TATNEFT

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

ZAO PricewaterhouseCoopers Audit
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Report of Independent Auditors

To the Board of Directors and Shareholders of OAO Tatneft:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of OAO Tatneft (the "Company") and its subsidiaries at December 31, 2008 and December 31, 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

ZAO PricewaterhouseCoopers Audit

April 30, 2009

Consolidated Balance Sheets

(in millions of Russian Roubles)

	Notes	At December 31, 2008	At December 31, 2007
Assets			
Cash and cash equivalents		13,418	13,010
Restricted cash		7,704	3,996
Accounts receivable, net	4	22,848	44,193
Due from related parties	17	17,605	19,732
Short-term investments	5	9,743	12,977
Current portion of loans receivable	8	5,842	3,796
Inventories	6	14,121	10,923
Prepaid expenses and other current assets	7	25,339	17,968
Total current assets		**116,620**	**126,595**
Long-term loans receivable, net	8	4,036	4,842
Due from related parties	17	5,431	6,546
Long-term investments	5	17,666	32,310
Property, plant and equipment, net	10	241,569	193,747
Other long-term assets	9	7,658	6,179
Total assets		**392,980**	**370,219**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	11	5,790	4,332
Trade accounts payable		9,416	5,647
Due to related parties	17	781	1,387
Other accounts payable and accrued liabilities	12	9,999	16,820
Capital lease obligations	10	465	575
Taxes payable	14	5,592	9,667
Total current liabilities		**32,043**	**38,428**
Long-term debt, net of current portion	11	44,813	9,182
Other long-term liabilities		1,735	2,134
Asset retirement obligations, net of current portion	10	35,263	31,937
Deferred tax liability	14	14,143	19,738
Capital lease obligations, net of current portion	10	124	242
Total liabilities		**128,121**	**101,661**
Minority interest		**4,583**	**4,499**
Shareholders' equity			
Preferred shares (authorized and issued at December 31, 2008 and 2007 - 147,508,500 shares; nominal value at December 31, 2008 and 2007 - RR1.00)	15	148	148
Common shares (authorized and issued at December 31, 2008 and 2007 - 2,178,690,700 shares; nominal value at December 31, 2008 and 2007 - RR1.00)	15	2,179	2,179
Additional paid-in capital		96,171	95,274
Accumulated other comprehensive income (loss)		747	(461)
Retained earnings		164,991	169,721
Less: Common shares held in treasury, at cost (100,089,000 shares and 101,057,000 shares at December 31, 2008 and 2007, respectively)		(3,960)	(2,802)
Total shareholders' equity		**260,276**	**264,059**
Total liabilities and shareholders' equity		**392,980**	**370,219**

TATNEFT
Consolidated Statements of Operations and Comprehensive Income
(in millions of Russian Roubles)

	Notes	Year ended December 31, 2008	Year ended December 31, 2007
Sales and other operating revenues	16	**444,332**	**356,276**
Costs and other deductions			
Operating		65,961	59,623
Purchased oil and refined products		58,919	43,297
Exploration		3,770	1,577
Transportation		11,556	8,431
Selling, general and administrative		36,571	22,349
Depreciation, depletion and amortization	16	10,139	10,379
Loss on disposals of property, plant and equipment and investments and impairments		1,684	5,253
Taxes other than income taxes	14	217,271	146,299
Maintenance of social infrastructure and transfer of social assets	10	4,258	2,340
Total costs and other deductions		**410,129**	**299,548**
Other income (expenses)			
Earnings (losses) from equity investments	5	(9,556)	5,789
Foreign exchange loss		(6,135)	(2,623)
Interest income		3,753	2,779
Interest expense, net of amounts capitalized		(580)	(60)
Other loss, net		(3,531)	(4)
Total other income (loss)		**(16,049)**	**5,881**
Income before income taxes and minority interest		**18,154**	**62,609**
Income taxes			
Current income tax expense		(16,043)	(18,895)
Deferred income tax benefit		6,701	641
Total income tax expense	14	**(9,342)**	**(18,254)**
Income before minority interest		**8,812**	**44,355**
Minority interest		(399)	(1,076)
Net income		**8,413**	**43,279**
Foreign currency translation adjustments		698	(143)
Actuarial gain on employee benefit plans		510	-
Comprehensive income		**9,621**	**43,136**
Basic and diluted net income per share (RR)	15		
Common		3.79	19.50
Preferred		3.53	19.27
Weighted average shares outstanding (millions of shares)	15		
Common		2,076	2,073
Preferred		148	148

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

(in millions of Russian Roubles)

	Year ended December 31, 2008	Year ended December 31, 2007
Operating activities		
Net income	8,413	43,279
Adjustments:		
Minority interest	399	1,076
Depreciation, depletion and amortization	10,139	10,379
Deferred income tax benefit	(6,701)	(641)
Loss on disposals of property, plant and equipment and investments and impairments	1,684	5,253
Transfer of social assets	1,413	-
Effects of foreign exchange	8,075	(37)
Equity earnings net of dividends received	9,964	(5,128)
Change in allowance for doubtful accounts	12,496	-
Accretion of asset retirement obligation	3,204	2,899
Change in fair value of trading securities	2,330	1,065
Other	2,187	209
Changes in operational working capital, excluding cash:		
Accounts receivable	11,720	(18,845)
Inventories	(671)	35
Prepaid expenses and other current assets	(10,398)	1,916
Trading securities	635	1,788
Related parties	(38)	836
Trade accounts payable	3,421	(318)
Other accounts payable and accrued liabilities	(6,077)	3,104
Taxes payable	(4,042)	2,210
Notes payable	18	193
Other non-current assets	(319)	(1,240)
Net cash provided by operating activities	**47,852**	**48,033**
Investing activities		
Additions to property, plant and equipment	(60,441)	(33,649)
Proceeds from disposals of property, plant and equipment	1,030	4,531
Proceeds from disposal of investments	(180)	9,431
Purchase of investments	(900)	(2,742)
Certificates of deposit	4,180	(11,351)
Loans and notes receivable	(1,716)	(3,333)
Change in restricted cash	(3,708)	(2,511)
Net cash used in investing activities	**(61,735)**	**(39,624)**
Financing activities		
Proceeds from issuance of debt	47,100	18,454
Repayment of debt	(17,351)	(9,171)
Repayment of capital lease obligations	(719)	(1,100)
Dividends paid to shareholders	(13,115)	(10,667)
Dividends paid to minority shareholders	(163)	(148)
Purchase of treasury shares	(1,525)	(269)
Proceeds from sale of treasury shares	64	270
Proceeds from issuance of shares by subsidiaries	-	363
Net cash provided by (used in) financing activities	**14,291**	**(2,268)**
Net change in cash and cash equivalents	**408**	**6,141**
Cash and cash equivalents at beginning of period	13,010	6,869
Cash and cash equivalents at end of period	**13,418**	**13,010**

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

Consolidated Statements of Shareholders' Equity

(in millions of Russian Roubles)

	2008		2007	
	Shares	**Amount**	**Shares**	**Amount**
Preferred shares:				
Balance at January 1 and December 31 (shares in thousands)	147,509	148	147,509	148
Common shares:				
Balance at January 1 and December 31 (shares in thousands)	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:				
Balance at January 1	101,057	(2,802)	111,299	(2,786)
Purchases	9,096	(1,525)	4,115	(331)
Sales	(10,064)	367	(14,357)	315
Balance at December 31 (shares in thousands)	100,089	(3,960)	101,057	(2,802)
Additional paid-in capital				
Balance at January 1		95,274		95,337
Treasury share transactions		897		(63)
Balance at December 31		96,171		95,274
Accumulated other comprehensive (loss) / income				
Balance at January 1		(461)		(318)
Actuarial gain on employee benefit plans		510		-
Foreign currency translation adjustments		698		(143)
Balance at December 31		747		(461)
Retained earnings				
Balance at January 1		169,721		137,143
Net income		8,413		43,279
Dividends		(13,143)		(10,701)
Balance at December 31		164,991		169,721
Total shareholders' equity at December 31		**260,276**		**264,059**

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

Note 1: Organization

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), a republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products as well as production and marketing of petrochemicals (see Note 16).

The Company was incorporated as an open joint stock company effective January 1, 1994 (the "privatization date") pursuant to the approval of the State Property Management Committee of the Republic of Tatarstan (the "Government"). All assets and liabilities previously managed by the production association Tatneft, Bugulminsky Mechanical Plant, Menzelinsky Exploratory Drilling Department and Bavlinsky Drilling Department were transferred to the Company at their book value at the privatization date in accordance with Decree No. 1403 on Privatization and Restructuring of Enterprises and Corporations into Joint-Stock Companies. Such transfers were considered transfers between entities under common control at the privatization date, and were recorded at book value.

As of December 31, 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 (See Note 15). 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, such as the electricity producer OAO Tatenergo and the petrochemicals company OAO Nizhnekamskneftekhim.

Note 2: Basis of Presentation

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements have been prepared from these accounting records and adjusted as necessary to comply with accounting principles generally accepted in the United States of America ("US GAAP"). Differences between RAR and US GAAP include but are not limited to: (1) valuation (including indexation for the effect of hyperinflation in the Russian Federation through 2002) and depreciation of property, plant and equipment; (2) foreign currency translation; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) capital leases; (6) share base payment; (7) accounting for oil and gas properties; (8) recognition and disclosure of guarantees, contingencies and commitments; (9) accounting for asset retirement obligation; (10) pensions and other post retirement benefits; (11) business combinations and goodwill; and (12) consolidation and accounting for subsidiaries, equity investees and variable interest entities ("VIEs").

