TATNEFT

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

PRICEWATERHOUSECOOPERS

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

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of OAO Tatneft:

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, 2007 and December 31, 2006, 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

June 23, 2008

TATNEFT
Consolidated Balance Sheets
(in millions of Russian Roubles)

	Notes	At December 31, 2007	At December 31, 2006
Assets			
Cash and cash equivalents		13,010	6,869
Restricted cash		3,996	1,485
Accounts receivable, net	6	44,193	26,799
Due from related parties	19	19,732	14,353
Short-term investments	7	12,977	16,333
Current portion of loans receivable	10	3,796	4,625
Inventories	8	10,923	11,403
Prepaid expenses and other current assets	9	17,968	20,001
Total current assets		**126,595**	**101,868**
Long-term loans receivable, net	10	4,842	4,992
Due from related parties	19	6,546	6,240
Long-term investments	7	32,310	23,468
Property, plant and equipment, net	12	187,795	178,539
Other long-term assets	11	12,131	4,317
Total assets		**370,219**	**319,424**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	13	4,332	3,779
Trade accounts payable		5,647	5,994
Due to related parties	19	1,387	1,258
Other accounts payable and accrued liabilities	14	16,820	13,290
Capital lease obligations	12	575	865
Taxes payable	16	9,667	7,561
Total current liabilities		**38,428**	**32,747**
Long-term debt, net of current portion	13	9,177	287
Due to related parties	19	5	18
Other long-term liabilities		2,134	1,743
Asset retirement obligations, net of current portion	12	31,937	28,923
Deferred tax liability	16	19,738	20,564
Capital lease obligations, net of current portion	12	242	265
Total liabilities		**101,661**	**84,547**
Minority interest		**4,499**	**3,174**
Shareholders' equity			
Preferred shares (authorized and issued at December 31, 2007 and 2006 - 147,508,500 shares; nominal value at December 31, 2007 and 2006 - RR1.00)	17	148	148
Common shares (authorized and issued at December 31, 2007 and 2006 - 2,178,690,700 shares; nominal value at December 31, 2007 and 2006 - RR1.00)	17	2,179	2,179
Additional paid-in capital		95,274	95,337
Accumulated other comprehensive loss		(461)	(318)
Retained earnings		169,721	137,143
Less: Common shares held in treasury, at cost (101,057,000 shares and 111,298,885 shares at December 31, 2007 and 2006, respectively)		(2,802)	(2,786)
Total shareholders' equity		**264,059**	**231,703**
Total liabilities and shareholders' equity		**370,219**	**319,424**

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

Consolidated Statements of Operations and Comprehensive Income

(in millions of Russian Roubles)

	Notes	Year ended December 31, 2007	Year ended December 31, 2006
Sales and other operating revenues	18	**356,276**	**318,284**
Costs and other deductions			
Operating		59,623	57,099
Purchased oil and refined products		43,297	33,882
Exploration		1,577	1,555
Transportation		8,431	6,650
Selling, general and administrative		22,349	20,510
Depreciation, depletion and amortization	18	10,379	10,673
Loss on disposals of property, plant and equipment and investments and impairments		5,253	3,438
Taxes other than income taxes	16	146,299	144,976
Maintenance of social infrastructure and transfer of social assets	12	2,340	328
Total costs and other deductions		**299,548**	**279,111**
Other income (expenses)			
Earnings from equity investments	7	5,789	621
Foreign exchange loss		(2,623)	(1,829)
Interest income		2,779	2,036
Interest expense, net of amounts capitalized		(60)	(247)
Other income, net		(4)	2,870
Total other income		**5,881**	**3,451**
Income before income taxes and minority interest		**62,609**	**42,624**
Income taxes			
Current income tax expense		(18,895)	(13,088)
Deferred income tax benefit		641	982
Total income tax expense	16	**(18,254)**	**(12,106)**
Income before minority interest		**44,355**	**30,518**
Minority interest		(1,076)	(745)
Net income		**43,279**	**29,773**
Foreign currency translation adjustments		(143)	(654)
Comprehensive income		**43,136**	**29,119**
Basic and diluted net income per share (RR)	17		
Common		19.50	13.65
Preferred		19.27	13.58
Weighted average shares outstanding (millions of shares)	17		
Common		2,073	2,034
Preferred		148	148

(in millions of Russian Roubles)

