Management's Discussion and Analysis

The following discussion should be read in conjunction with the unaudited consolidated interim condensed 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.

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 June 30, 2008 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, hold approximately 36% of the Company's voting stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision 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

	Six months ended June 30, 2008	Change	Six months ended June 30, 2007
Sales (millions of RR)	246,487	56.81%	157,185
Net income (millions of RR)	21,005	27.36%	16,493
EBITDA (*) (millions of RR)	36,043	24.06%	29,050
Basic and Diluted net income per share of common stock (RR)			
Common……………	9.44	26.9%	7.44
Preferred……………...	9.16	27.0%	7.21
Crude oil production by the Group (thousand of tons)	13,224	1.2%	13,063
Crude oil production by the Group (thousand of barrels)	94,196	1.2%	93,050
Gas production by the Group (millions of cubic meters)	408.5	-0.3%	409.6
Refined gas products produced (thousand of tons)	538.9	-5.1%	568.1

(*) *As defined on page 15*

During first half of 2008 our net income was RR 21,005 million, which is RR 4,512 million, or 27.36%, more than the corresponding period of 2007.

Our performance was influenced by overall favorable market price conditions in the first half of 2008, offset by increasing operating expenses, taxes other than income taxes and transportation tariffs. In addition, in the first half of 2008 there were a number of nonrecurring charges. These factors, as well as other drivers impacting the results of our operations are considered in detail below.

Nonrecurring Charges

The following significant nonrecurring charges impacted the Group's results of operations for the six months ended June 30, 2008:

- Bad debt provision on accounts receivable related to sales of crude oil to Ukraine prior to October 2007 (see Selling, general and administrative expenses section, p. 14).
- Write-off of certain debt considered by the Group as unrecoverable (included in the Loss on disposals of property, plant and equipment and impairment of investments section, p. 14).
- Consolidation of losses of a company the first time consolidated in the Group's financial statements (included in the Loss on disposals of property, plant and equipment and impairment of investments section, p. 14).
- Disposal of a medical facility, a social asset of the Group (see Maintenance of social infrastructure and transfer of social assets section, p.15).
- Additional exploration expenses incurred by two companies currently carrying out exploratory activities which were fully consolidated for the first time in our consolidated financial statements under the provision of FIN 46R. Investments in these companies were previously accounted for under the equity method (see Exploration expenses section, p 13).

Reconciliation of Net income to Net income before nonrecurring charges

	RR millions
Net income	21,005
Nonrecurring charges:	
Bad debt provision related to Ukrainian sales	10,307
Write-off of unrecoverable debt	960
Losses of the first time consolidated company	689
Disposal of a medical facility	1,345
Exploration expenses of newly consolidated companies	1,179
Net income before nonrecurring charges	**35,485**

Net income before nonrecurring charges is a non-US GAAP financial measure. The Company believes that net income before nonrecurring charges provides useful information to investors because it is an indicator of the strength and performance of our continuing business operations. Net income before nonrecurring charges should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under US GAAP.

Segment information

Our operations are currently divided into the following main segments:

- **Exploration and production** –consists of the Company's oil and gas extraction and production divisions, 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** –consists of our participation in OJSC TANECO, a 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 the 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. In the first half of 2008 the Company increased production by 0.7% from its fields in Tatarstan. Due to the relative maturity of the Company's main producing fields significant portion of all crude oil produced by the Company in Tatarstan was extracted using various enhanced recovery techniques. In the first half of 2008 the Company put 165 new production wells into operation in Tatarstan.

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

E&P activities outside of Tatarstan

The Group continues to expand its operations outside of Tatarstan. In the first half of 2008 the Group obtained one new exploration and production license in Orenburg region and two new exploration licenses in Samara region.

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 the Kalmykia Republic, the Ulyanovsk, Samara, Orenburg and Krasnoyarsk regions, Nenets Autonomous Region and the Chuvash Republic. Outside the Russian Federation, Tatneft is engaged in projects in Libya, Syria and other countries.

Highly viscous oil (natural bitumen) production

During the first half of 2008 the Company continued a pilot project for the development 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 project wells currently yields up to 25 tons per day. The Company continues to assess the economic parameters and development of the related activities relating to highly viscous oil production in Tatarstan.

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 half of 2008 the Group continued the development 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. Expenditure related to the construction in the first half of 2008 were financed by a US$ 2 billion 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 earlier in the year.

