TATNEFT

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.ru

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, 2008, and the related consolidated interim condensed statements of operations and comprehensive income, of shareholders' equity and of cash flows for each of the six month periods ended June 30, 2008 and June 30, 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards generally accepted in the United States of America. 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 of America, 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 interim condensed consolidated 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 of America, the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of income, of changes in shareholders' equity, and of cash flows for the year then ended (not presented herein), and in our report dated June 23, 2008 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, 2008, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

ZAO PricewaterhouseCoopers Audit

October 20, 2008

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

	Notes	At June 30, 2008	At December 31, 2007
Assets			
Cash and cash equivalents		21,262	13,010
Restricted cash		4,810	3,996
Accounts receivable, net	3	48,865	44,193
Due from related parties	10	18,862	19,732
Short-term investments		18,662	12,977
Current portion of loans receivable		4,263	3,796
Inventories	4	13,170	10,923
Prepaid expenses and other current assets		25,349	17,968
Total current assets		**155,243**	**126,595**
Long-term loans receivable, net		3,531	4,842
Due from related parties	10	4,914	6,546
Long-term investments		32,380	32,310
Property, plant and equipment, net		200,902	187,795
Other long-term assets		13,145	12,131
Total assets		**410,115**	**370,219**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	5	3,894	4,332
Trade accounts payable		7,743	5,647
Due to related parties	10	2,395	1,387
Other accounts payable and accrued liabilities		18,372	16,721
Dividends payable		13,248	99
Capital lease obligations		541	575
Taxes payable		16,002	9,667
Total current liabilities		**62,195**	**38,428**
Long-term debt, net of current portion	5	13,950	9,177
Due to related parties	10	5	5
Other long-term liabilities		2,568	2,134
Asset retirement obligations, net of current portion		33,534	31,937
Deferred tax liability		19,554	19,738
Capital lease obligations, net of current portion		229	242
Total liabilities		**132,035**	**101,661**
Minority interest		**4,999**	**4,499**
Shareholders' equity			
Preferred shares (authorized and issued at June 30, 2008 and December 31, 2007 - 147,508,500 shares; nominal value at June 30, 2008 and December 31, 2007 - RR1.00)		148	148
Common shares (authorized and issued at June 30, 2008 and December 31, 2007 - 2,178,690,700 shares; nominal value at June 30, 2008 and December 31, 2007 - RR1.00)		2,179	2,179
Additional paid-in capital		96,038	95,274
Accumulated other comprehensive loss		(264)	(461)
Retained earnings		177,583	169,721
Less: Common shares held in treasury, at cost (95,064,000 shares and 101,057,000 shares at June 30, 2008 and December 31, 2007, respectively)		(2,603)	(2,802)
Total shareholders' equity		**273,081**	**264,059**
Total liabilities and shareholders' equity		**410,115**	**370,219**

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

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

(in millions of Russian Roubles)

	Notes	Six months ended June 30, 2008	Six months ended June 30, 2007
Sales and other operating revenues	9	**246,487**	**157,185**
Costs and other deductions			
Operating		30,117	27,083
Purchased oil and refined products		31,966	17,269
Exploration		1,929	559
Transportation		5,677	4,041
Selling, general and administrative		21,195	11,317
Depreciation, depletion and amortization	9	5,252	5,397
Loss on disposals of property, plant and equipment and investments and impairments		1,941	1,905
Taxes other than income taxes	7	112,324	64,403
Maintenance of social infrastructure and transfer of social assets		2,546	851
Total costs and other deductions		**212,947**	**132,825**
Other income (expenses)			
Earnings from equity investments		(934)	430
Foreign exchange loss		(1,626)	(484)
Interest income		1,609	1,189
Interest expense, net of amounts capitalized		(139)	(110)
Other income / (expenses), net		(189)	(651)
Total other (expenses) / income		**(1,279)**	**374**
Income before income taxes and minority interest		**32,261**	**24,734**
Income taxes			
Current income tax expense		(10,531)	(8,748)
Deferred income tax (expense) / benefit		(90)	999
Total income tax expense		**(10,621)**	**(7,749)**
Income before minority interest		**21,640**	**16,985**
Minority interest		(635)	(492)
Net income		**21,005**	**16,493**
Foreign currency translation adjustments		197	16
Comprehensive income		**21,202**	**16,509**
Basic and diluted net income per share (RR)			
Common		9.44	7.44
Preferred		9.16	7.21
Weighted average shares outstanding (millions of shares)			
Common		2,081	2,073
Preferred		148	148

