DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

Content

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

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

This report includes forward-looking statements – words such as "believes," "anticipates," "expects," "estimates," "intends," "plans," etc. – that reflect management's current estimates and beliefs, but are not guarantees of future results. Please see "Forward-looking statement" on page 22 for a discussion of some factors that could cause actual results to differ materially.

Background

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

As of 31 December 2012 and 2011 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, hold approximately 36% of the Company's voting stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Commission 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 majority of the Group's crude oil and gas production, refining capacity and other operations are located in Tatarstan, a republic of the Russian Federation, situated between the Volga River and the Ural Mountains, approximately 750 kilometers southeast of Moscow.

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

Key financial and operational results

	2012	2011	Change,%
Financial results			
Sales, net (RR million)	444,099	417,586	6.35
Profit attributable to Group shareholders (RR million)	73,473	62,104	18.3
EBITDA (1) (RR million)	119,445	106,805	11.8
Additions to property, plant and equipment (RR million)	50,795	49,929	1.7
Free Cash Flow (RR million)	39,842	27,647	44.1
Net debt (RR million)	57,004	84,843	(32.8)
Basic and Diluted net profit per share of common stock (RR)			
Common	32.35	27.37	18.2
Preferred	32.33	27.34	18.3
Operational results			
Crude oil production by the Group (thousand tonnes)	26,307	26,196	0.4
Crude oil production by the Group (thousand barrels)	187,384	186,593	0.4
Crude oil daily production (thousand bbl per day)	512.0	511.2	0.1
Gas production by the Group (million cubic meters)	943.6	928.9	1.6
Gas daily production (thousand boe per day)	15.2	15.0	1.3
Refined products produced (thousand tonnes)	7,155.9	2,253.3	217.6
Gas products produced (thousand tonnes)	1,168.9	1,114.3	4.9
Refining throughput (thousand bbl per day)	147.24	51.21	187.5
Production of tires (thousand tires)	13.0	11.0	18.2
Number of petrol (gas) stations in Russia(2)	506	511	(1.0)
Number of petrol (gas) stations outside of Russia(2)	135	130	3.8

(1) *As defined on page 13*
(2) *Including leased stations*

Our net profit in 2012 was RR 73,473 million, which is RR 11,369 million, or 18.3%, more than in 2011. Increase of our net profit was mostly due to overall better macroeconomic environment in 2012 compared to 2011, as well as expansion of the Group's downstream operations associated with the launch of TANECO refinery (see Segment information section).

Crude oil production of the Group (including production of consolidated subsidiaries OAO Ilekneft, OOO Tatneft-Samara, OOO Tatneft-Severny) increased by 0.4% to 26.3 million metric tonnes in 2012 compared to 2011. Our gas production increased by 1.6% to 943.6 million cubic meters in 2012 from 928.9 million cubic meters in 2011. Substantial increase of refining throughput in 2012 compared to 2011 was due to the start of production at TANECO refinery.

Segment information

Our operations are currently divided into the following main segments:

- **Exploration and production** – consists of the Company's oil and gas extraction and production divisions, as well as subsidiaries, well repair and reservoir oil yield improvement subdivisions, pumping equipment repair centers, and other ancillary oilfield services' operations. Most oil and gas exploration and production activities are concentrated within the Company.

- **Refining and marketing** – consists of the Company's sales and marketing division (URNiN), a refining and petrochemical complex in Nizhnekamsk, Tatarstan, operated by OAO TANECO ("TANECO refinery"), as well as the Company's combined hydrocracker facility construction division; our gas production, transportation and refining division Tatneftegaspererabotka; OOO Tatneft-AZS Center, OOO Tatneft-AZS-Zapad, OOO Tatneft-AZS-Sibir and OOO Tatneft-AZS-Yug, which manage the Tatneft branded gas stations network in Russia and carry out refined products wholesale sales; and certain other oil trading and ancillary companies.

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

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

Executive overview

Recent developments and outlook

E&P activities in Tatarstan

One of the Company's primary strategic goals is to maintain current levels of crude oil production from its licensed fields in Tatarstan. In 2012 the Group increased production by 0.4% from its fields compared to 2011. Due to the relative maturity of the Company's main producing fields significant portion of all crude oil produced by the Company in Tatarstan was extracted using various enhanced oil recovery techniques. In 2012 the Group put 327 new production wells into operation in Tatarstan.

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

E&P activities outside of Tatarstan

The Group continues to expand its operations outside of Tatarstan. The Group produces crude oil in Samara and Orenburg regions. In 2012 the Group obtained two new production licenses in Nenets Autonomous Region and one production license in Orenburg region.

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

Highly viscous oil production

The Company continues a pilot project to produce highly viscous oil from the Ashalchinskoye field in Tatarstan using parallel steam injection and producing wells. There are eleven pairs of wells drilled with seven of them currently producing.

The Group benefits from a zero mineral extraction tax rate related to the production of highly viscous oil in Tatarstan and other regions of Russia. The Group also benefits from certain other tax incentives associated with highly viscous oil production activities.

In 2012 production of highly viscous oil amounted to 238.0 thousand tonnes.

Crude oil refining and marketing

In December 2011, after a period of comprehensive testing, a new refining and petrochemicals complex in Nizhnekamsk, Tatarstan, built and operated by OAO TANECO, commenced full commercial operation. In the meantime the Group continues construction of the hydrocracker facility, which will increase the refinery's complexity.

Petrochemicals

In 2012 production of tires by the Group's petrochemicals segment amounted to 13.0 million tires in comparison to 11.0 million tires in 2011.

Reserves

According to Miller and Lents, Ltd., the Group's independent petroleum engineering consultants, as of 1 January 2013 proved hydrocarbon reserves amounted to 6,396 million barrels of oil equivalent, including 6,192 million barrels of oil and condensate and 1,227 billion of cubic feet of gas, in conformity with the standards of the Petroleum Resources Management System (PRMS), prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE).

As of 1 January 2013 the Group's probable and possible reserves of crude oil and condensate were 2,233 million barrels and 220 million barrels, respectively.

The Group's probable and possible reserves of gas as of 1 January 2013 were 442 billion cubic feet and 13 billion cubic feet, respectively.

Results of operations for the year ended 31 December 2012 compared to the year ended 31 December 2011

The following table sets forth the consolidated statements of income both in absolute values and respective change over the analyzed periods:

(RR million)	**2012**	**2011**	**Change,%**
Sales and other operating revenues, net	**444,099**	**417,586**	**6.3**
Costs and other deductions			
Operating	86,675	74,760	15.9
Purchased oil and refined products	53,900	73,827	(27)
Exploration	1,740	2,230	(22)
Transportation	29,108	21,762	33.8
Selling, general and administrative	40,910	33,986	20.4
Depreciation, depletion and amortization	17,770	12,223	45.4
Loss on disposals of property, plant and equipment, investments and impairments	1,997	220	807.7
Taxes other than income taxes	106,293	100,435	5.8
Maintenance of social infrastructure and transfer of social assets	4,031	3,561	13.2
Total costs and other deductions	**342,424**	**323,004**	**6**
Foreign exchange gain / (loss)	1,665	(3,033)	154.9
Interest income	3,872	2,656	45.8
Interest expense, net of amounts capitalized	(6,978)	(5,842)	19.4
Earnings/ (losses) from equity investments	739	(677)	209.2
Other income/(expense), net	845	(1,569)	153.9
Total other income/(expenses)	**143**	**(8,465)**	**101.7**
Profit before income taxes	**101,818**	**86,117**	**18.2**
Current income tax expense	(21,816)	(19,224)	13.5
Deferred income tax expense	(1,554)	(2,683)	(42.1)
Total income tax expense	**(23,370)**	**(21,907)**	**6.7**
Profit for the year	**78,448**	**64,210**	**22.2**
Less: Profit attributable to non-controlling interest	(4,975)	(2,106)	136.2
Profit attributable to Group shareholders	**73,473**	**62,104**	**18.3**

Sales and other operating revenues

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

(RR million)	2012	2011	Change,%
Crude oil			
Sales	*376,785*	*474,402*	*(20.6)*
Less related export duties	*(147,620)*	*(186,899)*	*(21)*
	229,165	287,503	*(20.3)*
Refined products			
Sales	*188,061*	*87,607*	*114.7*
Less related export duties and excise taxes	*(34,837)*	*(11,531)*	*202.1*
	153,224	76,076	*101.4*
Petrochemicals	37,704	32,761	*15.1*
Corporate and other sales	24,006	21,246	*13*
Total Sales and other operating revenues, net	**444,099**	**417,586**	***6.3***

Increase in sales and other operating revenues in 2012 in comparison to 2011 was mainly due to change in the structure of the Group's operations.

In 2012 export duties, paid by the Group, decreased by 8.2% to RR 181,523 million from RR 197,817 million in 2011, due to lower volumes of crude oil sold for export. Our expenses on excise taxes increased to RR 934 million from RR 613 million in 2011 due to increase of the statutory excise tax rates.

Export of crude oil and refined products from Russia

For the crude oil export the Group is using transportation services of OAO AK Transneft ("Transneft"), the state-owned monopoly owner and operator of Russia's trunk crude oil pipelines. During 2012, the Group exported from Russia approximately 67% of all its crude oil sold compared to approximately 71% in 2011.

In 2012 the Company delivered 31% (55% in 2011) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Hungary and Slovakia); 39% (35% in 2011) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk) and 30% (10% in 2011) of crude oil exported through Russian Baltic Sea ports (mainly Primorsk).

In 2012 the Group exported from Russia 5,445 thousand tonnes of refined products (including 47 thousand tonnes of purchased refined products) in comparison to 1,691 thousand tonnes in 2011 (including 60 thousand tonnes of purchased refined products).

