Management's Discussion and Analysis

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

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

Background

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

As of March 31, 2010 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 of the Company 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.

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

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

Key financial and operational results

	Three months ended March 31, 2010	Change	Three months ended March 31, 2009
Sales (millions of RR)	105,152	42.99%	73,540
Net income attributable to Group shareholders (millions of RR)	12,630	59.29%	7,929
EBITDA (*) (millions of RR)	21,300	41.41%	15,063
Basic and Diluted net income per share of common stock (RR)			
Common……………	5.59	57.02%	3.56
Preferred……………...	5.59	57.02%	3.56
Crude oil production by the Group (thousand of tonnes)	6,440	0.2%	6,425
Crude oil production by the Group (thousand of barrels)	45,873	0.2%	45,766
Gas production by the Group (millions of cubic meters)	196.0	0.2%	195.6
Refined gas products produced (thousand of tonnes)	259.6	(0.7)%	261.6

(*) *As defined on page 13*

Our net income for the first quarter of 2010 was RR 12,630 million, which is RR 4,701 million, or 59.29%, more than in the corresponding period of 2009.

The Group's financial performance and results in the first quarter of 2010 were positively influenced by a considerable increase in crude oil prices and decrease of certain costs, compared to the first quarter of 2009, partly offset by an increase in export duties and unified production tax.

Operational highlights

Crude oil and gas production

Tatneft undertakes exploration and production activities in Tatarstan and outside of Tatarstan in Russia: in Samara, Orenburg and Ulyanovsk regions, in the Kalmyk Republic, and Nenets Autonomous District. Outside of Russia, we have exploration activities in Libya and Syria. The table below summarizes the results of our exploration and production activities (daily volumes represent year average):

	Three months ended March 31, 2010	Three months ended March 31, 2009
Crude oil daily production, (thousand bbl per day)	509.7	508.5
Gas daily production (thousand boe per day)	12.8	12.8
Crude oil extraction expenses (RR per bbl)	152.3	163.9
	(RR millions)	
Sales of crude oil	85,827	54,306
Crude oil extraction expenses	6,987	7,500
Exploration expenses	275	293
Unified production tax	16,304	9,796

Crude oil production of the Group (including production of consolidated subsidiaries OAO Ilekneft, OOO Tatneft-Samara, ZAO Tatneft-Severny and ZAO Kalmtatneft) increased by 0.2% to 6.44 million metric tonnes in the first quarter of 2010 compared to the first quarter of 2009. Our gas production increased by 0.2% to 196.0 million cubic meters in the first quarter of 2010 from 195.6 million cubic meters in the corresponding period of 2009.

Refining and marketing

	Three months ended March 31, 2010	**Three months ended March 31, 2009**
Refining of crude oil throughput (thousand bbl per day)	11.13	11.33
Refining of gas products throughput (thousand boe per day)	10.38	10.53
Number of petrol (gas) stations in Russia*	487	466
Number of petrol (gas) stations outside of Russia*	136	138

** including stations rented from third parties*

Export of crude oil from Russia

The Group is using transportation services of Transneft, the state-owned monopoly owner and operator of Russia's trunk crude oil and export pipelines, upon export of its crude oil. During the first quarter of 2010, the Group exported from Russia approximately 67% of all its crude oil sold compared with approximately 62% in the corresponding period of 2009.

In the first quarter of 2010 the Company delivered 54% (38% in the first quarter of 2009) of its own crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Germany and Hungary); 31% (46% in the first quarter of 2009) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk); 13% (3% in the first quarter of 2009) of crude oil exported through Baltic Sea port Primorsk and 2% (13% in the first quarter of 2009) of crude oil was shipped through Ukrainian port Yuzhnyi.

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

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

Crude oil prices

The primary driver of our revenue is the selling price of crude oil and refined products. In the beginning of 2009 Urals crude oil started trading at U.S. $39.3 per barrel, after a significant decline attributed to the world's financial and economic crisis. During the first three months of 2009 oil markets started to recover and at the end of the period Urals crude oil price was trading at U.S. $45.5 per barrel.