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

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

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

Note 2: Basis of Presentation (continued)

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

The official rate of exchange, as published by the Central Bank of Russia ("CBR"), of the Russian Rouble ("RR") to the US Dollar ("US $") at December 31, 2008 and 2007 was RR 29.38 and RR 24.55 to US Dollar, respectively. Average rate of exchange for the years ended December 31, 2008 and 2007 were RR 24.86 and RR 25.58 per US Dollar, respectively.

Principles of consolidation and long-term investments. The accompanying consolidated financial statements include the operations of all majority-owned, controlled subsidiaries and VIEs, where the Group is the primary beneficiary. In 2006 the Company determined that, despite a 40% direct ownership interest, OAO TANECO ("TANECO") was a variable interest entity and that the Group was its primary beneficiary. Accordingly, the financial position, results of operation and cash flows of TANECO have been included in the consolidated financial statements as of and for the years ended December 31, 2008 and 2007. Joint ventures and affiliates in which the Group has significant influence but not control are accounted for using the equity method. Intercompany transactions and accounts are eliminated on consolidation. Other long-term investments are carried at cost and adjusted for estimated impairment. The Group reviews equity method investments for impairment on an annual basis, and records an impairment when circumstances indicate that an other-than-temporary decline in value has occurred. The amount of the impairment is based on quoted market prices, where available or other valuation techniques, including discounted cash flows. Equity investments and investments in other companies are included in "Long-term investments" in the consolidated balance sheet.

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

Note 3: Summary of Significant Accounting Policies

Cash equivalents. Cash equivalents are highly liquid short-term investments that are readily convertible into known amounts of cash and have original maturities within three months from their date of purchase.

At December 31, 2008 and 2007, cash and cash equivalents of the Group, include US Dollar denominated amounts of RR 1,136 million (US $39 million) and RR 2,954 million (US $120 million), respectively.

Restricted cash. Restricted cash represents cash deposited under letter of credit arrangements, which are restricted under various contractual agreements. Letters of credit are used to pay contractors for materials, equipment and services provided.

Inventories. Inventories of crude oil, refined oil products, materials and supplies, and finished goods are valued at the lower of cost or net realizable value. The Group uses the weighted-average-cost method. Costs include both direct and indirect expenditures incurred in bringing an item or product to its existing condition and location.

Investments. Debt and equity securities are classified into one of three categories: trading, available-for-sale, or held-to-maturity and consist of certificates of deposit and debt and equity securities classified as available-for-sale or trading.

Securities classified as trading are bought and held principally for the purpose of selling them in the near term. Trading securities are carried at fair value on the consolidated balance sheet. In determining fair value, trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price. Unrealized and realized gains and losses on trading securities are included in other income of the consolidated statements of operations and comprehensive income.

Securities are classified as available-for-sale when, in management's judgment, they may be sold in response to or in anticipation of changes in market conditions. Available-for-sale securities are carried at estimated fair values on the consolidated balance sheet. Unrealized gains and losses on available-for-sale securities are reported net as increases or decreases to accumulated other comprehensive income. The specific identification method is used to determine realized gains and losses on available-for-sale securities.

If the decline in fair value of an investment below the accounting basis is other-than-temporary, the carrying value of the securities is reduced and a loss in the amount of any such decline is recorded. No such reductions have been required during the past two years.

Long-term investments not designated as available-for-sale or trading securities are recorded at cost because they are not traded on any market and it is not practicable to determine their fair value.

Note 3: Summary of Significant Accounting Policies (continued)

Accounts receivable. Trade accounts receivable are stated at their transaction amounts net of allowances for doubtful accounts. Allowances are recorded against trade receivables whose recovery or collection has been identified as doubtful. Estimates of allowances require the exercise of judgment and the use of assumptions.

Loans receivable. Loans originated by the Group by providing money directly to the borrower are carried at amortized cost less allowance for loan impairment. Loans are recognized when cash is advanced to borrowers.

Oil and gas exploration and development cost. Oil and gas exploration and production activities are accounted for using the successful efforts method whereby costs of acquiring unproved and proved oil and gas property as well as costs of drilling and equipping productive wells, including development dry holes, and related production facilities are capitalized. Exploration expenses, including geological and geophysical expenses and the costs of carrying and retaining undeveloped properties, are expensed as incurred. The costs of exploratory wells that find oil and gas reserves are capitalized pending determination of whether proved reserves have been found. If proved reserves are not found exploratory well costs are expensed. In an area requiring a major capital expenditure before production can begin, an exploratory well remains capitalized if sufficient reserves are discovered to justify its completion as a production well, and additional exploration drilling is underway or firmly planned. The Group does not capitalize the costs of other exploratory wells for more than one year unless proved reserves are found.

Impairment of long-lived assets. Long-lived assets, including proved oil and gas properties at a field level, are assessed for possible impairment in accordance with SFAS No. 144, *"Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").* Property, plant and equipment used in operations are assessed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recovered. If the carrying amounts are not expected to be recovered by undiscounted pretax future cash flows, the assets are impaired and an impairment loss is recorded in the periods in which the determination of impairment is made. The amount of impairment is determined based on the estimated fair value of the assets determined by discounting anticipated future net cash flows or based on quoted market prices in active markets, if available. In the case of oil and gas fields, the net present value of future cash flows is based on management's best estimate of future prices, which is determined with reference to recent historical prices and published forward prices, applied to projected production volumes of individual fields and discounted at a rate commensurate with the risks involved. The projected production volumes represent reserves, including risk-adjusted probable and possible reserves, expected to be produced based on a stipulated amount of capital expenditures. The production volumes, prices and timing of production are consistent with internal projections and other externally reported information. The price and cost outlook assumptions used in impairment reviews differ from the assumptions used in the Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserve Quantities. In that disclosure, SFAS No. 69, *"Disclosures about Oil and Gas Producing Activities"* requires the use of prices and costs at the balance sheet date, with no projection of future changes in those assumptions.

Individual assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets - generally on a field-by-field basis for exploration and production assets, at an entire complex level for refining assets or at a site level for service stations. Long-lived assets committed by management for disposal within one year, and meet the other criteria for held for sale pursuant to SFAS 144, are accounted for at the lower of amortized cost or fair value, less cost to sell. Costs of unproved oil and gas properties are evaluated periodically and any impairment assessed is charged to expense.

Depreciation, depletion and amortization. The Group calculates depletion expense for acquisition costs of proved properties using the units-of-production method over proved oil and gas reserves. Depreciation and depletion expense for oil and gas production equipment and wells and other development costs is calculated using the units-of-production method for each field over proved developed oil and gas reserves. Depreciation of all other plant and equipment is determined on the straight-line method based on estimated useful lives which are as follows:

	Years
Buildings and constructions	25 - 33
Machinery and equipment	5 - 15

Maintenance and repair. Maintenance and repairs, which are not significant improvements, are expensed when incurred.

Capitalized interest. Interest from external borrowings is capitalized on major projects. Capitalized interest is added to the cost of the underlying asset and is amortized over the useful lives of the assets in the same manner as the underlying assets.

Note 3: Summary of Significant Accounting Policies (continued)

Asset retirement obligations. The Group recognizes a liability for the fair value of legally required asset retirement obligations associated with long-lived assets in the period in which the retirement obligations are incurred. The Group has numerous asset removal obligations that it is required to perform under law or contract once an asset is permanently taken out of service. The Group's field exploration, development, and production activities include assets related to: well bores and related equipment and operating sites, gathering and oil processing systems, oil storage facilities and gathering pipelines. Generally, the Group's licenses and other operating permits require certain actions to be taken by the Group in the abandonment of these operations. Such actions include well abandonment activities, equipment dismantlement and other reclamation activities. The Group's estimates of future abandonment costs consider present regulatory or license requirements and are based upon management's experience of the costs and requirement for such activities. Most of these costs are not expected to be incurred until several years, or decades, in the future and will be funded from general Group resources at the time of removal. The Group is not subject to any legal or contractual obligations, to retire or otherwise abandon petrochemical, refining and marketing and distribution assets. Inasmuch as the regulatory and legal environment in Russia continues to evolve, there could be future changes to the requirements and costs associated with abandoning long-lived assets.

SFAS 143 calls for measurements of asset retirement obligations to include, as a component of expected costs, an estimate of the price that a third party would demand, and could expect to receive, for bearing the uncertainties and unforeseeable circumstances inherent in the obligations, sometimes referred to as a market-risk premium. To date, the oil and gas industry has few examples of credit-worthy third parties who are willing to assume this type of risk, for a determinable price, on major oil and gas production facilities and pipelines. Therefore, because determining such a market-risk premium would be an arbitrary process, it has been excluded from the Company's SFAS 143 estimates.

The Group capitalizes the associated asset retirement costs as part of the carrying amount of the long-lived assets. Over time the liability is increased for the change in its present value, and the capitalized cost in properties, plant and equipment is depreciated on a units-of-production basis over the useful life of the related assets.

Property dispositions. When complete units of depreciable property are retired or sold, the asset cost and related accumulated depreciation are eliminated, with any gain or loss reflected in the consolidated statements of operations and comprehensive income. When less than complete units of depreciable property are disposed of or retired, the difference between asset cost and sales proceeds, if any, is charged or credited to accumulated depreciation.

Capital leases. Capital leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liabilities. Interest charges are charged directly to the consolidated statements of operations and comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term unless the leased assets are capitalized by virtue of the terms of the lease agreement granting the Group with ownership rights over the leased assets by the end of the lease term or containing a bargain purchase option. In this case, capitalized assets are depreciated over the estimated useful life of the asset regardless of the lease term. Depreciation of assets held under capital leases is included in depreciation, depletion and amortization charge.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of operations and comprehensive income on a straight-line basis over the lease term.