Sales breakdown

Sales revenues

(RR million)	2012	2011	Change,%
Crude oil			
Non-CIS			
Export sales	306,941	377,497	*(18.7)*
Less related export duties	(147,620)	(186,899)	*(21)*
CIS sales[1]	6,783	23,909	*(71.6)*
Domestic sales	63,061	72,996	*(13.6)*
	229,165	**287,503**	***(20.3)***
Refined products			
Non-CIS export sales			
Export sales	85,361	27 994	*204.9*
Less related export duties	(33,888)	(10,915)	*210.5*
CIS sales			
CIS sales	28,129	6,719	*318.6*
Less related export duties	(15)	(3)	*400*
Domestic sales			
Domestic sales	74,571	52,894	*41*
Less related excise taxes	(934)	(613)	*52.4*
	153,224	**76,076**	***101.4***
Petrochemical products			
Tires sales	36,483	31,391	*16.2*
Other petrochemicals sales	1,221	1,370	*(10.9)*
	37,704	**32,761**	***15.1***
Other sales	**24,006**	**21,246**	***13***

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

Sales volumes

(thousand tonnes)	2012	2011	Change,%
Crude oil			
Non-CIS export sales	12,605	16,474	*(23.5)*
CIS sales	521	2,110	*(75.3)*
Domestic sales	6,499	7,594	*(14.4)*
	19,625	**26,178**	***(25)***
Refined products			
Non-CIS export sales	3,765	1,280	*194.1*
CIS sales	1,680	411	*308.8*
Domestic sales	3,908	2,778	*40.7*
	9,353	**4,469**	***109.3***

Realized average sales prices

(th. RR per tonne)	2012	2011	Change,%
Crude oil			
Non-CIS export sales	*24.35*	*22.92*	*6.3*
CIS sales	*13.02*	*11.33*	*14.9*
Domestic sales	*9.70*	*9.61*	*0.9*
Refined products			
Non-CIS export sales	*22.67*	*21.87*	*3.7*
CIS sales	*16.74*	*16.35*	*2.4*
Domestic sales	*19.08*	*19.04*	*0.2*

Sales of crude oil

Sales of crude oil decreased by 20.6% to RR 376,785 million in 2012 from RR 474,402 million in 2011, mainly due to increased volumes of own refining throughput.

Sales of refined products

Sales of refined products increased by 114.7% to RR 188,061 million in 2012 from RR 87,607 million in 2011 due to increase in related sales of refined products by more than three times on Non-CIS and CIS markets, which in turn was due to commencement of TANECO's operations and related increase in production and sales of refined products.

	2012		2011		Change*, %	
Non-CIS export sales	**RR million**	**million tonnes**	**RR million**	**million tonnes**	**RR million**	**million tonnes**
Vacuum gasoil	29,738	1.25	549	0.02	-	-
Fuel oil	25,550	1.39	15,222	0.79	*67.8*	*76.3*
Naphtha	23,809	0.89	5,528	0.21	*330.7*	*324.6*
Gas products	4,657	0.17	6,059	0.23	*(23.1)*	*(25.7)*
Heating oil	385	0.01	605	0.03	*(36.4)*	*(55.8)*
Other	1,222	0.06	31	0.00	-	-
Total	**85,361**	**3.77**	**27,994**	**1.28**	***204.9***	***194.1***

	2012		2011		Change*, %	
CIS export sales	**RR million**	**million tonnes**	**RR million**	**million tonnes**	**RR million**	**million tonnes**
Heating oil	12,812	0.64	3,651	0.18	*250.9*	*245.5*
Fuel oil	5,741	0.52	1,690	0.15	*239.6*	*238.9*
Vacuum gasoil	4,626	0.28	-	-	-	-
Gas products	2,075	0.12	100	0.01	-	-
Naphtha	1,068	0.07	456	0.03	*134.3*	*130.8*
Other	1,807	0.05	822	0.04	*119.7*	*40.6*
Total	**28,129**	**1.68**	**6,719**	**0.41**	***318.6***	***308.8***

	2012		2011		Change*, %	
Domestic sales	**RR million**	**million tonnes**	**RR million**	**million tonnes**	**RR million**	**million tonnes**
Heating oil	25,428	1.48	7,301	0.37	*248.3*	*295.5*
Petrol fuel	25,064	0.88	22,093	0.85	*13.4*	*3.2*
Diesel fuel	13,138	0.53	15,377	0.71	*(14.6)*	*(25.1)*
Gas products	8,554	0.84	5,605	0.70	*52.6*	*19.9*
Other	2,387	0.18	2,518	0.15	*(5.3)*	*(24.9)*
Total	**74,571**	**3.91**	**52,894**	**2.78**	***41.0***	***40.7***

** The difference between percents presented here and in the sections is a result of rounding*

Sales of petrochemical products

The increase in sales of petrochemical products was primarily due to the higher volumes of tires sold. The Group's production of tires in 2012 increased by 18.2% to 13.0 million tires.

Other sales

Other sales increased by 13% to RR 24,006 million in 2012 from RR 21,246 million in 2011. Other sales primarily represent sales of materials and equipment, various oilfield services (such as drilling, well construction and repairs, and geophysical works) and sales of energy, water and steam provided by the Group entities to third parties.

Costs and other deductions

Operating expenses. Operating expenses include the following costs:

(RR million)	2012	2011
Crude oil extraction expenses	41,190	37,448
Refining expenses	2,939	-
Petrochemical production expenses	31,878	28,203
Other operating expenses	10,323	9,671
Operating expenses not attributed to the revenue in the current period[(1)]	345	(562)
Total operating expenses	**86,675**	**74,760**

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

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

Expenses of the Company's crude oil production units and subsidiaries consisting of the purchase of services and goods that are unrelated to their core activities and the change in crude oil and refined products inventory, have been excluded from extraction expenses and are included in other operating costs.

Lifting expenses averaged to RR 219.8 per barrel in 2012 compared to RR 200.7 per barrel in 2011. Higher equipment services and other overhead costs were the primary reason for the increase in lifting expenses in 2012 compared to 2011.

Refining expenses. Refining expenses mostly consist of expenses related to the production of refined products at our TANECO refinery and primarily include expenditures of raw materials and supplies, maintenance and repairs of productive equipment, labour and electricity costs, and other similar costs. Due to the start of production at TANECO refinery the refining expenses incurred in 2012 were RR 421.1 per tonne of crude oil throughput (RR 426.1 per tonne of products output).

Petrochemical production expenses. Petrochemical production expenses primarily include the costs of raw materials, labour, maintenance and electricity consumed in the production of petrochemical products. Cost of petrochemical products increased to RR 31,878 million by 13% in 2012 compared to 2011 primarily due to increase in volumes of petrochemicals produced as well as higher costs of raw materials and electricity.

Other operating expenses include costs of other services, goods and materials not related to the core production activities of the Group. Other operating expenses increased to RR 10,323 million, or by 6.8%, compared to 2011 which related to the increase of other sales by 13%.

Cost of purchased crude oil and refined products. A summary of purchased oil and refined products in 2012 and 2011, respectively, are as follows:

	2012	2011
Purchased crude oil (RR million)	18,832	39,460
Volume (thousand tonnes)	*859*	*2,769*
Average price (th. RR per tonne)	*21.92*	*14.25*
Purchased refined products (RR million)	35,068	34,367
Volume (thousand tonnes)	*1,442*	*1,569*
Average price (th. RR per tonne)	*24.32*	*21.90*
Total purchased oil and refined products	**53,900**	**73,827**

Cost of purchases of crude oil decreased in 2012 compared to 2011 due to lower volumes of crude oil purchased for resale.

Purchases of refined products in 2012 increased by 2% and amounted to RR 35,068 million in 2012 compared to RR 34,367 million in 2011 mainly due to an increase in average purchase price per tonne by 11% partly offset by a decrease in volumes of purchased refined products for trading by 8%.

Exploration expenses. Exploration expenses consist primarily of exploratory drilling, geological and geophysical costs, and the costs of carrying and retaining undeveloped properties. Exploration expenses decreased to RR 1,740 million in 2012 from RR 2,230 million in 2011.

Transportation expenses. Transportation of the Group's crude oil and refined products, including purchased crude oil and refined products, are mostly carried out using the Transneft trunk pipeline system and railway. Transportation costs increased by 33.8% to RR 29,108 million in 2012 from RR 21,762 million in 2011 due to transportation of refined products by railway in 2012 and increase in transportation tariffs.

Selling, general and administrative expenses. Certain selling, general and administrative expenses are by nature fixed costs, which are not directly related to production, such as payroll, general business costs, insurance, advertising, share based compensation, legal fees, consulting and audit services, charity and other expenses, including bad debt provisions. Increase in selling, general and administrative expenses by RR 6,924 million to RR 40,910 million in 2012 compared to 2011 was attributed, among other factors, to an increase in amortization of bank's commissions related to the main credit facilities and certain administrative expenses at TANECO as well as other expenses of the Group.

Loss on disposals of property, plant and equipment and impairment of investments. In 2012 we recorded a loss on disposals of property, plant and equipment and impairment of investments amounted to RR 1,997 million, mainly resulting from commencement of commercial operations of TANECO refinery, compared to a RR 220 million loss in 2011.

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

(RR million)	2012	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**

Taxes other than income taxes increased by 5.8% to RR 106,293 million in 2012 from RR 100,435 million in 2011 due to increase in Group's mineral extraction tax expense by 6.3%. This increase was primarily a result of an increase in mineral extraction tax base rate. Other taxes include land tax and non-recoverable VAT.

Effective 1 January 2007, the tax rate formula for mineral extraction tax was modified to provide for fields whose depletion rate is 80% or above as determined under Russian reserves classification. Under these rules, the Group receives a benefit of 3.5% per field for each percent of depletion within the limits of 80% to 100%. As Romashkinskoye field, the Group's largest, along with certain other fields is more than 80% depleted, the Group received a benefit in 2012 of RR 21.4 billion in comparison to RR 17.0 billion in 2011.

Since April 2007, a zero mineral extraction tax rate is applied to the production of highly viscous crude oil from the Group's Ashalchinskoye, Mordovo-Karmalskoye, and since 2010 and 2011 – also from some other fields, resulting in 2012 in a tax benefit of RR 1.2 billion in comparison to RR 0.8 billion in 2011.

Maintenance of social infrastructure and transfer of social assets. Maintenance of social infrastructure expenses and transfer of social assets increased to RR 4,031 million in 2012 from RR 3,561 million in 2011. These social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan.

Foreign exchange gain/ (loss). The Group recorded a foreign exchange gain amounted to RR 1,665 million in 2012 compared to a foreign exchange loss of RR 3,033 million in 2011, which was due to volatility of Ruble to US Dollar exchange rate in the reporting periods, resulting to the corresponding revaluation of US Dollars denominated debt under the long-term credit facilities of the Group on the back of overall decrease of amounts outstanding during 2012 in accordance with the scheduled repayment.

Interest income increased by 45.7% to RR 3,872 million in 2012 compared to 2011 due to increase in interest income received from our certificates of deposit.

Interest expense includes among other things a provision for the future costs of decommissioning of oil and gas assets. Interest expense, net of amounts capitalized, increased from RR 5,842 million in 2011 to RR 6,978 million in 2012, which was mainly due to discontinuance of some interest capitalization on debt related to TANECO.