In the first three months of 2010 crude oil markets were much stronger relative to the first three months of 2009 due to an overall recovery of the global markets and increase in demand. During the period Urals crude oil price averaged U.S. $75.3 per barrel and was 72% higher than in the corresponding period of 2009.

Substantially all the crude oil we sell on export and domestic markets is Urals blend. The table below shows average and the end of the period crude oil prices for the first three months of 2010 and 2009, respectively.

	Average for the three months ended March 31		Change	At March 31		Change
	2010	**2009**		**2010**	**2009**	
	(in US dollars per barrel, except for figures in percent)					
Brent crude	76.2	44.4	*71.7%*	80.3	46.5	*72.6%*
Urals crude (*CIF Mediterranean*)*	75.3	43.7	*72.4%*	78.2	46.0	*70.0%*
Urals crude (*CIF Rotterdam*)*	75.2	43.6	*72.5%*	78.2	45.1	*73.5%*

Source: Platts

* The Company sells crude oil for export on various delivery terms. Therefore, our average realized sales prices differ from average reported market prices.

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

Transportation of crude oil and refined products

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

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

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

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

Transneft establishes and collects on prepayment terms a ruble tariff on domestic shipments and an additional US dollar tariff on exports. The Federal Tariff Service ("FST") is authorized to periodically review and set the tariff rates applicable for each segment of the pipeline. The tariffs are dependent on transport destination, delivery volume, distance of transportation, and several other factors. Tariffs are revised by FST at least annually.

Inflation and foreign currency exchange rate fluctuations

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

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

	Three months ended March 31, 2010	**Three months ended March 31, 2009**
Ruble inflation	3.2%	5.4%
Period-end exchange rate (Ruble to US$)	29.36	34.01
Average exchange rate (Ruble to US$)	29.89	33.92
Nominal appreciation / (devaluation) of the Ruble	2.9%	(15.8)%
Real Ruble appreciation / (devaluation)	6.3%	(8.9)%

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

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

Taxation

The Group is subject to numerous taxes that have 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 (or unified production tax);
- export duties;
- excise taxes on refined products;
- value added taxes;
- property taxes;
- land taxes;
- vehicle (transportation) taxes;
- 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 in the respective periods:

	Three months ended March 31, 2010	Three months ended March 31, 2009	Change	Taxable base
Income tax – maximum rate	20%	20%	-	Taxable income
VAT	18%	18%	-	Added value
Property tax – maximum rate	2.2%	2.2%	-	Taxable property
	(in RR per metric tonne, except for figures in percent)			
Unified production tax, average rates[(1)]	2,877	1,544	*86.3%*	Metric tonne produced (crude oil)
Refined products excise tax:				
High octane gasoline	3,992	3,629	*10%*	
Low octane gasoline	2,923	2,657	*10%*	
Diesel fuel	1,188	1,080	*10%*	Metric tonne produced and sold domestically [(2)]
Motor oils	3,246	2,951	*10%*	
Straight run gasoline	4,290	3,900	*10%*	
	(in US $ per metric tonne, except for figures in percent)			
Crude oil export duty, average rates	263.8	111.8	*136.0%*	Metric tonne exported
Refined products export duty average rates:				
Light refined products (gasoline products) and mid refined products (diesel fuel)	190.0	87.6	*116.9%*	Metric tonne exported
Fuel oil *(mazut)*	102.4	47.2	*116.9%*	

(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.*

Due to increase in international crude oil prices the tax rates specific to the oil industry increased substantially during the first quarter of 2010 compared to the corresponding period of previous year. Unified production tax increased by 86%, average crude oil export duties by 136% and average refined products export duties by 117%.