Environmental expenditures. Environmental expenditures are expensed or capitalized, depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments or cleanups are probable and the costs can be reasonably estimated.

Pension and post-employment benefits. The Group has various pension plans covering substantially all eligible employees and members of management. The amount of contributions, frequency of benefit payments and other conditions of these plans are regulated by the "Statement of Organization of Non-governmental Pension Benefits for OAO Tatneft Employees" and the contracts concluded between the Company or its subsidiaries, management, and the non-profit organization "National non-governmental pension fund". In accordance with these contracts the Group is committed to make certain contributions on behalf of all employees and guarantees a minimum benefit upon retirement. Contributions or benefits are generally based upon grade and years until official retirement age (age 60 for men and 55 for women), and in the case of management are based upon years of service. In accordance

Note 3: Summary of Significant Accounting Policies (continued)

with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, the amounts of which are generally based on salary grade and years of service at the time of retirement. There are no contribution requirements for these benefits, which are paid by the Group directly to employees. The Group's mandatory contributions to the governmental pension scheme are expensed when incurred.

Revenue recognition. Revenues from the production and sale of crude oil, petroleum and petrochemical products and all other products are recognized when deliveries of products to final customers are made, title passes to the customer, collection is reasonably assured and sales price to final customers is fixed or determinable. Revenues include excise on petroleum products sales and duties on export sale of crude oil and petroleum products of RR 136,541 million and RR 85,327 million at December 31, 2008 and 2007, respectively. All revenues are shown net of VAT.

Other operating revenues in the consolidated statements of operations and comprehensive income include sales of refined products, petrochemicals and other products and services.

Shipping and handling costs. Shipping and handling costs are included in Transportation expenses caption in the consolidated statements of operations and comprehensive income.

Non-monetary transactions. In accordance with SFAS No. 153 *"Exchanges of Non-monetary Assets"* such transactions are recorded based on the fair values of the assets (or services) involved which is the same basis as that used in monetary transactions. Thus, the cost of a non-monetary asset acquired in exchange for another non-monetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss is recognized on the exchange if the carrying amount of the asset surrendered differs from its fair value. The fair value of the asset received is used to measure the cost if it is more clearly evident than the fair value of the asset surrendered.

Stock-based compensation. The Company has a share-based compensation plan (the "Plan") for senior management and directors of the Company. Under the provisions of the Plan, share-based bonus awards ("Awards") are issued on an annual basis to the Company's directors and senior management as approved by the Board of Directors. Each Award provides a cash payment at the settlement date equal to one of the Company's common shares multiplied by the difference between the lowest share price for the preceding three years as of the grant date (generally in March of each year) and the highest share price for the preceding three years as of each year-end. Share prices are measured based on the average daily trading price as reported on the Moscow Interbank Currency Exchange (MICEX). Awards are subject to individual annual performance conditions and are generally settled within 90 days after each year-end.

The Company accounts for its Awards under the liability method prescribed in SFAS 123-R. The fair value of the Awards is determined using the Black-Scholes valuation model at the grant date and subsequently remeasured each interim reporting period. The liability at December 31, 2008 and 2007 is determined based on the final expected bonus payments. The Awards are recognized as expense over the annual service period, net of forfeitures, with a corresponding liability to other accounts payable and accrued liabilities.

For the year ended December 31, 2008, the Company issued 8,753,600 Awards to senior management and directors, of which 8,238,600 are expected to be settled at a price of RR 153.54 per shares. Final settlement is subject to approved at the Company's annual shareholder meeting in June 2009. For the year ended December 31, 2007, the Company issued 8,874,000 Awards to senior management and directors, of which 8,780,600 were ultimately settled at a price of RR 145.25 per share. The amount of related compensation expense recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2008 and 2007 was RR 1,290 million and RR 1,263 million, respectively.

Income taxes. Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, except for deferred taxes on income considered to be permanently reinvested in foreign subsidiaries. Deferred tax assets and liabilities are measured using enacted tax rates in the periods in which these temporary differences are expected to reverse. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not that such assets will not be realized.

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

Minority interest. Minority interest represents the minority shareholders' proportionate share of the equity of the Group's subsidiaries. This has been calculated based upon the minority interest ownership percentage of these subsidiaries.

Note 3: Summary of Significant Accounting Policies (continued)

Net income per share. Basic income per share is calculated using the two class method of computing income per share. Under this method, net income is reduced by the amount of dividends declared in the current period for each class of shares, and the remaining income is allocated to common and preferred shares to the extent that each class may share in income if all income for the period had been distributed. Diluted income per share reflects the potential dilution arising from options granted to senior managers and the Directors of the Group.

Treasury shares. Common shares of the Company owned by the Group at the balance sheet date are designated as treasury shares and are recorded at cost using the weighted-average method. Gains on resale of treasury shares are credited to additional paid-in capital whereas losses are charged to additional paid-in capital to the extent that previous net gains from resale are included therein or otherwise to retained earnings.

Guarantees. The Group recognizes a liability for the fair value of the obligation it assumes under the guarantee in accordance with the provisions of FIN 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"*.

Recent accounting pronouncements:

In June 2007, the American Institute of Certified Public Accountants ("the AICPA") issued Statement of Position No. 07-1, *"Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies"* ("SOP 07-1"). SOP 07-1 provides guidance for determining whether the accounting principles of the AICPA Audit and Accounting Guide "Investment Companies" (the "Guide") are required to be applied to an entity by clarifying the definition of an investment company and, whether investment company accounting should be retained by a parent company upon consolidation of an investment company subsidiary, or by an investor in the application of the equity method of accounting to an investment company investee. In February 2008, the Financial Accounting Standards Board ("FASB") issued FSP SOP 07-1-1, Effective Date of AICPA Statement of Position 07-01, to indefinitely defer the effective date of SOP 07-01. The Group's equity investee International Petro-Chemical Growth Fund Limited ("IPCG Fund" - See Note 5) is an investment company, as currently defined in the Guide. The Company has applied the specialized accounting for IPCG Fund pursuant to EITF 85-12, *Retention of Specialized Accounting for Investments in Consolidation*. As such, investments held by IPCG Fund are recorded at fair value and the Group's share of equity earnings include gains and losses resulting from the change in fair value of IPCG Fund's investments. The Company will monitor future developments associated with this Statement in order to assess the impact, if any that may result on the Group's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *"Business Combinations."* SFAS No. 141(R) was issued in an effort to continue the movement toward the greater use of fair values in financial reporting and increased transparency through expanded disclosures. It changes how business acquisitions are accounted for and will impact financial statements at the acquisition date and in subsequent periods. Certain of these changes will introduce more volatility into earnings. The acquirer must now record all assets and liabilities of the acquired business at fair value, and related transaction and restructuring costs will be expensed rather than the previous method of being capitalized as part of the acquisition. SFAS No. 141(R) also impacts the annual goodwill impairment test associated with acquisitions, including those that close before the effective date of SFAS No. 141(R). The definitions of a "business" and a "business combination" have been expanded, resulting in more transactions qualifying as business combinations. SFAS No. 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 31, 2008 and earlier adoption is prohibited. The Group will adopt the provisions of this standard on a prospective basis to any business combinations completed subsequent to January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interest in Consolidated Financial Statements, an amendment of Accounting Research Bulletin (ARB) No. 51."* SFAS No. 160 clarifies that a noncontrolling interest (previously commonly referred to as a minority interest) in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity in the consolidated financial statements. The presentation of the consolidated income statement has been changed by SFAS No. 160, and consolidated net income attributable to both the parent and the noncontrolling interest is now required to be reported separately. Previously, net income attributable to the noncontrolling interest was typically reported as an expense or other deduction in arriving at consolidated net income and was often combined with other financial statement amounts. In addition, the ownership interests in subsidiaries held by parties other than the parent must be clearly identified, labeled, and presented in the equity in the consolidated financial statements separately from the parent's equity. Subsequent changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary should be accounted for consistently, and when a subsidiary is deconsolidated, any retained noncontrolling equity interest in the former subsidiary must be initially measured at fair value. Expanded disclosures, including a reconciliation of equity balances of the parent and noncontrolling interest are also required. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 and earlier adoption is prohibited. Prospective application is required. At this time, the Group does not have any material noncontrolling interests in consolidated subsidiaries. Therefore, it does not believe that

(in millions of Russian Roubles)

Note 3: Summary of Significant Accounting Policies (continued)

the adoption of SFAS No. 160 will have a material impact on its financial position, results of operations or cash flows.

In November 2008, the FASB ratified EITF 08-6, *"Equity Method Investment Accounting Considerations"* which clarifies how to account for certain transactions and impairment considerations involving equity method investments. EITF 08-6 applies to all investments accounted for under the equity method, and among other things, clarifies initial measurement, decreases in value and changes in the level of ownership in equity method investments. The standard is effective on a prospective basis for fiscal years beginning on or after December 15, 2008, and earlier adoption is prohibited. The Company does not believe EITF 08-6 will have an impact on its financial position, results of operations or cash flows.

In December 2008, the FASB issued FSP FAS 132(R)-1, "*Employers Disclosures about Postretirement Benefit Plan Assets*" which provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plans. This would require additional disclosures about investment policies and strategies, the reporting of fair value by asset category and other information about fair value measurements. The FSP is effective January 1, 2009 and early application is permitted. Upon initial application, the provisions of FSP FAS 132(R)-1 are not required for earlier periods that are presented for comparative purposes. The Company will expand its disclosures in accordance with FSP FAS 132(R)-1 in its consolidated financial statements for the year ending December 31, 2009. The adoption of this standard is not expected to have a significant impact on our consolidated results of operations, financial position or cash flows.

