Management's Discussion and Analysis

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

This MD&A is the first-time quarterly report published by Tatneft and therefore does not contain comparatives for the related three months of 2007.

For financial reporting purposes, Tatneft converts metric tons 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 tons using the blended rate may differ from total reserves and production calculated on a field by field basis.

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 expanding its activities to further develop its refining and petrochemicals segments.

As of March 31, 2008 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, held approximately 36% of the Company's voting stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through OAO Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company's suppliers and contractors, such as the electricity producer OAO Tatenergo and the petrochemicals company OAO Nizhnekamskneftekhim.

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

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

Key financial and operational results

	Three months ended March 31, 2008
Sales (millions of RR)	109,052
Net income (millions of RR)	6,335
EBITDA (*) (millions of RR)	11,165
Basic and Diluted net income per share of common stock (RR)	
Common……………..	2.85
Preferred……………..	2.85
Crude oil production by the Group (thousand of tons)	6,571.4
Gas production by the Group (millions of cubic meters)	203.2
Refined gas products produced (thousand of tons)	268.3

(*) *As defined on page 14*

During first quarter of 2008 our net income was RR 6,335 million.

Our performance was influenced by overall favorable market price conditions in the first quarter of 2008. On the other side we were affected by increasing operating expenses, taxes other than income taxes and transportation tariffs. Additionally, during the first quarter of 2008 two companies currently carrying out exploratory activities were fully consolidated in our consolidated financial statements. Investments in these companies were previously accounted for under the equity method. By nature all exploratory activities are loss-making until such fact as crude oil is discovered. These factors, as well as other drivers impacting the results of our operations are considered in detail below.

Segment information

Our operations are currently divided into the following main segments:

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

- **Refining and marketing –** which consists of our participation in OJSC TANECO, previously named as ZAO Nizhnekamsk Oil Refinery, a project company established to build and operate a refining and petrochemical complex with a throughput capacity of seven million tones of crude oil per year in Nizhnekamsk, Tatarstan; our gas production, transportation and refining division Tatneftegaspererabotka, OOO Tatneft-AZS-Center and OOO Tatneft-AZS-Zapad, management companies for Tatneft-branded gas station network; and certain other oil trading and ancillary companies;

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

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

Executive overview

Recent developments and outlook

E&P activities in Tatarstan

One of the Company's primary strategic goals is to maintain current levels of crude oil production from its licensed fields in Tatarstan. Due to the relative maturity of the Company's main producing fields, approximately 45% of all crude oil produced by the Company in Tatarstan is extracted using various enhanced recovery techniques.

Effective from January 1, 2007 the Company benefits from the differentiated taxation of crude oil production from some 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

Tatneft is planning to continue expansion and diversification of its reserves base by gaining access, including though establishing strategic alliances, to reserves outside Tatarstan, particularly in Kalmykia, the Ulyanovsk, Samara, Orenburg and Krasnoyarsk regions, Nenets Autonomous Region and the Chuvash Republic. Outside the Russian Federation, Tatneft carries out projects in Libya, Syria and other countries.

Highly viscous oil (natural bitumen) production

During the first quarter of 2008 the Company continued to carry out a pilot project of highly viscous oil (natural bitumen) production from the Ashalchinskoye field in Tatarstan using parallel steam injection and producing wells. Highly viscous oil production from the pilot wells yielding up to 25 tons per day. The Company continues to assess economic parameters and development of E&P activities relating to highly viscous oil production in Tatarstan.

Tatneft believes that untapped resources of natural bitumen in Tatarstan have significant potential and should be considered for commercial production in the current economic and technological environment. The Group benefits from a zero unified production tax rate related to the production of highly viscous oil in Tatarstan.