The increase in unified production tax rates in the first quarter of 2010 was a result of increase in the average Urals crude price by 72%. Excise taxes on refined products increased in the first quarter of 2010 by 10%.

Unified production tax rate. The base tax rate for the production of oil was set at RR 419 per metric tonne and is adjusted depending on the international market price of Urals blend and the ruble exchange rate. The tax rate is zero when the average Urals blend international market price for a tax period is less than or equal to $15.00 per barrel. Each $1.00 per barrel increase in the international Urals blend price over the threshold ($15.00 per barrel) results in an increase of the tax rate by $1.61 per tonne extracted (or $0.22 per barrel extracted using a barrels per tonne conversion factor of 7.33).

This tax rate is applied with a discount based on the levels of international oil prices and the levels of depletion of the related oil fields as determined under Russian reserves classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above as determined by the Russian reserves classification. The 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 from these fields in the first quarter of 2010 of RR 2.4 billion (RR 1.2 billion in the first quarter of 2009).

Effective from January 1, 2009, the list of regions where, depending on the period and volume of production, a zero crude oil production tax rate applies has been extended. In particular, it now includes Caspian offshore and the Nenets Autonomous District (the Company has operations in the latter).

Also a zero unified production tax rate applies to the production of highly viscous crude oil (defined as crude oil of more than 200 Megapascal second in 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 (bitumen) from the Ashalchinskoye and Mordovo-Karmalskoye fields was subject to a zero unified production tax rate, resulting in tax benefit during the first three months of 2010 attributed to that production of RR 16 million (RR 7 million in the first quarter of 2009).

Crude oil export duties. The Government determines the export duty rate, which is dependent on the average Urals price for the monitoring period according to the following table:

Quoted Urals price (P), US$ per tonne	Maximum Export Duty Rate
0 – 109.50	0%
109.50 – 146.00	35.0% * (P - 109.50)
146.00 – 182.50	US$ 12.78 + 45.0% * (P - 146.00)
>182.50	US$ 29.20 + 65.0% * (P - 182.50)

Beginning from December 2008, the export customs duty is revised monthly and the duty for the next month is based on the average Urals price for the period from the 15th of the previous month to the 14th (inclusive) of the current month. The rate is effective from the first day of the coming month after the monitoring period.

The export duty rate on crude oil increased by 136% in the first quarter of 2010 to US$ 263.8 per tonne (US$ 36.1 per barrel) from US$ 111.8 per tonne (US$ 15.3 per barrel) in the corresponding period of 2009. The increase in these comparative periods was associated with the increase of Urals prices by 72% to US$ 75.3 per barrel in the first quarter of 2010 compared to US$ 43.7 per barrel in the corresponding period of 2009.

In 2009, crude oil exported from Russia to Belorussia was subject to export duties, calculated with an application of a discount factor (0.356 for 2009; 0.335 for 2008 and 0.293 for 2007) to the regular export duty rate set by the Government of the Russian Federation.

In 2010, under the agreement between the Russian Federation and Belorussia, crude oil exported from Russia to Belorussia up to total amount of 6.3 million tonnes will not be subject to export duty. Volumes of crude oil above this limit will be taxed at a regular export duty rate.

Property tax. The maximum property tax rate in Russia is 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.

Income tax. Starting from January 1, 2009, the total income tax rate was decreased to 20%, including federal part which decreased to 2.0% and the regional part which varies between 13.5% and 18.0%.

