortised cost	(IV)	77
Capitalisation of foreign exchange differences	(V)	1,275
Changes in Group structure	(VI)	(469)
Decommissioning provision	(VII)	137
Deferred taxes	(VIII)	(105)
Total comprehensive income under IFRS		64,273

CASH FLOW DATA RECONCILIATION

	YEAR ENDED 31 DECEMBER 2011		
	US GAAP	IFRS ADJUSTMENT	IFRS
Net cash provided by operating activities (IX)	80,656	(3,181)	77,475
Net cash used for investing activities (IX)	(47,399)	3,031	(44,368)
Net cash used for financing activities (IX)	(24,293)	110	(24,183)

The following explains significant differences between the Group’s previous US GAAP accounting policies and those applied by the Group under IFRS.

I. Sales and other operating revenues recognition

According to the Group’s accounting policy under US GAAP, duties remitted to governmental authorities on export from Russia of crude oil and petroleum products sold internationally were accounted for on a gross basis (included in revenues and costs). Under IFRS, taxes and duties arising on the sale of goods to third parties do not form part of revenue. Accordingly, the Group’s Sales are presented net of export duties under IFRS.

For the years ended 31 December 2012 and 2011 sales and other operating revenues are shown net off RR 182,457 million and RR 198,429 million export duties and excises, respectively.

II. Accounting for significant asset components whose useful life differs from the useful life of other components

IFRS has a specific requirement for ‘component’ depreciation, as described in IAS 16. Each significant part of an item of property, plant and equipment is depreciated separately. Therefore the Company has segregated its assets into depreciable components upon transition to IFRS. The Company recalculated depreciation to these components and recognized the difference in accumulated depreciation.

III. Replacement accounting

Under US GAAP, oil and gas assets were accounted for and depleted on a field-by-field basis (or for group of fields) using the unit of production method. No gain or loss was recognised on retirement or disposal of an individual well or an item of equipment. When the last well on an individual property (group of properties) ceased to produce, the entire property (group of properties) was abandoned and the resulting gain or loss was recognised. Under IFRS, if a part of an item is replaced and the new part is capitalized, then the replaced part should be written-off with the resulting gain or loss recognized in the income statement. Upon componentisation the Company identified such items which were replaced before the transition date but remained in accounting and recorded their disposal. IFRS replacement accounting effects are recognised in Loss on disposal and impairment of assets in the consolidated income statement for the relevant period.

IV. Measurements of financial assets and liabilities at fair value, and accounting at amortised cost

Under US GAAP short-term and long-term debt were reported at book value and related transactions costs were accounted for separately. In accordance with IFRS financial liabilities are initially measured at fair value less transaction costs and subsequently, are measured at amortized cost.

V. Borrowing cost capitalization

Under US GAAP, the Group did not capitalize the foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. As a result

of applying the guidance of IAS 23, the Group began to capitalize the foreign exchange differences and recorded an increase of the carrying value of property, plant and equipment with a corresponding increase in the Group’s retained earnings as of 1 January 2011.

VI. Changes in Group structure

The Group assessed whether the consolidation conclusion under IFRS 10 differs from US GAAP and determined that the only change relates to deconsolidation of ZAO SK Chulpan and its subsidiaries. This change has been reflected in the consolidated financial statements retrospectively and the impact is presented below:

	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Total assets	4,515	4,074
Total liabilities	1,893	1,820
Total shareholders’ equity	2,622	2,254

VII. Measurement of decommissioning provisions

Different discount rates are applied under IFRS and US GAAP for decommissioning provisions. According to US GAAP, these liabilities are not remeasured to reflect current discount rates. Under IFRS, the decommissioning provisions are measured as the best estimate of the expenditure to be incurred using the period end discount rate. The Group was required to remeasure its decommissioning provision upon transition to IFRS and recognise the differences in PPE and retained earnings. Subsequent IFRS remeasurements of decommissioning liabilities are recorded with a corresponding adjustment to property, plant and equipment.

VIII. Deferred taxes

Under IFRS, deferred taxes have been recalculated based on the IFRS net book values. The main difference in deferred tax amounts calculated under IFRS and deferred tax amounts calculated under US GAAP is due to the measurement of property, plant and equipment.

IX. Adjustments to the statement of cash flows

The transition from US GAAP to IFRS had no significant impact on the Group’s cash flows except that, under IFRS, the amounts of interest paid include the amount of interest capitalised are classified as operating cash flows. Under US GAAP, these payments were classified as investing cash flows.

RECLASSIFICATIONS

Certain reclassifications have been made to previously reported balances to conform to the current year presentation; such reclassifications had no effect on profit for the year, shareholders’ equity or cash flows.

NOTE 3:
SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

FUNCTIONAL AND PRESENTATION
CURRENCY

The presentation currency of the Group is the Russian rouble.

Management has determined the functional currency for each consolidated subsidiary of the Group, except for subsidiaries located outside of the Russian Federation, is the Russian Rouble because the majority of its revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Roubles. Accordingly, transactions and balances not already measured in Russian Roubles (primarily US Dollars) have been re-measured into Russian Roubles in accordance with the relevant provisions of IAS 21 The Effects of Changes in Foreign Exchange Rates.

Under IAS 21 revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the reporting date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in Russian Roubles are recognized in the profit or loss for the year.

For operations of subsidiaries located outside of the Russian Federation, that primarily use USD as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Roubles are recorded in a separate component of shareholders’ equity entitled accumulated other comprehensive income or loss. Revenues, expenses and cash flows are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions).

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 31 December 2012, 31 December 2011 and 1 January 2011 was RR 30.37, 32.20 and 30.35 to US \$, respectively. Average rate of exchange for the years ended 31 December 2012 and 2011 were RR 31.09 and RR 29.39 per US \$, respectively.

CONSOLIDATION

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets

transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition – related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at the non-controlling interest’s proportionate share of the acquiree’s net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

ASSOCIATES

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group’s share of net assets of an associate are recognised as follows: (i) the Group’s share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group reviews equity method investments for impairment on an annual basis, and records impairment when circumstances indicate that the carrying value exceeds the recoverable amount.

CURRENT/NON-CURRENT
PRESENTATION

Group presents current and non-current assets, and current and non-current liabilities, as separate classifications in its Consolidated Statement of Financial Position.

Group discloses for each asset and liability line item that combines amounts expected to be recovered or settled in period no more than 12 months after the reporting period are disclosed as current; and more than 12 months after the reporting period as non-current.

CASH AND CASH EQUIVALENTS

Cash represents cash on hand and in bank accounts, which can be effectively withdrawn at any time without prior notice. Cash equivalents include highly liquid short-term investments that can be converted to a certain cash amount and mature within three months or less from the date of purchase. They are recognized based on the cost of acquisition which approximates fair value.

RESTRICTED CASH

Restricted cash represents cash deposited under letter of credit arrangements, which are restricted under various contractual agreements. Letters of credit are used to pay contractors for materials, equipment and services provided. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statements of financial position and of the cash flow statements and disclosed separately.

FINANCIAL ASSETS

All financial assets are initially recognised when an entity becomes a party to the contract, they recognised at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group’s financial assets include cash and cash equivalents, deposits, securities, trade and other receivables, loans issued.

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets at fair value through profit or loss.

LOANS AND RECEIVABLES

Loans and receivables is a category of financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. The accrued interest is included in the profit and losses for the year.

Allowances are provided for estimated losses and for doubtful debts based on estimates of uncollectible amounts. These estimates require the exercise of judgment and the use of assumptions.

The losses arising from impairment are recognized as Selling, general and administrative expenses in the Consolidated Statements of Comprehensive Income.

FINANCIAL ASSETS AT FAIR VALUE
THROUGH PROFIT OR LOSS

A financial asset is classified at fair value through profit or loss category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit and losses for the year.

AVAILABLE-FOR-SALE
FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets include investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity. Unquoted equity instruments whose fair value cannot be measured reliably are carried at cost less any impairment losses. When an investment is derecognized the cumulative gain or loss in equity is also reclassified to profit and loss for the year.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the other comprehensive income) is recognized in the profit and losses for the year as a reclassification adjustment from other comprehensive income.

FINANCIAL LIABILITIES

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs. The Group’s financial liabilities include trade and other payables, loans and borrowings.

Financial liabilities are recognised initially at fair value. The difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss for the year. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss for the year.

The Group does not use derivative financial instruments.

The Group does not offset assets and liabilities unless required or permitted to by an IFRS.

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

PREPAID EXPENSES
Prepaid expenses include advances for purchases of products and services, insurance fees, prepayments for export duties, VAT and other taxes.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments for services such as insurance, transportation and others are written off to profit or loss when the goods or services relating to the prepayments are received.

If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the profit or loss for the year.

MINERAL EXTRACTION TAX
Mineral extraction tax (MET) on crude oil is defined monthly as an amount of volume produced per fixed tax rate (RR 446 and RR 419 per ton in 2012 and 2011, respectively) adjusted depending on the monthly average market prices of the Urals blend and the RR/USD exchange rate for the preceding month. The base tax rate formula for MET is modified by benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. The Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold.

The ultimate amount of the MET on crude oil depends also on geographic location of the oil field (for certain regions zero tax rate may be applied depending on the volume of crude oil produced and period of field development). Also a zero MET tax rate applies to the production of highly viscous crude oil (defined as crude oil of more than 200 Megapascal second in reservoir conditions).

MET is recorded within Taxes other than income tax in the Consolidated Statement of Comprehensive Income.