Earnings/ (losses) from equity investments. The Group recorded a gain from equity investments amounted to RR 739 million in 2012 compared to RR 677 million loss in 2011. The loss in 2011 was mainly due to revaluation of certain investments of the Group's holdings in the amount of RR 1,187 million compared to a RR 6 million gain in 2012.

Other income, net, in 2012 amounted to RR 845 million compared with RR 1,569 million of other expense, net, in 2011.

Income taxes

The effective income tax rate in 2012 was 23%, compared to the statutory tax rate of 20% in the Russian Federation. This difference was due to non-deductible or partially deductible expenses incurred during the reporting period.

EBITDA reconciliation

(RR million)	2012	2011
Sales and other operating revenues, net	444,099	417,586
Costs and other deductions	(342,424)	(323,004)
Depreciation, depletion and amortization	17,770	12,223
EBITDA	**119,445**	**106,805**

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

Credit ratings

In June 2012, Fitch Ratings upgraded Long Term Issuer Default Rating (IDR) of the Group to "BB+" from "BB" with a stable outlook. Fitch has also affirmed the Short Term IDR at "B".

In July 2012, Moody's upgraded the corporate family (CFR) and probability of default (PDR) ratings of the Group to "Ba1" from "Ba2" with a stable outlook.

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

Financial Condition Summary Information

The following table shows certain key financial indicators:

(RR million)	At 31 December 2012	At 31 December 2011
Current assets	140,332	151,293
Long-term assets	490,275	456,092
Total assets	**630,607**	**607,385**
Current liabilities	76,550	91,298
Long-term liabilities	107,824	130,660
Total liabilities	**184,374**	**221,958**
Shareholders' equity	**446,233**	**385,427**
Working capital	63,782	59,995

Working capital position

As of 31 December 2012 working capital of the Group amounted to RR 63,782 million compared to RR 59,995 million as of 31 December 2011. The increase in the working capital in the current period compared to previous period was attributable to a decrease of current liabilities (mainly in current portion of long-term debt).

Liquidity and Capital Resources

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

(RR million)	2012	2011
Net cash provided by operating activities	90,637	77,576
Net cash used for investment activities	(48,519)	(44,368)
Net cash used for financing activities	(45,805)	(24,387)
Net change in cash and cash equivalents	(3,687)	8,821

Net cash provided by operating activities

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities increased by 16.8% to RR 90,637 million in 2012 from RR 77,576 million in 2011 which is explained primarily through higher profit attributable to Group shareholders earned in 2012.

Net cash used for investing activities

Net cash used for investing activities increased by 9.4% to RR 48,519 million in 2012 from RR 44,368 million in 2011, which was primarily due to an increase in capital expenditures and change in restricted cash.

Net cash used for financing activities

Cash flow used for financing activities amounted to RR 45,805 million in 2012 compared to RR 24,387 million used for financing activities in 2011. This was primarily due to net debt repayments of RR 29,180 million in 2012 compared with net debt repayments of RR 12,761 million in 2011.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment, excluding non-cash additions) were made in 2012 compared to 2011:

(RR million)	2012	2011
Exploration and production	25,684	19,766
Refining and marketing	18,075	24,941
Petrochemicals	317	411
Corporate and other	6,719	4,811
Total additions to property, plant and equipment	**50,795**	**49,929**

Calculation of Free Cash Flow

(RR million)	2012	2011
Net cash provided by operating activities	90,637	77,576
Additions to property, plant and equipment	(50,795)	(49,929)
Free Cash Flow	**39,842**	**27,647**

Analysis of Debt

At 31 December 2012, long-term debt, net of current portion, amounted to RR 37,991 million as compared to RR 59,747 million at 31 December 2011.

The decrease in the current period's amount of total debt outstanding was mainly attributed to scheduled repayments under a dual (3 and 5 year) tranches secured syndicated pre-export credit facility for up to US$ 1.5 billion arranged in October 2009 and a triple (3, 5 and 7 year) tranches secured credit facility for up to USD 2 billion arranged in June 2010.

Under the US$ 1.5 billion facility the undiscounted amounts outstanding, including the current portion, as of 31 December 2012 and 2011 were RR 4,808 million (US$ 158 million) and RR 20,809 million (US$ 646 million), respectively.

Under the USD 2 billion facility the undiscounted amounts outstanding, including the current portion, as of 31 December 2012 and 2011 were RR 28,921 million (US$ 952 million) and RR 51,963 million (US $1,614 million), respectively.

In February 2011 the Company reached an agreement with the lenders under the US$ 2 billion 2010 Facility to decrease the margins. The margins were decreased to LIBOR plus 2.40% and 3.40% for the 3 and 5 year's tranches, respectively.

In February 2011 the Company also reached an agreement with the lenders under the US$ 1.5 billion 2009 Facility to substantially decrease the amount of crude oil volumes used as collateral for this facility. The crude oil volumes used as collateral decreased from 480,000 to 360,000 metric tons of oil in a calendar quarter.

In June 2011, the Company entered into a US $550 million unsecured credit facility with a fixed rate of 3.50% per annum with bullet repayment in three years, 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 undiscounted amounts outstanding under this credit facility as of 31 December 2012 and 2011 were RR 16,705 million (US $550 million) and RR 17,708 million (US $550 million), respectively.

In November 2011, TANECO entered into a US $75 million credit facility with equal semi-annual repayments 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. The undiscounted amounts outstanding under this credit facility as of 31 December 2012 and 2011 were RR 2,050 million (US $68 million) and RR 2,415 million (US $75 million), including the current portion, respectively.

Also in November 2011, TANECO entered into a US $144.48 million credit facility with equal semi-annual repayments during ten years with first repayment date on 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. The undiscounted amount outstanding under this credit facility as of 31 December 2012 was RR 2,165 million (US $71 million).

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-Wurttemberg. The loan bears interest at EURIBOR plus 1.5% per annum. The undiscounted amount outstanding under this credit facility as of 31 December 2012 was RR 1,468 million (EUR 36.5 million).

The aggregate maturities of long-term debt (based on the discounted contractual cash flows) in the respective periods were as follows:

(RR million)	**At 31 December 2012**	**At 31 December 2011**
Due for repayment:		
Between one and two years	27,728	23,012
Between two and five years	7,486	34,615
After five years	2,777	2,120
Total long-term debt, net of current portion	**37,991**	**59,747**

Calculation of Net Debt

(RR million)	**At 31 December 2012**	**At 31 December 2011**
Short term debt	32,096	41,997
Long term debt, net of current portion	37,991	59,747
Total debt	**70,087**	**101,744**
Cash and cash equivalents	13,083	16,901
Net Debt	**57,004**	**84,843**

Contractual obligations, other contingencies and off balance sheet arrangements

Guarantees

The Group has no outstanding guarantees at 31 December 2012, and 2011.

Commitments and Contingent Liabilities

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

Ukrtatnafta

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 Ukrtatnafta ("Ukrtatnafta"), the owner of the Kremenchug refinery, which constitute 8.34% and 9.96% of the outstanding common shares in Ukrtatnafta, 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 Ukrtatnafta, and in particular, by the State Property

Fund and NJSC Naftogaz of Ukraine ("Naftogaz"). Naftogaz is 100% owned by the Ukrainian Government and also owner of record of 43% Ukrtatnafta's common shares.

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

In October 2007 the existing management of Ukrtatnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently, individuals who obtained the ability to manage Ukrtatnafta took certain actions effectively assisting MFEU in taking control over the shares in Ukrtatnafta owned by SeaGroup and AmRUZ. In addition, Ukrtatnafta subsequently refused to settle its payables to ChMPKP Avto (Note 3), a Ukrainian intermediary that previously purchased crude from the Group for deliveries to Ukrtatnafta. Following this forced change of control of Ukrtatnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its crude oil deliveries to Ukrtatnafta.

Subsequently, the Ukrainian courts also invalided direct purchase of the shares in Ukrtatnafta 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 27 November 1998 ("Russia-Ukraine BIT"). The arbitration concerns losses suffered by Tatneft as a consequence of the forcible takeover of Ukrtatnafta and seizure of shares of the Group in Ukrtatnafta. 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, the Company has fully provided for its investments in Ukrtatnafta.

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.

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.

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

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

Crude oil and refined products prices

The primary driver of our revenue is the selling price of crude oil and refined products. During 2012, Brent crude oil price fluctuated between $88 and $128 per barrel and averaged $111.6 per barrel.

Substantially all the crude oil we sell is Urals blend. The table below shows average and the end of the period crude oil and refined products prices for 2012 and 2011, respectively, in US Dollars and RUB. The prices nominated in US$ are translated into RUB at average US$/RUB exchange rate for the respective period.

	Average for 2012	Average for 2011	Change, %	At December 31 2012	At December 31 2011	Change, %
World market (1)	(in US Dollars per barrel, except for figures in percent)					
Brent crude	111.6	111.3	*0.3*	110.0	106.5	*3.3*
Urals crude *(CIF Mediterranean)*	110.4	109.1	*1.2*	108.3	104.2	*3.9*
Urals crude *(CIF Rotterdam)*	110.1	109.1	*0.9*	107.9	104.3	*3.5*
	(in US Dollars per tonne, except for figures in percent)					
Gasoil 0.1 1/2 *(CIF NWE/Basis ARA + FOB Rotterdam)*	972.6	933.8	*4.2*	949.9	924.8	*2.7*
Fuel oil 3.5% 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	628.5	607.2	*3.5*	573.6	613.0	*(6.4)*
Fuel oil 3.5% *(FOB Med (Italy))*	624.6	603.1	*3.6*	568.3	602.5	*(5.7)*
Naphtha Phy 1/2 *(CIF NEW/Basis ARA+ FOB Rotterdam)*	934.1	929.3	*0.5*	933.0	889.8	*4.9*
HS VGO(2) 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	788.1	776.7	*1.5*	737.0	742.3	*(0.7)*
	(in th. RR per tonne, except for figures in percent)					
Brent crude	24.71	23.30	*6.1*	24.36	22.30	*9.2*
Urals crude *(CIF Mediterranean)*	24.45	22.84	*7.0*	23.98	21.81	*9.9*
Urals crude *(CIF Rotterdam)*	24.38	22.84	*6.7*	23.90	21.83	*9.5*
	(in th. RR per tonne, except for figures in percent)					
Gasoil 0.1 1/2 *(CIF NWE/Basis ARA + FOB Rotterdam)*	30.24	27.44	*10.2*	29.53	27.18	*8.6*
Fuel oil 3.5% 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	19.54	17.85	*9.5*	17.83	18.02	*(1.1)*
Fuel oil 3.5% *(FOB Med (Italy))*	19.42	17.72	*9.6*	17.67	17.71	*(0.2)*
Naphtha Phy 1/2 *(CIF NEW/Basis ARA+ FOB Rotterdam)*	29.04	27.31	*6.3*	29.01	26.15	*10.9*
HS VGO(2) 1/2 *(CIF NWE/Basis ARA+ FOB Rotterdam)*	24.50	22.83	*7.3*	22.91	21.81	*5.0*
Russian market (1)	(in th. RR per tonne (incl.excise tax and VAT), except for figures in percent)					
Crude oil	12,33	10,78	*14.4*	12,55	11,63	*7.9*
Fuel oil	9,29	9,12	*1.9*	7,10	8,50	*(16.5)*

Source: Platts (world market), Kortes (Russian market)
(1) The Company sells crude oil for export and in the domestic market on various delivery terms. Therefore, our average realized sales prices differ from average reported prices.