Petrochemicals

In the first half of 2008 the core entity of the Group's petrochemicals segment – OAO Nizhnekamskshina produced 5.96 millions 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 in the modernization and upgrading of Nizhnekamskshina's production facilities to strengthen its market competitiveness.

Operational highlights

	Six months ended June 30, 2008	Six months ended June 30, 2007
Crude oil production (millions of metric tons)…………	13.2	13.1
Crude oil production (millions of barrels)………………	94.2	93.0
Refining and tolling of crude oil throughput (millions of metric tons)…………………………………………	0.3	0.3
Refining and tolling of crude oil throughput (millions of barrels)………………………………………………	1.9	1.9
Gas production by the Group (million of cubic meters)..	408.5	409.6
Refining of gas products throughput (million of cubic meters)………………………………………………	334.4	329.0

Crude oil and gas production

Crude oil production of the Group increased by 1.2% to 13.2 million metric tons in the first half of 2008. The increase of crude oil production is mainly the result of implementing modern secondary and tertiary methods and new technologies on the Company's fields in Tatarstan as well as increase of production from fields outside of Tatarstan. Our gas production decreased by 0.3% to 408.5 million cubic meters in the first half of 2008 from 409.6 million cubic meters in the same period of 2007.

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, for export of its crude oil. During the first half of 2008, the Group exported from Russia approximately 65.2% of its crude oil production compared with approximately 64.8% in the same period of 2007. The increase of crude oil exported from Russia is attributable to the general growth of world prices resulting in favorable export netback prices in the first half of 2008.

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	**Six months ended June 30, 2008, US $/ bbl**	**Change**	**Six months ended June 30, 2007, US $/ bbl**
Brent crude	109.1	72.5%	63.3
Urals crude (*CIF Mediterranean*)*	105.3	76.2%	59.8
Urals crude (*CIF Rotterdam*)*	105.6	76.9%	59.7

Source: Platts

* The company sells crude oil on foreign markets on various delivery terms. Therefore, our average realized sales prices differ from average reported market prices.

Russian market	**Six months ended June 30, 2008, RR per ton***	**Change**	**Six months ended June 30, 2007, RR per ton***
Crude oil	7,642	43.5%	5,325

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.

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.

	Six months ended June 30, 2008	Six months ended June 30, 2007
Ruble inflation	8.7%	5.7%
US $ period-end exchange rate	23.46	25.82
Average US $ exchange rate	23.94	26.08
Nominal appreciation of the Ruble	4.4%	1.9%
Real Ruble appreciation	13.7%	7.8%

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	Six months ended June 30, 2008	Six months ended June 30, 2007	Taxable base
Income tax – maximum rate	24%	24%	Taxable income
VAT	18%	18%	Added value
Unified production tax, average rates[1]	RR 3,701	RR 2,121	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 $336.9	US $175.6	Metric ton exported
Refined products export duty average rates:			
Light refined products (gasoline products) and mid refined products (diesel fuel)	US $239.3	US $130.6	Metric ton exported
Fuel oil (mazut)	US $128.9	US $70.3	
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 half 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 74.5%, average crude oil export duties by 91.9%, and average refined products export duties by 83.2%.

The increase in unified production tax rates is a result of increase in the average Urals blend price by 76.6% partly offset by a decrease in average exchange rate of US Dollar against Ruble by 8.2%, for the six months ended June 30, 2008 as compared to the six months ended June 30, 2007. Excise taxes on refined products remained at the same level as in the respective period of 2007.

Unified production tax rate. The base rate for the unified production tax is 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 as determined by the Russian resourse reserve classifications.

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 RR 4.4 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 half of 2008 attributed to that production of approximately RR 30 million.

Effective from January 1, 2009, the tax rate calculation will be changed. The threshold crude oil price up to which the tax rate is zero will be raised from $9.00 to $15.00 per barrel. This will lead to a $1.3 per barrel decrease in crude oil extraction tax expenses in Russia. Also, the list of regions where, depending on the period and volume of production, zero crude oil extraction tax rate applies will be extended. In particular, it now includes Caspian offshore and the Nenetsky Autonomous District (the Company has operations in the latter).

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.

Crude oil and refined products exported to CIS countries, other than Ukraine and Belorussia, 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 0,335 for 2008 (0.293 for 2007) to be applied 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.