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

(in millions of Russian Roubles)

	Six months ended June 30, 2008	Six months ended June 30, 2007
Operating activities		
Net income	21,005	16,493
Adjustments:		
Minority interest	635	492
Depreciation, depletion and amortization	5,252	5,397
Deferred income tax benefit	90	(999)
Loss on disposals of property, plant and equipment and investments and impairments	1,941	1,905
Effects of foreign exchange	-	(7)
Equity earnings net of dividends received	1,391	(152)
Accretion of asset retirement obligation	1,602	1,450
Change in fair value of trading securities	(184)	944
Other	1,789	171
Changes in operational working capital, excluding cash:		
Accounts receivable	(4,447)	(10,343)
Inventories	467	(1,105)
Prepaid expenses and other current assets	(6,949)	5,151
Trading securities	(652)	522
Related parties	1,048	3,140
Trade accounts payable	1,631	(250)
Other accounts payable and accrued liabilities	1,434	1,524
Taxes payable	6,346	1,750
Notes payable	492	82
Other non-current assets	(738)	(564)
Net cash provided by operating activities	**32,153**	**25,601**
Investing activities		
Additions to property, plant and equipment	(21,436)	(14,064)
Proceeds from disposals of property, plant and equipment	605	1,993
Proceeds from disposal of investments	(22)	2,439
Purchase of investments	(451)	(133)
Certificates of deposit	(4,384)	1,252
Loans and notes receivable	(1,414)	(4,778)
Change in restricted cash	(814)	290
Net cash used in investing activities	**(27,916)**	**(13,001)**
Financing activities		
Proceeds from issuance of debt	17,404	5,337
Repayment of debt	(12,968)	(5,447)
Repayment of capital lease obligations	(337)	(588)
Dividends paid to shareholders	(6)	-
Dividends paid to minority shareholders	(91)	(59)
Purchase of treasury shares	(24)	(17)
Proceeds from sale of treasury shares	37	24
Net cash provided by / (used in) financing activities	**4,015**	**(750)**
Net change in cash and cash equivalents	**8,252**	**11,850**
Cash and cash equivalents at beginning of period	13,010	6,869
Cash and cash equivalents at end of period	**21,262**	**18,719**

	2008	
	Shares	**Amount**
Preferred shares:		
Balance at January 1 and June 30 (shares in thousands)	147,509	148
Common shares:		
Balance at January 1 and June 30 (shares in thousands)	2,178,691	2,179
Treasury shares, at cost:		
Balance at January 1	101,057	(2,802)
Purchases	164	(24)
Sales	(6,157)	223
Balance at June 30 (shares in thousands)	95,064	(2,603)
Additional paid-in capital		
Balance at January 1		95,274
Treasury share transactions		764
Balance at June 30		96,038
Accumulated other comprehensive (loss) / income		
Balance at January 1		(461)
Foreign currency translation adjustments		197
Balance at June 30		(264)
Retained earnings		
Balance at January 1		169,721
Net income		21,005
Dividends		(13,143)
Balance at June 30		177,583
Total shareholders' equity at June 30		**273,081**

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 (see Note 9).

The Government, 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 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.

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 2007 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 consolidated interim condensed financial statements are read in conjunction with the Company's 2007 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, 2008 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 the management are: in-process inventories, assets valuation allowances, depreciable lives, oil and gas reserves, dismantling costs and income taxes.

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.

Note 2: Basis of Presentation (continued)

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 loss. Gains or losses resulting from transactions in other than the functional currency are reflected in net income.

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US $") at June 30, 2008 and December 31, 2007 was RR 23.46 and RR 24.55 to US Dollar, respectively. Average rate of exchange for the six months ended June 30, 2008 was RR 23.94 per US Dollar.

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 and realization of deferred tax assets, if any.