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

Inflation and foreign currency exchange rate fluctuations

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

The following table shows the rates of inflation in Russia, the period-end and average Ruble/US Dollar exchange rates for the periods indicated.

	2012	2011
Ruble inflation, %	6.6	6.1
Period-end exchange rate (Ruble to US$)	30.37	32.20
Average exchange rate (Ruble to US$)	31.09	29.39

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

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

Taxation

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

Tax	2012	2011	Change, %	Taxable base
Income tax – maximum rate	20%	20%	-	Taxable income
Value Added Tax (VAT)	18%	18%	-	Sales from goods/services
Property tax – maximum rate	2.2%	2.2%	-	Taxable property
	(in RR per tonne, except for figures in percent)			
Mineral extraction tax, average rates(1)	5,066	4,455	*13.7*	Tonne produced (crude oil)
	(in US $ per tonne, except for figures in percent)			
Crude oil export duty, average rates	404.3	408.9	*(1.1)*	Tonne exported
Refined products export duty average rates:				
Gasoline(2)	363.8	341.3	*6.6*	
Straight-run gasoline(2)	363.8	332.6	*9.4*	
Light and middle distillates, gasoils	266.8	274.1	*(2.7)*	Tonne exported
Fuel oil *(mazut)*	266.8	208.2	*28.1*	

(1) *Without taking into account differentiated taxation*

Starting from 1 May 2011 the Russian Government introduced a special export duty on gasoline equivalent to 90% of the export duty on crude oil. Starting from 1 June 2011 the Russian Government introduced a special export duty on straight-run gasoline equivalent to 90% of the export duty on crude oil. The Group's results of operation are not materially affected by these special export duties.

In 2012 mineral extraction tax rate increased by 14% and average refined products export duty rate by 9% (mainly due to unification of duties paid upon export of majority of refined products effective from October 2011). Average crude oil export duty rate decreased by 1%.

The rates of mineral extraction tax and export duties for crude oil and refined products are linked to international crude oil prices and are changed in line with them. Below are presented tax rates calculation approach.

Mineral extraction tax (MET) rate. The base tax rate for the production of oil in 2012 is set at RR 446 per tonne (an increase from RUR 419 base tax rate applied in 2011) and is adjusted depending on the international market price of Urals blend and the Ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to $15.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($15.00 per barrel) results in an increase of the tax rate by $1.71 per tonne extracted.

The base rate for 2013 is currently set at 470 Rubles per metric tonne extracted.

The MET rate is applied with a discount based on the level of depletion of the related oil fields as determined under Russian reserves classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above as determined by the Russian reserves classification. The Group receives a benefit of 3.5% per field for each percent of depletion within the limits of 80% to 100%. As Romashkinskoye field, the Group's largest, along with certain other fields, is more than 80% depleted, the Group received a benefit related to crude oil production from these fields in 2012 of RR 21.4 billion (RR 17.0 billion in 2011).

Also a zero MET rate applies to the production of highly viscous crude oil (defined as crude oil of more than 200 Megapascal second in reservoir conditions). Since April 2007, the Group's production of highly viscous crude oil from the Ashalchinskoye and Mordovo-Karmalskoye fields, and since 2010 and 2011 - also from some other fields is subject to a zero MET rate, resulting in a tax benefit in 2012 attributed to that production of RR 1.2 billion (RR 0.8 billion in 2011).

At the end of November 2011 new amendments to the Tax Code of the Russian Federation were signed into law, which provide for a possibility to decrease the mineral extraction tax payable on production of crude oil from certain fields located entirely or partially in Tatarstan until 2016.

Crude oil export duties. The Government determines the export duty rate, which is dependent on the average Urals price for the monitoring period and cannot exceed the following levels:

Quoted Urals price (P), US$ per tonne	Maximum Export Duty Rate
0 – 109.50	0%
109.50 – 146.00	35.0% * (P - 109.50)
146.00 – 182.50	US$ 12.78 + 45.0% * (P - 146.00)
>182.50	US$ 29.20 + 60.0% * (P - 182.50)

The crude oil export duty rate is revised monthly on the basis of monitoring of crude oil prices for preceding one-month period between the 15^{th} day of each calendar month and the 14^{th} day of the following calendar month (inclusive).

Effective from 1 October 2011 the Government sets the export duty for crude oil at a marginal rate of 60% of the Urals crude oil price during the monitoring period.

The export duty rate on crude oil decreased by 1% in 2012 to US$ 404.3 per tonne (US$ 55.4 per barrel) from US$ 408.9 per tonne (US$ 56.0 per barrel) in 2011.

Refined products export duties. Export customs duty on refined products is set every month by the Government simultaneously with the export customs duty on crude oil and is denominated in US$ per tonne. The rate of the export customs duty on refined products is linked to the crude oil export duty rate. At the moment, the rate of the export customs duty is the same for all types of refined products with the exception of gasoline and straight-run gasoline.

Prior to February 2011, export customs duty on light refined products (gasoline, diesel, jet fuel, etc.) was calculated using the following formula: 0.438 * (Price * 7.3 – 109.5), where Price is the average Urals price in the US Dollar per barrel. Export customs duty on heavy refined products (fuel oil, etc.) was calculated using the following formula: 0.236 * (Price * 7.3 – 109.5).

Starting from February 2011, the export duty rate on refined products was determined by the Government by applying coefficients of 0.67 of the export duty for crude oil for light refined products and 0.467 for heavy refined products.

The Russian Government introduced special export duties starting from May 2011 for gasoline and starting from June 2011 for straight-run gasoline, which are underlined in the table below.

Starting from October 2011, the export duty for light refined products was lowered from 0.67 to 0.66 of export duty for crude oil; the export duty for heavy refined products was raised from 0.467 to 0.66 of export duty for crude oil.

	Maximum coefficients (effective until 1 October 2011)	Maximum coefficients effective from 1 October 2011 (per Decree No. 716 of 26 August 2011)
Diesel and jet fuel	0.670	0.660
Fuel oil	0.467	0.660
Oil lubricants	0.467	0.660
Gasoline	0.900	0.900
Straight-run gasoline	0.900	0.900

Excise tax on refined products. According to the legislation introduced in December 2010 the excise tax rates on the refined products were increased and linked to the environmental characteristics of the products. The responsibility to pay excise taxes on refined products in Russia is imposed on refined product producers (except for straight-run gasoline). The excise tax is paid per metric tonne produced and sold domestically.

	2012		2011
(RR per tonne)	**01.01-30.06**	**01.07-31.12**	
Gasoline:			
High octane gasoline below Euro-3,4,5	7,725	8,225	5,995
High octane gasoline Euro-3	7,382	7,882	5,672
High octane gasoline Euro-4	6,822	6,822	5,143
High octane gasoline Euro-5	6,822	5,143	5,143
Straight-run gasoline	7,824	7,824	6,089
Diesel fuel:			
Diesel below Euro- 3,4,5	4,098	4,300	2,753
Diesel Euro-3	3,814	4,300	2,485
Diesel Euro-4	3,562	3,562	2,247
Diesel Euro-5	3,562	2,962	2,247
Motor oils	6,072	6,072	4,681

Excise tax rates on refined products increased in 2012 by 35% on average in comparison to 2011.

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

Value added tax (VAT). The Group is subject to value added tax (or VAT) of 18% on most sales. The Group's results of operations exclude the impact of VAT.

Income tax. The total income tax rate of 20% includes federal part of 2.0%, and the regional part, which varies between 13.5% and 18.0%.

Transportation of crude oil and refined products

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

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

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

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

Transneft collects on prepayment terms a Ruble tariff on domestic shipments and an additional US Dollar tariff on exports.

Transportation of refined products in Russia is mostly performed by railway transport. The Russian railway infrastructure is owned and operated by OAO Russian Railways.

Transneft and OAO Russian Railways are state-owned companies. As the activities of the above mentioned companies fall under the scope of natural monopolies, the fundamentals of their tariff policies are defined by the state authorities to ensure the balance of interests of the state and all participants in the transportation process. Transportation tariffs of natural monopolies are set by the Federal Service for Tariffs of the Russian Federation ("FST") and are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Tariffs are revised by the FST at least annually.

Critical accounting policies

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

Forward-looking statements

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

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

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

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

These factors include:

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

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

Corporate Governance Statement

Corporate Governance Code

The Company's corporate governance standards are set out in the Corporate Governance Code of JSC Tatneft, approved by our Board of Directors on 27 December 2007 (as amended) (the "Code").

The Code sets out principles of corporate governance within Tatneft, including, *inter alia*, procedures for protecting the interests of shareholders, requirements to members of corporate management bodies, their functions and main responsibilities, disclosure standards, internal controls and auditing principles.

The Code complies with the requirements of Russian Federation laws and listing standards applicable to Tatneft, and follows some best practices of corporate governance.

A copy of the Code as well as information about the Company's corporate governance principles and practices is publicly available at the Company's web-site: http://www.tatneft.ru

Main Features of Internal Control and Risk Management Systems in Relation to the Financial Reporting Process

The entities of Tatneft Group (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 Group's consolidated financial statements for the periods up to 30 September 2012, inclusive, were prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The Group first adopted IFRS for the financial statements for the fiscal year ended 31 December 2012. 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) capital leases; (6) share base payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for asset retirement obligation; (10) pensions and other post retirement benefits; (11) business combinations and goodwill; and (12) consolidation and accounting for subsidiaries, equity investees and variable interest entities.

The Group's consolidated financial statements are prepared on the basis of the RAR accounting records and adjusted as necessary to comply with US GAAP or IFRS, respectively.