Six months ended June 30, 2008 compared to the six months ended June 30, 2007

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

RR millions	Six months ended June 30, 2008 (unaudited)	Six months ended June 30, 2007 (unaudited)	Change
Sales and other operating revenues	**246,487**	**157,185**	**56.8%**
Costs and other deductions			
Operating	30,117	27,083	11.2%
Purchased oil and refined products	31,966	17,269	85.1%
Exploration	1,929	559	245.1%
Transportation	5,677	4,041	40.5%
Selling, general and administrative	21,195	11,317	87.3%
Depreciation, depletion and amortization	5,252	5,397	(2.7)%
Loss on disposals of property, plant and equipment and investments and impairments	1,941	1,905	1.9%
Taxes other than income taxes	112,324	64,403	74.4%
Maintenance of social infrastructure and transfer of social assets	2,546	851	199.2%
Total costs and other deductions	**212,947**	**132,825**	**60.3%**
(Losses)/earnings from equity investments	(934)	430	(317.2)%
Foreign exchange loss	(1,626)	(484)	236%
Interest income	1,609	1,189	35.3%
Interest expense, net of amounts capitalized	(139)	(110)	26.4%
Other expense, net	(189)	(651)	(71)%
Total other (expense) /income	**(1,279)**	**374**	**(442)%**
Income before income taxes and minority interest	**32,261**	**24,734**	**30.4%**
Current income tax expense	(10,531)	(8,748)	20.4%
Deferred income tax (expense)/ benefit	(90)	999	(109.0)%
Total income tax expense	**(10,621)**	**(7,749)**	**37.1%**
Minority interest	(635)	(492)	28.8%
Net income	**21,005**	**16,493**	**27.4%**

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	Six months ended June 30, 2008	Six months ended June 30, 2007
Crude oil	199,775	116,726
Refined products	25,692	20,232
Petrochemicals	10,433	10,206
Corporate and other sales	10,587	10,021
Total sales and other operating revenues	**246,487**	**157,185**

Sales and other operating revenues increased in the first half of 2008 by 57% to RR 246,487 million from RR 157,185 million in the corresponding period of 2007. The increase is mainly attributable to an increase in crude oil and refined product prices as well as increased volumes of non-CIS sales of crude oil.

Sales of crude oil

Sales of crude oil increased by 71% to RR 199,775 in the first half of 2008 from RR 116,726 million in the same period of 2007. The table below provides an analysis of the changes in sales of crude oil:

	Six months ended June 30, 2008	Change	Six months ended June 30, 2007
Domestic sales of crude oil			
Revenues (RR millions)	38,953	*52.2%*	26,600
Volume (thousand tons)	*4,906*	*4.5%*	*4,695*
Realized price (RR per ton)	*7,940*	*45.6%*	*5,453*
CIS export sales of crude oil [1]			
Revenues (RR millions)	7,698	*(74.6)%*	30,304
Volume (thousand tons)	*650*	*(78.7)%*	*3,056*
Realized price (RR per ton)	*11,843*	*19.4%*	*9,916*
Non-CIS export sales of crude oil			
Revenues (RR millions)	153,124	*151.8%*	60,822
Volume (thousand tons)	*8,544*	*52.9%*	*5,589*
Realized price (RR per ton)	*17,922*	*64.7%*	*10,882*

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

Sales of refined products

Sales of refined products increased by 27% to RR 25,692 million in the first half of 2008 from RR 20,232 million in the corresponding period of 2007. The table below provides an analysis of the changes in sales of refined products:

	Six months ended June 30, 2008	Change	Six months ended June 30, 2007
Domestic sales of refined products			
Revenues (RR millions)	21,819	*32.3%*	16,491
Volume (thousand tons)	*1,387*	*(0.4)%*	*1,393*
Realized price (RR per ton)	*15,731*	*32.9%*	*11,839*
CIS export sales of refined products			
Revenues (RR millions)	405	*(80.3)%*	2,057
Volume (thousand tons)	*19*	*(84.2)%*	*120*
Realized price (RR per ton)	*21,316*	*24.4%*	*17,096*
Non-CIS export sales of refined products			
Revenues (RR millions)	3,468	*106.1%*	1,683
Volume (thousand tons)	*219*	*26.6%*	*173*
Realized price (RR per ton)	*15,836*	*62.8%*	*9,752*

Sales of petrochemical products

The table below provides an analysis of petrochemical product sales.

RR millions	Six months ended June 30, 2008	Change	Six months ended June 30, 2007
Tiers sales	10,050	*2.3%*	9,825
Petrochemicals sales	383	*0.3%*	382
Total sales of petrochemical products	**10,433**		**10,206**

The increase in tire sales was primarily attributable to the combined effect of increased prices and higher volume of tires sold. The Group's production of tires in the first half of 2008 remained at the same level as in the respective period of 2007 and amounted to 5.96 million tires.