Starting from January 1, 2007 the Company accounts for uncertain tax positions in accordance with Financial Accounting Standard Board ("FASB") issued Interpretation No. 48 ("FIN") *Accounting for Uncertainty in Income Taxes*. Liabilities for unrecognized income tax benefits under the provisions of FIN 48 together with corresponding interest and penalties are recorded in the consolidated statement of income as income tax expense. The adoption of FIN 48 did not have a material impact on the Group's financial position or results of operation.

Recent accounting pronouncements:

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Group has not elected to adopt the fair value option for eligible items; accordingly, SFAS No. 159 has not had an impact on its financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," which identifies a consistent framework for selecting accounting principles to be used in preparing financial statements for nongovernmental entities that are presented in conformity with United States generally accepted accounting principles (GAAP). The current GAAP hierarchy was criticized due to its complexity, ranking position of FASB Statements of Financial Accounting Concepts and the fact that it is directed at auditors rather than entities. SFAS No. 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The FASB does not expect that SFAS No. 162 will have a change in current practice, and the Company does not believe that SFAS No. 162 will have an impact on its financial position, results of operations or cash flows.

(in millions of Russian Roubles)

Note 3: Accounts Receivable

Accounts receivable are as follows:

	At June 30, 2008			At December 31, 2007		
	Total accounts receivable	Accounts receivable from related parties (Note 10)	Accounts receivable from third parties	Total accounts receivable	Accounts receivable from related parties (Note 10)	Accounts receivable from third parties
Trade - domestic	10,321	644	9,677	7,880	544	7,336
Trade - export	36,669	-	36,669	34,464	-	34,464
Other receivables	2,831	312	2,519	2,900	507	2,393
Total accounts receivable, net	**49,821**	**956**	**48,865**	**45,244**	**1,051**	**44,193**

Export trade receivables consist of US $1,565 million and US $1,404 million at June 30, 2008 and December 31, 2007, respectively.

Accounts receivables are presented net of an allowance for doubtful accounts of RR 10,676 million and RR 375 million at June 30, 2008 and December 31, 2007, respectively. During the six-months ended June 30, 2008, receivables from ChMPKP Avto amounting to RR 10,307 million were fully provided for in accordance with the Group’s policies for recorded allowances for doubtful accounts (See also Note 11). Provisions for doubtful accounts are included in selling, general and administrative expenses in the consolidated statements of operations and comprehensive income.

Note 4: Inventories

Inventories are as follows:

	At June 30, 2008	At December 31, 2007
Materials and supplies	5,110	4,857
Crude oil	2,681	2,965
Refined oil products	2,775	1,952
Petrochemical supplies and finished goods	2,604	1,149
Total inventories	**13,170**	**10,923**

(in millions of Russian Roubles)

Note 5: Debt

	At June 30, 2008	At December 31, 2007
Short-term debt		
Foreign currency denominated debt		
Other foreign currency denominated debt	2,581	3,444
Rouble denominated debt		
Current portion of long-term debt	-	144
Other rouble denominated debt	1,664	838
Less: due to related parties (Note 10)	(351)	(94)
Total short-term debt	**3,894**	**4,332**
Long-term debt		
Foreign currency denominated debt		
BNP Paribas	13,370	8,591
Other foreign currency denominated debt	464	461
Rouble denominated debt	121	274
Total long-term debt	**13,955**	**9,326**
Less: due to related parties (Note 10)	(5)	(5)
Less: current portion	-	(144)
Total long-term debt, net of current portion	**13,950**	**9,177**

Foreign currency debts are primarily denominated in US Dollars.

Short-term foreign currency denominated debt. As of June 30, 2008 other short-term foreign currency denominated debt includes 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, 2008 and December 31, 2007 was RR 490 million (US $20.9 million) and RR 508 million (US $20.7 million), respectively.

In November 2007 the Group entered into another RR 2,626 million (US $107 million) credit agreement with BNP Paribas (Suisse), Geneva. The loan bears interest at 6 month LIBOR plus varying margin of 1.25% per annum and is collateralized by crude oil sales in amount of 42.5 thousand tons per month. The amount of loan outstanding as of June 30, 2008 and December 31, 2007 was RR 2,088 million (US $89 million) and RR 2,626 million (US $107 million), respectively.