Internal control and risk management systems include special software products designed to minimize human influence on the flow of data for the preparation of the US GAAP/IFRS financial statements. These systems also involve respective controls at the Group's entities level.

Tatneft's Internal Audit Department is responsible for reviewing transactions of the Group's entities on a routine basis and reports directly to the Audit Committee of the Board of Directors of JSC Tatneft.

Financial statements of major entities of the Group are audited by reputable independent auditing firms, and the US GAAP/IFRS financial statements of the Group are reviewed on a quarterly basis and audited annually by PwC, an independent auditor.

Information About Share Capital

Significant Holding of Ordinary Shares

At 31 December 2012, Svyazinvestneftekhim, a joint stock company wholly-owned by the Republic of Tatarstan, owned, directly and through its subsidiary Investneftekhim, 781,404,369 ordinary shares and 95,500 preferred shares, or 33.59% of our capital stock and 35.86% of our ordinary shares.

The following table sets forth information regarding the record ownership of our ordinary shares by shareholders who own more than 5% of such shares, as per Russian statutory requirements:

Ordinary Shareholders	*Number of Ordinary Shares*	*Per cent. of Ordinary Shares*
Svyazinvestneftekhim[(1)]	781,404,369	35.86%
BNY Mellon, as depositary[(2)]	651,243,580	29.29%

(1) Includes 73,209,590 ordinary shares, representing 3.2% of our charter capital and 3.36% of our ordinary shares, which are owned by Investneftekhim, a subsidiary of Svyazinvestneftekhim

(2) BNY Mellon is the depositary bank for our ADR facility. Under Russian law BNY Mellon is the owner of record of ordinary shares deposited into the ADR facility.

Data as of 14 May 2012.

Our major shareholders have the same voting rights per share as other shareholders.

Special Rights with Regard to Control of the Company

In addition to Svyazinvestneftekhim's ownership of our ordinary shares, the Tatarstan government holds a Golden Share. Under federal law, a holder of a Golden Share has the veto rights in respect of the major decisions at meetings of shareholders, including:

- decisions relating to changes to the share capital;
- amendments to the charter;
- liquidation or reorganization of the company; and
- entering into "major" or "interested party" transactions as defined in the Law on Joint Stock Companies.

Under the Federal Law of the Russian Federation No. 178-FZ "On Privatization of State and Municipal Property" of 12 December 2001 (as amended), the Golden Share also allows the government to appoint one representative of the government to each of our Board of Directors and Revision Committee.

Due to Svyazinvestneftekhim's current ownership of ordinary shares and its rights under the Golden Share, Tatarstan may elect members of the Board and influence our direction and future operations, including decisions regarding acquisitions and other business opportunities, declaration of dividends and issuance of additional shares and other securities even without recourse to the Golden Share.

In addition to holding a Golden Share in Tatneft, the Tatarstan government holds a Golden Share in our subsidiary Nizhnekamskshina.

Voting Rights

Each fully paid ordinary share of the Company, except for treasury shares held by Tatneft directly (i.e. not through subsidiaries), gives its holder the right to participate in shareholders' meetings and vote on matters to be decided thereby. Holders of preferred shares are generally not entitled to vote at the shareholders' meetings. However, both the Charter and the Law on Joint Stock Companies entitle preferred stockholders to vote on changes and additions to the Charter where such changes provide for reorganization or liquidation of the Company, limitation of their rights, including the issuance of preferred shares with broader rights than those of the existing preferred shares, or change the amount of dividends on the preferred shares. Holders of preferred shares are also entitled to vote at the shareholders' meeting on any items that may appear on the agenda in the event that we fail to declare a dividend on preferred shares in full.

Under the Law on Joint Stock Companies a general shareholders' meeting is held at least once a year between 1 March and 30 June of each year, and the agenda must include the following items:

- election of members of the Board of Directors;

- election of members of the Revision Committee;

- approval of the annual report, balance sheet, and profit and loss statement;

- approval of any distribution of profits, except net profit that has been distributed as quarterly dividends or losses; and

- approval of an independent auditor.

A shareholder or a group of shareholders owning in the aggregate at least two percent of our issued voting shares may submit proposals to the agenda of the annual shareholders' meeting and may nominate candidates to serve as members of our Board or Revision Committee. The shareholders must provide their agenda proposals or nominations to us within 30 calendar days of the end of the fiscal year preceding the annual shareholders' meeting, (*i.e.*, by 30 January).

Extraordinary shareholders' meetings may be called by the Board at its own initiative to consider matters within the competence of the general shareholders' meeting, as well as upon written request by the Revision Committee, our independent auditor or shareholders owning not less than 10% of our ordinary shares in the aggregate as of the date of such request. The Board must then consider the request, and, if approved, schedule the meeting not more than 40 days from the date of receipt of the request or 70 days from the date of receipt of the request if the proposed agenda includes the re-election of the Board by way of cumulative voting.

The quorum for a shareholders' meeting constitutes presence in person or through authorized representatives of holders of more than 50% of our voting shares. Shareholders are entitled to participate in the shareholders' meeting by forwarding a bulletin to us provided such bulletin is received at least two days before the meeting, except as to the election of Board members, members of the internal audit commission, appointment of the independent auditor, approval of annual reports and annual financial statements, profits distributions (including declaring dividends) and the covering of losses. If the quorum requirement is not met, another shareholders' meeting must be scheduled, in which case the quorum requirement is met if shareholders owning at least 30% of the issued voting shares have registered at that meeting. Shareholders may participate in meetings by proxy, provided that the proxy holds a power of attorney issued by the shareholder.

All our shareholders entitled to participate in a shareholders' meeting must be notified of a meeting and its agenda no less than 20 days prior to the date of the meeting. However, if it is an extraordinary shareholders' meeting to elect our Board by cumulative vote, shareholders must be notified at least 70 days prior to the date of the meeting. Also, if an agenda of the shareholders' meeting contains an item on reorganization, the notification shall be made no less than 30 days prior of the meeting, and if it deals more particularly with the reorganization in the form of merger, spin-off or split-up and there is an item on the election of directors of a new company, the term shall be no less than 70 days. The record date of the shareholders' meeting is set by the Board and may not be (i) earlier than the date of adoption of the resolution to hold a shareholders' meeting and (ii) more than 50 days before the date of the meeting. In the case of an extraordinary shareholders' meeting to elect our Board, the record date must be within the 65-day period prior to the meeting.

Rules About Appointment of Directors and Amendment of the Charter

The Company complies with the requirements of Russian law as to appointment and replacement of Directors as well as amendment of the Charter (please see sections relating to voting rights above and Board of Directors below).

The Powers of Directors

Please see section "Board of Directors" below.

Description of the Composition and Operation of the Administrative, Management and Supervisory Bodies and Their Committees

Board of Directors

Tatneft's Board of Directors currently consists of 15 members. Directors are elected by a resolution of shareholders passed at a shareholders' meeting by cumulative voting, serve until the next ordinary shareholders' meeting and can be re-elected for an unlimited number of terms. All Directors can be removed by a resolution passed at a shareholders' meeting without cause. Apart from those members appointed by the Tatarstan government, through Svyazinvestneftekhim in its capacity as a shareholder of Tatneft, the Tatarstan government possesses a Golden Share right in our company that gives it power to appoint a representative to our Board.

The members of our Board of Directors are:

Name	***Titles***	***Year of Birth***
Rustam Nurgalievich Minnikhanov*	Chairman of the Board, President of the Republic of Tatarstan	1957
Shafagat Fakhrazovich Takhautdinov	Director, General Director of Tatneft	1946
Radik Raufovich Gaizatullin	Director, Finance Minister of the Republic of Tatarstan	1964
Sushovan Ghosh	Independent Director, Chairman of Audit Committee, Managing Director of SGI Group Ltd.	1957
Nail Gabdulbarievich Ibragimov	Director, First Deputy General Director of Production, Chief Engineer	1955
Azat Kiyamovich Khamaev	Minister of Land and Property Relations of Tatarstan	1956
Rais Salikhovich Khisamov	Director, Deputy General Director, Chief Geologist	1950
Vladimir Pavlovich Lavushchenko	Director, Deputy General Director of Economics	1949
Nail Ulfatovich Maganov	Director, First Deputy General Director, Head of Oil and Refined Products Sales Department	1958
Renat Haliullovich Muslimov	Director, Assistant to the President of the Republic of Tatarstan on Exploration of Oil and Gas Fields	1934
Rinat Kasimovich Sabirov	Director, Advisor to the Prime-Minister of the Republic of Tatarstan on the Matters of Oil, Gas and Chemical Industry	1967
Valery Yurievich Sorokin	Director, General Director of Svyazinvestneftekhim	1964
Mirgaziyan Zakievich Taziev	Director, Head of the Almetievneft NGDU	1947
Maria Leonidovna Voskresenskaya	Independent Director, Director of Brentcross Holding Ltd.	1955
David William Waygood	Director, Director of ICDS Limited	1950

* Appointed to the Board of Directors pursuant to the exercise of the Golden Share right of the Tatarstan government.

Biographies of the Directors are set out below:

Rustam Nurgalievich Minnikhanov. Mr. Minnikhanov was born in 1957. In 1978, he graduated from the Kazan Agricultural Institute with a specialization in mechanical engineering, and he graduated from the Institute of Soviet Trade in 1986 with a degree in merchandizing of foodstuffs. He has a Ph.D. in Economics. He started work in 1978 as an engineer and was responsible for diagnostics at the Sabinsky district union of Agricultural Equipment. He further worked as senior and chief power engineer at the Sabinsky Forestry Engineering Co. From 1983 to 1985, he was Deputy Director of Trade of the Sabinsky district, and from 1985 to 1990, he was Chairman of the Arsky Consumer Supplies Board. He was then elected Chairman of the Executive Committee of the Arsky Council of

Peoples' Deputies. In 1992, he was First Deputy Head of the Administration of the Arsky district of the Republic of Tatarstan. From 1993 to 1996, he was Chairman of the Visokogorsky district Council of People's Deputies and then Head of Administration of the Visokogorsky district of the Republic of Tatarstan. From 1996 to 1998, he was Minister of Finance of the Republic of Tatarstan. From 1998 to 2011, he was Prime Minister of the Republic of Tatarstan. He has been a member of the Board of Directors since 1997. Since 25 March 2010, he has been President of the Republic of Tatarstan. He has served as Chairman of the Board of Directors since June 1998.