In December 2008, the U.S. Securities and Exchange Commission (SEC) announced that it had approved revisions to its oil and gas reporting disclosures. The new disclosure requirements include introducing a new definition of oil and gas producing activities, report oil and gas reserves using an unweighted arithmetic average of the price on the first day of each month during the prior 12-month, permit disclosures of probable and possible reserves and other maters. The SEC indicated they will communicate with the FASB staff to align their accounting standards with these new rules. If finalized, the Company will begin complying with the disclosure requirements in its supplemental information on oil and gas exploration and production activities for the year ending December 31, 2009. The Company is currently evaluating what impact these new requirements may have on its financial position, results of operations or cash flows.

Note 4: Accounts Receivable

Accounts receivable are as follows:

	At December 31, 2008			At December 31, 2007		
	Total accounts receivable	Accounts receivable from related parties (Note 17)	Accounts receivable from third parties	Total accounts receivable	Accounts receivable from related parties (Note 17)	Accounts receivable from third parties
Trade - domestic	9,861	476	9,385	7,880	544	7,336
Trade - export	10,913	-	10,913	34,464	-	34,464
Other receivables	2,852	302	2,550	2,900	507	2,393
Total accounts receivable, net	**23,626**	**778**	**22,848**	**45,244**	**1,051**	**44,193**

Export trade receivables consist of US $371 million and US $1,404 million at December 31, 2008 and 2007, respectively.

Accounts receivables are presented net of an allowance for doubtful accounts of RR 12,980 million and RR 375 million at December 31, 2008 and 2007, respectively. As of December 31, 2008, export trade receivables from ChMPKP Avto, related to crude oil deliveries to Ukrtatnafta, amounting to RR 10,786 million were fully provided for in accordance with the Group's policies for recorded allowances for doubtful accounts (See Note 19). Provisions for doubtful accounts are included in selling, general and administrative expenses in the consolidated statements of operations and comprehensive income.

(in millions of Russian Roubles)

Note 5: Short and Long-Term Investments

Short-term investments are classified as follows:

	At December 31, 2008	At December 31, 2007
Certificates of deposit	13,731	15,011
Trading securities	7,678	10,695
Total short-term investments	**21,409**	**25,706**
Less: due from related parties (Note 17)	(11,666)	(12,729)
Short-term investments, net	**9,743**	**12,977**

Trading securities are held in the Group with the objective of earning profits on short-term price differences.

Short-term investments classified as trading securities are as follows:

	At December 31, 2008	At December 31, 2007
Russian government debt securities	678	563
Corporate debt securities	3,634	2,781
Equity securities	3,366	7,351
Total trading securities	**7,678**	**10,695**
Less: corporate debt securities due from related parties (Note 17)	-	(223)
Trading securities, net	**7,678**	**10,472**

Long-term investments are as follows:

	Ownership percentage at	Net book value at		Group's share of income for the years ended December 31,	
	December 31, 2008	December 31, 2008	December 31, 2007	2008	2007
Investments in equity affiliates and joint ventures:					
ZAO Tatex	50	2,125	2,146	60	303
IPCG Fund	49	3,283	11,553	(9,470)	4,545
Bank Zenit	25	3,712	4,044	(112)	677
Other	20-50	356	888	(34)	264
Total investments in equity affiliates and joint ventures / income		**9,476**	**18,631**	**(9,556)**	**5,789**
Long-term investments, at cost:					
ZAO Ukrtatnafta	9	504	2,751		
ZAO OLK Center-Kapital	13	193	193		
Other	0-20	543	385		
Total long-term investments, at cost		**1,240**	**3,329**		
Long-term certificates of deposit		7,450	10,350		
Less: due from related parties (Note 17)		(500)	-		
Total long-term investments		**17,666**	**32,310**		

Long-term investments not designated as available-for-sale or trading securities are recorded at cost because they are not traded on any market and it is not practicable to determine their fair value.

During the years ended December 31,2008 and 2007 the Group received dividends from equity investees of RR 407 million and RR 501 million, respectively.

(in millions of Russian Roubles)

Note 5: Short and Long-Term Investments (continued)

The condensed financial information of the Group's equity basis investments is as follows:

	2008	2007
Sales / interest income	28,679	22,595
Net income	2,461	3,753
Current assets	171,755	152,214
Long-term assets	43,653	66,128
Current liabilities	141,966	130,978
Long-term liabilities	33,336	22,956

As a result of share redemptions by other participants in IPCG Fund during 2008, the Group's ownership in IPCG Fund was increased to 49.31%. At December 31, 2008 and 2007, IPCG Fund owned 122.7 million and 142.2 million, respectively, of Tatneft ordinary shares and depository receipts, of which the Group's share is accounted for as treasury shares. During the year-end December 31, 2008, IPCG Fund disposed of 19.5 million Tatneft ordinary shares, of which the Group's proportional interest was considered to be released from treasury shares. The release of these shares increased the Company's carrying value in IPCG Fund investment by RR 1,200 million. At December 31, 2008, IPCG Fund owned an indirect ownership interest in Bank Zenit of 41.92%.

In March 2007, the Group disposed of 1,138 million of Bank Zenit shares for RR 1,787 million, decreasing the Company's ownership in Bank Zenit to 28.35%. The Group recorded a gain of RR 195 million as a result of this transaction. In June 2007 Bank Zenit carried out a private placement of 1,545 million newly issued ordinary shares to a private investor unrelated to the Group, resulting in the dilution of the Group's ownership in Bank Zenit to 24.56%.

In December 2007, the Company acquired equity interests in AmRUZ Trading AG ("AmRUZ") and Seagroup International Inc. ("Seagroup"). These entities primary activities are ownership interests in Closed Joint Stock Company Ukrtatnafta ("Ukrtatnafta"), the owner of the Kremenchug refinery, which constitute 8.34% and 9.96% of the outstanding common shares in Ukrtatnafta, respectively. The Company acquired 49.6% of AmRUZ for US $23.9 million (RR 591 million) and 100% of Seagroup for US$ 57.1 million (RR 1,402 million). The AmRUZ purchase agreement also contains an option allowing the Company to acquire an additional 49.1% in AmRUZ for US $23.7 million. As the exercise of the option is subject to certain contingencies, the acquisition of AmRUZ was accounted for under the equity method.

As a result of the ongoing legal dispute over the indirect shareholding interests in Ukrtatnafta, in 2008 the Company fully provided for these investments (See Note 19).

Note 6: Inventories

Inventories are as follows:

	At December 31, 2008	At December 31, 2007
Materials and supplies	5,113	4,857
Crude oil	4,599	2,965
Refined oil products	1,405	1,952
Petrochemical supplies and finished goods	3,004	1,149
Total inventories	**14,121**	**10,923**

(in millions of Russian Roubles)

Note 7: Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are as follows:

	At December 31, 2008	At December 31, 2007
VAT recoverable	7,925	5,817
Advances	4,490	3,225
Prepaid export duties	5,234	6,532
Prepaid income tax	4,763	527
Prepaid transportation expenses	696	499
Deferred tax asset (Note 14)	19	315
Other	2,212	1,053
Prepaid expenses and other current assets	**25,339**	**17,968**

Note 8: Loans Receivable

Loans receivable are as follows:

	At December 31, 2008	At December 31, 2007
Notes receivable	4,952	8,327
Loans to employees	763	924
Other foreign currency denominated loans receivable	2,075	1,365
Other Russian Rouble denominated loans receivable	12,174	10,515
Total loans and notes receivable	**19,964**	**21,131**
Less: current portion of loans receivable and short-term loans	(5,842)	(3,796)
Less: due from related parties (Note 17)	(10,086)	(12,493)
Total long-term loans and notes receivable	**4,036**	**4,842**

Loans and notes receivable, excluding amounts due from related parties, reported as of December 31, 2008 in the amounts of RR 996 million, RR 263 million and RR 2,778 million mature in 2010, 2011 and thereafter (2012 – 2024), respectively.

The fair value of these loans is approximately RR 14,096 million and RR 18,463 million as of December 31, 2008 and 2007 assuming a discount rate of 13% and 10% as of December 31, 2008 and 2007, respectively (CBR interbank refinancing rate).

Note 9: Other long-term assets

Other long-term assets are as follows:

	At December 31, 2008	At December 31, 2007
Prepaid license agreements	1,979	1,346
Prepaid computer programs	1,723	1,405
Long-term accounts receivable	1,387	1,925
Non-current deferred tax assets (Note 14)	1,892	196
Other long-term assets	683	1,312
Total other long-term assets	**7,664**	**6,184**
Less: due from related parties (Note 17)	(6)	(5)
Total other long-term assets, net	**7,658**	**6,179**

(in millions of Russian Roubles)

Note 10: Property, Plant and Equipment

Property, plant and equipment are as follows:

	Cost	Accumulated depreciation, depletion and amortization	Net book value
Oil and gas properties	279,480	120,483	158,997
Buildings and constructions	29,658	12,518	17,140
Machinery and equipment	55,430	47,007	8,423
Assets under construction	57,009	-	57,009
December 31, 2008	**421,577**	**180,008**	**241,569**
Oil and gas properties	258,728	116,361	142,367
Buildings and constructions	33,265	12,072	21,193
Machinery and equipment	51,167	42,687	8,480
Assets under construction	21,707	-	21,707
December 31, 2007	**364,867**	**171,120**	**193,747**

As of December 31, 2008 and 2007, oil and gas properties include RR 7,223 million and RR 5,952 million, respectively, of unproved properties.