VALUE ADDED TAX
Value added tax (VAT) at a standard rate of 18% is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT can be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

Export of goods and rendering certain services related to exported goods are subject to 0% VAT rate upon the submission of confirmation documents to the tax authorities.

VAT related to sales and purchases is recognized in the Consolidated Statements of Financial Position on a gross basis and disclosed separately as Prepaid expenses and other current assets and Taxes payable.

OIL AND GAS EXPLORATION AND DEVELOPMENT COST
Oil and gas exploration and development activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry holes, and related production facilities are capitalized.

Other exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized as exploration and evaluation assets on a “field by field” basis pending determination of whether proved reserves have been found. In an area requiring a major capital expenditure before production can begin, exploratory well remains capitalized if additional exploration drilling is underway or firmly planned. Exploration costs not meeting these criteria are charged to expense.

Exploration and evaluation costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, resulting impairment loss is measured.

If subsequently commercial reserves are discovered, the carrying value, less losses from impairment of respective exploration and evaluation assets, is classified as development assets. However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

PROPERTY, PLANT AND EQUIPMENT
Property, plant and equipment are carried at historical cost of acquisition or construction less accumulated depreciation, depletion, amortization and impairment.

Proved oil and gas properties include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. The cost of maintenance, repairs

and replacement of minor items of property are expensed when incurred within operating expenses; renewals and improvements of assets are capitalised and depreciated during the remaining useful life. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Advances made on property, plant and equipment and construction in progress are accounted for within Construction in progress.

Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with IAS 36 Impairment of assets, which requires long-lived assets with recorded values that are not expected to be recovered through future cash flows to be written down to their recoverable amount which is the higher of fair value less costs to sell and value-in-use.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for service stations. Impairment losses are recognised in the profit or loss for the year.

Impairments are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. The reversal of impairment would be limited to the original carrying value less depreciation which would have been otherwise charged had the impairment not been recorded.

Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale, are accounted for at the lower of amortized cost or fair value, less cost to sell. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

The Group calculates depreciation expense for oil and gas proved properties using the units-of-production method for each field based upon proved developed oil and gas reserves, except in the case of significant asset components whose useful life differs from the lifetime of the field, in which case the straight-line method is applied.

Oil and gas licenses for exploration of unproved reserves are capitalised within property, plant and equipment; they are depreciated on straight-line basis over the period of each license validity.

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

	YEARS
Buildings and constructions	30-50
Machinery and equipment	10-35

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds, if any, with the carrying amount. Gains and losses are recorded in Loss on disposals of property, plant and equipment, investments and impairments in the Consolidated Statement of Comprehensive Income.

NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR SALE
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable within twelve months after the reporting period. They are stated at the lower of carrying amount and fair value less costs to sell. Assets and liabilities directly associated with the disposed assets are reclassified and presented separately in the Consolidated Statement of Financial Position

CAPITALISATION OF BORROWING COSTS
Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings.

The portion of the foreign exchange movements is estimated based on interest rates on similar borrowing in the Group’s functional currency. The foreign exchange gains and losses eligible for capitalisation are assessed on a cumulative basis.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

EMPLOYEE BENEFITS, PENSION AND OTHER POST-RETIREMENT BENEFITS
Wages, salaries, contributions to the social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has various pension plans covering substantially all eligible employees and members of management. The pension liabilities are measured at the present value of the esti-

mated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability. Pension costs are recognised using the projected unit credit method.

The cost of providing pensions is accrued and charged to staff expense within operating expenses in the Consolidated Statement of Comprehensive Income reflecting the cost of benefits as they are earned over the service lives of employees.

Actuarial gains and losses with regard to post employment benefit plans are recognised immediately in other comprehensive income. Actuarial gains and losses related to other long-term benefits are recognised immediately in the profit or loss for the year.

Past service costs with regard to post employment benefit plans are recognised as an expense if benefits are already vested. Part of the past service cost which relate to benefits which are not fully vested is recognised over vesting period. Past service costs with regard to other long-term benefits are recognised as an expense as it occurs.

Plan assets are measured at fair value and are subject to certain limitations. Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flow using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State Pension Fund on behalf of its employees. Mandatory contributions to the Fund are expensed when incurred and are included within staff costs in operating expenses.

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

The liability at 31 December 2012, 2011 and 1 January 2011 is determined based on the final expected bonus payments. The Awards are recognized as expense over the annual service period, net of forfeitures, with a corresponding liability to accounts payable and accrued liabilities.

DECOMMISSIONING PROVISIONS
The Group recognizes a liability for the fair value of legally required or constructive decommissioning provisions associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group’s field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group’s licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group’s estimates of future abandonment costs consider present regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Group using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal.

The Group capitalizes the associated decommissioning costs as part of the carrying amount of the long-lived assets. Changes in the measurement of an existing decommissioning provision that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate alter the previously recognised revaluation surplus or deficit for the related asset.

The Group’s petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these operations is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obligations related to decommissioning or other disposal of these assets.

INCOME TAXES
Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting

purposes. Deferred income tax assets and li-abilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary dif-ferences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Where it is not probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will re-verse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Income tax penalties expense and income tax penalties payable are included in Taxes other than income tax in the Consolidated Statements of Comprehensive Income and Taxes payable in the Consolidated Statements of Financial Posi-tion, respectively. Income tax interest expense and payable are included in Interest expense in the Consolidated Statement of Comprehensive Income and other accounts payable and accrued expenses in the Consolidated Statements of Financial Position, respectively.

SHARE CAPITAL

Ordinary shares and non-redeemable preference shares with discretionary dividends are both clas-sified as equity.

Dividends paid to shareholders are determined by the Board of directors and approved at the annual shareholders’ meeting.

TREASURY SHARES

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

EARNINGS PER SHARE

Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are cal-culated by dividing profit or loss attributable to ordinary and preference share holders by the weighted average number of ordinary and pre-ferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remain-ing profit or loss is allocated to common and preferred shares to the extent that each class may

share in earnings if all the earnings for the period had been distributed. Treasury shares are exclud-ed from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

REVENUE RECOGNITION

Revenues from the production and sale of crude oil, petroleum and petrochemical products and other products are recognized when title has transferred and collectability is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any discounts and other incentives. Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other in the Consolidated Statement of Comprehensive Income. Revenue includes only economic benefits which flow to the Group. Taxes and duties arising on the sale of goods to third parties do not form part of revenue.

TRANSPORTATION EXPENSES

Transportation expenses recognised in the Consolidated Statement of Comprehensive Income represent all expenses incurred by the Group to transport crude oil and other products to end customers (they may include pipeline tariffs and any additional railroad costs, handling costs, port fees, sea freight and other costs). Compounding fees are included in Selling, General and administrative expenses.

NOTE 4:

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Esti-mates and judgements are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Management of the Group also makes certain judgements, apart from those involving estima-tions, in the process of applying the accounting policies. Judgements that have the most sig-nificant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- Estimation of oil and gas reserves;
- Useful life of property, plant and equipment;
- Decommissioning provisions;
- Impairment of long-lived assets;
- Consolidation.

ESTIMATION OF OIL AND GAS RESERVES

Oil and gas development and production assets are depreciated on a unit-of-production (UOP) basis for each field or group of fields with similar characteristics at a rate calculated by reference to proved or proved developed reserves. Estimates of proved reserves are also used in the determination of whether impairments have arisen or should be reversed. Also, exploration drilling costs are capitalized pending the results of further exploration or appraisal activity, which may take several years to complete and before any related proved reserves can be booked.

Proved and proved developed reserves are estimated by reference to available geological and engineering data and only include volumes for which access to market is assured with reason-able certainty. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to regular revision, either upward or downward, based on new information such as from the drilling of additional wells, obser-vation of long-term reservoir performance under producing conditions and changes in economic factors, including product prices, contract terms or development plans. The Group estimates its oil and gas reserves in accordance with rules pro-mulgated by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE) for proved reserves.

Changes to the Group’s estimates of proved and proved developed reserves affect prospectively the amounts of depreciation, depletion and amor-tization charged and, consequently, the carrying amounts of oil and gas properties. It is expected, however, that in the normal course of business the diversity of the Group’s portfolio will limit the effect of such revisions. The outcome of, or assessment of plans for, exploration or appraisal activity may result in the related capitalized exploration drilling costs being written off in the profit and loss for the year.

USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT

Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses will be extended past their current expiration dates at insignificant additional costs. As a result of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

Management assesses the useful life of an asset by considering the expected usage, estimated technical obsolescence, residual value, physical wear and tear and the operating environment in which the asset is located. Differences between such estimates and actual results may have a ma-terial impact on the amount of the carrying values of the property, plant and equipment and may result in adjustments to future depreciation rates and expenses for the period.

Other property, plant and equipment are depreci-ated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appro-priateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

DECOMMISSIONING PROVISIONS

Management makes provision for the future costs of decommissioning oil and gas production facilities, wells, pipelines, and related support equipment and for site restoration based on the best estimates of future costs and economic lives of the oil and gas assets. Estimating future decommissioning provisions is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future.

Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current legislation in each jurisdiction where the Group’s operating assets are located, and is also subject to change because of revisions and changes in laws and regulations and their interpretation. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of such costs.

The Group’s petrochemical, refining and marketing and distribution operations are carried out at large manufacturing facilities. The nature of these opera-tions is such that the ultimate date of decommissioning of any sites or facilities is unclear. Current regulatory and licensing rules do not provide for liabilities related to the liquidation of such manufacturing facilities or of retail fuel outlets. Management therefore believes that there are no legal or contractual obliga-tions related to decommissioning or other disposal of these assets.