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 1,664 million and RR 838 million bear contractual interest rates of 7% to 20% and 11% to 17% per annum for the six months ended June 30, 2008 and year ended December 31, 2007, respectively. The loans are collateralized by the assets of the Group.

Long-term foreign currency denominated debt. In November 2007, TANECO entered into a senior secured credit facility arranged by ABN AMRO, BNP Paribas (Suisse) SA, Citibank International PLC, Bayerische Hypo- und Vereinsbank AG, Sumitomo Mitsui Finance Dublin and WestLB AG, for US$ 2.0 billion to be used in the construction of TANECO's refinery and petrochemical complex. The amount outstanding under this loan as of June 30, 2008 and December 31, 2007 was RR 13,370 million (US $570 million) and RR 8,591 million (US $350 million), respectively. The loan bears interest at LIBOR plus 1.65% and matures in January 2010 (unless an optional six months extension is not exercised by TANECO).

The loan is fully guaranteed by both OAO Tatneft and IPCG Fund as major shareholders of TANECO. The Company's guarantee is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than three million metric tones of oil 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. Management believes the Company is in compliance with these covenants as of June 30, 2008 and December 31, 2007.

(in millions of Russian Roubles)

Note 6: Pensions and Post Employment Benefits

The following table provides the components of net periodic pension cost for the period indicated:

	Six months ended June 30, 2008	Six months ended June 30, 2007
Service cost	137	93
Interest cost	114	43
Less expected return on plan assets	(230)	(51)
Effect of exchange rates	(3)	(3)
Actuarial loss	(15)	-
Other	70	-
Total net periodic benefit income / (expense)	**73**	**82**

Employer Contributions

The Company is generally required to make minimum monthly contributions to fund its various pension obligations. During the six months ended June 30, 2008, the Company contributed RR 451 million to its various plans. The Company expects to contribute RR 600 million for the full year. The Company does not have any required funding obligations for its other post employment benefits.

Note 7: Taxes

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

	Six months ended June 30, 2008	Six months ended June 30, 2007
Export duties	66,438	37,467
Unified production tax	44,489	25,652
Property tax	736	686
Excise taxes	145	121
Penalties and interest	91	24
Other	425	453
Total taxes other than income taxes	**112,324**	**64,403**

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.

Note 8: Fair Value Measurements

The Company implemented FASB Statement No. 157, Fair Value Measurements (FAS 157), as of January 1, 2008. FAS 157 was amended by FSP FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the Company's application of FAS 157 for nonrecurring nonfinancial assets and liabilities until January 1, 2009. The implementation of FAS 157 did not have a material effect on the Group's results of operations or consolidated financial position and had no effect on the company's existing fair-value measurement practices. However, FAS 157 requires disclosure of a fair-value hierarchy of inputs the Company uses to value an asset or a liability. The three levels of the fair-value hierarchy are described as follows:

Level 1: Valuations utilizing quoted, unadjusted prices for identical assets or liabilities in active markets that the Company has the ability to access. This is the most reliable evidence of fair value and does not require a significant degree of judgment. For the Group, Level 1 inputs include marketable securities that are actively traded on the Russian domestic markets.

Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability. Certain investments held by IPCG Fund, which is accounted for under the equity method, including its investment in Bank Zenit are valued using level 2 inputs.

Note 8: Fair Value Measurements (continued)

Level 3: Valuations utilizing significant, unobservable inputs. This provides the least objective evidence of fair value and requires a significant degree of judgment. The Group does not use Level 3 inputs for any of its recurring fair-value measurements; however, certain investments held by the IPCG Fund are valued using level 3 inputs. Beginning January 1, 2009, Level 3 inputs may be required for the determination of fair value associated with certain nonrecurring measurements of nonfinancial assets and liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Marketable securities: The Group has RR 11,309 million in marketable securities as of June 30, 2008. The Group calculates fair value for its marketable securities based on quoted market prices for identical assets and liabilities.