Shafagat Fakhrazovich Takhautdinov. Mr. Takhautdinov was born in 1946. In 1971, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow. He has a Ph.D. in Economics. He started work in 1964 as a driller's assistant at the Almetyevsk Drilling Operations Department and then worked as an oil production operator, underground well repair foreman and manager of a reservoir pressure maintenance section. He also served as Head of the Djalilneft NGDU (1978-1983), Head of the Almetyevneft NGDU (1983-1985) and First Secretary of the Communist Party Committee of Leninogorsk (1985-1990). From 1990 to 1999, he was Chief Engineer and First Deputy General Director of Tatneft. He has been a member of the Board of Directors since 1994. Since 1999, he has been the General Director.

Radik Raufovich Gaizatullin. Mr. Gaizatullin was born in 1964. In 1985, he graduated from the Kazan Agricultural Institute with a specialization in accounting and economic analysis of agriculture. He started work as the chief accountant at the collective farm Mayak, Laishevsky district. He then worked as the leading economist for control and supervision of the Laishevsky district Cooperative Society, and then as the chief accountant of the agricultural firm Biryuli, Visokogorsky district. In 1999, he was transferred to the Ministry of Finance of the Republic of Tatarstan as Head of the Section for Financing Agriculture and Food Industry. In June 2000, he was appointed Deputy Minister of Finance of the Republic of Tatarstan and, in 2001, he was appointed First Deputy Minister of Finance of the Republic of Tatarstan. Since 27 June 2002, he has served as Finance Minister of the Republic of Tatarstan. He has been a member of the Board of Directors since 2000.

Sushovan Ghosh. Mr. Ghosh was born in 1957. He graduated with First Class Honors in 1979 from Queen Mary's College of the University of London with a specialization in electronics and electrical engineering. He is also a Fellow of the Institute of Chartered Accountants, England and Wales. From 1998 to 2000, and since 2002, he has served as the Managing Director of SGI Group Ltd. (U.K.), and from 2001 to 2002, he was Deputy Head of the International Investments and Trading Department and Director of Finance of Renaissance Capital in Russia. He has been a member of the Board of Directors since 2004.

Nail Gabdulbarievich Ibragimov. Mr. Ibragimov was born in 1955. In 1977, he graduated cum laude from the Gubkin Petrochemical and Gas Industry Institute of Moscow. He has a Ph.D. in Technical Sciences. He first worked as an oil and natural gas production operator with the Almetyevneft NGDU, and was then promoted to the position of Chief Engineer of the Almetyevneft NGDU. In 1999, he was appointed Deputy General Director and Chief Engineer of Tatneft. He has been First Deputy General Director of Production and Chief Engineer of Tatneft since 2000. He has been a member of the Board of Directors since 2000.

Azat Kiyamovich Khamaev. Mr. Khamaev was born in 1956. In 1978, he graduated from the Kazan Aviation Institute specializing as a mechanical engineer. Later he graduated from the Law Faculty of the Kazan State University in 2000. He worked as a General Director of Tatkhimfarmpreparaty Company starting in 2004 and as the First Deputy Minister of Land and Property Relations of the Republic of Tatarstan starting in December 2008. He was appointed the Minister of Land and Property Relations of the Republic of Tatarstan in March 2009. He has been a member of the Board of Directors since 2009.

Rais Salikhovich Khisamov. Mr. Khisamov was born in 1950. In 1978, he graduated from the evening department of the Gubkin Petrochemical and Gas Industry Institute of Moscow with a specialization in mining engineering. He has a Ph.D. in Geology and Mineralogy. He started work as an oil production operator at the Elkhovneft NGDU, then worked as a collector at the Birsk Geological Prospecting Unit and as an operator at the Irkenneft NGDU. In 1972, after serving in the Russian army, he joined the Irkenneft NGDU, where he worked until 1997 and was gradually promoted from the position of well exploration operator to that of Chief Geologist of the Irkenneft NGDU. Since October 1997, he has been working as Chief Geologist and Deputy General Director of Tatneft. He has been a member of the Board of Directors since 1998.

Vladimir Pavlovich Lavushchenko. Mr. Lavushchenko was born in 1949. In 1972, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow. He has a Ph.D. in Economics. After serving in the army, he worked as an engineer, then as a senior engineer and chief of a computing equipment group at the Research and Production Division of the Almetyevneft NGDU. In 1984, he became Head of the Scientific Organization of Work

Section of the Yamashneft NGDU, and, from 1986, he worked as Deputy Director of Economic Matters of the Almetyevneft NGDU. In April 1995, he was appointed Chief Accountant of Tatneft, and, since 1997, he has been Deputy General Director of Economics. He has been a member of the Board of Directors since 1998.

Nail Ulfatovich Maganov. Mr. Maganov was born in 1958. In 1983, he graduated from the evening department of the Tatarstan branch of the Gubkin Petrochemical and Gas Industry Institute of Moscow. He started work in 1977 at the Elkhovneft NGDU, where he was gradually promoted from the position of transportation helper to that of Head of the Oil and Gas Production Division. Between 1991 and 1993, he was Deputy Head of the Zainskneft NGDU for capital construction. In 1993, he was transferred to the position of Head of Tatneft Oil and Refined Products Sales Department. In 1994, he was appointed Deputy General Director of Production of Tatneft. Since July 2000, he has been First Deputy General Director of the Sales of Oil and Refining and Oil Products and Head of the Oil and Refined Products Sales Department. He has been a member of the Board of Directors since 2000.

Renat Haliullovich Muslimov. Mr. Muslimov was born in 1934. In 1957, he graduated from the Kazan State University with a specialization in geology and exploration of oil and natural gas fields. He has a Ph.D. in Geology and Mineralogy. He started work in 1957 as a driller's assistant, and later became Head of the Geological Section of the Bugulmaneft NGDU and Chief Geologist of the Leninogorskneft NGDU. From 1966 to 1997, he worked as Chief Geologist and Deputy General Director of Tatneft. Since 1997, he has been a professor in the Geology, Oil and Gas Department of the Kazan State University. In 1998, he became a State Advisor to the President of the Republic of Tatarstan. Since 2007, he has served as Consultant to the President of the Republic of Tatarstan on Exploration of Oil and Gas Fields. He has been a member of the Board of Directors since 1995.

Rinat Kasimovich Sabirov. Mr. Sabirov was born in 1967. In 1991, he graduated cum laude from the Kazan State University, and in 1994, he completed post-graduate studies from the Kazan State Technological Institute. In 1998, he completed the President Program of management training. He has a Ph.D. in Chemical Sciences. After working at the Kazan Technological Institute from 1990 to 1994 as an assistant in the Physical and Colloidal Chemistry Department, he became Chief Specialist, Head of the Marketing Department of OAO Neftekhiminvest-Holding. In June 2003, he was appointed as Chief Consultant of the Organizational Department in the administration of the President of the Republic of Tatarstan. From August 2003, he was the Counsel (later – Assistant) to the Prime Minister of the Republic of Tatarstan on the Matters of Oil, Gas and Chemical Industry. In 2006 he was appointed as the Head of the Department of the Cabinet of Ministers of the Republic of Tatarstan. He has been a member of the Board of Directors since 2006.

Valery Yurievich Sorokin. Mr. Sorokin was born in 1964. He graduated from the Kazan State University in 1986 with a degree in mechanics. From 1996 to 2002, he was a director of the Agency for State Debt Management of the Republic of Tatarstan under the Ministry of Finance of the Republic of Tatarstan. Since 2003, he has been General Director of Svyazinvestneftekhim. He has been a member of the Board of Directors since 2005.

Mirgaziyan Zakievich Taziev. Mr. Taziev was born in 1947. He graduated from the Oktyabrsk Oil Technical College with a specialization in mechanics. In 1972, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow with a specialization in machine and equipment of the oil and gas industry. In 1965, Mr. Taziev began working as a machinist-repairman in the oil-industrial section of Tyumazineft of Production Association "Bashneft". From 1966 to 1978, he worked at the Elkhovneft NGDU, as a mechanic, a specialist in oil production and the head of exchange of the regional engineering-technological service. In 1978, he joined Tatneft as the Head of the repair shop and assistant Head of Central Production Services for the repair of electrical loading stations. In 1984, he became Assistant Head of Construction at Elkhovneft. From 1988 to 2001 he served as Head of the Irkenneft NGDU. From 2001 to 2005, Mr. Taziev served as Head of the Djalilneft NGDU. In 2005, he was appointed Head of the Almetievneft NGDU. He has been a member of the Board of Directors since 2004.

Maria Leonidovna Voskresenskaya. Ms. Voskresenskaya was born in 1955. She graduated from the Moscow Financial Academy in 1977 with a specialization in economics. She is a U.S. Certified Public Accountant and a certified Russian Auditor. She is also a Director in the Board of Directors of the Independent Directors Association in Russia. She worked at Ernst & Young's Moscow office from 1991 until 2003, where she was a partner. During 1993 and 1994, she worked at Ernst & Young's Philadelphia office in the United States. Since 2004, she served as a director of Brentcross Holding Ltd. She has been a member of the Board of Directors since 2005.

David William Waygood. Mr. Waygood was born in 1950. He is an Associate of the Institute of Bankers in the United Kingdom. From 1998 to 1999, Mr. Waygood served as Group Representative in the Moscow representative office of the National Westminster Bank plc. In 2000 and 2001, he was Director at LTP Trade plc, London, a trade finance company. Since August 2001, he has been Director of ICDS Limited, formerly known as Waygood Limited, an international business consultancy. He has been a member of the Board of Directors since 2004.

Authority of the Board of Directors

Under the Law on Joint Stock Companies, the Charter and the Regulation on the Board of Directors, the Board of Directors has general authority to take all decisions regarding or related to our business activities, operations and internal affairs, except to the extent any specific matter or decision falls within the exclusive competence of the shareholders in a shareholders' meeting, the General Director or the Management Board. The following matters fall within the scope of authority of the Board of Directors:

- determining our strategic priorities;
- convening annual and extraordinary shareholders' meetings;
- approving agendas for, and other ancillary matters related to, shareholders' meetings;
- increasing our charter capital through public issuance of additional shares within the amount of authorized shares, but (in case of ordinary shares) in a total amount not exceeding 25% of the total amount of ordinary shares then outstanding;
- issuing bonds and other securities, as provided by law;
- amending our Charter following the placement of additional shares, including amendments relating to the increase in our charter capital, as provided by law;
- determining the market value of our property and the price for placing and repurchasing our securities, where provided for by law;
- acquiring stocks, bonds, and other securities placed by us, where provided for by law;
- appointing and dismissing the General Director and other members of the Management Board;
- appointing and dismissing the Secretary of the Board and determining her/his duties;
- appointing the First Deputy General Directors;
- making recommendations relating to the amount of remuneration and compensation to be paid to members of the Revision Committee and determining payments for the services of the independent auditors;
- approving the criteria for performance appraising and the amount of compensation for the members of the Board of Directors and the Management Board, approving the expenses list for the Board of Directors;
- recommending the amount to be declared and paid as dividends on our shares and facilitating payment of the same;
- using our reserves and other funds;
- establishing branches and opening representative offices;
- concluding certain major transactions and certain interested party transactions, (where provided for by law), and concluding certain other transactions (where provided for by internal documents);
- approving the appointment of a registrar and the terms and conditions under which such appointment is made;
- determining the procedures for presentation of all bills, reports and applications, and determining the system for calculation of profits and losses, including the rules relating to the depreciation of property;
- adopting the Corporate Governance Code and effecting amendments thereto;
- forming committees of the Board of Directors and approving related regulations;
- approving other internal documents of the Company on the regulation of the matters related to the competence of the Board of Directors, excluding internal documents that are within the competence

of the shareholders' meeting, the General Director and the Management Board as provided for in the Charter; and

- making other decisions that are not within the competence of the shareholders' meeting, the General Director and the Management Board.