SENSITIVITY ANALYSIS FOR CHANGES IN RATES, AND OTHER ESTIMATES

	IMPACT ON DECOMMISSIONING PROVISION			
	CHANGE IN	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Discount rate	+1%	(22,437)	(19,777)	(13,884)
	-1%	4,814	7,102	18,512

Information about decommissioning provision is presented in Note 13.

IMPAIRMENT OF LONG-LIVED ASSETS

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions, including future oil prices, expected production volumes and refining margins appropriate to the local circumstances and environment. It is reasonably possible that these assumptions may change and may then require a material adjustment to the carrying value of the Group’s assets.

CONSOLIDATION

The Company made significant judgements related to significant subsidiaries which are controlled by the Group, even though the Group holds less than half of the voting rights of these subsidiaries:

The Company considers that the Group has control over several entities even though it has less than 50% of the voting rights. This is because the Company has power over the investee, has rights to variable returns of the investee, and has the power to affect variable returns.

Additional information is disclosed in Note 26.

NOTE 5:

ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity’s financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

In May 2012, **IASB issued Improvements to IFRSs introducing amendments to various standards**. The following standards were primarily affected by the amendments: IFRS 1, First–time adoption of International Reporting Standards , IAS 1, Presentation of Financial Statements; IAS 16, Property, Plant and Equipment; IAS 32, Financial Instruments: Presentation; IAS 34, Interim Financial Reporting. The amendments introduced relatively minor changes to clarify guidance in existing standards. The amendments are effective for annual periods beginning on or after 1 January 2013. The Group will adopt the amended standards from 1 January 2013. The Group does not expect these amendments to have a material impact on the Group’s financial position or operations.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group does not expect these amendments to have a material impact on the Group’s financial position or operations.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s financial statements.

NOTE 6:
CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Cash on hand and in banks	7,814	9,678	7,045
Term deposits with original maturity of less than three months	5,269	7,223	932
Total cash and cash equivalents	13,083	16,901	7,977

As of 31 December 2012, 2011 and 1 January 2011 the majority of cash and cash equivalents are held in Bank Zenit and its subsidiaries. Bank deposits represent deposits with original maturities of less than three months. The fair value of cash and term deposits approximates their carrying value.

The credit quality of cash and cash equivalents balances may be summarised as follows:

	AT 31 DECEMBER 2012		AT 31 DECEMBER 2011		AT 1 JANUARY 2011	
	CASH ON HAND AND IN BANKS	TERM DEPOSITS	CASH ON HAND AND IN BANKS	TERM DEPOSITS	CASH ON HAND AND IN BANKS	TERM DEPOSITS
Investment grade rating	496	2,862	562	6,882	124	932
Non-investment grade rating	4,470	2,039	5,980	290	4,480	–
No external rating	2,848	368	3,136	51	2,441	–
Total	7,814	5,269	9,678	7,223	7,045	932

Investment grade ratings classification referred to as Aaa to Baa3 for Moody’s Investment Services, as AAA to BBB- for Fitch Rating and as AAA to BBB for Standard and Poor’s Rating, respectively.

NOTE 7:
ACCOUNTS RECEIVABLE

Short-term and long-term accounts receivable comprise the following:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
SHORT-TERM ACCOUNTS RECEIVABLE:			
Trade receivables	60,940	68,828	57,693
Other financial receivables	3,813	4,287	7,479
Less provision for impairment	(11,200)	(11,021)	(10,465)
Total short-term accounts receivable	53,553	62,094	54,707
LONG-TERM ACCOUNTS RECEIVABLE:			
Trade receivables	757	731	541
Other financial receivables	777	1,445	2,098
Less provision for impairment	(4)	(138)	(364)
Total long-term accounts receivable	1,530	2,038	2,275
Total financial assets within trade and other receivables	55,083	64,132	56,982

In accordance with the Group’s policies for recorded provision for impairment the Group fully provided for receivables from ChMPKP Avto of US \$334 million as of 31 December 2012, 2011 and 1 January 2011, relating to the sale of crude oil to Ukraine (Kremenchug refinery) (Note 25).

The estimated fair value of short-term and long-term accounts receivable approximates their carrying value.

Analysis by credit quality of trade and other receivables is as follows:

	AT 31 DECEMBER 2012		AT 31 DECEMBER 2011		AT 1 JANUARY 2011	
	TRADE RECEIVABLES	OTHER FINANCIAL RECEIVABLES	TRADE RECEIVABLES	OTHER FINANCIAL RECEIVABLES	TRADE RECEIVABLES	OTHER FINANCIAL RECEIVABLES
Not over due and not impaired	50,582	3,714	54,980	4,748	44,447	8,734

PAST DUE BUT NOT IMPAIRED

less than 90 days overdue	296	158	1,740	209	1,438	46
91 to 180 days overdue	156	106	722	108	1,035	184
over 180 days overdue	13	58	1,121	504	712	386
Total past due but not impaired	465	322	3,583	821	3,185	616

INDIVIDUALLY DETERMINED TO BE IMPAIRED (GROSS)

less than 90 days overdue	–	–	–	–	–	–
91 to 180 days overdue	–	–	–	–	–	–
over 180 days overdue	10,637	567	10,998	161	10,607	222
Total individually impaired	10,637	567	10,998	161	10,607	222
Less provision for impairment	(10,637)	(567)	(10,998)	(161)	(10,607)	(222)
Total	51,047	4,036	58,563	5,569	47,632	9,350

Movements in the provision for impairment for trade and other receivables are as follows:

	2012		2011	
	TRADE RECEIVABLES	OTHER FINANCIAL RECEIVABLES	TRADE RECEIVABLES	OTHER FINANCIAL RECEIVABLES
Provision for impairment at 1 January	(10,998)	(161)	(10,607)	(222)
(Provision for impairment)/Recovery during the year	(358)	(431)	–	20
Amounts written off during the year as uncollectible	109	25	184	41
Foreign exchange gain/(loss)	610	–	(575)	–
Provision for impairment at 31 December	(10,637)	(567)	(10,998)	(161)

NOTE 8:
SHORT-TERM FINANCIAL ASSETS

Short-term financial assets comprise the following:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
LOANS AND RECEIVABLES			
Notes receivable (net of provision for impairment of RR 0 million, RR 0 million and RR 60 million as of 31 December 2012, 2011 and 1 January 2011)	2,564	2,147	3,747
Other loans (net of provision for impairment of RR 24 million, RR 148 million and RR 424 million as of 31 December 2012, 2011 and 1 January 2011)	1,752	1,936	2,269
Certificates of deposit	4,251	9,149	8,702
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS			
Held-for-trading	6,364	5,973	6,113
Total short-term financial assets	14,931	19,205	20,831

During the year ended 31 December 2012 purchases of certificates of deposit and proceeds from certificates of deposit were RR 28,184 million and RR 29,738 million, respectively.

During the year ended 31 December 2012 issuance of notes receivable and other loans and proceeds from notes receivable and other loans were RR 3,955 million and RR 3,453 million, respectively.

The estimated fair value of loans and receivables approximates their carrying value.

Financial assets at fair value through profit and loss comprise the following:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
HELD-FOR-TRADING:			
Russian government debt securities	185	64	78
Corporate debt securities	2,315	2,257	1,750
Equity securities	3,864	3,652	4,285
Total financial assets at fair value through profit and loss	6,364	5,973	6,113

Information on held for trading securities issued by related parties is disclosed in Note 24.

NOTE 9:
INVENTORIES

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Materials and supplies	12,152	9,829	6,427
Crude oil	5,332	6,284	4,564
Refined oil products	6,291	5,373	1,801
Petrochemical supplies and finished goods	4,815	3,752	2,327
Total inventories	28,590	25,238	15,119

NOTE 10:
PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets are as follows:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
VAT recoverable	7,536	5,712	7,267
Advances	5,613	6,126	7,785
Prepaid export duties	11,729	12,393	8,122
Prepaid transportation expenses	551	518	990
Other	3,377	1,928	2,866
Prepaid expenses and other current assets	28,806	26,677	27,030

NOTE 11:
LONG-TERM FINANCIAL ASSETS

Long-term financial assets comprise the following:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
LOANS AND RECEIVABLES			
Notes receivable (net of provision for impairment of RR 318 million, RR 318 million and RR 318 million as of 31 December 2012, 2011 and 1 January 2011)	1,909	2,140	361
Loans to employees	2,305	1,095	797
Other loans	2,749	3,372	7,148
Certificates of deposit	14,133	10,789	7,022
Available-for-sale investments	4,686	1,043	986
Total long-term financial assets	25,782	18,439	16,314

The fair value of long-term financial assets is estimated by discounting the future contractual cash inflows at the market interest rate available to the Group at the end of the reporting period.