IPCG Fund: IPCG Fund follows the accounting principles of the AICPA Audit and Accounting Guide "Investment Companies." Accordingly, IPCG Fund's investments are fair valued each reporting period primarily using, Level 2 inputs. The Company's carrying value of its investment in IPCG Fund is RR 10,652 million at June 30, 2008.

Note 9: 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 own crude oil. Intersegment sales consist of other goods and services provided to other operating segments.

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

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

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

The Group evaluates performance of its reportable operating segments and allocates resources based on income or losses before income taxes and minority interest not including interest income, expense, earnings from equity investments, other income, foreign exchange gains (losses) and certain other components of selling, general and administrative costs. Intersegment sales are at prices that approximate market.

(in millions of Russian Roubles)

Note 9: 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, 2008	Six months ended June 30, 2007
Exploration and production		
Domestic own crude oil	29,689	23,746
CIS own crude oil	7,698	29,124
Non – CIS own crude oil	139,963	59,450
Other	1,962	1,838
Intersegment sales	7,215	841
Total exploration and production	**186,527**	**114,999**
Refining and marketing		
Crude oil purchased	9,264	1,854
Refined products	21,819	16,491
Domestic sales	31,083	18,345
Crude oil purchased	-	1,180
Refined products	405	2,057
CIS sales(1)	405	3,237
Crude oil purchased	13,161	1,372
Refined products	3,468	1,683
Non – CIS sales(2)	16,629	3,055
Other	1,290	1,022
Intersegment sales	1,106	899
Total refining and marketing	**50,513**	**26,558**
Petrochemicals		
Tires - domestic sales	8,270	7,872
Tires - CIS sales	1,145	1,337
Tires - non-CIS sales	635	616
Petrochemical products and other	626	852
Intersegment sales	628	683
Total petrochemicals	**11,304**	**11,360**
Total segment sales	**248,344**	**152,917**
Corporate and other sales	7,092	6,691
Elimination of intersegment sales	(8,949)	(2,423)
Total sales and other operating revenues	**246,487**	**157,185**

(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.

For the six months ended June 30, 2008, the Group had three customers which accounted for RR 127,744 million in crude oil sales, comprising 27%, 21% and 18% respectively of the total tons of crude oil sold by the Group during the six months. For the year ended December 31, 2007, the Group had four customers which accounted for RR 206,875 million in crude oil sales, comprising 26%, 24%, 15% and 9% respectively of the total tons of crude oil sold by the Group during the year. Management does not believe the Group is dependent on any particular customer.

(in millions of Russian Roubles)

Note 9: Segment Information (continued)

Segment earnings and assets. Segment earnings are as follows:

	Six months ended June 30, 2008	Six months ended June 30, 2007
Segment earnings (loss)		
Exploration and production	36,104	25,336
Refining and marketing	6,009	4,167
Petrochemicals	952	1,698
Total segment earnings	**43,065**	**31,201**
Corporate and other	(9,525)	(6,841)
Other (expenses) / income	(1,279)	374
Income before income taxes and minority interest	**32,261**	**24,734**

Segment assets are as follows:

	At June 30, 2008	At December 31, 2007
Assets		
Exploration and production	233,692	225,817
Refining and marketing	47,490	37,794
Petrochemicals	18,846	13,881
Corporate and other	110,087	92,727
Total assets	**410,115**	**370,219**

The Group’s assets and operations are primarily located and conducted in the Russian Federation.

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

	Six months ended June 30, 2008	Six months ended June 30, 2007
Depreciation, depletion and amortization		
Exploration and production	3,884	3,959
Refining and marketing	306	279
Petrochemicals	537	242
Corporate and other	525	917
Total segment depreciation, depletion and amortization	**5,252**	**5,397**
Additions to property, plant and equipment		
Exploration and production	8,857	10,014
Refining and marketing	8,510	2,925
Petrochemicals	2,451	314
Corporate and other	1,907	1,259
Total additions to property, plant and equipment	**21,725**	**14,512**

(in millions of Russian Roubles)

Note 10: 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.