As stated in Note 3, the Group calculates depreciation, depletion and amortization for oil and gas properties using the units-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the units-of-production method assume the extension of the Group's production license beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Group's oil and gas fields are located principally on the territory of Tatarstan. The Group obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. Most of the Group's existing production licenses expire from 2013 to 2019, and the license for the Group's largest field, Romashkinskoye, expires in 2038. The economic lives of the Group's licensed fields extend beyond these dates. Under Russian law, the Group is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law provides that a license to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production in the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has the right to extend the license term so long as it has not violated the conditions of the license. In 2006 the Group received a written confirmation from the Federal Regional Agency for Subsoil Use under the Ministry of Natural Resources of the Russian Federation confirming that, as of the date, it has not identified any violations of the terms of the Group's licenses that could prevent their extension and that, based on approved development plans and in accordance with the Subsoil Law, the Group's licenses will be extended at the Group's request. In addition, in August 2006, the term of the Group's license to produce oil and gas from the Group's largest field, Romashkinskoye, was extended through 2038. The Group's right to extend licenses is, however, dependent on the Group continuing to comply with the terms of the licenses, and management has the ability and intent to do so. Management plans to request the extension of the licenses that have not yet been extended. The Group's current production plans are based on the assumption, which management considers to be reasonably certain, that the Group will be able to extend all existing licenses.

These plans have been designed on the basis that the Group will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Group's reserves to maximum effect only through the license expiration dates.

Management is reasonably certain that the Group will be allowed to produce oil from the Group's reserves after the expiration of existing production licenses and until the end of the economic lives of the fields. "Reasonable certainty" is the applicable standard for defining proved reserves under the SEC's Regulation S-X, Rule 4-10.

(in millions of Russian Roubles)

Note 10: Property, Plant and Equipment (continued)

Asset Retirement Obligations.

The following tables summarize the Group's asset retirement obligations:

	Year ended December 31, 2008	**Year ended December 31, 2007**
Balance, beginning of period	**32,037**	**28,990**
Accretion of discount	3,204	2,899
New obligations	191	188
Spending on existing obligations	(58)	(40)
Balance, end of period	**35,374**	**32,037**
Less: current portion of asset retirement obligations (Note 12)	(111)	(100)
Long-term balance, end of period	**35,263**	**31,937**

Capital leases.

The following is an analysis of the leased property under capital leases:

	At December 31, 2008	**At December 31, 2007**
Machinery and equipment	7,109	6,617
Less: accumulated amortization	(4,944)	(3,889)
	2,165	**2,728**

The following is a schedule by year of future lease payments under capital leases together with the present value of the future minimum lease payments as of December 31, 2008:

Year ended December 31:	
2009	465
2010	168
2011	37
2012	-
2013	-
Total future lease payments	**670**
Less interest	(81)
Present value of future minimum lease payments	**589**
Less current portion	(465)
Long-term portion of capital lease obligations	**124**

Social assets. During the years ended December 31, 2008 and 2007 the Group transferred social assets with a net book value of RR 1,413 million and RR 10 million, respectively, to local authorities. At December 31, 2008 and 2007, the Group held social assets with a net book value of RR 3,260 million and RR 3,434 million all of which were constructed after the privatization date. The social assets comprise mainly dormitories, hotels, gyms and other facilities. The Group may transfer some of these social assets to local authorities in the future, but does not expect these to be significant. The Group incurred social infrastructure expenses of RR 2,845 million and RR 2,330 million for the years ended December 31, 2008 and 2007, respectively, for maintenance that mainly relates to housing, schools and cultural buildings (see also Note 1).

(in millions of Russian Roubles)

Note 11: Debt

Short-term and long-term debt as follows:

	At December 31, 2008	At December 31, 2007
Short-term debt		
Foreign currency denominated debt		
Other foreign currency denominated debt	5,112	3,444
Russian Rouble denominated debt		
Current portion of long-term debt	76	144
Other Russian Rouble denominated debt	623	838
Less: due to related parties (Note 17)	(21)	(94)
Total short-term debt	**5,790**	**4,332**
Long-term debt		
Foreign currency denominated debt		
BNP Paribas	43,336	8,591
Other foreign currency denominated debt	1,377	461
Russian Rouble denominated debt	176	274
Total long-term debt	**44,889**	**9,326**
Less: current portion	(76)	(144)
Total long-term debt, net of current portion	**44,813**	**9,182**

Foreign currency debts are primarily denominated in US Dollars.

Short-term foreign currency denominated debt. As of December 31, 2008 other short-term foreign currency denominated debt primarily includes a loan from Credit Suisse Zurich and BNP Paribas.

In December 2003 the Group entered into a RR 1,034 million (US $35 million) one month revolving credit facility with Credit Suisse Zurich. The monthly revolving loan bears interest at one month LIBOR plus varying margin of about 1.8% per annum and is collateralized by crude oil sales. The amount of loan outstanding as of December 31, 2008 and 2007 was RR 1,028 million (US $35 million) and RR 508 million (US $20.7 million), respectively.

In September and December 2008 the Group entered into two credit agreements with BNP Paribas for RR 3,819 million (US$130 million) in aggregate. The loans bear interest at 4.95% and 4.03% per annum and are collateralized by total crude oil sales in amount of 304 thousand tons. The loans are repayable in installments between March and August 2009. The amount of loans outstanding as of December 31, 2008 was RR 3,819 million (US $130 million).

Short-term Russian Rouble denominated debt. Russian Rouble denominated short-term debt is primarily comprised of loans with Russian banks. Short-term Rouble denominated loans of RR 623 million and RR 838 million bear contractual interest rates of 7% to 15% and 11% to 17% per annum for the years ended December 31, 2008 and 2007, respectively. The loans are collateralized by the assets of the Group.

Long-term foreign currency denominated debt. In November 2007, TANECO entered into a senior secured credit facility arranged by ABN AMRO, BNP Paribas, Citibank International PLC, Bayerische Hypo-und Vereinsbank AG, Sumitomo Mitsui Finance Dublin and WestLB AG, for US$ 2.0 billion (“TANECO credit facility”) to be used in the construction of TANECO’s refinery and petrochemical complex. The amount outstanding under this loan as of December 31, 2008 and 2007 was RR 43,336 million (US $1,475 million) and RR 8,591 million (US $350 million), respectively. The loan bears interest at one month LIBOR plus 1.65% and matures in January 2010 (unless an optional six months extension is not exercised by TANECO).

The loan is fully guaranteed by both OAO Tatneft and IPCG Fund as major shareholders of TANECO. The Company’s guarantee is collateralized with the contractual rights and receivables under an export contract between Tatneft and Tatneft Europe AG under which Tatneft supplies no less than three million metric tones of oil per annum. The loan agreement requires compliance with certain financial covenants including, but not limited to, minimum levels of consolidated tangible net worth, and interest coverage ratios.

(in millions of Russian Roubles)

Note 11: Debt (continued)

For the year ended December 31, 2008 the Group was in compliance with all covenants required by the above loan agreements.

Loan arrangements on short-term and long-term debt have both fixed and variable interest rates that reflect the currently available terms for similar debt. The carrying value of this debt is a reasonable approximation of its fair value.

Aggregate maturities of long-term debt outstanding at December 31, 2008 are as follows:

2009	76
2010	43,736
2011	1,046
2012	-
2013	-
2014	-
Thereafter	31
Total long-term debt	**44,889**

Interest paid during the years ended December 31, 2008 and 2007 was RR 191 million and RR 417 million, respectively.

The Group has no subordinated debt and no debt that may be converted in an equity instrument of the Group.

Note 12: Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities are as follows:

	At December 31, 2008	**At December 31, 2007**
Salaries and wages payable	3,302	3,449
Advances received from customers	-	6,274
Insurance provision	1,282	1,106
Dividends payable	158	99
Current portion of asset retirement obligations	111	100
Other accrued liabilities	5,431	5,867
Less: due to related parties (Note 17)	(285)	(75)
Total other accounts payable and accrued liabilities	**9,999**	**16,820**

(in millions of Russian Roubles)

Note 13: Pensions and Post Employment Benefits

The Company sponsors a post retirement program for all eligible employees, whereby the Company makes an annual contribution on behalf of all employees to the non-profit organization National Non-governmental Pension Fund (the "Fund"). Employees are also eligible to make contributions into the Fund. The amount of contributions, frequency of benefit payments and other conditions of this plan are regulated by the Statement of Organization of Non-governmental Pension Benefits for OAO Tatneft Employees (the "Agreement") and the Fund. The Company also guarantees a minimum benefit upon retirement to all participants in the Fund covered by the Agreement. The minimum guaranteed benefit component of this plan is accounted for as a defined benefit plan, with the resulting projected benefit obligation netted against the fair value of the contributions made to date as of each measurement date.

The Group has several pension programs for management, which are concluded through various agreements between the Company, the Fund and management. Under the agreements, participants are provided a monthly benefit payment, generally based upon grade, for a period of 10 to 25 years subsequent to retirement. The Company makes voluntary periodic contributions to the Fund on behalf of eligible participants.

In accordance with the provisions of collective agreements concluded on an annual basis between the Company or its subsidiaries and their employees, the Group is obligated to pay certain post-employment benefits, including a lump sum payment upon retirement, jubilee and holiday payments during retirement and funeral benefits. Benefits are generally based on salary grade and years of service at the time of retirement. There are no contribution requirements for these benefits, which are paid by the Group directly to retirees.

The Company uses December 31 as the measurement date for its post retirement benefits program.

The following table provides information about the benefit obligations, plan assets and actuarial assumptions used as of December 31, 2008 and 2007. The benefit obligations below represent the projected benefit obligations of the Group's benefit plans.