The carrying amounts and fair values of long-term financial assets are as follows:

	CARRYING AMOUNTS			FAIR VALUES		
	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Notes receivable	1,909	2,140	361	2,100	2,120	302
Loans to employees	2,305	1,095	797	2,305	1,095	797
Other loans	2,749	3,372	7,148	2,713	3,364	7,547
Certificates of deposit	14,133	10,789	7,022	14,835	11,379	7,860
Total long-term financial assets	21,096	17,396	15,328	21,953	17,958	16,506

NOTE 12:
INVESTMENTS IN ASSOCIATES
AND JOINT VENTURES

Investments in associates and joint ventures comprise the following:

NAME OF AN INVESTEE	OWNERSHIP PERCENTAGE AT			NET BOOK VALUE AS			GROUP'S SHARE OF PROFIT/(LOSS) FOR	
	31 DECEMBER		1 JANUARY	31 DECEMBER		1 JANUARY		
	2012	2011	2011	2012	2011	2011	2012	2011
ASSOCIATES								
ZAO Tatex	–	–	50	–	–	2,105	199	133
Bank Zenit	25	25	25	6,455	5,695	5,200	653	619
Osmand Holdings Ltd	–	30	30	–	1,106	2,663	6	(1,187)
MARS Emerging Markets Fund Limited	–	–	33	–	–	580	–	–
Other	20-50	20-50	20-50	256	618	817	(119)	(242)
Total				6,711	7,419	11,365	739	(677)

The table below summarises the movements in the carrying amount of the Group's investment in associates and joint ventures:

	2012	2011
Net book value at 1 January	7,419	11,365
Share of profit/(loss) of associates	739	1,059
Impairment of investments in associates	–	(1,736)
Share of result of associates	739	(677)
Share of other comprehensive income of associates	106	(127)
Dividends received from associates	(14)	(440)
Disposal of associates/Reclassification on obtaining control	(1,660)	(948)
Reclassification to assets held for sale	–	(1,808)
Others	121	54
Net book value at 31 December	6,711	7,419

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

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Sales/interest income	24,150	26,916
Net income	2,451	6,551
Current assets	246,667	220,400
Long-term assets	17,263	43,913
Current liabilities	173,391	169,219
Long-term liabilities	61,493	58,773

As a result of acquisitions in 2012 the accounting treatment for Osmand Holdings Ltd changed from equity to being fully consolidated.

NOTE 13:
PROPERTY, PLANT AND EQUIPMENT

	OIL AND GAS PROPERTIES	BUILDINGS AND CONSTRUCTIONS	MACHINERY AND EQUIPMENT	CONSTRUC-TION IN PROGRESS	TOTAL
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COST

As of 1 January 2011	316,473	41,524	63,067	177,067	598,131
Additions	732	265	1,098	53,283	55,378
Disposals	(3,202)	(647)	(8,298)	(273)	(12,420)
Changes in Group structure	(3,333)	–	–	–	(3,333)
Transfers	13,692	93,440	39,975	(147,107)	–
Changes in decommissioning provision	(12,363)	–	–	–	(12,363)
As of 31 December 2011	311,999	134,582	95,842	82,970	625,393

DEPRECIATION, DEPLETION AND AMORTISATION

As of 1 January 2011	141,043	14,776	49,854	–	205,673
Depreciation charge	8,050	1,325	2,848	–	12,223
Disposals	(3,080)	(12)	(7,284)	–	(10,376)
As of 31 December 2011	146,013	16,089	45,418	–	207,520

NET BOOK VALUE

As of 1 January 2011	175,430	26,748	13,213	177,067	392,458
As of 31 December 2011	165,986	118,493	50,424	82,970	417,873

COST

As of 31 December 2011	311,999	134,582	95,842	82,970	625,393
Additions	51	315	386	56,396	57,148
Disposals	(2,143)	(829)	(2,776)	(2,742)	(8,490)
Changes in Group structure	–	1,176	1,949	–	3,125
Transfers	18,717	12,926	12,815	(44,458)	–
Changes in decommissioning provision	(5,995)	–	–	–	(5,995)
As of 31 December 2012	322,629	148,170	108,216	92,166	671,181

DEPRECIATION, DEPLETION AND AMORTISATION

As of 31 December 2011	146,013	16,089	45,418	–	207,520
Depreciation charge	7,763	4,640	5,367	–	17,770
Disposals	(2,053)	(252)	(707)	–	(3,012)
As of 31 December 2012	151,723	20,477	50,078	–	222,278

NET BOOK VALUE

As of 31 December 2011	165,986	118,493	50,424	82,970	417,873
As of 31 December 2012	170,906	127,693	58,138	92,166	448,903

For the years ended 31 December 2012 and 2011 the Group recorded RR 606 million and RR 2,969 million of capitalized interest as property, plant and equipment additions, respectively. The capitalisation rate was 3.5% (2011: 3.8%).

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

The Group’s oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Group’s existing production licenses for its major fields expire, after their recent extension, between 2026 and 2038, with other production licenses expiring between 2012 and 2043. The economic lives of many of the Group’s licensed fields extend beyond these dates. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a license to use a field “shall be” extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production in the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term “shall” replaced the term “may” in August 2004, clarifying that the subsoil user has the right to extend the license term so long as it has not violated the conditions of the license. In August 2006, the term of the Group’s license to produce oil and gas from the Group’s largest field, Romashkinskoye, was extended through 2038. And the license to produce oil and gas from the Group’s second largest field, Novo-Elkhovskoe, was extended through 2026. The Group’s right to extend licenses is, however, dependent on the Group continuing to comply with the terms of the licenses, and management has the ability and intent to do so.

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

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

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

Exploration and evaluation assets included in Oil and Gas assets above, net book value:

At 31 December 2012	11,285
Additions	1,764
Reclassification to development assets	(1,108)
At 31 December 2011	10,629
Additions	1,513
Reclassification to development assets	(433)
At 1 January 2011	9,549

For the years ended 31 December 2012 and 2011, operating and investing cash flows used for exploration and evaluation activities amounted to RR 1,740 million and RR 1,764 million and RR 2,230 million and RR 1,513 million, respectively.

SOCIAL ASSETS

During the years ended 31 December 2012 and 2011 the Group transferred social assets with a net book value of RR 4 million and RR 183 million, respectively, to local authorities. At 31 December 2012, 2011 and 1 January 2011 the Group held social assets with a net book value of RR 3,700 million, RR 3,028 million and RR 2,932 million, respectively, all of which were constructed after the privatization date.

The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 4,026 million and RR 3,378 million for the years ended 31 December 2012 and 2011, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

DECOMMISSIONING PROVISIONS

The following tables summarize the Group’s decommissioning provisions and decommissioning costs activities:

	2012	2011
Balance, beginning of period	55,098	63,315
Unwinding discount	4,790	5,137
New obligations	439	497
Release of existing obligations	(1,443)	(991)
Changes in estimates	(6,434)	(12,860)
Balance, end of period	52,450	55,098
Less: current portion of decommissioning provisions (Note 17)	(1,361)	(1,443)
Long-term balance, end of period	51,089	53,655

Key assumptions used for evaluation of decommissioning provision were as follows:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011
Discount rate	7.88%	8.73%
Inflation rate	4.83%	5.67%

NOTE 14:
OTHER LONG-TERM ASSETS

Other long-term assets are as follows:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Prepaid computer programs	2,544	2,710	2,655
Prepaid license agreements	379	286	375
Other long-term assets	1,793	2,089	1,456
Total other long-term assets	4,716	5,085	4,486

NOTE 15:
NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

As at 28 December 2011 the Group recognized its equity investment in ZAO Tatex as non-current assets held for sale as all the necessary recognition criteria were met. In March 2012 the shares of ZAO Tatex were sold.

NOTE 16:
DEBT

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
SHORT-TERM DEBT			
Foreign currency denominated debt			
Current portion of long-term debt	18,259	37,652	29,359
Other foreign currency denominated debt	2,328	1,073	970
Rouble denominated debt			
Current portion of long-term debt	5,002	63	60
Other rouble denominated debt	6,507	3,209	5,231
Total short-term debt	32,096	41,997	35,620

LONG-TERM DEBT

Foreign currency denominated debt			
US \$2.0 bln 2010 credit facility	27,619	50,378	59,321
US \$1.5 bln 2009 credit facility	4,551	20,073	35,709
US \$550 mln 2011 credit facility	16,582	17,503	–
US \$75 mln 2011 credit facility	1,562	2,145	–
US \$144.5 mln 2011 credit facility	2,165	–	–
Other foreign currency denominated debt	3,167	1,726	1,814
Rouble denominated debt			
Bonds	4,941	4,941	4,908
Other rouble denominated debt	665	696	606
Total long-term debt	61,252	97,462	102,358
Less: current portion of long-term debt	(23,261)	(37,715)	(29,419)
Total long-term debt, net of current portion	37,991	59,747	72,939

Foreign currency debts are primarily denominated in US Dollars.

Long-term debt had the following maturity profile (based on the discounted contractual cash flows):

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Due for repayment:			
Between one and two years	27,728	23,012	34,509
Between two and five years	7,486	34,615	36,635
After five years	2,777	2,120	1,795
Total long-term debt, net of current portion	37,991	59,747	72,939

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

SHORT-TERM FOREIGN CURRENCY DENOMINATED DEBT

In December 2003 the Group entered into a US \$35 million one month revolving credit facility with Credit Suisse Zurich. In December 2011 this agreement was replaced with new loan agreement totaling up to the US \$70 million under the same conditions. The monthly revolving loan bears interest at one 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 4,688 million (US \$155 million) in aggregate. The loans bear interest from 1.78% to 5.78% per annum and are collateralized by total crude oil sales of 344 million tons. The Group repaid in full the credit agreements in the first quarter 2011.

SHORT-TERM RUSSIAN ROUBLE DENOMINATED DEBT

In August 2010, the Company entered into a RR 2,500 million credit agreement with Ak Bars Bank. The loan bears interest 8% per annum and matures in March 2011. The loan was repaid in full in February 2011.

Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 6,507 million, RR 3,209 million and RR 5,062 million bear contractual interest rates of 7.0% to 8.55% per annum as of 31 December 2012, 2011 and 1 January 2011.