Other sales

Other sales increased by 6% to RR 10,587 million in the first half of 2008 from RR 10,021 million in the same period of 2007. 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). In the first half of 2008 other sales were mainly attributable to increased sales of transportation services, as well as materials and equipment sales.

Costs and other deductions

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

RR millions	Six months ended June 30, 2008	Change	Six months ended June 30, 2007
Crude oil extraction expenses	12,386	*27.4%*	9,722
Petrochemical production expenses	8,333	*2.9%*	8,099
Other operating expenses	9,398	*1.5%*	9,262
Total operating expenses	**30,117**	**11.2%**	**27,083**

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 131.5 per barrel in the first half of 2008 compared to RR 104.5 per barrel in the same period of 2007. The increase of 25.8% is primarily a result of increases in electricity tariffs, repair expenses and other service 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 increased by 3% to RR 8,333 million in the first half of 2008 primarily due to increases in the cost of raw materials, electricity tariffs and other services costs, as well as increase in sales of tires by 2.3%.

Other operating expenses include accretion 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 increased to RR 9,398 million, or by 2%, compared to the first half of 2007 due to increase in other non-core activities including selling of other goods and services.

Cost of purchased crude oil and refined products. A summary of purchased oil and refined products for the first halves of 2008 and 2007, respectively is as follows:

RR millions	Six months ended June 30, 2008	Six months ended June 30, 2007
Purchased refined products (RR millions)	17,348	13,906
Volume (thousand tons)	*1,141*	*1,210*
Average price per ton (RR)	*15,200*	*11,491*
Purchased crude oil (RR millions)	14,618	3,363
Volume (thousand tons)	*1,071*	*510*
Average price per ton (RR)	*13,646*	*6,592*
Total purchased oil and refined products	**31,966**	**17,269**

Purchases of refined products increased by 25% to RR 17,348 million in the first half of 2008 from RR 13,906 million in the corresponding period of 2007.

Purchases of crude oil increased to RR 14,618 million in the first half of 2008 from RR 3,363 million in the first half of 2007 due to a 110% increase in the volumes of purchased crude oil for trading as well as increase in the average purchase price per ton by 107%.

Exploration expenses. Exploration expenses consist primarily of exploratory drilling, geological and geophysical costs, and the costs of carrying and retaining undeveloped properties. Exploration expenses increased to RR 1,929 million in the first half of 2008 from RR 559 million in the same period of 2007 due to first-time consolidation of exploratory companies under provision of FIN 46R, Such activities have not yet resulted in the discovery of proved crude oil or gas reserves. Investments in these companies were previously accounted for under the equity method. Expenses of these companies amounted to RR 1,179 million during the first half of 2008.

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 increased by 41% to RR 5,677 million in the first half of 2008 from RR 4,041 million in the first half of 2007 due to an increase in transportation tariffs and overall increase in sales volumes.

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 increased by 87% to RR 21,195 million in the first half of 2008 from RR 11,317 million in the first half of 2007, primarily as a result of an increase in our bad debt provision on accounts receivables related to sales of crude oil to Ukraine prior to October 2007 in the amount of RR 10,307 million (see Commitments and Contingent Liabilities section)

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 first half of 2008 amounted to RR 1,941 million compared to RR 1,905 million in the first half of 2007.

During the first half of 2008 the loss included two nonrecurring charges: a write-off of an unrecoverable debt of a third-party company under liquidation in the amount of RR 960 million, and loss of a company the first time consolidated in the consolidated financial statements of the Group in the amount of RR 689 million.

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

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

Taxes other than income taxes increased by 74% to RR 112,324 million in the first half of 2008 from RR 64,403 million in the first half of 2007. The increase was primarily a result of an increase in export duty and unified production tax rates, which are linked to crude oil market prices partly offset by introduction of differentiated rates of unified production taxes. Export duties increased by 77% to RR 66,438 million from 37,467 million in the same period of 2007. Unified production tax increased by 73% to RR 44,489 million from RR 25,652 million in the same period of 2007. Excise tax increased to RR 145 million from RR 121 million in the same period of 2007, which is the result of the increase in purchases of taxable refined products (mainly diesel fuel). 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 RR 4.4 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 a tax benefit of approximately RR 30 million in the first half of 2008.

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 increased to RR 2,546 million in the first half of 2008 from RR 851 million in the first half of 2007, which included disposal of a medical facility, a social asset of the Group, for the amount of RR 1,345 million.