Crude oil refining and marketing

During the first quarter of 2008 the Group continued work relating to the permitting and construction by OJSC TANECO ("TANECO"), formerly known as ZAO Nizhnekamsk Refinery, of a new refining and petrochemicals complex in Nizhnekamsk, Tatarstan. The new facility's projected throughput capacity is seven million tones of crude oil per year. In 2007 TANECO finalized the process of selecting licensors for various units of the facility, entered into an agreement with Fluor Corporation for project management consulting services as well as engineering, procurement and construction management services for selected scopes of work focused on the utilities and infrastructure relating to the facility. Up to December 2007 most of the expenditures relating to the refinery construction were financed by the Company in form of loans made to TANECO. From December 2007 these expenditures are financed through a US$ 2 billion senior secured credit facility for TANECO arranged by ABN AMRO, BNP Paribas (Suisse) SA, Citibank International PLC, Bayerische Hypo-und Vereinsbank AG, Sumitomo Mitsui Finance Dublin and WestLB AG. An investment agreement relating to RR 16.5 billion external infrastructure financing from the Russian Federation Investment Fund for the facility was signed in 2007.

Petrochemicals

In the first quarter of 2008 the core entity of the Group's petrochemicals segment – OAO Nizhnekamskshina produced 2.9 million tires. A new advanced rubber mix production line was launched in 2007 with monthly capacity of 1,200 tons, which allows Nizhnekamskshina to produce modern high performance tires. The Group continued to invest into modernization and upgrading of Nizhnekamskshina's facilities to strengthen its market competitiveness.

Changes in the Group Structure

Ukrtatnafta

In December 2007, the Company acquired equity interests in AmRUZ Trading AG ("AmRUZ") and 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. The Company acquired 49.6% of AmRUZ for US $23.9 million and 100% of Seagroup for US$ 57.1 million. The AmRUZ purchase agreement also contains an option allowing the Company to acquire an additional 49.1% in AmRUZ for US $23.7 million. As the exercise of the option is subject to certain contingencies, the acquisition of AmRUZ has been accounted for under the equity method. These acquisitions increased the Group's direct and indirect ownership in Ukrtatnafta.

On October 23, 2006, the Group entered into a five-year agreement with the Tatarstan government for the fiduciary management of 28.78% ordinary shares of Ukrtatnafta held by the Tatarstan government. Under this agreement, the Group is entitled to exercise principle shareholder rights vested into these shares but may not manage them without prior approval of the Tatarstan government. The Group's investment of 18.6% in Ukrtatnafta (represented by those shares owned by the Company and its subsidiary Seagroup directly) is accounted for under cost method in these consolidated financial statements as Management believes the Group does not currently have the ability to exercise significant influence over Ukrtatnafta, given the current corporate conflict and the Company's lack of effective influence through Ukrtatnafta's Board of directors.

Banking

In May 2006, the Group increased its shareholding in Bank Zenit from 25.95% to 39.73% as a result of acquiring 2,935.3 million newly issued shares of the bank at their par value for RR 2,935.3 million. In March 2007, the Group disposed of 1,138 million of Bank Zenit shares for RR 1,787 million, decreasing the Company's ownership in Bank Zenit to 28.35%.

Also, in June 2007 Bank Zenit carried out a private placement of 1,545 million newly issued ordinary shares to a private investor unrelated to the Group, resulting in the dilution of the Group's ownership in Bank Zenit to 24.56%.

Operational highlights

	Three months ended March 31, 2008
Crude oil production (millions of metric tons)	6.6
Crude oil production (millions of barrels)	46.8
Refining and tolling of crude oil throughput (millions of metric tons)	0.1
Refining and tolling of crude oil throughput (millions of barrels)	1.0
Gas production by the Group (million of cubic meters)	203.2
Refining of gas products throughput (million of cubic meters)	160.4

Crude oil and gas production

Crude oil production of the Group (including production of consolidated subsidiaries OAO Ilekneft, ZAO Abdulinskneftegaz, ZAO Tatneft-Samara, ZAO Tatneft-Severny and ZAO Kalmtatneft) amounted to 6.6 million metric tons in the first quarter of 2008. Our gas production amounted to 203.2 million cubic meters in the first quarter of 2008.

Export of crude oil from Russia

The Group continues to utilize Transneft, the state-owned monopoly owner and operator of Russia's trunk crude oil and export pipelines, upon export of its crude oil. During the first quarter of 2008, the Group exported from Russia approximately 64.8% of its crude oil production.