	At December 31, 2008	At December 31, 2007
Benefit Obligations		
Benefit obligations as of January 1	3,362	3,212
Effect of exchange rate changes	15	(5)
Service cost	145	90
Interest cost	229	230
Benefit paid	(300)	(218)
Actuarial gain	(910)	(120)
Other	554	173
Benefit obligations as of December 31	**3,095**	**3,362**
Plan Assets		
Fair value of plan assets as of January 1	2,619	2,098
Return on plan assets	236	189
Contributions	599	435
Benefit paid	(170)	(38)
Actuarial (loss) gain	(385)	34
Other	(1,680)	(99)
Fair value of plan assets as of December 31	**1,219**	**2,619**
Funded status at end of year	**1,876**	**743**

(in millions of Russian Roubles)

Note 13: Pensions and Post Employment Benefits (continued)

Amounts recognized in the consolidated balance sheet	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Accrued benefit liabilities included in “other accounts payable and accrued expenses”	(335)	-
Accrued benefit liabilities included in “other long-term liabilities”	(1,541)	(1,608)
Prepaid benefit obligations included in “other long-term assets”	-	865
Net amount recognized	**(1,876)**	**(743)**

Assumptions:	**Year ended December 31, 2008**	**Year ended December 31, 2007**
Discount rate	10.0%	6.8%
Expected return on plan assets	9.0%	9.0%
Rate of increase in salary levels	7.0%	7.0%

Components of net periodic benefit cost were as follows:

	Year ended December 31, 2008	**Year ended December 31, 2007**
Service cost	145	90
Interest cost	229	230
Less expected return on plan assets	(236)	(189)
Effect of exchange rates	15	(5)
Disposals	-	(155)
Other	2,234	272
Total net periodic benefit cost	**2,387**	**243**

The assets allocation of the investment portfolio maintained by the Fund for the Group was as follows:

Type of assets	**At December 31, 2008**	**At December 31, 2007**
Russian corporate bonds and Equity securities of Russian issuers	66.3%	68.9%
Russian municipal bonds	14.2%	22.0%
Russian state bonds	13.8%	4.6%
Bank deposits	1.1%	4.4%
Other	4.6%	0.1%
Total	**100%**	**100%**

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

	2009	**2010**	**2011**	**2012**	**2013**	**2014 - 2018**
Pension benefits	96	105	113	121	128	750
Other long-term employee benefits	335	258	263	265	266	1,327
Total expected benefits to be paid	**431**	**363**	**376**	**386**	**394**	**2,077**

(in millions of Russian Roubles)

Note 14: Taxes

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following December 31, 2008 and 2007:

	At December 31, 2008	At December 31, 2007
Accounts receivable	17	-
Long-term investments	58	-
Obligations under capital leases	118	196
Prepaid expenses and other current assets	448	317
Tax loss carryforward	1,717	-
Other	358	949
Deferred tax assets	**2,716**	**1,462**
Property, plant and equipment	(13,052)	(16,672)
Inventories	(794)	(688)
Accounts receivable	-	(58)
Long-term investments	-	(1,869)
Undistributed Earnings	(1,091)	(833)
Pension liabilities	-	(364)
Other liabilities	(11)	(205)
Deferred tax liabilities	**(14,948)**	**(20,689)**
Net deferred tax liability	**(12,232)**	**(19,227)**

At December 31, 2008 and 2007, deferred taxes were classified in the consolidated balance sheet as follows:

	At December 31, 2008	At December 31, 2007
Current deferred tax asset	19	315
Non-current deferred tax assets	1,892	196
Non-current deferred tax liability	(14,143)	(19,738)
Net deferred tax liability	**(12,232)**	**(19,227)**

Presented below is a reconciliation between the provision for income taxes and taxes determined by applying the statutory tax rate to income before income taxes:

	Year ended December 31, 2008	Year ended December 31, 2007
Income before income taxes and minority interest	18,154	62,609
Theoretical income tax expense at statutory rate	4,357	15,026
Increase (reduction) due to:		
Non-deductible expenses and other permanent difference, net	7,213	3,228
Effect of change in statutory profit tax rate from 24% to 20% effective January 1, 2009	(2,228)	-
Income tax expenses	**9,342**	**18,254**

No provision has been made for additional income taxes of RR 13,680 million on undistributed earnings of a foreign subsidiary. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 2,052 million if they were remitted as dividends.

(in millions of Russian Roubles)

Note 14: Taxes (continued)

Income taxes paid during the years ended December 31, 2008 and 2007 was RR 15,922 million and RR 18,859 million, respectively.

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

	Year ended December 31, 2008	Year ended December 31, 2007
Export duties	136,541	85,327
Unified production tax	77,235	58,049
Property tax	1,493	1,398
Excise taxes	328	300
Penalties and interest	121	205
Other	1,553	1,020
Total taxes other than income taxes	**217,271**	**146,299**

Effective January 1, 2007, the base tax rate formula for unified production tax was modified to provide a benefit for fields whose depletion rate exceeds 80% of proved reserves as determined under Russian resource classification. Under the new rules, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As the Company's largest field, Romashkinskoye, along with certain other fields are more than 80% depleted, the Company received a benefit of approximately RR 8.3 billion and RR 5.1 billion for the years ended December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, taxes payable were as follows:

	At December 31, 2008	At December 31, 2007
Unified production tax	2,520	6,105
Value Added Tax on goods sold	1,474	1,832
Other	1,598	1,730
Total taxes payable	**5,592**	**9,667**

Note 15: Share Capital, Additional Capital and Other Comprehensive Income

Authorized share capital. At December 31, 2008 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share.

Golden share. OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, as of December 31, 2008 holds approximately 33.59% of the Company's capital 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 Revision Committee of the Company and 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 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 (see also Note 1).

(in millions of Russian Roubles)

Note 15: Share Capital, Additional Capital and Other Comprehensive Income (continued)

Rights attributable to preferred shares. Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share. Preferred shareholders may vote at meetings only on the following decisions:

- the amendment of the dividends payable per preferred share;
- the issuance of additional shares with rights greater than the current rights of preferred shareholders; and
- the liquidation or reorganization of the Company.

The decisions listed above can be made only if approved by 75% of preferred shareholders.

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that dividends are either not declared, or declared but not paid, on preferred shares. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies Law and the Company's charter in case of liquidation, preferred shareholders have priority over ordinary shareholders to be paid declared but unpaid dividends on preferred shares and the liquidation value of preferred shares, if any.

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ significantly from US GAAP (see Note 2). The statutory accounts are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended December 31, 2008 and 2007, the Company had a statutory current profit of RR 34,304 million and RR 43,812 million, respectively, as reported in the published statutory accounts of the Company.

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

	Year ended December 31, 2008	**Year ended December 31, 2007**
Net income	8,413	43,279
Common share dividends	(12,310)	(10,020)
Preferred share dividends	(833)	(681)
Income / (loss) available to common and preferred shareholders, net of dividends	**(4,730)**	**32,578**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,076	2,073
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,224	2,221
Basic and diluted net income per share (RR)		
Common	3.79	19.50
Preferred	3.53	19.27

Minority interest. Minority interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 163 million and RR 148 million at December 31, 2008 and 2007, respectively.

Note 15: Share Capital, Additional Capital and Other Comprehensive Income (continued)

In March 2007, the Group transferred approximately 10.8 million Tatneft ordinary shares to the National Non-governmental Pension Fund (the "Fund"). A substantial portion of the Group's pension and post employment benefit programs are administered through the Fund, in which the Group is the primary participant. The terms of the share transfer was not made under any of the Group's benefit programs, but was for the benefit of the Group's employees. The fair value of this transfer, RR 1,289 million, was reflected as a Loss on disposal of property, plant and equipment and investments and impairments in the Group's 2007 consolidated statement of operations and comprehensive income.

Note 16: Segment Information

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

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

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

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

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

The Group evaluates performance of its reportable operating segments and allocates resources based on income or losses before income taxes and minority interest not including interest income, expense, earnings from equity investments, other income and monetary effects. Segment accounting policies are the same as those disclosed in Note 3. Intersegment sales are at prices that approximate market.

For the year ended December 31, 2008, the Group had four customers which accounted for RR 302,518 million in crude oil sales, comprising 26%, 21%, 19% and 17% respectively of the total tons of crude oil sold by the Group during the year. For the year ended December 31, 2007, the Group had four customers which accounted for RR 206,875 million in crude oil sales, comprising 26%, 24%, 15% and 9% respectively of the total tons of crude oil sold by the Group during the year. Management does not believe the Group is dependent on any particular customer.