Three months ended March 31, 2010 compared to the three months ended March 31, 2009

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

RR millions	Three months ended March 31, 2010 (unaudited)	Three months ended March 31, 2009 (unaudited)	Change
Sales and other operating revenues	**105,152**	**73,540**	**43%**
Costs and other deductions			
Operating	13,010	15,380	(15.4)%
Purchased oil and refined products	12,587	7,801	61.4%
Exploration	275	293	(6.1)%
Transportation	3,951	3,302	19.7%
Selling, general and administrative	6,534	5,349	22.2%
Depreciation, depletion and amortization	3,681	3,820	(3.6)%
Gain on disposals of property, plant and equipment and investments and impairments	(446)	(1,710)	(73.9)%
Taxes other than income taxes	49,298	25,638	92.3%
Maintenance of social infrastructure and transfer of social assets	584	342	70.8%
Total costs and other deductions	**89,474**	**60,215**	**48.6%**
Earnings / (losses) from equity investments	(65)	744	(108.7)%
Foreign exchange gain /(loss)	1,407	(3,206)	143.9%
Interest income	951	958	(0.7)%
Interest expense, net of amounts capitalized	(117)	(136)	(14)%
Other income, net	599	380	57.6%
Total other income/ (expenses)	**2,775**	**(1,260)**	**320.2%**
Income before income taxes and non-controlling interest	**18,453**	**12,065**	**52.9%**
Current income tax expense	(4,559)	(6,320)	(27.9)%
Deferred income tax (expense)/ benefit	(308)	2,526	(112.2)%
Total income tax expense	**(4,867)**	**(3,794)**	**28.3%**
Net income	**13,586**	**8,271**	**64.3%**
Less: net income attributable to non-controlling interest	(956)	(342)	179.5%
Net income attributable to Group shareholders	**12,630**	**7,929**	**59.3%**

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 type) is provided in the following table:

RR millions	Three months ended March 31, 2010	Three months ended March 31, 2009
Crude oil	85,827	54,306
Refined products	11,230	10,655
Petrochemicals	4,238	3,420
Corporate and other sales	3,857	5,159
Total sales and other operating revenues	**105,152**	**73,540**

Sales and other operating revenues increased in the first quarter of 2010 by 43% to RR 105,152 million from RR 73,540 million in the corresponding period of 2009. The increase was mainly attributed to an overall increase in crude oil and refined product prices.

Sales of crude oil

Sales of crude oil increased by 58% to RR 85,827 in the first quarter of 2010 from RR 54,306 million in the corresponding period of 2009. The table below provides an analysis of the changes in sales of crude oil:

	Three months ended March 31, 2010	Change	Three months ended March 31, 2009
Domestic sales of crude oil			
Revenues (RR millions)	16,582	*47%*	11,284
Volume (thousand tonnes)	*2,337*	*(9.8)%*	*2,592*
Realized price (RR per tonne)	*7,095*	*63%*	*4,353*
CIS export sales of crude oil [(1)]			
Revenues (RR millions)	5,634	*38.1%*	4,080
Volume (thousand tonnes)	*662*	*39.4%*	*475*
Realized price (RR per tonne)	*8,511*	*(0.9)%*	*8,590*
Non-CIS export sales of crude oil			
Revenues (RR millions)	63,611	*63.3%*	38,942
Volume (thousand tonnes)	*4,031*	*6.8%*	*3,776*
Realized price (RR per tonne)	*15,780*	*53%*	*10,313*

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

Sales of refined products

Sales of refined products increased by 5.4% to RR 11,230 million in the first quarter of 2010 from RR 10,655 million in the corresponding period of 2009. The table below provides an analysis of the changes in sales of refined products:

	Three months ended March 31, 2010	Change	Three months ended March 31, 2009
Domestic sales of refined products			
Revenues (RR millions)	9,081	*(5.2)%*	9,580
Volume (thousand tonnes)	*595*	*(28.1)%*	*828*
Realized price (RR per tonne)	*15,262*	*31.9%*	*11,570*
CIS export sales of refined products			
Revenues (RR millions)	454	*158%*	176
Volume (thousand tonnes)	*23*	*(34.3)%*	*35*
Realized price (RR per tonne)	*19,739*	*292.5%*	*5,029*
Non-CIS export sales of refined products			
Revenues (RR millions)	1,695	*88.5%*	899
Volume (thousand tonnes)	*107*	*40.8%*	*76*
Realized price (RR per tonne)	*15,841*	*33.9%*	*11,829*

Increase in the average realized price on CIS export sales of refined products in the current period was due to different types of refined products sold in comparison to the corresponding period of 2009. In the first quarter of 2010 we increased sales volumes of diesel fuel and petrol, realized prices for which on CIS export sales were 44% higher than that of other refined products.