Certain Macroeconomic 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 affected by various factors outlined below.

Crude oil and refined product prices

The Group's operations are significantly affected by changes in crude oil and refined product prices, both in export markets and in Russia. These prices are affected by external factors over which the Group has no control, such as global economic conditions, demand and supply fluctuations, inventory levels, weather and competing fuel prices. Export and domestic prices for crude oil and refined products have been highly volatile, depending, *inter alia*, on the balance between supply and demand and on OPEC production levels.

Historically, crude oil prices in the Russian market have been substantially below prices in the international market. Moreover, 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 otherwise sold is offered for sale in the domestic market at prices determined on a transaction-by-transaction basis.

The table below represents average crude oil prices worldwide and in Russia in the respective periods of 2008 and 2007.

World market	**Three months ended March 31, 2008, US $/ bbl**	**Change**	**Three months ended March 31, 2007, US $/ bbl**
Brent crude	96.9	67.6%	57.8
Urals crude (*CIF Mediterranean*)*	93.2	72.0%	54.2
Urals crude (*CIF Rotterdam*)*	93.5	71.9%	54.4

Source: Platts

* The company sells crude oil on foreign markets on various delivery terms. Therefore, our average sale price differs from average reported market prices.

Russian market	**Three months ended March 31, 2008, RR per ton***	**Change**	**Three months ended March 31, 2007, RR per ton***
Crude oil	6,961	61.1%	4,320

Source: Kortes
*(excluding VAT)

Transportation of crude oil and refined products

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. The Russian government is expected to retain control over Transneft for the foreseeable future. Although pipeline capacity in Russia has increased in recent years, this capacity has not kept up with increases in production experienced by Russian oil and gas companies and therefore the capacity of the pipeline network still acts as a constraint on exports and indirectly on oil production in Russia. Currently, there are government-sponsored and private programs to increase pipeline capacity.

Transportation of 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. Transneft establishes and collects on prepayment terms a ruble tariff on domestic shipments and an additional US Dollar tariff on exports. The Federal Tariff Service is authorized to periodically review and set the tariff rates applicable for each segment of the pipeline.

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 many other oil companies due to the relatively high sulfur content.

A significant portion of crude oil and refined products transported by pipeline are delivered to marine terminals for onward transportation. There are significant 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.

Prior to March 2004, the Russian Federal Energy Commission periodically reviewed and set the tariff rates for each segment of the Transneft and Transnefteproduct pipelines. In March 2004, the Federal Energy Commission was reorganized into the Federal Tariffs Service.

According to the Federal Statistics Service of the Russian Federation, during the year ended March 31, 2008 transportation tariffs increased as follows: transportation of crude oil by pipeline – 21.4%, transportation of refined products by pipeline – 14.0%, transportation by railway – 11.5%. These amounts differ from actual changes in tariffs for transportation of crude oil and refined products by the Group for the period considered due to the specifics in the routes and geography of our supplies from the Russian transportation averages.

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. In particular, operating margins are generally adversely affected by an appreciation of the Ruble against the US Dollar, because this will generally cause costs to increase relative to revenues. The Group has not historically used financial instruments to hedge against foreign currency exchange rate fluctuations.

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

	Three months ended March 31, 2008	Three months ended March 31, 2007
Ruble inflation	4.8%	3.4%
US $ period-end exchange rate	23.52	26.01
Average US $ exchange rate	24.26	26.31
Nominal appreciation of the Ruble	4.2%	1.2%
Real Ruble appreciation	9.4%	4.7%

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

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

Taxation

The Group is subject to numerous taxes that have had a significant effect on its results of operations. Russian tax legislation is and has been subject to varying interpretations and frequent changes.

In addition to income taxes, the Group is also subject to:

- unified natural resources production tax;
- export duties;
- excise taxes on refined products;
- value added taxes;
- property taxes;
- land tax;
- vehicle tax;
- other local taxes and levies; and
- tax penalties and interest.

