TATNEFT

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors and Shareholders of OAO Tatneft:

We have reviewed the accompanying consolidated interim condensed balance sheet of OAO Tatneft and its subsidiaries as of June 30, 2007, and the related consolidated interim condensed statements of operations and comprehensive income and of cash flows for the six-month period ended June 30, 2007. These consolidated interim condensed financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards generally accepted in the United States. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim condensed financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of operations and comprehensive income, of changes in shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated June 26, 2007 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated interim condensed balance sheet as of June 30, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
October 25, 2007

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

	Notes	At June 30, 2007	At December 31, 2006
Assets			
Cash and cash equivalents		18,719	6,869
Restricted cash		1,195	1,485
Accounts receivable, net	4	43,761	27,307
Due from related parties	11	15,642	13,827
Short-term investments		12,835	15,825
Current portion of loans receivable		5,440	5,151
Inventories	5	12,467	11,403
Prepaid expenses and other current assets		15,521	20,737
Total current assets		**125,580**	**102,604**
Long-term loans receivable, net		5,526	4,997
Due from related parties	11	5,501	6,235
Long-term investments	3	16,456	23,468
Property, plant and equipment, net		180,942	178,539
Other long-term assets		7,912	3,581
Total assets		**341,917**	**319,424**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	6	3,516	3,784
Trade accounts payable		6,410	6,543
Due to related parties	11	2,453	704
Other accounts payable and accrued liabilities		14,110	13,182
Dividends payable		10,778	108
Capital lease obligations		660	865
Taxes payable		9,266	7,561
Total current liabilities		**47,193**	**32,747**
Long-term debt, net of current portion	6	587	290
Due to related parties	11	9	15
Other long-term liabilities		1,602	1,743
Asset retirement obligations, net of current portion		30,369	28,923
Deferred tax liability	8	19,516	20,564
Capital lease obligations, net of current portion		330	265
Total liabilities		**99,606**	**84,547**
Minority interest		**3,536**	**3,174**
Shareholders' equity			
Preferred shares (authorized and issued at June 30, 2007 and December 31, 2006 – 147,508,500 shares; nominal value at June 30,2007 and December 31, 2006 - RR1.00)		148	148
Common shares (authorized and issued at June 30, 2007 and December 31, 2006 - 2,178,690,700 shares; nominal value at June 30, 2007 and December 31, 2006 - RR1.00)		2,179	2,179
Additional paid-in capital		96,626	95,337
Accumulated other comprehensive income		(334)	(318)
Retained earnings		142,935	137,143
Less: Common shares held in treasury, at cost (100,558,885 shares and 111,298,885 shares at June 30, 2007 and December 31, 2006, respectively)		(2,779)	(2,786)
Total shareholders' equity		**238,775**	**231,703**
Total liabilities and shareholders' equity		**341,917**	**319,424**

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

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

(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2007	Six months ended June 30, 2006
Sales and other operating revenues	10	**157,185**	**160,860**
Costs and other deductions			
Operating		27,083	23,571
Purchased oil and refined products		17,269	17,750
Exploration		559	837
Transportation		4,041	3,438
Selling, general and administrative		11,317	9,013
Depreciation, depletion and amortization		5,397	5,560
Loss on disposals of property, plant and equipment and investments and impairments	3,7	1,905	3,443
Taxes other than income taxes	8	64,403	72,323
Maintenance of social infrastructure and transfer of social assets		851	58
Total costs and other deductions		**132,825**	**135,993**
Other income (expenses)			
Earnings from equity investments		430	876
Foreign exchange loss		(484)	(1,404)
Interest income		1,189	917
Interest expense		(110)	(367)
Other (expense) / income, net		(651)	1,195
Total other income		**374**	**1,217**
Income before income taxes and minority interest		**24,734**	**26,084**
Income taxes			
Current income tax expense		(8,748)	(8,201)
Deferred income tax benefit		999	353
Total income tax expense		**(7,749)**	**(7,848)**
Income before minority interest		**16,985**	**18,236**
Minority interest		(492)	(314)
Net income		**16,493**	**17,922**
Foreign currency translation adjustments		16	66
Comprehensive income		**16,509**	**17,988**
Basic net income per share (RR)	9		
Common		7.44	8.35
Preferred		7.21	8.26
Diluted net income per share (RR)	9		
Common		7.43	8.32
Preferred		7.20	8.23
Weighted average common shares outstanding (millions of shares)	9		
Basic		2,073	2,000
Diluted		2,081	2,009
Weighted average preferred shares outstanding (millions of shares)	9		
Basic		148	148
Diluted		148	148