The amounts of transactions and the outstanding balances with related parties are as follows:

	Six months ended June 30, 2008	**Six months ended June 30, 2007**
Sales of crude oil	34	1
Volumes of crude oil sales (thousand tons)	3	-
Sales of refined products	39	8
Volumes of refined product sales (thousand tons)	2	-
Sales of petrochemical products	1	-
Other sales	1,253	582
Purchases of crude oil	(8,058)	(478)
Volumes of crude oil purchases (thousand tons)	528	45
Purchases of refined products	-	(18)
Volumes of refined products purchases (thousand tons)	-	1
Purchases of petrochemical products	-	-
Purchases of electricity	(2,947)	(1,838)
Other purchases	(90)	(934)

	At June 30, 2008	**At December 31, 2007**
Assets		
Accounts receivable (Note 3)	956	1,051
Notes receivable	3,120	5,021
Short-term certificates of deposit	11,292	12,506
Trading securities	-	223
Loans receivable	3,494	931
Due from related parties short-term	**18,862**	**19,732**
Long-term certificates of deposit	500	-
Long-term loans receivable	4,389	6,541
Long-term accounts receivable	25	5
Due from related parties long-term	**4,914**	**6,546**
Liabilities		
Other accounts payable	(45)	(75)
Notes payable	-	-
Short-term debt (Note 5)	(351)	(94)
Trade accounts payable	(1,999)	(1,218)
Due to related parties short-term	**(2,395)**	**(1,387)**
Long-term debt (Note 5)	(5)	(5)
Due to related parties long-term	**(5)**	**(5)**

Note 11: Commitments and Contingent Liabilities

Guarantees. The Group has no outstanding guarantees at June 30, 2008 and December 31, 2007.

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.

Recent volatility in global financial markets. The ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding and lower liquidity levels across the Russian Federation. The uncertainties in the global financial market, has also led to bank failures and/or bank rescues. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Additionally, the uncertainty in the global markets combined with other local factors has led to very high volatility in the Russian Stock Markets during 2008.

Management believes the Group's current and long-term capital expenditures program can be funded through cash generated from existing operations or existing lines of credit. The TANECO refinery project is currently being funded by as US$ 2.0 billion line of credit, of which only US$ 570 million has been drawn as of June 30, 2008. Furthermore, TANECO has the ability to extend this line of credit through July 2010. Management also believes the Company has the ability to obtain syndicated loans and other financings as needed to fund business acquisitions and other transactions that may arise in the future.

The Group currently holds RR 11,309 million of investments in debt or equity securities as well as an RR 10,652 million investment in IPCG Fund and RR 4,352 investment in Bank Zenit that may be subject to declines in fair value as a result of the recent market turbulence.

Taxation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities scrutiny. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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

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

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

Note 11: Commitments and Contingent Liabilities (continued)

Ukrtatnafta

In December 2007 the Company acquired a substantial interest in AmRUZ Trading AG ("AmRUZ") and a controlling interest in Seagroup International Inc. ("Seagroup"), whose principle activities are investments in Closed Joint Stock Company Ukrtatnafta ("Ukrtatnafta"), the owner of the Kremenchug refinery located in the Ukraine. As of June 30, 2008, the Company's investments in Ukrtatnafta totalled RR 3,342 million.

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, 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 and initiated legal proceedings against the Ukrainian owners in international arbitration.

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT"). The arbitration concerns losses suffered by Tatneft as a consequence of the forcible takeover of Ukrtatnafta. Tatneft requested the arbitral tribunal declare Ukraine has breached the Russian-Ukraine BIT and to order MFEU to restore Ukrtatnafta's lawful management and pay compensation in excess of US$1.1 billion. The Group is in the process of preparing similar requests for arbitration on behalf of Seagroup and AmRUZ.

On September 4, 2008, the Business Court of the City of Kiev, at the request of the General Prosecutor's Office, ruled to liquidate Ukrtatnafta, effectively requiring a return on initial shareholder contributions, including any cash contributions and reversion of the Kremenchug refinery assets to the Ukraine shareholders. This decision has not become effective and is currently under appeal.

There are a number of legal proceedings currently in process in the Ukraine, Russian Federation and International courts to recover the Group's assets. Management expects the matter to be resolved by the end of 2008, however, an unfavourable outcome in a number of these proceedings could have a material impact on the Group's financial statements.