LONG-TERM FOREIGN CURRENCY DENOMINATED DEBT

In October 2009, the Company entered into a dual (3 and 5 year) tranches secured syndicated pre-export facility for up to USD 1.5 billion arranged by WestLB AG, Bayerische Hypo-und Vereinsbank AG, ABN AMRO Bank N.V., OJSC Gazprombank, Bank of Moscow and Nordea Bank. This credit facility is collateralized with the contractual rights and receivables under an oil export contract between Tatneft and Tavit B.V. under which Tatneft supplies no less than 360,000 metric tones of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. The loan bears interest at LIBOR plus 3.10% and 4.10% for the 3 and 5 year tranches, respectively.

In June 2010, the Company entered into a triple (3, 5 and 7 year) tranches secured credit facility for up to USD 2 billion arranged by Barclays Bank PLS, BNP Paribas (Suisse) SA, Bank of Moscow, Bank of Tokyo-Mitsubishi UFJ, LTD, Citibank, N.A., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis SA, Nordea Bank, The Royal Bank of Scotland N.V., Sberbank, Société Générale, Sumitomo Mitsui Finance Dublin LTD, Unicredit Bank AG, VTB Bank and WestLB AG. Unicredit Bank AG was the lender of record in this credit facility. The loan is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than 750,000 metric tones of oil in a calendar quarter. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios. Prior to February 2011, the loan bore interest at LIBOR plus 3.10% for the 3-year tranche and 4.10% for the 5-year tranche. The 7-year tranche bears the interest of LIBOR plus 5%. In February 2011 the Company reached an agreement to decrease the margins. The margins were decreased to LIBOR plus 2.40% and 3.40% for the 3 and 5 year tranches, respectively.

In June 2011, the Company entered into a US \$550 million unsecured financing with a fixed rate of 3.50% per annum with bullet repayment in three years. The loan was arranged by BNP Paribas (Suisse) SA, The Bank Of Tokyo Mitsubishi UFJ, Ltd., Commerzbank Aktiengesellschaft, ING Bank N.V., Natixis, Open Joint Stock Company Nordea Bank, Sumitomo Mitsui Banking Corporation and WestLB AG, London Branch. 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 November 2011, TANECO entered into a US \$75 million credit facility with equal semi-annual repayment during ten years. The loan was arranged by Nordea Bank AB (Publ), Société Générale and Sumitomo Mitsui Banking Corporation Europe Limited. The loan bears interest at LIBOR plus 1.1% 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 November 2011, TANECO entered into a US \$144.48 million credit facility with equal semi-annual repayments during ten years this first repayment date as of 15 May, 2014. The loan was arranged by Société Générale, Sumitomo Mitsui Banking Corporation Europe Limited and the Bank of Tokyo-Mitsubishi UFJ, LTD. The loan bears interest at LIBOR plus 1.25% 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 October 2009, P-D Tatneft-Alabuga Steklovolokno entered into a EUR 44 million credit facility with fourteen equal semi-annual repayments with the first repayment date as of 28 February, 2012. The loan was arranged by Landesbank Baden-Wuerttemberg. The loan bears interest at EURIBOR plus 1.5% per annum.

LONG-TERM RUSSIAN ROUBLE DENOMINATED DEBT

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

Management believes that for the year ended 31 December 2012 and 2011 the Group was in compliance with all covenants required by the above loan agreements.

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

	CARRYING AMOUNTS		
	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
US\$ denominated fixed rate	20,350	19,228	1,814
US\$ denominated floating rate	35,296	72,596	95,030
RR denominated fixed rate	5,606	5,638	5,514
Total long-term debt	61,252	97,462	102,358

NOTE 17:
ACCOUNTS PAYABLE
AND ACCRUED LIABILITIES

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Trade payables	16,715	19,466	17,985
Dividends payable	101	95	119
Other payables	1,071	906	632
Total financial liabilities within trade and other payables	17,887	20,467	18,736
Salaries and wages payable	4,093	3,841	3,171
Advances received from customers	1,109	3,639	3,735
Current portion of decommissioning provisions (Note 13)	1,361	1,443	991
Other accounts payable and accrued liabilities	6,569	5,788	3,335
Total non-financial liabilities	13,132	14,711	11,232
Accounts payable and accrued liabilities	31,019	35,178	29,968

The fair value of each class of financial liabilities included in short-term trade and other payables at 31 December 2012, 2011 and 1 January 2011 approximates their carrying value.

NOTE 18:
OTHER LONG-TERM LIABILITIES

Other long-term liabilities are as follows:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Pension liability	3,622	2,523	2,614
Other long-term liabilities	88	221	683
Total other long-term liabilities	3,710	2,744	3,297

PENSION LIABILITIES

The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the “Statement of Organization of Non-Governmental Pension Benefits for JSC TATNEFT Employees” and the contracts concluded between the Company or its subsidiaries, management, and the non-profit organization “National Non-Governmental Pension Fund”. In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years until official retirement age (age

60 for men and 55 for women), and in the case of management are based upon years of service. In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement.

Principal actuarial assumptions (expressed as weighted averages) are as follows:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Discount rate	7.2%	8.0%	8.0%
Rate of increase in salary levels	6.2%	7.0%	7.0%
Actuarial rate of NPF	3.0%	4.5%	5.0%
Expected return on plan assets	7.5%	9.0%	9.0%

Amounts recognized in the consolidated statement of financial position:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Present value of defined benefit obligation (DBO)	5,441	4,054	4,065
Less: Fair value of plan assets	(1,819)	(1,531)	(1,451)
Net defined benefit liability	3,622	2,523	2,614

Change in the defined benefit obligation amount:

	2012	2011
Defined benefit obligation (DBO) at beginning year	4,054	4,065
Effect of exchange rate changes	(7)	6
Current service cost	128	126
Interest cost	342	325
Benefits paid	(399)	(360)
Actuarial loss/(gain)	1,066	(103)
Past service cost	47	–
Curtailment/settlement (gain)/loss	(5)	–
Other	215	(5)
Defined benefit obligation at the end of the year	5,441	4,054

The amounts recognized in profit or loss are as follows:

	2012	2011
Service cost	128	126
Interest cost	342	325
Expected return on plan assets	(115)	(131)
Other	254	(5)
Total included in ‘employee benefits expense’	609	315

Reconciliation of the opening and closing balances of plan assets’ fair value:

	2012	2011
Plan assets at beginning of year	1,531	1,451
Contributions	220	202
Benefits paid	(131)	(133)
Actuarial gain/(loss)	76	(119)
Other	123	130
Plan assets at year end	1,819	1,531

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

Plan assets structure:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Russian corporate bonds and equity securities of Russian issuers	46.22%	55.41%	60.6%
Russian government and regions bonds	19.01%	29.53%	30.26%
Bank deposits	30.91%	7.99%	6.87%
Other	3.86%	7.07%	2.27%
Total plan assets	100%	100%	100%

Expected contributions to be paid during the next annual reporting period are RR 474 million.

NOTE 19:
TAXES

Income tax expense comprises the following:

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Current income tax expense	21,816	19,224
Deferred income tax expense	1,554	2,683
Income tax expense for the year	23,370	21,907

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

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Income before income taxes and non-controlling interest	101,818	86,117
Theoretical income tax expense at statutory rate	20,364	17,223
Increase due to:		
Non-deductible expenses, net	3,006	4,684
Income tax expense	23,370	21,907

No provision has been made for additional income taxes of RR 19,366 million on undistributed earnings of certain subsidiaries. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 1,219 million if they were remitted as dividends.

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

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Accounts receivable	155	59	106
Obligations under capital leases	–	–	7
Tax loss carry forward	3,924	3,922	3,466
Decommissioning provision	10,490	11,020	12,663
Other	547	640	809
Deferred income tax assets	15,116	15,641	17,051
Property, plant and equipment	(22,690)	(22,006)	(22,784)
Inventories	(2,152)	(1,630)	(1,070)
Long-term investments	(238)	(215)	(128)
Undistributed Earnings	(862)	(789)	(697)
Other liabilities	(1,575)	(2,085)	(878)
Deferred income tax liabilities	(27,517)	(26,725)	(25,557)
Net deferred tax liability	(12,401)	(11,084)	(8,506)

Deferred income taxes are reflected in the Consolidated Statements of Financial Position as follows:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
Deferred income tax asset	2,633	3,430	2,980
Deferred income tax liability	(15,034)	(14,514)	(11,486)
Net deferred tax liability	(12,401)	(11,084)	(8,506)

Deferred tax assets are recognized for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available against which the unused tax losses/credits can be utilized.

TAX LOSSES CARRY FORWARD

At 31 December 2012, the Group had recognized deferred income tax assets of RR 3,924 million (RR 3,922 million and RR 3,466 million at 31 December 2011 and 1 January 2011) in respect of unused tax loss carry forwards of RR 19,620 million (RR 19,610 million and RR 17,330 million at 31 December 2011 and 1 January 2011). Tax losses can be carried forward for relief against taxable profits for 10 years after they are incurred, subject to certain limitations. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments including expectations regarding the Group's ability to generate sufficient future taxable income and the projected time period over which deferred tax benefits will be realized.

The Group doesn't have any unrecognised potential deferred tax assets in respect of deductible temporary differences.

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

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Mineral extraction tax	102,813	96,719
Property tax	2,248	2,085
Penalties and interest	(214)	334
Other	1,446	1,297
Total taxes other than income taxes	106,293	100,435

For mineral extraction tax for fields whose depletion rate exceeds a certain threshold the Company received a benefit of approximately RR 21.4 billion and RR 17.0 billion for the years ended 31 December 2012 and 2011, respectively.