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

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Consolidated Interim Condensed Statements of Cash Flows (Unaudited)

(in millions of Russian Roubles)

	Six months ended June 30, 2007	Six months ended June 30, 2006
Operating activities		
Net income	16,493	17,922
Adjustments:		
Minority interest	492	314
Depreciation, depletion and amortization	5,397	5,560
Deferred income tax benefit	(999)	(353)
Loss on disposals of property, plant and equipment and investments and impairments	1,905	3,443
Effects of foreign exchange	(7)	(1,338)
Equity earnings net of dividends received	(152)	(493)
Accretion of asset retirement obligation	1,450	1,313
Change in fair value of trading securities	944	708
Contributions made to pension plans	(286)	(182)
Other	457	340
Changes in operational working capital, excluding cash:		
Accounts receivable	(10,343)	(12,752)
Inventories	(1,105)	280
Prepaid expenses and other current assets	5,151	4,020
Trading securities	522	(11,855)
Related parties	3,140	4,598
Trade accounts payable	(250)	1,188
Other accounts payable and accrued liabilities	1,524	4,696
Taxes payable	1,750	(367)
Notes payable	82	466
Other non-current assets	(564)	(75)
Net cash provided by operating activities	**25,601**	**17,433**
Investing activities		
Additions to property, plant and equipment	(14,064)	(5,973)
Proceeds from disposals of property, plant and equipment	1,993	2,214
Proceeds from disposal of investments	2,439	(34)
Purchase of investments	(133)	(6,349)
Certificates of deposit	1,252	(2,511)
Loans and notes receivable	(4,778)	(3,284)
Change in restricted cash	290	-
Net cash used in investing activities	**(13,001)**	**(15,937)**
Financing activities		
Proceeds from issuance of debt	5,337	14,609
Repayment of debt	(5,447)	(17,412)
Repayment of capital lease obligations	(588)	(625)
Dividends paid to shareholders	-	(69)
Dividends paid to minority shareholders	(59)	(185)
Purchase of treasury shares	(17)	(24)
Proceeds from sale of treasury shares	24	27
Proceeds from issuance of shares by subsidiaries	-	398
Net cash used in financing activities	**(750)**	**(3,281)**
Net change in cash and cash equivalents	**11,850**	**(1,785)**
Cash and cash equivalents at beginning of period	6,869	18,184
Cash and cash equivalents at end of period	**18,719**	**16,399**

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

Consolidated Interim Condensed Statement of Shareholders' Equity (Unaudited)

(in millions of Russian Roubles)

		2007	
	Notes	**Shares**	**Amount**
Preferred shares:			
Balance at June 30 (shares in thousands)		147,509	148
Common shares:			
Balance at June 30 (shares in thousands)		2,178,691	2,179
Treasury shares, at cost:			
Balance at January 1		111,299	(2,786)
Purchases		148	(17)
Sales	7	(10,888)	24
Balance at June 30 (shares in thousands)		100,559	(2,779)
Additional paid-in capital			
Balance at January 1			95,337
Treasury share transactions	7		1,289
Balance at June 30			96,626
Accumulated other comprehensive income			
Balance at January 1			(318)
Foreign currency translation adjustments			(16)
Balance at June 30			(334)
Retained earnings			
Balance at January 1			137,143
Net income			16,493
Dividends			(10,701)
Balance at June 30			142,935
Total shareholders' equity at June 30			**238,775**

Note 1: Organization

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products as well as production and marketing of petrochemicals activities, as further described in Note 10.

The Government of Tatarstan, through its wholly owned company, OAO Svyazinvestneftekhim, holds 36% of the common shares of the Company. The Government owns a "Golden Share" which carries the right to, *inter alia*, veto certain decisions taken at meetings of the shareholders and the Board of Directors. The Government of Tatarstan is able to exercise significant influence through its ownership interest in the Company, its legislative, taxation and regulatory powers, its representation on the Board of Directors and informal influence. The Government has used its influence in the past to facilitate actions that may not maximize shareholder value, such as maintaining employment levels, increasing expenditure on social assets, selling oil to certain customers, transferring exploration or production licenses to small Tatarstan oil companies (including companies not affiliated with the Group), acquiring specified companies or taking actions to raise funds for the benefit of Tatarstan (see Note 11).