Meetings of the Board of Directors

Meetings of the Board of Directors are convened either by the Chairman of the Board of Directors, or upon request of the General Director, any member of the Board of Directors, the Management Board, the Revision Committee or the independent auditor. Although meetings need only be convened once a year, at least one month prior to annual shareholders' meeting in order to review our annual report (unless the interests of the company require more frequent meetings), they are typically held once a month. The agenda for meetings of the Board of Directors must include any items proposed by shareholders who own in the aggregate at least 5% of our shares and the auditor, the General Director, members of the Board of Directors, the Revision Committee or the Management Board.

Under the Law on Joint Stock Companies and the Charter, the affirmative vote of a majority of the Directors present at a quorate meeting of the Board of Directors is usually required to pass a resolution and the Chairman of the Board of Directors shall cast the deciding vote in the event of a tie. However, certain resolutions, such as the approval of major transactions, and the issuance of additional shares, require the unanimous approval of all Directors present at a meeting of the Board of Directors. A quorum for the purpose of a meeting of the Board of Directors exists if more than 50% of the Directors are present. The minutes of meetings of the Board of Directors must be made available for review by any shareholder upon request.

The Law on Joint Stock Companies prohibits a person from holding the posts of Chairman of the Board of Directors and General Director at the same time.

Committees of the Board of Directors

Audit Committee. The Audit Committee of the Board of Directors is comprised of the following directors: Mr. Ghosh (Chairman), Mr. Gaizatullin, Mr. Waygood and Ms. Voskresenskaya. Under the terms of reference of the Audit Committee, its membership shall consist of at least three directors, including one director who is an audit committee financial expert. We have determined that three members of the Audit Committee are independent. Responsibilities of the Audit Committee are separate from the responsibilities of the Revision Committee, which must be maintained as a matter of Russian law. The Audit Committee is responsible for submitting recommendations to the Board of Directors on an annual basis regarding the independent auditor, negotiating the terms of engagement of the independent auditor and evaluating its performance, overseeing completeness and correctness of our financial statements and evaluating reliability, effectiveness of internal control, pre-approving permissible non-auditing services provided by the auditors and dealing with "whistleblowing" reports.

Human Resources and Compensation Committee. The Human Resources is comprised of the following directors and members of the Management Board: Mr. Waygood (Chairman), Mr. Ghosh and Mr. Sabirov. The Human Resources and Compensation Committee is responsible for appraising the work of the Board of Directors and the Management Board, developing recommendations with respect to remuneration of top managers, the terms of their employment contracts and personnel policies more generally, establishing criteria for selecting candidates for the Management Board and to head our structural divisions, and preparing proposals on the main terms of agreements with members of the Board of Directors, the General Director and members of the Management Board.

Corporate Governance Committee. The Corporate Governance Committee is comprised of the following directors and members of senior management: Mr. Gorodny (Chairman), Mr. R.S. Khisamov, Mr. Sabirov, Mr. Ershov, Mr. R.M. Khisamov and Mr. Mozgovoi. The Corporate Governance Committee provides reports and recommendations to the Board of Directors regarding development and improvement of corporate governance practices, including relationships between the shareholders, the Board of Directors and the Management Board and interaction with our subsidiaries and other affiliates.

Disclosure Committee. The Disclosure Committee is comprised of the following directors and members of senior management: Mr. Lavushchenko (Chairman), Mr. Gorodny, Mrs. Valeyeva, Mr. Volkov, Mr. Tikhturov, Mr. Yukhimets, Mr. Voskoboinikov and Mr. Mozgovoi. The Disclosure Committee is responsible for assisting the chief executive officer and the chief financial officer in developing, carrying out and evaluating internal controls and procedures in connection with information disclosure.

Management Board

Our Management Board currently consists of 16 members. The Management Board is appointed by the Board of Directors and coordinates and oversees the effective operation of the services provided by, and the different divisions within, Tatneft. The competencies of the Management Board extend across a broad remit and include our long and short-term business development program, our participation in commercial and non-profit enterprises and operations, and our economic, financial and investment activities.

The members of our Management Board are:

Name	***Titles***	***Year of Birth***
Valeriy Dmitrievitch Ershov	Head of Legal Department	1949
Nikolay Mikhailovich Glazkov	Deputy General Director for Capital Construction	1960
Iskandar Gatinovich Garifullin	Chief Accountant, Head of Accounting and Financial Reporting Department	1960
Viktor Isakovich Gorodny	Deputy General Director, Head of Property Management Department	1952
Nail Gabdulbarievich Ibragimov	Director, First Deputy General Director of Production, Chief Engineer	1955
Vladimir Pavlovich Lavushchenko	Director, Deputy General Director of Economics	1949
Nail Ulfatovich Maganov	Director, First Deputy General Director, Head of Oil and Refined Products Sales Department	1958
Rustam Nabiullovich Mukhamadeev	Deputy General Director of Personnel and Social Development	1952
Rafael Saitovich Nurmukhametov	Head of the Leninogorskneft NGDU	1949
Rafkat Mazitovich Rakhmanov	Deputy General Director of Oil Well Repair and Oil Enhanced Recovery	1948
Zagit Foatovich Sharafeev	Deputy General Director of Petrochemical Production, Director of Tatneft-Neftekhim	1956
Fyodor Lazarevich Shelkov	Deputy General Director of General Matters	1948
Shafagat Fakhrazovich Takhautdinov	Director, General Director of Tatneft	1946
Evgeny Aleksandrovich Tikhturov	Head of Finance Department	1960
Vladlen Aleksandrovich Voskoboinikov	Head of Consolidated Financial Reporting Department	1965
Alexander Trofimovich Yukhimets	Secretary of the Board of Directors	1949

Biographies of the members of the Management Board are set out below:

Valeriy Dmitrievitch Ershov. Mr. Ershov was born in 1949. In 1978, he graduated from the Kazan State University with a specialization in jurisprudence. He started work in 1971 as an adjuster at the Omsk Aviation Plant. From 1972 to 1992 he served in the Ministry for the Interior of Tatarstan. He then worked as Head of the Bureau for Foreign Economic Relations of AO Alnas (1992-1995) and Director of OOO Taurus (1995-1998). In 1998, he joined Tatneft as Head of Legal Department (renamed from Legal Division after a reorganization in 2002).

Nikolay Mikhailovich Glazkov. Mr. Glazkov was born in 1960. In 1988 he graduated from Kazan Engineering and Construction Institute specializing in industrial and civil construction. He began his career at SMU 51 (a construction company), where he became the CEO of the company. From 1999 to 2005 he worked as Deputy Head of the Administration of the Almetyevsk District and the city of Almetyevsk on construction and communications, then the First Deputy Head of the Administration of the city of Almetyevsk. Since 2005 he has been serving as Head of the Capital Construction Department of OAO Tatneft and from 2012 a member of the Management Board.

Iskandar Gatinovich Garifullin. Mr. Garifullin was born in 1960. In 1981, he graduated from the Kazan Financial and Economic Institute with a specialization in accounting. Between 1981 and 1982, he worked as Deputy Chief Accountant in a mobile unit of PA Tatneftestroi. Subsequent work includes serving as an accountant at the Construction and Installation Department of the Suleevneft NGDU (1983-1985); chief accountant of a state farm (1985-1989); Chief Accountant of the Almetyevsk District Agro-Industrial Production Association (1989-1991); Chief Accountant of the Almetyevneft NGDU (1991-1997); and Chief Accountant of Tatneft (1997-1999). Since 1999, Mr. Garifullin has served as Chief Accountant and Head of the Accounting and Financial Reporting Department of Tatneft.

Viktor Isakovich Gorodny. Mr. Gorodny was born in 1952. In 1978, he graduated cum laude from the Gubkin Petrochemical and Gas Industry Institute of Moscow with a specialization in technology and comprehensive mechanization of oil and gas field development. Mr. Gorodny also graduated from the Higher Communist Party School in Saratov in 1987, from the Business Technology College of the North-Western Extramural Polytechnic Institute in 1993 and from the International Personnel Academy in Kiev, Ukraine, in 1998. He has a Ph.D. in Economics. Between 1969 and 1984, Mr. Gorodny worked at the Almetyevneft NGDU in various positions, then served as Secretary of the Communist Party Committee of the Elkhovneft NGDU (1984-1985); superintendent of the industrial-transport section of the Communist Party Committee of Almetyevsk (1985-1988); and Deputy Head of the Capital Construction Department of the Almetyevneft NGDU (1988-1995). He is a deputy of the Joint Council of the Almetyevsk district of the city of Almetyevsk. Since 1995, he has served as Deputy General Director and Head of the Property Management Department of Tatneft.

Nail Gabdulbarievich Ibragimov. See "Board of Directors" above.

Vladimir Pavlovich Lavushchenko. See "Board of Directors" above.

Nail Ulfatovich Maganov. See "Board of Directors" above.

Rustam Nabiullovich Mukhamadeev. Mr. Mukhamadeev was born in 1952. In 1977, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow, with a specialization in technological and complex mechanization for the development of oil and gas fields. From 1970 to 1971, Mr. Mukhamadeev worked as a student operator for the Elkhovneft NGDU. Following service in the army, he joined the evening department of the Tatarstan branch of the Gubkin Petrochemical and Gas Industry Institute of Moscow as a senior laboratory technician. In 1975, Mr. Mukhamadeev returned to the Elkhovneft NGDU as an oil-pump research engineer, subsequently becoming a senior geologist at Tatneftegasrazvedka in 1978. His subsequent work includes serving as an instructor in the industrial-transport section of the Communist Party Committee of Almetyevsk (1981-1985); Secretary of the Communist Party Committee, Assistant Director of Personnel, extra-curricular and social development, Assistant Director of Social Development and Assistant Director of General Operations of the Elkhovneft NGDU (1985-1998); and head of the Almetyevsk repair and construction division of Tatneft (1998-2001). Mr. Mukhamadeev has served as Tatneft's Deputy General Director of Personnel and Social Development since August 2001.