(in millions of Russian Roubles)

Note 16: Segment Information (continued)

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

	Year ended December 31, 2008	**Year ended December 31, 2007**
Exploration and production		
Domestic own crude oil	48,667	48,924
CIS own crude oil	15,800	55,849
Non – CIS own crude oil	246,733	148,341
Other	5,083	3,625
Intersegment sales	13,534	5,155
Total exploration and production	**329,817**	**261,894**
Refining and marketing		
Crude oil purchased	17,139	6,030
Refined products	48,707	37,013
Domestic sales	65,846	43,043
Crude oil purchased	-	2,044
Refined products	673	2,669
CIS sales(1)	673	4,713
Crude oil purchased	17,922	9,772
Refined products	6,164	3,544
Non – CIS sales(2)	24,086	13,316
Other	2,246	1,893
Intersegment sales	2,412	2,129
Total refining and marketing	**95,263**	**65,094**
Petrochemicals		
Tires - domestic sales	17,100	18,100
Tires - CIS sales	2,784	3,337
Tires - non-CIS sales	1,325	1,080
Petrochemical products and other	1,256	1,609
Intersegment sales	1,158	1,370
Total petrochemicals	**23,623**	**25,496**
Total segment sales	**448,703**	**352,484**
Corporate and other sales	12,733	12,446
Elimination of intersegment sales	(17,104)	(8,654)
Total sales and other operating revenues	**444,332**	**356,276**

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

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

Segment earnings

	Year ended December 31, 2008	**Year ended December 31, 2007**
Segment earnings (loss)		
Exploration and production	36,554	61,982
Refining and marketing	12,009	11,007
Petrochemicals	1,045	3,843
Total segment earnings	**49,608**	**76,832**
Corporate and other	(15,405)	(20,104)
Other (expense) income	(16,049)	5,881
Income before income taxes and minority interest	**18,154**	**62,609**

(in millions of Russian Roubles)

Note 16: Segment Information (continued)

Segment assets

	At December 31, 2008	At December 31, 2007
Assets		
Exploration and production	218,509	225,817
Refining and marketing	72,720	21,715
Petrochemicals	18,768	13,881
Corporate and other	82,983	108,806
Total assets	**392,980**	**370,219**

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

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

	Year ended December 31, 2008	Year ended December 31, 2007
Depreciation, depletion and amortization		
Exploration and production	7,673	7,582
Refining and marketing	849	598
Petrochemicals	621	773
Corporate and other	996	1,426
Total segment depreciation, depletion and amortization	**10,139**	**10,379**
Additions to property, plant and equipment		
Exploration and production	23,391	19,445
Refining and marketing	26,613	10,754
Petrochemicals	6,263	2,061
Corporate and other	4,207	2,175
Total additions to property, plant and equipment	**60,474**	**34,435**

Note 17: Related Party Transactions

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

As of December 31, 2008 and 2007, the Group had RR 8,328 million and RR 8,292 million, respectively, in loans and notes receivable due from Bank Zenit or its wholly-owned subsidiary Bank Devon Credit. These loans and notes mature between 2009 and 2016, bearing interest between 7.0% and 8.5%. As of December 31, 2008 and 2007, the Group has short and long-term certificates of deposit of RR 11,966 million and RR 12,592 million, respectively, held with Bank Zenit or its wholly-owned subsidiary Bank Devon Credit.

In March 2009 the Group issued a long-term deposit to Bank Zenit for RR 2,140 million payable in 10 years bearing interest 10.85%.

(in millions of Russian Roubles)

Note 17: Related Party Transactions (continued)

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

	Year ended December 31, 2008	Year ended December 31, 2007
Sales of crude oil	37	6
Volumes of crude oil sales (thousand tons)	4	1
Sales of refined products	27	82
Volumes of refined product sales (thousand tons)	1	5
Sales of petrochemical products	2	-
Other sales	2,002	851
Purchases of crude oil	(11,233)	(7,766)
Volumes of crude oil purchases (thousand tons)	760	693
Purchases of refined products	-	(18)
Volumes of refined products purchases (thousand tons)	-	1
Purchases of electricity	(5,284)	(4,425)
Other purchases	(1,148)	(980)

For the years ended December 31, 2008 and 2007, the Group sold crude oil on a commission basis from related parties for RR 6,278 million (580 thousand tons) and RR 5,220 million (533 thousand tons), respectively.

	At December 31, 2008	At December 31, 2007
Assets		
Accounts receivable (Note 4)	778	1,051
Notes receivable (Note 8)	3,352	5,021
Short-term certificates of deposit (Note 5)	11,666	12,506
Trading securities (Note 5)	-	223
Loans receivable (Note 8)	1,809	931
Due from related parties short-term	**17,605**	**19,732**
Long-term certificates of deposit (Note 5)	500	-
Long-term loans receivable (Note 8)	4,925	6,541
Long-term accounts receivable (Note 9)	6	5
Due from related parties long-term	**5,431**	**6,546**
Liabilities		
Other accounts payable (Note 12)	(285)	(75)
Notes payable	(22)	-
Short-term debt (Note 11)	(21)	(94)
Trade accounts payable	(453)	(1,218)
Due to related parties short-term	**(781)**	**(1,387)**

Note 18: Financial Instruments and Risk Management

Fair values. The estimated fair values of financial instruments are determined with reference to various market information and other valuation methodologies as considered appropriate, however considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market transaction.

The net carrying values of cash and cash equivalents, short-term investments, short-term loans receivable, accounts receivable and payable approximate their fair values because of the short maturities of these instruments.

As discussed in Note 5, the Company has investments in a number of companies. There are no quoted market prices for these instruments and a precise estimate of fair value could not be made without incurring excessive costs.

Information concerning the fair value of loans receivable is disclosed in Note 8 and information concerning the fair value of short-term and long-term debt is disclosed in Note 11.

Note 18: Financial Instruments and Risk Management (continued)

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis.

Marketable securities: The Group has RR 7,678 million in marketable securities as of December 31, 2008. The Group calculates fair value for its marketable securities based on quoted market prices for identical assets and liabilities (Level 1 valuations).

IPCG Fund: IPCG Fund follows the accounting principles of the AICPA Audit and Accounting Guide "Investment Companies." Accordingly, IPCG Fund's investments are fair valued each reporting period primarily using, Level 2 inputs. The Company's carrying value of its investment in IPCG Fund is RR 3,283 million at December 31, 2008.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115, " which permits companies to measure certain assets and liabilities at fair value. The standard was effective on January 1, 2008; however, the Company voluntarily elected to not apply the fair value option for any eligible assets or liabilities. Accordingly, the adoption of this standard had no impact on the Company's financial position, results of operations, or cash flows.

Credit risk. The Group's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of accounts receivables, cash and cash equivalents, prepaid VAT as well as loans receivable and advances. A significant portion of the Group's accounts receivable is due from domestic and export trading companies. The Group does not generally require collateral to limit the exposure to loss; however, sometimes letters of credit and prepayments are used. Although collection of these receivables could be influenced by economic factors affecting these entities, management believes there is no significant risk of loss to the Group beyond provisions already recorded.

The Group deposits available cash mostly with financial institutions in the Russian Federation. To manage this credit risk, the Group allocates its available cash to a variety of Russian banks and Russian affiliates of international banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash.

Prepaid VAT, representing amounts paid to suppliers, is recoverable from the tax authorities through offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of prepaid VAT and believes it is fully recoverable within one year.

Note 19: Commitments and Contingent Liabilities

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

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

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

Management believes the Group's current and long-term capital expenditures program can be funded through cash generated from existing operations as well as lines of credit available to the Company. The TANECO refinery project is currently being funded by as US$ 2.0 billion line of credit, of which US$ 1,475 million has been drawn as of December 31, 2008. Furthermore, TANECO has the ability to extend this line of credit through July 2010. Management believes the Company has the ability to obtain syndicated loans and other financings as needed to continue funding the TANECO refinery project as well as finance business acquisitions and other transactions that may arise in the future.

The Group currently holds RR 7,678 million of investments in debt or equity securities as well as an RR 3,283 million investment in IPCG Fund and RR 3,712 investment in Bank Zenit that may be subject to additional declines in fair value as a result of the recent market turbulence.

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

Tax authorities are currently reviewing the operations of the Company and its subsidiaries for the years ended December 31, 2007 and 2006. While the results of these reviews have not been finalized, management expects the ultimate outcome will not have a material effect on the Group's results of operations or cash flows.

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

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

Capital commitments. The Group has outstanding capital commitments of approximately RR 31.0 billion for the construction of the TANECO refinery complex. These commitments are expected to be paid between 2009 and 2011.

Note 19: Commitments and Contingent Liabilities (continued)

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

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

Ukrtatnafta. Historically, and in particular during 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% of Ukrtatnafta's common shares.

The challenges were suspended in April 2006 when the Supreme Court of Ukraine ruled the payment for Ukrtatnafta shares made with promissory notes issued by AmRUZ and Seagroup was lawful. However, in May 2007 the Ministry of Fuel and Energy of Ukraine ("MFEU") resumed its attempts and, as a result, succeeded in obtaining alleged and doubtful court decisions, after which it announced the transfer into Naftogaz's custody the 18.3% of Ukrtatnafta's shares, representing the entire holdings of AmRUZ and Seagroup in Ukrtatnafta. Subsequent to these actions, MFEU effectively began to exclude the Group from exercising their shareholder rights related to Ukrtatnafta.

In October 2007 the existing management of Ukrtatnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently, individuals who obtained the ability to manage Ukrtatnafta took certain actions effectively assisting MFEU in taking control over the shares in Ukrtatnafta owned by Seagroup and AmRUZ. In addition, Ukrtatnafta subsequently refused to settle its payables to ChMPKP Avto, a Ukrainian intermediary that previously purchased crude from the Group for deliveries to Ukrtatnafta. Following this forced change of control of Ukrtatnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its crude oil deliveries to Ukrtatnafta and initiated legal proceedings against the Ukrainian owners in international arbitration.

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

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

There are a number of legal proceedings currently in process in the Ukraine, Russian Federation and International courts to recover the Group's assets. As of December 31, 2008 there have been no additional material developments with any of the legal proceedings described above. As a result of the ongoing legal dispute over shareholding interests, as of December 31, 2008 the Company has fully provided for its indirect investments in Ukrtatnafta.

(in millions of Russian Roubles)

In accordance with SFAS No. 69, "*Disclosures about Oil and Gas Producing Activities*", this section provides supplemental information on oil and gas exploration and production activities of the Group.

The Group's oil and gas production is predominantly in Tatarstan within the Russian Federation; therefore, all of the information provided in this section pertains entirely to that region.