The Government of Tatarstan controls or exercises significant influence over a number of the Group's suppliers, such as OAO Tatenergo, a major supplier of electricity to the Group, and a number of the Group's ultimate customers including OAO TAIF. Consequently, the Group may be subject to pressures to enter into transactions that the Group might not otherwise contemplate with suppliers and contractors controlled or significantly influenced by the Government. Related party transactions are further disclosed in Note 11.

Note 2: Basis of Presentation

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

The unaudited consolidated interim condensed financial statements have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principles Board Opinion 28 ("APB 28") "Interim Financial Reporting" and do not include all disclosures necessary required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2006 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Management believes that the disclosures are adequate to make the information presented not misleading if these interim consolidated financial statements are read in conjunction with the Company's 2006 audited consolidated financial statements and the notes related thereto. In the opinion of the Company's management, the unaudited consolidated interim condensed financial statements and notes thereto reflect all known adjustments, all of which are of a normal and recurring nature, necessary to fairly state the Company's financial position, results of operations and cash flows for the interim periods.

The results for the six-month period ended June 30, 2007 are not necessarily indicative of the results expected for the full year.

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

Note 2: Basis of Presentation (continued)

Foreign currency transactions and translation. Management has determined the functional currency of the Group, except for subsidiaries located outside of the Russian Federation is the Russian Rouble because the majority of its revenues, costs, property and equipment purchased, debt and trade liabilities are either priced, incurred, payable or otherwise measured in Russian Roubles. Accordingly, transactions and balances not already measured in Russian Roubles (primarily US Dollars) have been re-measured into Russian Roubles in accordance with the relevant provisions of US Statement of Financial Accounting Standards ("SFAS") No. 52, *"Foreign Currency Translation"*.

Under SFAS No. 52, revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in Russian Roubles are credited or charged to operations.

For operations of subsidiaries located outside of the Russian Federation, that primarily use US Dollars as the functional currency, adjustments resulting from translating foreign functional currency assets and liabilities into Russian Roubles are recorded in a separate component of shareholders' equity entitled accumulated other comprehensive income. Gains or losses resulting from transactions in other than the functional currency are reflected in net income.

The official rate of exchange of the Russian Rouble ("RR") to the US Dollar ("US $") at June 30, 2007 and December 31, 2006 was RR 25.82 and RR 26.33 to US Dollar, respectively. Average rate of exchange for the six months periods ended June 30, 2007 and 2006 were RR 26.07 and RR 27.68 per US Dollar, respectively.

Income taxes. The Company follows the principles of APB 28 to arrive at the effective tax rate. The effective tax rate is based on the best estimate of the expected annual tax rate to be applied to the taxable income for the current reporting period. The rate is based on the currently enacted tax rate of 24% and includes estimates for the annual tax effect of permanent differences an realization of deferred tax assets, if any.

Recent accounting pronouncements

Presentation of taxes collected from customers. In June 2006, the FASB ratified the earlier EITF consensus on Issue 06-3, *"How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation),"* which became effective for the Group on January 1, 2007. The new accounting standard requires that a company discloses its policy for recording taxes assessed by a governmental authority on a revenue-producing transaction between a seller and a customer. The Group adopted the provisions of EITF Issue 06-3 on January 1, 2007. The Group reports sales gross of export duties and excise taxes and net of VAT. Sales and other operating revenues and taxes other than income taxes in the consolidated statement of operations and comprehensive income include export duties and excise taxes of RR 37,588 million and RR 41,217 at June 30, 2007 and 2006, respectively.

Income tax uncertainties. FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 109"* ("FIN 48"). The Group adopted FIN 48 effective January 1, 2007. This standard clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. A company can only recognize the tax position in the financial statements if the position is more-likely-than-not to be upheld on audit based only on the technical merits of the tax position. This accounting standard also provides guidance on thresholds, measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial-statement comparability among different companies. The adoption of FIN 48 did not have a material impact on the Company's consolidated financial statements.

As described in Note 12, the Company's tax filings for 2004 and 2005 were recently examined by taxing authorities and the year 2006 remains open to examination.