Sales of petrochemical products

The table below provides an analysis of petrochemical products sales.

RR millions	Three months ended March 31, 2010	Change	Three months ended March 31, 2009
Tiers sales	4,004	*22.2%*	3,277
Other petrochemicals sales	234	*63.6%*	143
Total sales of petrochemical products	**4,238**	*23.9%*	**3,420**

The increase in sales of petrochemical products was primarily due to the higher volumes sold. The Group’s production of tires in the first quarter of 2010 increased by 65% compared to the corresponding period of 2009 and amounted to 2.5 million tires due to increase in production of vehicles by major clients of Nizhnekamskshina.

Other sales

Other sales decreased by 25.2% to RR 3,857 million in the first quarter of 2010 from RR 5,159 million in the corresponding period of 2009. Other sales primarily represent sales of materials and equipment and various oilfield services provided by the Group to third parties (such as drilling, well construction and repairs, and geophysical works).

Costs and other deductions

Operating expenses. Operating expenses include the following costs:

RR millions	Three months ended March 31, 2010	Three months ended March 31, 2009
Crude oil extraction expenses	6,987	7,500
Petrochemical production expenses	3,703	3,241
Other operating expenses	2,217	3,689
Change in operating expenses in inventory of crude oil produced by the Group*	103	950
Total operating expenses	**13,010**	**15,380**

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

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 maintenance services, repairs and insurance 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 purchase of services and goods (such as electricity, heat, etc.) that are unrelated to their 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 152.3 per barrel in the first quarter of 2010 compared to RR 163.9 per barrel in the corresponding period of 2009. The decrease of 7% is primarily a result of reduction in repair expenses and equipment 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 14.3% to RR 3,703 million in the first quarter of 2010 compared to the corresponding period of 2009 primarily due to increase in volumes of petrochemicals produced.

Other operating expenses include accretion of the asset retirement obligation and the costs of other services, goods and materials not related to the core oil and gas production activities of the Group. Other operating expenses decreased to RR 2,217 million, or by 39.9%, compared to the first quarter of 2009 primarily due to decrease of costs of other services.

Cost of purchased crude oil and refined products. A summary of purchased oil and refined products for the corresponding periods of 2010 and 2009, respectively, is as follows:

RR millions	**Three months ended March 31, 2010**	**Three months ended March 31, 2009**
Purchased crude oil (RR millions)	5,484	576
Volume (thousand tonnes)	709	*50*
Average price per tonne (RR)	*7,735*	*11,579*
Purchased refined products (RR millions)	7,103	7,225
Volume (thousand tonnes)	*490*	*722*
Average price per tonne (RR)	*14,496*	*10,013*
Total purchased oil and refined products	**12,587**	**7,801**

Purchases of crude oil in the first quarter 2010 increased substantially compared to the same period of 2009 due to more favourable pricing and marketing conditions for such purchased crude oil.

Purchases of refined products decreased by 2% to RR 7,103 million in the first quarter of 2010 from RR 7,225 million in the corresponding period of 2009 due to decrease in volumes of purchased refined products for trading by 32% partly offset by increase in average purchase price per tonne by 45%.

Exploration expenses. Exploration expenses consist primarily of exploratory drilling, geological and geophysical costs, and the costs of carrying and retaining undeveloped properties. Exploration expenses decreased to RR 275 million in the first quarter of 2010 from RR 293 million in the corresponding period of 2009.