At 31 December 2012, 2011 and 1 January 2011 taxes payable were as follows:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1JANUARY 2011
Mineral extraction tax	8,457	8,843	6,991
Value Added Tax on goods sold	2,107	1,576	1,430
Income tax	201	410	370
Other	2,670	3,294	1,791
Total taxes payable	13,435	14,123	10,582

NOTE 20:
SHAREHOLDERS' EQUITY

AUTHORIZED SHARE CAPITAL

At 31 December 2012 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share.

GOLDEN SHARE

OAО Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, as of 31 December 2012 holds approximately 33.59% of the Company's capital stock (approximately 36% of 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 Revision Commission of the Company and to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law.

The Golden Share currently has an indefinite term. The Tatarstan government also controls or exercises significant influence over a number of the Company's suppliers, contractors and customers, such as the electricity producer OAО Tatenergo and the petrochemicals company OAО Nizhnekamskneftekhim (see also Note 1).

RIGHTS ATTRIBUTABLE TO PREFERRED SHARES

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

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

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

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

AMOUNTS AVAILABLE FOR DISTRIBUTION TO SHAREHOLDERS

Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from IFRS (see Note 2). The statutory accounts are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended 31 December 2012 and 2011, the Company had a statutory current profit of RR 66,707 million and RR 54,881 million, respectively.

EARNINGS PER SHARE

Preference shares are not redeemable and are considered to be participating shares.

Basic and diluted earnings per share are calculated by dividing profit or loss attributable to ordinary and preference shareholders by the weighted average number of ordinary and preferred shares outstanding during the period. Profit or loss attributed to equity holders is reduced by the amount of dividends declared in the current period for each class of shares. The remaining profit or loss is allocated to common and preferred shares to the extent that each class may share in earnings if all the earnings for the period had been distributed. Treasury shares are excluded from calculations. The total earnings allocated to each class of shares are determined by adding together the amount allocated for dividends and the amount allocated for a participation feature.

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER2011
Profit attributable to Group shareholders	73,473	62,104
Common share dividends	(15,032)	(10,664)
Preferred share dividends	(1,044)	(740)
Income available to common and preferred shareholders, net of dividends	57,397	50,700
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,123	2,121
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,271	2,269
Basic and diluted earnings per share (RR)		
Common	32.35	27.37
Preferred	32.33	27.34

NON-CONTROLLING INTEREST

Non-controlling interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 565 million, RR 188 million and RR 196 million at 31 December 2012, 2011 and 1 January 2011, respectively.

NOTE 21:
EMPLOYEE BENEFIT EXPENSES

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Wages and salaries	29,814	24,372
Statutory insurance contributions	6,963	6,426
Bonus certificates granted to directors and employees	1,107	1,065
Pension costs – defined benefit plans	609	315
Other employee benefits	2,257	1,905
Total employee benefit expense	40,750	34,083

Employee benefit expenses are included in operating expenses, selling, general and administrative expenses and Maintenance of social infrastructure and transfer of social assets and other expenses in the Consolidated Statements of Comprehensive Income.

NOTE 22:
INTEREST INCOME AND INTEREST EXPENSE

Interest income comprises the following:

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Interest income from loans and receivables	3,807	2,544
Unwinding of the present value discount	65	112
Total interest income	3,872	2,656

Interest expense comprises the following:

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Bank loans	3,063	3,674
RR denominated non-convertible bonds	362	362
Unwinding of the present value discount	4,159	4,775
Total interest expense	7,584	8,811
Less capitalised interest costs	(606)	(2,969)
Total interest costs recognised in profit or loss	6,978	5,842

NOTE 23:
SEGMENT INFORMATION

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Board of Directors and the Management Committee and for which discrete financial information is available.

Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

The Group’s business activities are conducted predominantly through three main operating segments:

- Exploration and production consists 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,
- Petrochemical products include production and sales of tires and petrochemical raw materials and refined products, which are used in production of tires.

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

The Group evaluates performance of its reportable operating segments and allocates resources based on income or losses before income taxes and non-controlling interest not including interest income, expense, and earnings from equity investments, other income and monetary effects. Intersegment sales are at prices that approximate market. Group financing (including interest expense and interest income) and income taxes are managed on a Group basis and are not allocated to operating segments.

For the year ended 31 December 2012, revenues of RR 93,877 million or 21% and RR 55,960 million or 13% of the Group’s total sales and operating revenues are derived from two external customers.

For the year ended 31 December 2011, revenues of RR 122,679 million or 29% and RR 58,034 million or 14% of the Group’s total sales and operating revenues are derived from two external customers.

These revenues represent sales of crude oil and are attributable to the exploration and production segment and refining and marketing segment.

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

SEGMENT SALES AND OTHER OPERATING REVENUES

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

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
EXPLORATION AND PRODUCTION		
Domestic own crude oil	61,748	70,299
CIS own crude oil	6,783	3,893
Non – CIS own crude oil	141,743	170,156
Other	3,952	3,359
Intersegment sales	77,189	25,218
Total exploration and production	291,415	272,925
REFINING AND MARKETING		
Domestic sales		
Crude oil purchased for resale	1,313	2,697
Refined products	73,637	52,281
Total Domestic sales	74,950	54,978
CIS sales		
Crude oil purchased for resale	–	20,016
Refined products	28,114	6,716
Total CIS sales⁽¹⁾	28,114	26,732
Non – CIS sales		
Crude oil purchased for resale	17,578	20,442
Refined products	51,473	17,079
Total Non – CIS sales⁽²⁾	69,051	37,521
Other	4,058	2,428
Intersegment sales	3,547	2,701
Total refining and marketing	179,720	124,360
PETROCHEMICALS		
Tires - domestic sales	27,910	23,556
Tires - CIS sales	7,388	6,519
Tires - non-CIS sales	1,185	1,316
Petrochemical products and other	2,412	2,548
Intersegment sales	880	954
Total petrochemicals	39,775	34,893
Total segment sales	510,910	432,178
Corporate and other sales	14,804	14,281
Elimination of intersegment sales	(81,615)	(28,873)
Total sales and other operating revenues	444,099	417,586

(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 Germany, Switzerland, Netherlands and United Kingdom based traders.

SEGMENT EARNINGS

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
SEGMENT EARNINGS		
Exploration and production	96,955	92,011
Refining and marketing	9,110	8,205
Petrochemicals	2,105	766
Total segment earnings	108,170	100,982
Corporate and other	(6,495)	(6,400)
Other income/(expenses)	143	(8,465)
Profit before income tax	101,818	86,117

SEGMENT ASSETS

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
ASSETS			
Exploration and production	271,998	279,701	279,490
Refining and marketing	233,994	219,646	184,832
Petrochemicals	29,912	28,181	23,290
Corporate and other	94,703	79,857	70,827
Total assets	630,607	607,385	558,439

As of 31 December 2012 and 2011 corporate and other segment comprised RR 6,711 million and RR 7,419 million, respectively, investments in associates and joint ventures.

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

SEGMENT DEPRECIATION, DEPLETION AND AMORTISATION
AND ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
DEPRECIATION, DEPLETION AND AMORTIZATION		
Exploration and production	11,022	7,851
Refining and marketing	3,397	372
Petrochemicals	1,300	1,333
Corporate and other	2,051	2,667
Total segment depreciation, depletion and amortization	17,770	12,223

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Exploration and production	19,689	7,403
Refining and marketing	24,428	30,390
Petrochemicals	317	411
Corporate and other	6,719	4,811
Total additions to property, plant and equipment	51,153	43,015

For the years ended 31 December 2012 and 31 December 2011 additions to property, plant and equipment of exploration and production segment include a reduction of RR 5,995 million and RR 12,363 million, respectively, associated with changes in the decommissioning provision.

NOTE 24:
RELATED PARTY TRANSACTIONS

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

ASSOCIATES AND OTHER RELATED PARTIES

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

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
REVENUES AND INCOME		
Sales of refined products	17	17
Other sales	461	421
COSTS AND EXPENSES		
Purchases of crude oil	4,687	4,076
Other services	1,194	1,111
Other purchases	1,567	741

For the years ended 31 December 2012 and 2011, the Group sold crude oil on a commission basis from related parties for RR 5,075 million and RR 6,573 million, respectively.

At 31 December 2012, 2011 and 1 January 2011 the outstanding balances with related parties were as follows:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
ASSETS			
Accounts receivable	222	490	319
Notes receivable	1,973	1,953	3,117
Short-term certificates of deposit	550	8,734	8,297
Trading securities	307	200	129
Loans receivable	8	344	503
Prepaid expenses and other current assets	83	88	14
Due from related parties short-term	3,143	11,809	12,379
Long-term accounts receivable	2	–	–
Long-term certificates of deposit	14,132	7,563	3,547
Long-term loans receivable	2,569	3,370	5,790
Due from related parties long-term	16,703	10,933	9,337

LIABILITIES

Accounts payable and accrued liabilities	(503)	(801)	(390)
Short-term debt	(2,130)	(1,952)	(1,755)
Due to related parties short-term	(2,633)	(2,753)	(2,145)
Long-term debt	(23)	(404)	(485)
Due to related parties long-term	(23)	(404)	(485)

As of 31 December 2012, 2011 and 1 January 2011, the Group had RR 4,542 million, RR 4,643 million and RR 8,490 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2013 and 2017, bearing interest between 3.2% and 8.5%. As of 31 December 2012, 2011 and 1 January 2011, the Group has short and long-term certificates of deposit of RR 14,682 million, RR 16,297 million and RR 11,844 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

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

GOVERNMENT BODIES AND STATE ORGANIZATIONS
The amounts of transactions for each year with Government bodies and state organizations are as follows:

	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
Sales of refined products	3,486	3,023
Other sales	267	–
Purchases of refined products	8,349	6,429
Purchases of electricity	9,232	8,463
Purchases of transportation services	21,623	19,004

COMPENSATION TO KEY
MANAGEMENT PERSONNEL

As of 31 December 2012 and 2011 total remuneration, including pension cost, for key management personnel was RR 1,339 million and RR 1,144 million, respectively.