Reclassifications. Certain reclassifications have been made to previously reported balances to conform to the current year's presentation; such reclassifications have no effect on net income or shareholders' equity.

(in millions of Russian Roubles)

Note 3: Acquisitions and Divestitures

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%. The Group recorded a gain of RR 240 million as a result of this transaction.

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%. As a result of this transaction the Group recorded a change in interest gain of RR 234 million.

In June 2006 the Company increased its shareholding in Bank AK Bars from 29.46% up to 32.19% as a result of acquiring newly issued shares at their par value for RR 3,825 million. In May 2007, the Company disposed of its entire interest in Bank AK Bars for RR 6.8 billion to parties unrelated to the Group. The Group recorded loss of RR 936 million as a result of this transaction. Accounts receivable in the consolidated balance sheet at June 30, 2007 includes RR 6,121 million for the sale of the Group's interest in Bank AK Bars, which was repaid in full in August 2007.

Other

In June 2006, additional investors contributed ownership interests in Bank Zenit to International Petro-Chemical Growth Fund ("IPCG Fund") in exchange for participation shares in the fund. As a result of these transactions, the Group's ownership interest in IPCG Fund decreased to 44.88%. Therefore in June 2006, the Group deconsolidated IPCG Fund and began accounting for its investments into IPCG Fund under the equity method.

In August 2005, the Group acquired from a third party two land plots in the city of Kazan, Tatarstan, the total size of which is approximately 2 million square meters, for RR 1,238 million. The acquisition was made on market terms for investment purposes. In June 2006, the Group disposed of one plot for RR 86 million, recognizing a gain of RR 8 million. In May 2007, the Company disposed of the second plot for RR 1,460 million, recognizing a gain of RR 329 million.

Note 4: Accounts Receivable

Accounts receivable are as follows:

	At June 30, 2007			At December 31, 2006		
	Total accounts receivable	Accounts receivable from related parties (Note 11)	Accounts receivable from third parties	Total accounts receivable	Accounts receivable from related parties (Note 11)	Accounts receivable from third parties
Trade - domestic	8,623	366	8,257	6,627	330	6,297
Trade - export (US $991 million and US $719 million at June 30, 2007 and December 31, 2006, respectively)	25,591	-	25,591	18,924	-	18,924
Other receivables	9,994	81	9,913	2,251	165	2,086
Total accounts receivable, net	**44,208**	**447**	**43,761**	**27,802**	**495**	**27,307**

At June 30, 2007, approximately 40% of export trade receivables are due from one new customer, ChMPKP "Avto", unrelated to the Group.

Accounts receivables are presented net of an allowance for doubtful accounts of RR 422 million and RR 317 million at June 30, 2007 and December 31, 2006, respectively.

(in millions of Russian Roubles)

Note 5: Inventories

Inventories are as follows:

	At June 30, 2007	At December 31, 2006
Materials and supplies	5,657	5,186
Crude oil	2,513	3,577
Refined oil products	2,255	1,308
Petrochemical supplies and finished goods	2,042	1,332
Total inventories	**12,467**	**11,403**

Note 6: Debt

	At June 30, 2007	At December 31, 2006
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	-	1,391
Other foreign currency denominated debt	2,184	1,103
Rouble denominated debt		
Other rouble denominated debt	1,560	1,697
Less: due to related parties (Note 11)	(228)	(407)
Total short-term debt	**3,516**	**3,784**
Long-term debt		
Foreign currency denominated debt		
BNP Paribas	-	1,097
Credit Suisse First Boston	-	290
Other foreign currency denominated debt	307	4
Rouble denominated debt	289	305
Total long-term debt	**596**	**1,696**
Less: due to related parties (Note 11)	(9)	(15)
Less: current portion	-	(1,391)
Total long-term debt, net of current portion	**587**	**290**

Foreign currency debts are primarily denominated in US Dollars.

Short-term foreign currency denominated debt. As of June 30, 2007 other short-term foreign currency denominated debt include primarily loans from Credit Suisse Zurich and BNP Paribas.

In December 2003 the Group entered into a RR 1,034 million (US $35 million) one month revolving credit facility with Credit Suisse Zurich. The monthly revolving loan bears interest at 1 month LIBOR plus varying margin of about 1.8% per annum and is collateralized by crude oil sales. The amount of loan outstanding as of June 30, 2007 and December 31, 2006 was RR 360 million (US $13.9 million) and RR 1,103 million (US $41.8 million), respectively.