Transportation expenses. Transportation expenses relate to the delivery of our own crude oil produced as well as purchased crude oil and refined products, which are mostly carried out using Transneft pipeline for deliveries of crude oil to our customers. Transportation costs increased by 19.7% to RR 3,951 million in the first quarter of 2010 from RR 3,302 million in the corresponding period of 2009 mainly due to an increase in transportation tariffs.

Selling, general and administrative expenses. Certain selling, general and administrative expenses are by nature fixed costs, which are not directly related to production, such as payroll, general business costs, insurance, advertising, share based compensation, legal fees, consulting and audit services, charity and other expenses, including bad debt provisions. Increase of selling, general and administrative expenses by 22% or RR 1,185 million in the first quarter of 2010 was attributed, among other factors, to a non-recurring write-off of obsolete inventory and increase in certain commercial (advertising, transportation) and other expenses compared to the corresponding period of 2009.

Gain on disposals of property, plant and equipment and impairment of investments. In the first quarter of 2010 we recorded gain on disposals of property, plant and equipment and impairment of investments amounted to RR 446 million compared to a RR 1,710 million gain in the corresponding period of 2009.

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Export duties	32,024	15,034
Unified production tax	16,304	9,796
Property tax	485	492
Excise taxes	94	104
Penalties and interest	11	1
Other	380	211
Total taxes other than income taxes	**49,298**	**25,638**

Taxes other than income taxes increased by 92.3% to RR 49,298 million in the first quarter of 2010 from RR 25,638 million in the corresponding period of 2009. 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. In the first quarter of 2010 compared to the corresponding period of 2009, our export duties increased by 113%. The Group's unified production tax increased by 66.4%. Our expenses on excise taxes decreased to RR 94 million from RR 104 million in the first quarter of 2009. Other taxes include land tax and non-recoverable VAT.

Effective January 1, 2007, the 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 reserves classification. Under these new rules, 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 first quarter of 2010 of RR 2.4 billion in comparison to RR 1.2 billion in the first quarter of 2009, driven by a fluctuation in crude oil prices in the respective periods.

Since April 2007, the Company applied a zero unified production tax rate to production of highly viscous crude oil (bitumen) from Ashalchinskoye and Mordovo-Karmalskoye fields, resulting in the three months of 2010 tax benefit of RR 16 million in comparison to RR 7 million in the first three months of 2009.

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 584 million in the first quarter of 2010 from RR 342 million in the corresponding period of 2009.

Other income (expenses)

The Group recorded losses from equity investments amounted to RR 65 million in the first quarter of 2010 compared to a RR 744 million gain in the corresponding period of 2009. This decrease was due to the IPCG Fund losses, RR 362 million of which was attributed to the Group in the first quarter of 2010 in comparison to a gain of RR 436 million in the corresponding period of 2009.

The Group also recorded foreign exchange gain amounted to RR 1,407 million in the first quarter of 2010 compared to a foreign exchange loss of RR 3,206 million in the corresponding period of 2009. This was mainly due to foreign exchange gain in the amount of RR 1,761 million on US dollars denominated debt incurred under the long-term secured credit facility for the construction of TANECO's refinery and petrochemical complex partly offset by foreign exchange loss on dollar denominated sales of crude oil.

Interest income decreased by 0.7% to RR 951 million in the first quarter of 2010 compared to the corresponding period of 2009 due to decrease of interest income received on our loans receivable.

Interest expense, net of amounts capitalized, decreased from RR 136 million to RR 117 million in the first quarter of 2010 in comparison to the corresponding period of 2009, which was a result of decrease in other debt, beyond the syndicated credit facilities.

Other income, net, in the first quarter of 2010 amounted to RR 599 million compared with RR 380 million of other income, net, in the corresponding period of 2009. The change was primarily due to increase in gains from sales and purchases of foreign currency.

Income taxes

The effective income tax rate in the first three months of 2010 was 26.4%, compared to the statutory tax rate of 20% in the Russian Federation. This difference was due to non deductible or partially deductible expenses incurred during the reporting period.