For the year ended 31 December 2012, the Company issued 6,740,800 Awards to senior management and directors, all of which are expected to be settled at a price of RR 168.19 per Award. Final settlement is subject to approval at the Company's Management Committee meeting in July–September 2013. For the year ended 31 December 2011, the Company issued 6,513,000 Awards to senior management and directors, all of which were settled at a price of RR 166.95 per Award. The amount of related compensation expense recognized in Selling, General and administrative expenses of the Consolidated Statements of Comprehensive Income

NOTE 25:
CONTINGENCIES
AND COMMITMENTS

OPERATING ENVIRONMENT
OF THE GROUP

The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined provisions for impairment by considering the economic situation and outlook at the end of the reporting period.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

CAPITAL COMMITMENTS
As of 31 December 2012, 2011 and 1 January 2011 the Group has outstanding capital commitments of approximately RR 16,823 million, RR 14,966 million and RR 23,086 million, respectively, for the con-

struction of the TANECO refinery complex. These commitments are expected to be paid between 2013 and 2014.

Management believes the Group's current and long-term capital expenditures program can be funded through cash generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project has been funded from the Company's cash flow with the support of the bank facilities (Note 18). Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project, refinance any maturing debts as well as finance business acquisitions and other transactions that may arise in the future.

TAXATION
Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy is arm's length and it has implemented internal processes to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

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.

GUARANTEES
The Group has no outstanding guarantees at 31 December 2012, 2011 and 1 January 2011.

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

UKRTATNAFTA
The Group holds 49.6% investment in AmRUZ Trading AG ("AmRUZ") and 100% investment in Seagroup International Inc. ("Seagroup"). These entities primary activities are ownership interests in Closed Joint Stock Company Ukratnafta ("Ukratnafta"), the owner of the Kremenchug refinery, and their holdings constitute 8.34% and 9.96% of the outstanding common shares in Ukratnafta, respectively. 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 Ukratnafta, 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% Ukratnafta's common shares.

The challenges were suspended in April 2006 when the Supreme Court of Ukraine ruled the payment for Ukratnafta 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 Ukratnafta's shares, representing the entire holdings of AmRUZ and Seagroup in Ukratnafta. Subsequent to these actions, MFEU effectively began to exclude the Group from exercising their shareholder rights related to Ukratnafta.

In October 2007 the existing management of Ukratnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently, individuals who obtained the ability to manage Ukratnafta took certain actions effectively assisting MFEU in taking control over the shares in Ukratnafta owned by SeaGroup and AmRUZ. In addition, Ukratnafta subsequently refused to settle its payables to ChMPKP Avto (Note 3), a Ukrainian intermediary that previously purchased crude from the Group for deliveries to Ukratnafta. Following this forced change of control of Ukratnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its crude oil deliveries to Ukratnafta.

Subsequently, the Ukrainian courts also invalidated direct purchase of the shares in Ukratnafta by Tatneft.

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 Ukratnafta and seizure of shares of the Group in Ukratnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russian-Ukraine BIT and to order Ukraine to pay compensation in excess of US\$ 2.4

billion. In March 2013 the arbitral tribunal held the hearing on the merits with the award expected by the end of 2013.

As a result of the ongoing legal dispute over shareholding interests, as of 31 December 2012 the Company has fully provided for its investments in Ukratnafta.

LIBYA
As a result of the political situation in Libya, in February 2011 the Group had to entirely suspend its operations there and evacuate all its personnel. From February 2013 the Group has started the process of resuming its operations in Libya, including the return of some of its personnel to a branch in Tripoli. However, as of the date of this report the Group is not certain when it would be able to return to full operational activity in Libya. As of 31 December 2012 the company had approximately RR 5,681 million of assets associated with its Libyan operations of which RR 5,451 million is related to capitalized exploration costs, RR 208 million of inventories and RR 22 million of cash. As of 31 December 2011 and 1 January 2011 the company had approximately RR 5,692 million and RR 5,224 million of assets associated with its Libyan operations, correspondingly, of which RR 5,392 million and RR 4,781 million are related to capitalized exploration costs, RR 216 million and RR 219 million of inventories and RR 84million and 224 million of cash.

NOTE 26:
PRINCIPAL SUBSIDIARIES

Set out below are the Group's principal subsidiaries at 31 December 2012. Unless otherwise stated, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by Group. The country of incorporation or registration is also their principal place of business.

NAME OF ENTITY	% OF OWNERSHIP INTEREST HELD BY THE GROUP	% OF OWNERSHIP INTEREST HELD BY THE NCI	PRINCIPAL ACTIVITY
Tatneft–Europe AG	100	–	Export oil sales
Taneco OAO	91	9	Oil refinery
TMS group UK OOO	–	100	Oil lifting services
Burenie OOO	–	100	Drilling services
Nizhnekamskshina OAO	76	24	Tires production
Nizhnekamskiy zavod shin CMK OOO	100	–	Tires production
Trade House Kama OOO	100	–	Tires sales
Tatneft AZS–Centr OOO	100	–	Oil products sales
Tatneft AZS–Zapad OOO	100	–	Oil products sales

The total non-controlling interest for the year ended 31 December 2012 is RR 4,975 million, of which RR 2,091 million is attributed to TMS group UK OOO and Burenie OOO.

NOTE 27:
FINANCIAL RISK MANAGEMENT

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES.

The accounting policies for financial instruments, as described in Note 3, have been applied to the financial statements line items below:

	AT 31 DECEMBER 2012	AT 31 DECEMBER 2011	AT 1 JANUARY 2011
FINANCIAL ASSETS			
Current			
Cash and cash equivalents	13,083	16,901	7,977
Restricted cash	1,369	1,178	2,897
Accounts receivable	53,553	62,094	54,707
Short-term financial assets	14,931	19,205	20,831
Non-current			
Long-term accounts receivable	1,530	2,038	2,275
Long-term financial assets	25,782	18,439	16,314
Total financial assets	110,248	119,855	105,001
FINANCIAL LIABILITIES			
Current			
Trade and other payable	(17,887)	(20,467)	(18,736)
Short-term debt and current portion of long-term debt	(32,096)	(41,997)	(35,620)
Non-current			
Long-term debt, net of current portion	(37,991)	(59,747)	(72,939)
Total financial liabilities	(87,974)	(122,211)	(127,295)

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

MARKET RISK

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of a business.

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest rate risk and (c) commodity price risk.

a) Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

AT 31 DECEMBER 2012	RUSSIAN ROUBLE	US DOLLAR	OTHER	TOTAL
FINANCIAL ASSETS				
Current				
Cash and cash equivalents	9,400	3,585	98	13,083
Restricted cash	941	113	315	1,369
Accounts receivable	19,729	33,091	733	53,553
Short-term financial assets	12,389	2,542	–	14,931
Non-current				
Long-term accounts receivable	1,052	–	478	1,530
Long-term financial assets	22,755	3,027	–	25,782
Total financial assets	66,266	42,358	1,624	110,248
FINANCIAL LIABILITIES				
Current				
Trade and other payable	(14,096)	(3,549)	(242)	(17,887)
Short-term debt and current portion of long-term debt	(11,509)	(20,355)	(232)	(32,096)
Non-current				
Long-term debt, net of current portion	(605)	(36,150)	(1,236)	(37,991)
Total financial liabilities	(26,210)	(60,054)	(1,710)	(87,974)

AT 31 DECEMBER 2011	RUSSIAN ROUBLE	US DOLLAR	OTHER	TOTAL
FINANCIAL ASSETS				
Current				
Cash and cash equivalents	14,594	2,307	–	16,901
Restricted cash	816	124	238	1,178
Accounts receivable	25,617	35,797	680	62,094
Short-term financial assets	16,713	2,492	–	19,205
Non-current				
Long-term accounts receivable	2,038	–	–	2,038
Long-term financial assets	13,436	5,003	–	18,439
Total financial assets	73,214	45,723	918	119,855
FINANCIAL LIABILITIES				
Current				
Trade and other payable	(16,587)	(3,283)	(597)	(20,467)
Short-term debt and current portion of long-term debt	(3,273)	(38,724)	–	(41,997)
Non-current				
Long-term debt, net of current portion	(5,575)	(54,172)	–	(59,747)
Total financial liabilities	(25,435)	(96,179)	(597)	(122,211)

AT 1 JANUARY 2011	RUSSIAN ROUBLE	US DOLLAR	OTHER	TOTAL
FINANCIAL ASSETS				
Current				
Cash and cash equivalents	6,136	1,758	83	7,977
Restricted cash	301	1,231	1,365	2,897
Accounts receivable	25,737	28,729	241	54,707
Short-term financial assets	17,875	2,956	–	20,831
Non-current				
Long-term accounts receivable	2,241	–	34	2,275
Long-term financial assets	13,281	3,033	–	16,314
Total financial assets	65,571	37,707	1,723	105,001

FINANCIAL LIABILITIES				
Current				
Trade and other payable	(14,516)	(2,772)	(1,448)	(18,736)
Short-term debt and current portion of long-term debt	(5,291)	(30,329)	–	(35,620)
Non-current				
Long-term debt, net of current portion	(5,514)	(67,425)	–	(72,939)
Total financial liabilities	(25,321)	(100,526)	(1,448)	(127,295)

	INCREASE/DECREASE IN EXCHANGE RATE	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011
EFFECT ON PRE-TAX PROFIT			
US \$/RR loss	+10%	(1,770)	(5,046)
US \$/RR gain	-10%	1,770	5,046

b) Interest rate risk

The majority of the Group's borrowings is at variable interest rates (linked to the LIBOR rate). To mitigate the risk of significant changes in the LIBOR rate, the Group's treasury function performs periodic analysis of the interest rate environment. The Group does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether to obtain financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

	YEAR ENDED 31 DECEMBER 2012
EFFECT ON PRE-TAX PROFIT	
Increase by 100 basis points	(617)
Decrease by 100 basis points	115

The sensitivity analysis is limited only to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared assuming the amount of variable rate liability outstanding at the reporting date was outstanding for the whole year. Interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

As the Group receives bank loans for financing its investment projects, the main part of borrowing costs in 2011 were capitalised into qualifying assets. Therefore, changes in interest rates would have no significant effect on profit or loss and equity in 2011.