In January 2007 the Group entered into a RR 1,678 million (US $65 million) one month revolving credit facility with BNP Paribas. The monthly revolving loan bears interest at 6 month LIBOR plus varying margin of about 1.2% per annum and is collateralized by crude oil sales in amount of 33.5 thousand tons per month. The amount of loan outstanding as of June 30, 2007 was RR 1,678 million (US $65 million).

Short-term Russian Rouble denominated debt. Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 1,560 million and RR 1,697 million bear contractual interest rates of 8% to 18% and 7% to 20% per annum for the periods ended June 30, 2007 and December 31, 2006, respectively. The loans are collateralized by the assets of the Group.

(in millions of Russian Roubles)

Note 6: Debt (continued)

Long-term foreign currency denominated debt. During 2002, the Group entered into long-term loan agreements with BNP Paribas for US$ 300 million and Credit Suisse First Boston for US$ 200 million, which matured in October and March 2007, respectively. These loans were repaid in full during the six-months ended June 30, 2007.

Note 7: Pensions and Post Employment Benefits

On December 31, 2006, the Company adopted SFAS No. 158, *"Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)"* ("SFAS 158"), requiring the Group to recognize the funded status of all postretirement defined benefit plans in its statement of financial position. Upon the adoption SFAS 158, the Company determined it had certain unrecorded pension and other post employment benefit obligations. As a result, at December 31, 2006 the Company recorded an adjustment for the unrecorded pension and other post employment benefit obligation of RR 1,889 million, an adjustment for the unrecorded prepaid pension asset of RR 371 million, and an adjustment to decrease beginning retained earnings for the year-ended December 31, 2006 by RR 1,518 million.

The following table provides the components of the net periodic pension cost as of June 30, 2007:

	Six months ended June 30, 2007
Service cost	93
Interest cost	43
Less expected return on plan assets	(51)
Effect of exchange rates	(3)
Total net periodic pension cost / (benefit)	**82**

During the six months ended June 30, 2007 the Company contributed RR 158 million to its various benefit plans.

In March 2007, the Group transferred approximately 10.8 million Tatneft ordinary shares to the National Non-governmental Pension Fund (the "Fund"). The Group is also a participant in the Fund, along with other entities operating in the Republic of Tatarstan, as certain of its pension programs are conducted through the Fund. However, the terms of the share transfer were for the benefit of the Fund and not specifically for any of the Group's pension programs or any employees of the Group. The fair value of this transfer, RR 1,289 million, was classified as loss on disposal of property, plant and and equipment and investments and impairments in the consolidated statement of operations and comprehensive income.

(in millions of Russian Roubles)

Note 8: Taxes

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following at June 30, 2007 and December 31, 2006:

	At June 30, 2007	At December 31, 2006
Accounts receivable	74	129
Obligations under capital leases	237	271
Other accounts payable	-	298
Prepaid expenses and other current assets	533	238
Pension liabilities	158	176
Other	456	710
Deferred tax assets	**1,458**	**1,822**
Property, plant and equipment	(18,214)	(18,960)
Inventories	(546)	(886)
Long-term investments	(537)	(941)
Undistributed Earnings	(765)	(663)
Other liabilities	(291)	(201)
Deferred tax liabilities	**(20,353)**	**(21,651)**
Net deferred tax liability	**(18,895)**	**(19,829)**

At June 30, 2007 and December 31, 2006, deferred taxes were classified in the consolidated balance sheet as follows:

	At June 30, 2007	At December 31, 2006
Current deferred tax asset	226	288
Non-current deferred tax assets	395	447
Non-current deferred tax liability	(19,516)	(20,564)
Net deferred tax liability	**(18,895)**	**(19,829)**

No provision has been made for additional income taxes of RR 6,295 million on undistributed earnings of a foreign subsidiary. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 944 million if they were remitted as dividends.

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

	Six months ended June 30, 2007	Six months ended June 30, 2006
Export duties	37,467	41,187
Unified production tax	25,652	29,928
Property tax	686	696
Excise taxes	121	30
Penalties and interest	24	-
Other	453	482
Total taxes other than income taxes	**64,403**	**72,323**

Effective January 1, 2007, the base tax rate formula for unified production tax was modified to provide a benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. Under the new rules, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As the Company's largest field, Romashkinsokoye, along with certain other fields are more than 80% depleted, the Company received a benefit in the current period of approximately RR 2.2 billion.