These taxes, except for value added taxes, are reflected in Taxes other than income taxes in the Group's consolidated statements of operations and comprehensive income. In addition, the Group is subject to payroll-based taxes, which are included as salary costs within Selling, general and administrative expenses or Operating expenses, as appropriate.

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

Tax	**Three months ended March 31, 2008**	**Three months ended March 31, 2007**	**Taxable base**
Income tax – maximum rate	24%	24%	Taxable income
VAT	18%	18%	Added value
Unified production tax, average rates[1]	RR 3,306	RR 1,903	Metric ton produced (crude oil)
Refined products excise tax:			
High octane gasoline	RR 3,629	RR 3,629	
Low octane gasoline	RR 2,657	RR 2,657	
Diesel fuel	RR 1,080	RR 1,080	Metric ton produced and sold domestically [2]
Motor oils	RR 2,951	RR 2,951	
Straight run gasoline.	RR 2,657	RR 2,657	
Crude oil export duty, average rates	US $314.3	US $180.0	Metric ton exported
Refined products export duty average rates:			
Light refined products (gasoline products) and mid refined products (diesel fuel)	US $224.1	US $133.6	Metric ton exported
Fuel oil (mazut)	US $120.7	US $71.9	
Property tax – maximum rate	2.2%	2.2%	Taxable property

(1) *Without taking into account differentiated taxation*
(2) *Excise taxes are paid on refined products produced and sold domestically. Excise taxes are paid by the companies that sell refined products to the end customers, while producers and intermediary re-sellers accrue excise tax and subsequently recover it subject to certain conditions set by the legislation.*

During the first quarter of 2008, the tax rates specific to the oil industry rose substantially compared to the same period of previous year. Unified production tax increased by 73.7%, average crude oil export duties by 74.6%, an average refined products export duties by 67.7%.

The increase in unified production tax rates is a result of increase in the average Urals blend price by 73.7% for the three months ended March 31, 2008 as compared to the three months ended March 31, 2007. Excise taxes on refined products remained at the same level as in the respective period of 2007.

Unified production tax rate. Effective from January 1, 2005, the base rate for the unified production tax was set at RR 419 per ton of crude oil produced and adjusted monthly depending on the market price of Urals blend and the Ruble exchange rate. The tax becomes zero if the Urals blend price falls to or below US $9.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($9.00 per barrel) results in an increase of the tax rate by $1.61 per tonne extracted (or $0.226 per barrel extracted using a conversion factor of 7.123). This method of determining the unified production tax was applied until December 31, 2006.

Pursuant to the Federal Law No.151-FZ ‘‘On Amendments in Chapter 26 of Part II of the Tax Code of the Russian Federation and Considering Certain Expired Legislative Acts of the Russian Federation’’ dated July 27, 2006 (the ‘‘New Natural Resources Production Tax Law’’) effective from January 1, 2007, the rate for the unified production tax is differentiated. Under the New Natural Resources Production Tax Law, the tax rate for the production of oil is set at RR 419 per ton (unchanged from 2005). This tax rate is applied with a discount based on the levels of the international oil prices and the levels of depletion of the related oil fields as determined under Russian resource classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above.

Under the New Natural Resources Production Tax Law, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As Romashkinskoye field, the Company's largest, along with certain other fields, is more than 80% depleted, the Company received a benefit in the current period of approximately RR 1.97 billion.
Also one of the key provisions of the New Natural Resources Production Tax Law is zero unified production tax rate for high viscous crude oil (defined as crude oil of more than 200 Megapascal second under reservoir conditions) where the direct (segregated) method of accounting for produced oil is used. Since April 2007, the Company's production of highly viscous crude oil from the Ashalchinskoye and Mordovo-Karmalskoye fields was subject to a zero unified production tax rate, resulting in tax benefit in first quarter of 2008 attributed to that production of approximately RR 14 million.

Crude oil export duties. Maximum rates of export duties for crude oil depend on a lagged average of Urals blend prices. The rates are zero when the lagged Urals blend price is at or below US $109.5 per metric ton. They then increase by US $0.35 per ton for each US $1.00 increase in the lagged Urals blend price when the lagged Urals blend price is between US $109.5 and US $146.0 per ton, by US $0.45 per ton for each US $1.00 increase in the lagged Urals blend price when the lagged Urals blend price is between US $146.0 and US $182.5 per ton, and by US $0.65 per ton for each US $1.00 increase in the lagged Urals blend price when the lagged Urals blend price is above US $182.5 per ton.