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions, which may accompany the relevant changes in market interest rates.

c) Commodity price risk
Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. The Group's overall strategy in production and sales of crude oil and related products is centrally managed. Substantially all the Group's crude oil export sales to Europe are sold under long-term contracts.

The Group assesses on a regular basis potential scenarios for future fluctuation in commodity prices and their impacts on operational and investment decisions.

However, in the current environment management estimates may materially differ from actual future impact on the Group's financial position. Actual results, and the impact on the Group's operations and financial position, may differ from management's estimates of potential scenarios.

CREDIT RISK
Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The Group's exposure to credit risk is limited to the carrying amount of financial assets recognized in the Consolidated Statement of Financial Position.

Credit risk arises from cash and cash equivalents, certificates of deposits, loans and notes receivables, as well as credit exposures to customers including outstanding trade and other receivables.

Credit risks related to accounts receivable are systematically monitored taking into account the customer's financial position, past experience and other factors. Management systematically reviews ageing analysis of receivables and uses this information for calculation of provision for impairment. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not always require collateral to limit the exposure to loss; however, in most cases letters of credit and prepayments are used, especially with respect to accounts receivables from non-CIS sales of crude oil. The Group operates with various customers and a substantial part of its sales relate to major customers. Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

The Company performs an ongoing assessment and monitoring of the risk of default.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash.

The Group deposits available cash mostly with financial institutions in the Russian Federation.

To manage this credit risk, the Group allocates its available cash to a variety of Russian banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash. As of 31 December 2012, 31 December 2011 and 1 January 2011 the majority of loans and receivables (Note 8, Note 11) are held in Bank Zenit which is related party to the Group (Note 24) and other non-investment grade entities with credit rating not less than BB- according to Standard and Poor's.

LIQUIDITY RISK
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing its liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows and matches the maturity profiles of financial assets and liabilities.

The Group prepares various financial plans (monthly, quarterly and annually) which ensures that the Group has

sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days or more. To fund cash requirements of a more permanent nature, the Group will normally raise long-term debt in available international and domestic markets.

All of the Group's financial liabilities represent non-derivative financial instruments.

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

AT 31 DECEMBER 2012	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS	TOTAL
Short-term debt, current portion of long-term and long-term debt	34,509	29,001	8,654	3,643	75,807
Trade and other payable	17,887	–	–	–	17,887

AT 31 DECEMBER 2011	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS	TOTAL
Short-term debt, current portion of long-term and long-term debt	45,813	25,469	37,420	3,092	111,794
Trade and other payable	20,467	–	–	–	20,467

AT 1 JANUARY 2011	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS	TOTAL
Short-term debt, current portion of long-term and long-term debt	40,023	37,726	39,787	2,699	120,235
Trade and other payable	18,736	–	–	–	18,736

As the amounts included in the table are contractual undiscounted cash flows which include future interest payments, these amounts will not reconcile to the amounts disclosed in the consolidated statement of financial position for borrowings.

FAIR VALUE HIERARCHY
Fair values. The estimated fair values of financial instruments are determined with reference to various market information and other valuation techniques as considered appropriate. IFRS 7, Financial Instruments: Disclosures, requires an entity to maximise its use of observable inputs when measuring fair value. In the absence of observable inputs, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Group could realise or settle in a market transaction. Certain of these financial instruments are with major financial institutions and expose the Group to market and credit risk. The creditworthiness of these institutions is routinely reviewed and full performance is anticipated. The Group is also exposed to a credit risk in the event of non-payment by counterparties. The creditworthiness of customers and other counterparties is continually reviewed.

IFRS 7 prioritises the inputs to valuation techniques into three levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date. For the Group, Level 1 inputs include held-for-trading financial assets that are actively traded on the Russian domestic markets.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. For the Group, Level 2 inputs include observable market value measures applied to available for sale securities.

Level 3 – Unobservable inputs for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions a market participant would use in pricing the asset or liability. The Group does not use Level 3 inputs for any of its recurring fair-value measurements.

MANAGEMENT OF CAPITAL
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and increase shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group considers equity and debt to be the principal elements of capital management. In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, revise its investment program, attract new or settle existing debt or sell certain non-core businesses.

The Group monitors capital on the basis of its gearing ratio.

DESCRIPTION	YEAR ENDED 31 DECEMBER 2012	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 1 JANUARY 2011
Consolidated total borrowings:	70,092	101,873	108,695
Short-term debt and current portion of long-term debt	32,096	41,997	35,620
Long-term debt, net of current portion	37,991	59,747	72,939
Notes payable	5	129	136
Consolidated tangible net worth	429,954	373,825	322,596
Debt to capital employed ratio, % (Consolidated total borrowings/ Consolidated tangible net worth)	16%	27%	34%

NOTE 28:
SUBSEQUENT EVENTS

The Group entered into a subordinated deposit agreement with Bank Zenit in January 2013 in the amount of RR 3,600 million payable in 10 years bearing interest of 9% per year.

FORECAST COMMENTS

All the statements, other than the actual data for the period reported in this document, are forward-looking statements with regard to the future results. Such forward-looking statements include:

- statements of plans, goals and objectives of the Company
- statements about future results of operations

The forward looking statements may also include information on projected or anticipated income, profit (loss), net profit (loss) in respect of shares, dividends, capital structure and other financial matters.

By its nature the forward-looking statements involve risks and uncertainties, both general and specific. There is a risk that predictions, forecasts, plans and other forward-looking statements will not match the reality. It should be borne in mind that due to a number of important factors the actual results may materially differ from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. Such factors include the following:

- inflation, fluctuation of interest rates and currency exchange rates;
- price of oil;
- impact of contest in the geographic territories and in the areas of the Company's activities;
- effects of changes in laws, standard-setting instruments, standards or procedures of taxation and accounting;
- technological changes;
- weather conditions, etc.

This list of factors is not an exhaustive one. Simultaneously with the above factors it is necessary to take into account political, economic, social and legal environment in which the Company operates. The forward looking statements are relevant only as of the date on which they are made and subject to any continuing obligations under the listing rules of the UK Listing Authority and other applicable laws. The Company assumes no obligation with regard to updating or introduction of amendments into any of these statements, whether on the basis of new information, future events or otherwise.

The forward-looking statements presented in this document shall not be construed as inducement to engage in investment activity and as a basis for making investment decisions.

LIST OF ABBREVIATIONS

JSC TATNEFT	Open Joint Stock Company named after V. D. Shashin
ZAO	Close Joint Stock Company
OOO	Limited Liability Company
NGDU	Oil and Gas Production Board (structural division of JSC TATNEFT)
PNP	Oil recovery enhancement
MUN	Oil recovery enhancement methods
GTM	Geological and engineering measures
RNO	Oil field equipment repair
EPU	Electrical submersible unit
NIOKR	Scientific research and design works
OPR	Pilot operations
PPD	Reservoir pressure maintenance
TatNIPIneft	Tatar R&D Institute of Petroleum Industry (structural division of JSC TATNEFT)
DZO	Subsidiaries and affiliated companies
UTT	Technological transport administration
ST	Specialized vehicles
UPTZh dlya PPD	Administration of process liquid treatment for reservoir pressure maintenance (structural division of JSC TATNEFT)
NIS	Standardizing Research Station (structural division of JSC TATNEFT)
TGRU	Tatar geological exploration Administration
ASK	Joint stock insurance Company
TNG	Tatneftegeophizika Company
TsDNG	Oil and gas production shop
BMZ	Bugulma Mechanical Plant
UKPN	Integrated crude oil treatment plant
AZS	Filling station
RTS	Russian Trading System
MMVB	Moscow Inter-Banc Currency Exchange (MICEX)
UK	Management Company
NPZ	Crude oil refinery
NOU	Non-governmental educational establishment
IT	Information technologies
KIS	Corporate information system
BZ	Near-abroad countries
DZ	Far-abroad countries
ONVSS	Equipment not included in the construction estimate
UTNS	Tatneftesnab Administration
TMTs	Commodity stocks and supplies
TTD	Trade and technical house of JSC TATNEFT
NDPI	Minerals extraction tax
NPU	Crude oil refining plant
MPT	Metal/plastic pipes
NS	Accidents
GIS	Geological information systems
ASU TP i PSP	Automated process control system of delivery and acceptance point
SPE	Society of Petroleum Engineers of the USA
LKS	Local well casing equipment
KPE	Key performance indicators
TsOD	Data processing center
T.u.t	Ton of reference fuel
TsKO	Control and Accountability Center
TsZVT	Claims Set-Off Center

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