(in millions of Russian Roubles)

Note 9: Earnings per share

Under the two-class method of computing net income per share, net income is computed for common and preferred shares according to dividends declared and participation rights in undistributed earnings. Under this method, net income is reduced by the amount of dividends declared in the current period for each class of shares, and the remaining income is allocated to common and preferred shares to the extent that each class may share in income if all income for the period had been distributed.

	Six months ended June 30, 2007	Six months ended June 30, 2006
Net income	16,493	17,922
Common share dividends	(10,022)	(2,179)
Preferred share dividends	(679)	(148)
Income available to common and preferred shareholders, net of dividends	**5,792**	**15,595**
Basic:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,073	2,000
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,221	2,148
Basic net income per share (RR)		
Common	7.44	8.35
Preferred	7.21	8.26
Diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,081	2,009
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding assuming dilution	2,229	2,157
Diluted net income per share (RR)		
Common	7.43	8.32
Preferred	7.20	8.23

Note 10: Segment Information

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

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

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

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

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

The Group evaluates performance of its reportable operating segments and allocates resources based on income or losses before income taxes and minority interest not including interest income, expense, earnings from equity investments, other income and monetary effects. Intersegment sales are at prices that approximate market.

For the six months ended June 30, 2007, the Group had four customers which accounted for RR 81,520 million in crude oil sales, comprising 28%, 21%, 12% and 10% respectively of the total tons of crude oil sold by the Group during the period. For the six-months ended June 30, 2006, the Group had three customers which accounted for RR 76,886 million in crude oil sales, comprising 29%, 20% and 16%, respectively of the total tons of crude oil sold by the Group during the period. During the six-months ended June 30, 2006, the Group had one customer which accounted for RR 2,690 million in refining and marketing revenues, which represents 11% of these revenues. Management does not believe the Group is reliant on any particular customer.

(in millions of Russian Roubles)

Note 10: Segment Information (continued)

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

	Six months ended June 30, 2007	Six months ended June 30, 2006
Exploration and production		
Domestic own crude oil	23,746	25,804
CIS own crude oil	29,124	29,660
Non – CIS own crude oil	59,450	65,377
Intersegment sales	624	603
Total exploration and production	**112,944**	**121,444**
Refining and marketing		
Crude oil purchased	1,854	2,657
Refined products	16,491	15,641
Domestic sales	18,345	18,298
Crude oil purchased	1,180	73
Refined products	2,057	2,501
CIS sales[(1)]	3,237	2,574
Crude oil purchased	1,372	-
Refined products	1,683	3,350
Non – CIS sales[(2)]	3,055	3,350
Total refining and marketing	**24,637**	**24,222**
Petrochemicals		
Tires - domestic sales	7,872	6,843
Tires - CIS sales	1,337	1,272
Tires - non-CIS sales	616	311
Petrochemical products	381	277
Total petrochemicals	**10,206**	**8,703**
Total segment sales	**147,787**	**154,369**
Corporate and other sales	10,022	7,094
Elimination of intersegment sales	(624)	(603)
Total sales and other operating revenues	**157,185**	**160,860**

(1) - CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).

(2) - Non-CIS sales of crude oil and refined products are mainly made to European markets.

(in millions of Russian Roubles)

Note 10: Segment Information (continued)

Segment earnings and assets. Segment earnings are as follows:

	Six months ended June 30, 2007	Six months ended June 30, 2006
Segment earnings (loss)		
Exploration and production	22,356	26,244
Refining and marketing	3,346	3,358
Petrochemicals	649	333
Total segment earnings	**26,351**	**29,935**
Corporate and other	(1,991)	(5,068)
Other income	374	1,217
Income before income taxes and minority interest	**24,734**	**26,084**

Segment assets are as follows:

	At June 30, 2007	At December 31, 2006
Assets		
Exploration and production	207,556	189,963
Refining and marketing	19,973	16,853
Petrochemicals	12,803	15,962
Corporate and other	101,585	96,646
Total assets	**341,917**	**319,424**

The Group's assets and operations are primarily located and conducted in Russia.