Export duty rates are set by the Russian Government with regard to the average Urals blend price on international crude oil markets (Mediterranean and Rotterdam) during the latest monitoring period and are effective from the first date of the second calendar month following the monitoring period. Each monitoring period consists of two calendar months starting from November 1, 2001.

Thus, the calculation method for the crude oil export duty rate results in a two-month lag between movements in crude prices and revision of export duty rate.

In 2006 crude oil and refined products exported to CIS countries, other than Ukraine, were not subject to export duties. On January 1, 2007, customs regulations between Russia and Belorussia were changed. Crude oil exported from Russia to Belorussia is now subject to export duties. The latest amendments made by customs authorities set a multiplier of 0.293 to be applied from February 1, 2007 to the regular export duty rate set by the Russian Government for calculation of export duty on crude oil exports from Russia to Belorussia.

Excise tax on refined products. In accordance with Russian legislation effective from January 1, 2005 the excise tax rates are set at RR 2,657 per metric ton for gasoline with octane numbers not exceeding "80" (low octane gasoline), RR 3,629 per metric ton for gasoline with octane numbers exceeding "80" (high octane gasoline), RR 1,080 per metric ton for diesel fuel and RR 2,951 per metric ton for motor oils. Effective from January 1, 2006 excise tax for straight run gasoline was introduced. The rate was set at RR 2,657 per metric ton. Accrued excise tax for straight run gasoline could be subsequently recovered if used for petrochemical production.

Property tax. In accordance with the amendments to Russian legislation effective from January 1, 2004 the maximum property tax rate was set to 2.2%. Exact tax rates are set by the local authorities.

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

Three months ended March 31, 2008

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

RR millions	**Three months ended March 31, 2008 (unaudited)**
Sales and other operating revenues	**109,052**
Costs and other deductions	
Operating	13,383
Purchased oil and refined products	15,053
Exploration	3,053
Transportation	2,781
Selling, general and administrative	10,576
Depreciation, depletion and amortization	2,518
Loss on disposals of property, plant and equipment and investments and impairments	790
Taxes other than income taxes	50,000
Maintenance of social infrastructure and transfer of social assets	451
Total costs and other deductions	**98,605**
Earnings from equity investments	266
Foreign exchange loss	(1,691)
Interest income	831
Interest expense, net of amounts capitalized	(63)
Other (expense) / income, net	(375)
Total other expenses	**(1,032)**
Income before income taxes, minority interest and cumulative effect of change in accounting principle	**9,415**
Current income tax expense	(3,486)
Deferred income tax benefit	747
Total income tax expense	**(2,739)**
Minority interest	(341)
Net income	**6,335**

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

Sales and other operating revenues

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

RR millions	**Three months ended March 31, 2008**
Crude oil	87,695
Refined products	11,850
Petrochemicals	4,773
Corporate and other sales	4,734
Total sales and other operating revenues	**109,052**

Sales of crude oil

Sales of crude oil amounted to RR 87,695 in the first quarter of 2008. The table below provides an analysis of crude oil sales:

	Three months ended March 31, 2008
Domestic sales of crude oil	
Revenues (RR millions)	17,744
Volume (thousand tons)	*2,425*
Realized price (RR per ton)	*7,317*
CIS export sales of crude oil [(1)]	
Revenues (RR millions)	3,203
Volume (thousand tons)	*300*
Realized price (RR per ton)	*10,677*
Non-CIS export sales of crude oil	
Revenues (RR millions)	66,748
Volume (thousand tons)	*4,158*
Realized price (RR per ton)	*16,053*

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

Sales of refined products

Sales of refined products amounted to RR 11,850 million in the first quarter of 2008. The table below provides an analysis of refined products sales:

	Three months ended March 31, 2008
Domestic sales of refined products	
Revenues (RR millions)	9,902
Volume (thousand tons)	*677*
Realized price (RR per ton)	*14,626*
CIS export sales of refined products	
Revenues (RR millions)	178
Volume (thousand tons)	*9*
Realized price (RR per ton)	*19,778*
Non-CIS export sales of refined products	
Revenues (RR millions)	1,770
Volume (thousand tons)	*115*
Realized price (RR per ton)	*15,391*

Sales of petrochemical products

The table below provides an analysis of petrochemical product sales:

RR millions	Three months ended March 31, 2008
Tiers sales	4,606
Petrochemicals sales	167
Total sales of petrochemical products	**4,773**

The Group increased production of tires to 2.9 million tires in the first quarter of 2008 from 2.8 million tires in the first quarter of 2007.

Other sales

Other sales amounted to RR 4,734 million in the first quarter of 2008. Other sales primarily represent sales of materials and equipment and various field services provided by the Company's production subsidiaries to third parties (such as drilling, lifting, construction, repairs, and geophysical works).

Costs and other deductions

Operating expenses. Operating expenses include the following type of costs:

RR millions	Three months ended March 31, 2008
Crude oil extraction expenses	5,815
Petrochemical production expenses	3,715
Other operating expenses	3,853
Total operating expenses	**13,383**

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

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

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

Lifting expenses averaged to RR 124.2 per barrel in the the first quarter of 2008 compared to RR 120.0 per barrel in 2007. The increase of 3.5% is primarily a result of increases in electricity tariffs and transport services costs.

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 amounted to RR 3,715 million in the first quarter of 2008.

Other operating expenses include accretion of of the asset retirement obligation, change in crude oil and refined products inventory, and the costs of other services, goods and materials received not related to the core oil and gas production activities of the Group.

Other operating expenses amounted to RR 3,853 million in the first quarter of 2008.

Cost of purchased crude oil and refined products. A summary of purchased oil and refined products for the first quarter of 2008 is as follows:

RR millions	**Three months ended March 31, 2008**
Purchased refined products (RR millions)	8,069
Volume (thousand tons)	*572*
Average price per ton (RR)	*14,113*
Purchased crude oil (RR millions)	6,984
Volume (thousand tons)	*569*
Average price per ton (RR)	*12,272*
Total purchased oil and refined products	**15,053**

Exploration expenses. Exploration expenses consist primarily of exploratory drilling, geological and geophysical costs, and the costs of carrying and retaining undeveloped properties. Exploration expenses amounted to RR 3,053 million in the first quarter of 2008. Significant portion of exploration expenses in the current period resulted from full consolidation of two companies that were previously consolidated under the equity method.

Transportation expenses. Transportation expenses relate to the delivery of our own crude oil production as well as purchased crude and refined products, which are primarily incurred using Transneft pipeline for deliveries of crude oil to our customers. Transportation costs amounted to RR 2,781 million in the first quarter of 2008.

Selling, general and administrative expenses. Certain selling, general and administrative expenses are by nature fixed costs, which are not directly attributable to production, such as payroll, general business costs, insurance, advertising, share based compensation, legal fees, consulting and audit services, charity and other expenses, including bad debt provisions. Selling, general and administrative expenses amounted to RR 10,576 million in the first quarter of 2008.

Loss on disposals of property, plant and equipment and impairment of investments. Loss on disposals of property, plant and equipment and impairment of investments in the fisrt quarter of 2008 amounted to RR 790 million.

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

	Three months ended March 31, 2008
Unified production tax	19,349
Export duties	30,013
Excise taxes	362
Property tax	88
Penalties and interest	6
Other	182
Total taxes other than income taxes	**50,000**

Other taxes include land tax and non-recoverable VAT.

Effective January 1, 2007, the base tax rate formula for unified production tax was modified to provide a benefit for fields whose depletion rate is 80% or above as determined under Russian resource classification. Under the new rules of unified production tax, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As Romashkinskoye field, the Company's largest, along with certain other fields are more than 80% depleted, the Company received a benefit in the current period of approximately RR 1.97 billion.