Other income and expenses

The Group recorded losses from equity investments amounted to RR 934 million in the first half of 2008 from RR 430 million profit in the first half of 2007, primarily due to our share of the IPCG Fund operating losses which amounted to RR 1,601 million compared to RR 248 million in the first half of 2007.

Our foreign exchange loss amounted to RR 1,626 million in the first half of 2008 compared with a loss of RR 484 million in the corresponding period of 2007 due to appreciation of the Russian Ruble against the US Dollar.

Interest income increased to RR 1,609 million in the first half of 2008 from RR 1,189 million in the same period of 2007. Interest expense increased to RR 139 million in the first half of 2008 from RR 110 million in the first half of 2007, which is a result of new debt issuances (average debt increased in first half of 2008 compared with the same period of 2007), partly offset by an increase in capitalized interest related to the construction of TANECO refinery complex.

Other expense, net in the first half of 2008 amounted to RR 189 million compared with RR 651 million in the same period of 2007. The change is primarily due to realized and unrealized losses recorded on our trading investments.

Income taxes

The effective income tax rate in the first half of 2008 was 32.9%, 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	Six months ended June 30, 2008	Six months ended June 30, 2007
Net income	21,005	16,493
Add back:		
Minority interest	635	492
Income tax expense	10,621	7,749
Depreciation, depletion and amortization	5,252	5,397
Interest expense	139	110
Interest and dividend income	(1,609)	(1,189)
EBITDA	**36,043**	**29,050**

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 June 30, 2008	At December 31, 2007
Current assets	155,243	126,595
Long-term assets	254,872	243,624
Total assets	**410,115**	**370,219**
Current liabilities	62,195	38,428
Long-term liabilities	69,840	63,233
Total liabilities	**132,035**	**101,661**
Shareholders' equity	**273,081**	**264,059**
Working capital	93,048	88,167
Current ratio	2.50	3.29

Working capital position

As of June 30, 2008 working capital of the Group amounted to RR 93,048 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 as well as prepaid expenses and other current assets.

Liquidity and Capital Resources

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

RR millions	Six months ended June 30, 2008	Six months ended June 30, 2007
Net cash provided by operating activities	32,153	25,601
Net cash used for investment activities	(27,916)	(13,001)
Net cash provided by/(used for) financing activities	4,015	(750)
Increase in cash and cash equivalents	8,252	11,850

Net cash provided by operating activities

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities increased by 26% to RR 32,153 million in the first half of 2008 from RR 25,601 million in the same period of 2007 which is explained primarily through higher net income earned in the first half of 2008.

Net cash used for investing activities

Net cash used for investing activities increased by 115% to RR 27,916 million in the first half of 2008 from RR 13,001 million in the same period of 2007, which is primarily due to an increase in spending for the acquisition and development of property, plant and equipment and additional purchase of certificates of deposit in excess of 90 days.

Net cash provided by/ (used for) financing activities

Cash flow provided by financing activities amounted to RR 4,015 million in the first half of 2008 compared to RR 750 million used for financing activities in the same period of 2007. This is primarily due to net debt proceeds of RR 4,436 million in the first half of 2008 compared with net debt repayments of RR 110 million in the same period of 2007.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment) were made in the first half of 2008, compared to the same period of 2007:

RR millions	Six months ended June 30, 2008	Six months ended June 30, 2007
Exploration and production	8,857	10,014
Refining and marketing	8,510 [(1)]	2,925
Petrochemicals	2,451[(2)]	314
Corporate and other	1,907	1,259
Total additions to property, plant and equipment	**21,725**	**14,512**

[(1)] Includes RR 8,299 million expenditure related to the refinery construction by TANECO
[(2)] Includes RR 1,910 million expenditure related to the new metal cord tires production line

Analysis of Debt

At June 30, 2008, long-term debt, including the current portion of long-term debt, amounted to RR 13,955 million as compared to RR 9,326 million at December 31, 2007. The related increase is due to an increase in the long-term foreign currency denominated secured credit facility with BNP Paribas to be used in the construction of TANECO's refinery and petrochemical complex.

The aggregate maturities of total long-term debt, including current portion as of June 30, 2008 are as follows:

RR millions	At June 30, 2008
June 2008 – June 2009	
June 2009 – June 2010	532
June 2010 - June 2011	13,377
June 2011 - June 2012	4
June 2012 and thereafter	42
Total long-term debt	**13,955**

Commitments and Contingent Liabilities

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 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.