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

	Six months ended June 30, 2007	Six months ended June 30, 2006
Depreciation, depletion and amortization		
Exploration and production	3,959	3,894
Refining and marketing	279	226
Petrochemicals	242	451
Corporate and other	917	989
Total segment depreciation, depletion and amortization	**5,397**	**5,560**
Additions to property, plant and equipment		
Exploration and production	10,014	1,638
Refining and marketing	2,925	352
Petrochemicals	314	142
Corporate and other	1,259	4,490
Total additions to property, plant and equipment	**14,512**	**6,622**

(in millions of Russian Roubles)

Note 11: Related Party Transactions

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

During 2006 the Group lent RR 387 million to Bank Zenit, an equity investee, for 10 years under a subordinate loan agreement, and acquired from a third party an additional RR 387 million subordinated loan to Bank Zenit due on December 5, 2009. Both loans are denominated in US Dollars and carry fixed interest at the rate of 7% per annum.

During the six months ended June 30, 2007, the Group purchased three US Dollar discounted promissory notes, bearing effective interest rate of 6% per annum from Bank Zenit for RR 3,673 million with a total redemption value of RR 3,704 million. The notes are repayable on demand but no earlier than June 25, 2007, July 31, 2007 and August 24, 2007, respectively.

In February 2007, the Group purchased a promissory note from Bank Zenit for RR 1,500 million. The note bears interest at 5.0% per annum is redeemable on demand but not earlier than August 14, 2007.

The amounts of transactions for each year and the outstanding balances at each year end with related parties are as follows:

	Six months ended June 30, 2007	Six months ended June 30, 2006
Sales of crude oil	1	-
Volumes of crude oil sales (thousand tons)	-	-
Sales of refined products	8	462
Volumes of refined product sales (thousand tons)	-	61
Sales of petrochemical products	-	994
Other sales	582	329
Purchases of crude oil	(13)	-
Volumes of crude oil purchases (thousand tons)	2	-
Purchases of refined products	(18)	-
Volumes of refined products purchases (thousand tons)	1	-
Purchases of petrochemical products	-	(1,874)
Purchases of electricity	(1,838)	(2,448)
Other purchases	(934)	(290)

(in millions of Russian Roubles)

Note 11: Related Party Transactions (continued)

	At June 30, 2007	At December 31, 2006
Assets		
Accounts receivable (Note 4)	447	495
Notes receivable	5,344	1,856
Short-term certificates of deposit	8,084	9,750
Trading securities	-	1,172
Loans receivable	1,767	554
Due from related parties short-term	**15,642**	**13,827**
Long-term certificates of deposit	1,000	1,000
Long-term loans receivable	4,493	5,235
Long-term accounts receivable	8	-
Due from related parties long-term	**5,501**	**6,235**
Liabilities		
Other accounts payable	(1,667)	(20)
Notes payable	(5)	-
Short-term debt (Note 6)	(228)	(407)
Trade accounts payable	(553)	(277)
Due to related parties short-term	**(2,453)**	**(704)**
Long-term debt (Note 6)	(9)	(15)
Due from related parties long-term	**(9)**	**(15)**

Note 12: Commitments and Contingent Liabilities

Guarantees. The Group has no outstanding guarantees at June 30, 2007 and December 31, 2006.

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

Taxation. Russian tax legislation is subject to varying interpretations and constant changes. Further, the interpretations of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. Also interpretations on the application of the tax legislation may vary between regional and Federal tax authorities. As a result, transactions may be challenged by tax authorities and the Group may be assessed for additional taxes, penalties and interest. Consolidated tax returns are not required under existing Russian tax legislation and tax audits are performed on an individual entity basis only. Tax periods remain open to review by the tax authorities for three years.

The Company's 2004 and 2005 tax filings were recently subject to routine examination by taxing authorities. There were no significant findings as a result of these examinations. The Company's 2006 tax filings have not been subject to examination.

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

Note 12: Commitments and Contingent Liabilities (continued)

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

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

Transportation of crude oil. The Group benefits from the blending of its crude oil in the Transneft pipeline system since the Group's crude oil production is generally of a lower quality than that produced by other regions of the Russian Federation which supply through the same pipeline system. There is currently no equalization scheme for differences in crude oil quality within the Transneft pipeline system and the implementation of any such scheme is not determinable at present. However, if this practice were to change, the Group's business could be materially and adversely affected.