Oil Exploration and Production Costs

The following tables set forth information regarding oil exploration and production costs. The amounts reported as costs incurred include both capitalized costs and costs charged to expense during the year.

Costs Incurred in Exploration and Development Activities

	Year ended December 31, 2008	**Year ended December 31, 2007**
Exploration costs	4,707	2,302
Development costs	13,244	9,843
Total costs incurred in exploration and development activities	**17,951**	**12,145**

Property acquisitions for the years ended December 31, 2008 and 2007 are immaterial to the Group's oil activities.

Capitalized Costs of Oil Properties

	At December 31, 2008	**At December 31, 2007**
Wells, support equipment and facilities	272,257	252,776
Unproved properties	7,223	5,952
Uncompleted wells, equipment and facilities included in assets under construction	2,979	3,127
Total capitalized costs of oil properties	**282,459**	**261,855**
Accumulated depreciation, depletion and amortization	(120,483)	(116,361)
Net capitalized costs of oil properties	**161,976**	**145,494**

The following information pertains to the drilling activities of the Group:

	Year ended December 31, 2008	**Year ended December 31, 2007**
Net productive development wells drilled	328	390
Net productive exploratory wells drilled	20	29
Total wells drilled	**348**	**419**

As of December 31, 2008 and 2007 the number of net productive oil wells was 19,752 and 19,602, respectively.

(in millions of Russian Roubles)

Results of Operations for Oil Producing Activities

The Group's results of operations from oil producing activities are shown below. Proved natural gas reserves do not represent a significant portion of the Group's total reserves.

In accordance with SFAS 69, results of operations do not include general corporate overhead and monetary effects nor their associated tax effects. Income taxes are based on statutory rates for the year, adjusted for tax deductions, tax credits and allowances.

	Year ended December 31, 2008	**Year ended December 31, 2007**
Revenues from net production:		
Sales	311,200	253,114
Transfers[1]	13,534	5,155
Total revenues from net production	**324,734**	**258,269**
Less:		
Production and operating costs[2]	44,786	36,347
Exploration expenses	3,770	1,577
Depreciation, depletion and amortization	7,673	7,582
Taxes other than income taxes	213,280	142,164
Related income taxes	13,254	16,944
Results of operations for oil and gas producing activities	**41,971**	**53,655**

[1] Transfers represent crude oil to the refining subsidiaries at the estimated market price of those transactions.
[2] Production and operating costs include transportation expenses and accretion of discount in accordance with SFAS 143.

The average sales price (including transfers) per ton for 2008 and 2007 are RR 12,962 and RR 9,654 respectively. The average production and operating cost per ton for 2008 and 2007 are RR 1,719 and RR 1,402, respectively.

Proved Oil Reserves

As determined by the Group's independent reservoir engineers, Miller and Lents, Ltd., the following information presents the balances of proved oil reserves at December 31, 2008 and 2007. The definitions used are in accordance with applicable US Securities and Exchange Commission ("SEC") regulations.

Proved reserves are the estimated quantities of oil which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. In some cases, substantial new investments in additional wells and related facilities will be required to recover these proved reserves. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change over time as additional information becomes available.

Management believes that proved reserves should include quantities which are expected to be produced after the expiry dates of the Group's production licenses. Most of the Group's existing production licenses expire from 2013 to 2019, and the license for the Group's largest field, Romashkinskoye, expires in 2038. Management believes the licenses may be extended at the initiative of the Group and management expects to extend such licenses for properties expected to produce subsequent to their license expiry date. The Group has disclosed information on proved oil and gas reserve quantities and standardized measure of discounted future net cash flows for periods up to and past license expiry dates separately (see Note 10).

Proved developed reserves are those reserves which are expected to be recovered through existing wells with existing equipment and operating methods. Undeveloped reserves are those reserves which are expected to be recovered as a result of future investments to drill new wells and/or to install facilities to collect and deliver the production from existing and future wells.

"Net" reserves exclude quantities due to others when produced.

(in millions of Russian Roubles)

Proved Oil Reserves (continued)

A significant portion of the Group's total proved reserves are classified as either developed non-producing or undeveloped. The developed non-producing proved reserves can be produced from existing well bores but require capital costs for workovers, recompletions, or restoration of shut-in wells, additional completion work or future recompletion prior to the start of production. Of the developed non-producing proved reserves, a significant portion represents existing wells which are expected to be put back into production at a future date.

Net proved reserves of crude oil at December 31, 2008:

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Net proved developed producing reserves	2,395	336	782	110	3,177	446
Net proved developed non-producing reserves	1,168	164	1,122	158	2,290	322
Net proved developed reserves	**3,563**	**500**	**1,904**	**268**	**5,467**	**768**
Net proved undeveloped reserves	60	8	98	14	158	22
Net proved developed and undeveloped reserves	**3,623**	**508**	**2,002**	**282**	**5,625**	**790**

Net proved reserves of crude oil recoverable up to license expiry dates at December 31, 2008 presented in the table above includes the effect of the Group renewal of the Romashkinskoye Field in August, 2006, which was extended through 2038.

Net proved reserves of crude oil at December 31, 2007:

	Net proved reserves of crude oil recoverable up to license expiry dates		**Net proved reserves of crude oil recoverable past license expiry dates**		**Total net proved reserves of crude oil**	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Net proved developed producing reserves	2,382	334	1,369	193	3,751	527
Net proved developed non-producing reserves	632	89	1,522	213	2,154	302
Net proved developed reserves	**3,014**	**423**	**2,891**	**406**	**5,905**	**829**
Net proved undeveloped reserves	33	5	202	28	235	33
Net proved developed and undeveloped reserves	**3,047**	**428**	**3,093**	**434**	**6,140**	**862**

(in millions of Russian Roubles)

Movements in Proved Oil Reserves

	Net proved reserves of crude oil recoverable up to license expiry dates		Net proved reserves of crude oil recoverable past license expiry dates		Total net proved reserves of crude oil	
	(millions of barrels)	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*	*(millions of barrels)*	*(millions of tons)*
Balance at December 31, 2006	**3,046**	**427**	**2,865**	**403**	**5,911**	**830**
Revisions	185	27	228	31	413	58
Production	(184)	(26)	-	-	(184)	(26)
Balance at December 31, 2007	**3,047**	**428**	**3,093**	**434**	**6,140**	**862**
Revisions	762	106	(1,091)	(152)	(329)	(46)
Production	(186)	(26)	-	-	(186)	(26)
Balance at December 31, 2008	**3,623**	**508**	**2,002**	**282**	**5,625**	**790**

Standardized Measure, Including Year-to-Year Changes Therein, of Discounted Future Cash Flows

For the purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods in which they are expected to be produced. Future cash flows were computed by applying year-end prices (as described below) to the Group's estimated annual future production from proved oil reserves. Future development and production costs were computed by applying year-end costs to be incurred in producing and further developing the proved reserves. Future income taxes were computed by applying, generally, year-end statutory tax rates (adjusted for tax deductions, tax credits and allowances) to the estimated future pretax cash flows. The discount was computed by application of a 10% discount factor. The calculations assumed the continuation of existing political, economic, operating and contractual conditions at each of December 31, 2008 and 2007. However, such arbitrary assumptions have not necessarily proven to be the case in the past and may not in the future. Other assumptions of equal validity would give rise to substantially different results. As a result, future cash flows calculated under this methodology are not necessarily indicative of the Group's future cash flows nor the fair value of its oil reserves.

The net price used in the forecast of future net revenue is the weighted average year end price received for sales domestically, for exports to Commonwealth of Independent States ("CIS") countries, and for exports to non-CIS countries, after adjustments, where applicable, for certain costs, duties, and taxes. The weighted average net prices per ton used in the forecasts for 2008 and 2007, are US $131.7 and US $335.71 (US $18,49 and US $47.13 per barrel), respectively. The Company determined the appropriate mix between domestic sales, exports to CIS countries and exports to non-CIS countries using historic percentages which are supported by export quotas granted to the Company by the government. The Company assumes that the current level of export quotas will remain unchanged through the life of reserves.

	As of December 31, 2008	As of December 31, 2007
	Future cash flows attributable to total recoverable net proved reserves	Future cash flows attributable to total recoverable net proved reserves
Future cash inflows from production	3,136,411	7,330,086
Future production costs	(2,096,616)	(3,559,680)
Future development costs	(190,835)	(144,150)
Future income taxes	(160,645)	(859,820)
Future net cash flows	**688,315**	**2,766,436**
10% annual discount	(508,440)	(2,105,211)
Discounted future net cash flows	**179,875**	**661,225**

(in millions of Russian Roubles)

Changes in the Standardized Measure of Discounted Future Net Cash Flows From Proved Reserve Quantities

	Year ended December 31, 2008 Future cash flows attributable to total net proved reserves	**Year ended December 31, 2007** Future cash flows attributable to total net proved reserves
Beginning of year	**661,225**	**306,981**
Sales and transfers of oil produced, net of production costs and other operating expenses	(66,669)	(77,384)
Net change in prices received per ton, net of production costs and other operating expenses	(694,917)	510,655
Change in estimated future development costs	(21,415)	(14,593)
Development costs incurred during the period	13,244	9,843
Revisions of quantity estimates	24,541	7,363
Net change in income taxes	162,992	(112,649)
Accretion of discount	95,649	38,039
Other	5,225	(7,030)
End of year	**179,875**	**661,225**

For the years ended December 31 2008 and 2007 discounted future cash flows for total net proved reserves include RR 22,913 million and RR 105,349 million, respectively, attributable to net proved reserves recoverable past license expiry dates.