Since April 2007, the Company applied a zero unified production tax rate to production of highly viscous crude oil from Ashalchinskoye and Mordovo-Karmalskoye fields, resulting in the first quarter of 2008 tax benefit of approximately RR 14 million.

Maintenance of social infrastructure and transfer of social assets. Social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan. Maintenance of social infrastructure expenses and transfer of social assets amounted to RR 451 million in the first quarter of 2008.

Other income and expenses

Earnings from equity investments amounted to RR 266 million in the first quarter of 2008 consisting mainly from our share of Bank Zenit operating gains (RR 221 million) and our share in operating income received from the Company's equity affiliate ZAO Tatex (RR 49 million).

The foreign exchange loss amounted to RR 1,691 million in the fisrt quarter of 2008 due to appreciation of the Russian Ruble against the US Dollar.

Interest income amounted to RR 831 million in the first quarter of 2008 due to an increase in loans issued. Interest expense amounted to RR 63 million in the first quarter of 2008, net of capitalized interest related to the construction of TANECO.

Other expense, net in the first quarter of 2008 amounted to RR 375 million primarily due to realized and unrealized losses recorded on our trading investments.

Income taxes

The effective income tax rate in the first quarter of 2008 was 29.1%, which is higher than statutory tax rate for the Russian Federation (24%). This difference is attributable to non deductible or partially deductible expenses incurred during the year.

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

RR millions	Three months ended March 31, 2008
Net income	6,335
Add back:	
Minority interest	341
Income tax expense	2,739
Depreciation, depletion and amortization	2,518
Interest expense	63
Interest and dividend income	(831)
EBITDA	**11,165**

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

Financial Condition Summary Information

The following table shows certain key financial indicators:

RR millions	At March 31, 2008	At December 31, 2007
Current assets	133,695	126,595
Long-term assets	248,753	243,624
Total assets	**382,448**	**370,219**
Current liabilities	43,509	38,428
Long-term liabilities	63,217	63,233
Total liabilities	**106,726**	**101,661**
Shareholders' equity	**270,775**	**264,059**
Working capital	90,186	88,167
Current ratio	3.07	3.29

Working capital position

As of March 31, 2008 working capital of the Group amounted to RR 90,186 million compared to RR 88,167 million as of December 31, 2007. The increase in the working capital is primarily attributable to an increase in cash and cash equivalents and accounts receivable.

Liquidity and Capital Resources

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

RR millions	Three months ended March 31, 2008
Net cash provided by operating activities	13,629
Net cash used for investment activities	(10,978)
Net cash used for financing activities	(370)
Increase in cash and cash equivalents	2,281

Net cash provided by operating activities

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities amounted to RR 13,629 million in the first quarter of 2008.

Net cash used for investing activities

Net cash used for investing activities amounted to RR 10,978 million in the first quarter of 2008, which is primarily consists of spending for purchases of property, plant and equipment.

Net cash provided by financing activities

Cash flow used for financing amounted to RR 370 million in the first quarter of 2008, which is primarily consists of net debt repayment.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment) were made in the first quarter of 2008:

RR millions	Three months ended March 31, 2008
Exploration and production	4,651
Refining and marketing	2,956 [1]
Petrochemicals	472
Corporate and other	226
Total additions to property, plant and equipment	**8,305**

[1] *Includes RR 2,874 million expenditure related to the refinery construction by TANECO*

Analysis of Debt

At March 31, 2008, long-term debt, including the current portion of long-term debt, amounted to RR 8,937 million as compared to RR 9,326 million at December 31, 2007. The related decrease is due to scheduled repayments of current portion of long-term debt during the first quarter of 2008 and decrease in debt denominated in foreign currency due to appreciation of the Russian Ruble against the US Dollar.

The aggregate maturities of total long-term debt, including current portion as of March 31, 2008 and December 31, 2007 are as follows:

RR millions	At March 31, 2008	At December 31, 2007
2008	-	144
2009	517	545
2010	8,238	8,591
2011	71	-
2012 and thereafter	111	46
Total long-term debt	**8,937**	**9,326**