Rafael Saitovich Nurmukhametov. Mr. Nurmukhametov was born in 1949. He began working in 1966 as an electrician. In 1974, he graduated from the Ufa Oil Institute with a specialization in technology and complex mechanization of the development of oil and gas fields. After graduation, he worked at the Suleevneft NGDU as an oil production operator, technology engineer, foreman for oil production, Head of the Oil and Gas Production Shop, and Head of Subterranean and Capital Oil Well Workover. Mr. Nurmukhametov has also served at the Communist Party Committee of the Tatar region and as an instructor and Head of the Oil and Gas Production Departments of the Djalilneft NGDU (1983-1986), the Laseganneft NGDU (1986-1989) and the Pokachivneft NGDU (1987-1989). Since 1989, he has been Head of the Leninogorskneft NGDU of Tatneft.

Rafkat Mazitovich Rakhmanov. Mr. Rakhmanov was born in 1948. He started work in 1964 as a car mechanic. In 1970, he graduated from the Ufa Oil Institute with a specialization in machinery and equipment for oil and gas fields. After graduation, he worked at the Djalilneft NGDU as a laboratory engineer, oil production foreman, Head of the District Engineer Controlling Service, Head of Oil and Gas Production Shop and Head of a Production Department. He later became Chief Engineer at the Company. From 1982 to 1986, he was Head of Oil and Gas Production Shop and then Head of Production Department of the Elkhovneft NGDU. In 1986, he was appointed Head of Almetyevsk Central Base for the Maintenance of Oil Production Equipment. In 2001, he became Tatneft's Deputy General Director of Oil Well Repair and Oil Enhanced Recovery.

Zagit Foatovich Sharafeev. Mr. Sharafeev was born in 1956. In 1980, he graduated from the Kazan Chemical-Technological Institute and in 1991 he graduated from the All-Union Finance and Economics Institute. He has a Ph.D. in Economics. From 1997 to 2000, he was General Director of OAO Nizhknekamsktekhuglerod. From 2000 to 2002, Mr. Sharafeev was First Deputy General Director of Nizhnekamskshina and from 2002 was First Deputy Director of Tatneft-Neftekhim. In 2004, Mr. Sharafeev became Director of Tatneft-Neftekhim and a Deputy General Director of Petrochemical Production.

Fyodor Lazarevich Shelkov. Mr. Shelkov was born in 1948. In 1972, he graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow with a specialization in oil and gas field machinery and equipment. He started work in 1966 as a driller's assistant at the directorate Tatburneft. His subsequent work positions include:

mechanic, driller's assistant, senior mechanical engineer at Leninogorskburneft (1972-1973); service in the army (1973-1974); mechanic, Deputy Manager, Manager of the Production Servicing Unit, Secretary of the Communist Party Committee of the Leninogorsk Drilling Work Department (1974-1983); Head of the Leninogorsk Oil Well Repair and Oil Enhanced Recovery Department (1983-1985); First Deputy General Director of PA Tatneft for Western Siberia (1985-1987); Head of the Department for the Preparation of Processing Fluid for Maintaining Reservoir Pressure of PA Tatneft (1987); and as Deputy General Director of PA Tatneft and Head of the Industrial Transport and Special Purpose Equipment Department (1987-1996). Since 1996, he has served as Tatneft's Deputy General Director of General Matters.

Shafagat Fakhrazovich Takhautdinov. See "Board of Directors" above.

Evgeny Aleksandrovich Tikhturov. Mr. Tikhturov was born in 1960. In 1982, he graduated from the Ordjonikidze Moscow Management Institute with a specialization in organization of management. After service in the army, he started work in 1984 at the Yamashneft NGDU as an engineer. Subsequent positions included: Head of the Labor Organization Section, Head of the Labor and Salary Section, Deputy Head for Economics, and Deputy Head for Economics-Chief Accountant. In 1995, he was transferred to the position of Deputy Head of Economics and Finances of Tatneft. Mr. Tikhturov has served as the Head of Tatneft's Finance Department since 1999.

Vladlen Aleksandrovich Voskoboinikov. Mr. Voskoboinikov was born in 1965. He graduated in 1993 from the Southern Alberta Institute of Technologies with a specialization in accounting and he received an MBA from the University of Aspen in 2002. From 1995 to 1999, he worked at Black Sea Energy, a company listed on the Toronto Stock Exchange, as Chief Financial Officer for oil projects in Russia and, from 2001 to 2005, he worked as Chief Financial Officer at the Siberian Service Company, one of the largest oil servicing companies in Russia. Since September 2005, he has served as Head of the Consolidated Financial Reporting Department at Tatneft.

Alexander Trofimovich Yukhimets. Mr. Yukhimets was born in 1949. He graduated from the evening department of the Tatarstan branch of the Gubkin Petrochemical and Gas Industry Institute of Moscow in 1972. He started working in 1966 as a machinist and then as master in oil production of RITS-1 of the Almetyevneft NGDU. After serving in the army, he worked as an engineer and as Head of Shift of RITS-1. In 1974, he was elected Deputy Secretary of the Communist Party Committee of the Almetyevneft NGDU. From 1976 to 1979, he worked as Deputy General Engineer for Safety. He was elected Head of the Trade Union of the Almetyevneft NGDU in 1979 and Head of the Trade Union of Tatneft in 1985. He served as Deputy Head of the Suleevneft NGDU from 1990 to 1995. Since 1995, Mr. Yukhimets has served as Secretary of Tatneft's Board of Directors.

Authority of the Management Board

The Management Board is our executive body and exercises day-to-day management and control over our business activities and operations. Under the Charter, the Management Board is, *inter alia*, explicitly responsible for:

- developing our programs of activities;
- participating in commercial and non-commercial organizations;
- performing our financial and investment programs;
- selling our shares and other securities to investors;
- determining procedures for granting access to the register of shareholders;
- submitting proposals on profit and loss distribution to the Board of Directors;
- determining internal and external pricing policies; and
- approving certain of our internal documents governing matters related to the competence of the Management Board and other documents provided by the General Director.

Under the Regulation on the Management Board approved by the shareholders on 28 June 2002, the Management Board does not have a fixed number of members, but must include the General Director, the First Deputy General Directors, the Chief Accountant, the Secretary of the Board and the Head of Legal Department. Other members of the Management Board may be appointed by the Board of Directors from time-to-time.

The Management Board is convened either by the General Director, or at the request of one-third of the members of the Management Board, the Board of Directors, the Revision Committee or the Chairman of the Board of Directors. Meetings of the Management Board are deemed quorate if at least 50% of the members of the Management Board are present. All decisions of the Management Board must be approved by a simple majority of the votes cast, provided that the Chairman of the Management Board has a deciding vote in the event of a tie.

The General Director

The General Director is elected by the Board of Directors for a five-year term and can be removed by a vote of two thirds of the members of the Board of Directors. The current General Director, Mr. Shafagat F. Takhautdinov, was elected by the Board of Directors on 21 June 1999, re-elected for the first time for an additional five years on 24 May 2004 and re-elected for a second time for an additional five years on 26 May 2009.

The General Director exercises day-to-day control over our activities and chairs meetings of the Management Board. The General Director is accountable to the Board of Directors and our shareholders. Pursuant to the Charter, the Regulation on the General Director approved by the shareholders on 25 June 2004, and Russian law, the General Director is, *inter alia*, authorized to:

- procure performance of the decisions of the shareholders' meeting and the Board of Directors;
- manage our assets in the manner prescribed by the Charter and the law;
- nominate candidates for the positions of First Deputy General Directors and of the members of the Management Board;
- organize and delegate duties within the Management Board, determine the amount of compensation of the members of the Management Board;
- make employment decisions;
- conclude collective bargaining agreements;
- appoint and dismiss heads of departments and representative offices and other employees;
- approve our internal documents, excluding those internal documents the approval of which is within the exclusive competence of the shareholders' meeting, the Board of Directors or the Management Board;
- exercise the rights of the Company as shareholder in its subsidiaries; and
- make any other decisions pertaining to the conduct of the Company's business in the ordinary course.

The General Director also chairs the meetings of our Management Board.

Revision Committee

The Revision Committee is our financial control body, as required by the Law on Joint Stock Companies and is charged with supervising our financial and economic activity. It is elected by, and accountable to, the shareholders and consists of nine members, none of whom can be members of the Board of Directors or serve in any of our other management bodies. Members of the Revision Committee each serve until the next ordinary shareholders' meeting. The Revision Committee must submit annual reports to the Board of Directors at least 40 days prior to the date of each annual shareholders' meeting. Further, it can be directed to conduct a special audit by holders of 10% or more of our voting shares, by the shareholders' resolution passed at a shareholders' meeting, by the Board of Directors and at its own initiative. In such case, a report of the Revision Committee must be submitted to the Board of Directors not later than one month after the date of such direction. Any decision of the Revision Committee must be approved by a majority of its members.

The members of the Revision Committee are:

- Saria Kashibulkhakovna Yusupova*, Deputy Head of Economic Analysis Department of Ministry of Finance of the Republic of Tatarstan;
- Nazilya Fayzrakhmanovna Galieva, Economist of Tatneft Control and Audit Department;
- Ferdinand Rinatovich Galiullin, Chief Accountant of OOO Tatintec;
- Ranilya Ramilyevna Gizatova, Head of Investments Department of Elhovneft NGDU of Tatneft;
- Venera Gibadullovna Kuzmina, Economist, NIS Tatneft;
- Nikolai Kuzmich Lapin, a shareholder of Tatneft;

- Lilya Rafaelovna Rakhimzyanova, Head of Department of the Ministry of Industry and Trade of the Republic of Tatarstan;
- Alfiya Azgarovna Sinegaeva, Head of Labor and Personnel Management Department of MC OOO Tatneft-Remservis; and
- Tatiana Victorovna Tsyganova, Deputy Chief Accountant of Tatneft, Deputy Head of the Accounting Department of Tatneft

*Appointed to the Revision Committee pursuant to the exercise of the Golden Share rights of the Tatarstan government.