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

RR millions	Three months ended March 31, 2010	Three months ended March 31, 2009
Net income attributable to Group shareholders	12,630	7,929
Add back:		
Non-controlling interest	956	342
Income tax expense	4,867	3,794
Depreciation, depletion and amortization	3,681	3,820
Interest expense	117	136
Interest and dividend income	(951)	(958)
EBITDA	**21,300**	**15,063**

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 by some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under US GAAP. EBITDA does not consider our need to replace our capital equipment over time.

Financial Condition Summary Information

The following table shows certain key financial indicators:

RR millions	At March 31, 2010	At December 31, 2009
Current assets	140,230	135,914
Long-term assets	373,011	359,828
Total assets	**513,241**	**495,742**
Current liabilities	105,061	110,894
Long-term liabilities	81,045	71,341
Total liabilities	**186,106**	**182,235**
Shareholders' equity	**327,135**	**313,507**
Working capital	35,169	25,020

Working capital position

As of March 31, 2010 working capital of the Group amounted to RR 35,169 million compared to RR 25,020 million as of December 31, 2009. The increase in the working capital was attributable to an increase in cash and cash equivalents.

Liquidity and Capital Resources

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

RR millions	Three months ended March 31, 2010	Three months ended March 31, 2009
Net cash provided by operating activities	12,889	14,278
Net cash used for investment activities	(11,113)	(20,592)
Net cash provided by financing activities	9,028	12,781
Increase in cash and cash equivalents	10,804	6,467

Net cash provided by operating activities

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities decreased by 9.7% to RR 12,889 million in the first quarter of 2010 from RR 14,278 million in the corresponding period of 2009 which was primarily attributed to changes in the working capital.

Net cash used for investing activities

Net cash used for investing activities decreased by 46.0% to RR 11,113 million in the first quarter of 2010 from RR 20,592 million in the corresponding period of 2009, which was primarily due to a decrease in expenditures related to the construction of TANECO's refinery.

Net cash provided by financing activities

Cash flow provided by financing activities amounted to RR 9,028 million in the first quarter of 2010 compared to RR 12,781 million provided by financing activities in the corresponding period of 2009. This was primarily due to net debt proceeds of RR 9,206 million in the first quarter of 2010 compared with net debt proceeds of RR 11,335 million in the corresponding period of 2009.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment) were made in the first quarter of 2010, compared to the corresponding period of 2009:

RR millions	Three months ended March 31, 2010	Three months ended March 31, 2009
Exploration and production	2,274	2,806
Refining and marketing	11,782 [(1)]	14,591
Petrochemicals	692[(2)]	944
Corporate and other	632	803
Total additions to property, plant and equipment	**15,380**	**19,144**

[(1)] *Includes RR 11,717 million expenditures related to the refinery construction by TANECO*
[(2)] *Includes RR 541 million expenditures related to the new solid steel cord tires plant*

Analysis of Debt

At March 31, 2010, long-term debt, including the current portion of long-term debt, amounted to RR 92,211 million as compared to RR 79,831 million at December 31, 2009. The related increase was due to an increase in the long-term foreign currency denominated debt mainly through drawdowns under a dual (3 and 5 year) tranches secured syndicated pre-export credit facility for up to US$ 1.5 billion arranged by WestLB AG, Bayerische Hypo-und Vereinsbank AG, ABN AMRO Bank N.V. (RBS), OJSC Gazprombank, Bank of Moscow and Nordea Bank in October 2009 (RR 30,832 million (US$ 1,050 million) under this credit facility were outstanding as of March 31, 2010).

The aggregate maturities of total long-term debt, including current portion as of March 31, 2010 were as follows:

RR millions	At March 31, 2010
March 2010 - March 2011	68,116
March 2011 - March 2012	11,469
March 2012- March 2013	7,455
March 2013- March 2014	2,425
March 2014 and thereafter	2,746
Total long-term debt	**92,211**