	Year ended December 31, 2007	Year ended December 31, 2006
Operating activities		
Net income	43,279	29,773
Adjustments:		
Minority interest	1,076	745
Depreciation, depletion and amortization	10,379	10,673
Deferred income tax benefit	(641)	(982)
Loss on disposals of property, plant and equipment and investments and impairments	5,253	3,438
Effects of foreign exchange	(37)	(129)
Equity earnings net of dividends received	(5,128)	84
Accretion of asset retirement obligation	2,899	2,626
Change in fair value of trading securities	1,065	(1,407)
Contributions made to pension plans	(435)	(365)
Other	644	31
Changes in operational working capital, excluding cash:		
Accounts receivable	(18,845)	(7,091)
Inventories	35	(1,870)
Prepaid expenses and other current assets	1,916	(3,403)
Trading securities	1,788	(8,534)
Related parties	836	2,374
Trade accounts payable	(318)	3,108
Other accounts payable and accrued liabilities	3,104	6,758
Taxes payable	2,210	(1,497)
Notes payable	193	(546)
Other non-current assets	(1,240)	(843)
Net cash provided by operating activities	**48,033**	**32,943**
Investing activities		
Additions to property, plant and equipment	(33,649)	(16,984)
Proceeds from disposals of property, plant and equipment	4,531	655
Proceeds from disposal of investments	9,431	11
Purchase of investments	(2,742)	(9,957)
Certificates of deposit	(11,351)	(7,230)
Loans and notes receivable	(3,333)	(1,088)
Change in restricted cash	(2,511)	(1,485)
Net cash used in investing activities	**(39,624)**	**(36,078)**
Financing activities		
Proceeds from issuance of debt	18,454	30,029
Repayment of debt	(9,171)	(34,292)
Repayment of capital lease obligations	(1,100)	(1,389)
Dividends paid to shareholders	(10,667)	(2,319)
Dividends paid to minority shareholders	(148)	(186)
Purchase of treasury shares	(269)	(36)
Proceeds from sale of treasury shares	270	13
Proceeds from issuance of shares by subsidiaries	363	-
Net cash used in financing activities	**(2,268)**	**(8,180)**
Net change in cash and cash equivalents	**6,141**	**(11,315)**
Cash and cash equivalents at beginning of period	6,869	18,184
Cash and cash equivalents at end of period	**13,010**	**6,869**

Consolidated Statements of Shareholders' Equity

(in millions of Russian Roubles)

	2007		2006	
	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	111,299	(2,786)	178,441	(4,898)
Purchases	4,115	(331)	288	(36)
Sales	(14,357)	315	(67,430)	2,148
Balance at December 31 (shares in thousands)	101,057	(2,802)	111,299	(2,786)
Additional paid-in capital				
Balance at January 1		95,337		89,742
Treasury share transactions		(63)		5,595
Balance at December 31		95,274		95,337
Accumulated other comprehensive (loss) / income				
Balance at January 1		(318)		336
Foreign currency translation adjustments		(143)		(654)
Balance at December 31		(461)		(318)
Retained earnings				
Balance at January 1		137,143		111,214
Adoption of SFAS 158 (Note 15)		-		(1,518)
Net income		43,279		29,773
Dividends		(10,701)		(2,326)
Balance at December 31		169,721		137,143
Total shareholders' equity at December 31		**264,059**		**231,703**

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 18).

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.

At December 31, 2007 and 2006, the Government, through its wholly owned company, OAO Svyazinvestneftekhim, held 36% of the common shares of the Company. As further described in Note 17, the Government owns a "Golden Share" which carries the right to, *inter alia*, veto certain decisions taken at meetings of the shareholders and the Board of Directors. The Government of Tatarstan is able to exercise significant influence through its ownership interest in the Company, its legislative, taxation and regulatory powers, its representation on the Board of Directors and informal influence. The Government has used its influence in the past to facilitate actions that may not maximize shareholder value, such as maintaining employment levels, increasing expenditure on social assets, selling oil to certain customers, transferring exploration or production licenses to small Tatarstan oil companies (including companies not affiliated with the Group), acquiring specified companies or taking actions to raise funds for the benefit of Tatarstan (see Note 19).

The Government of Tatarstan controls or exercises significant influence over a number of the Group's suppliers, such as OAO Tatenergo, a major supplier of electricity to the Group, and a number of the Group's ultimate customers including OAO TAIF. Consequently, the Group may be subject to pressures to enter into transactions that the Group might not otherwise contemplate with suppliers and contractors controlled or significantly influenced by the Government. Related party transactions are further disclosed in Note 19.

On June 30, 2006, the Company's Board of directors approved a plan to remove the Company's securities from listing on the New York Stock Exchange (the "NYSE") and terminate the registration of such securities with the U.S. Securities and Exchange Commission (the "SEC"). On August 18, 2006, the Company notified the NYSE of its intention to delist its securities and on September 5, 2006, the Company filed Form 25 with the SEC to remove its securities from listing on the NYSE. The Company's application on Form 25 became effective and the trading of its securities on the NYSE ceased on September 14, 2006. As a result the Company's Depositary Receipts are no longer listed on the NYSE. On December 15, 2006, the Company filed an application on Form 15 to terminate the registration of its securities with the SEC, which became effective on March 16, 2007. Consequently, the Company is no longer subject to the reporting requirements of the Securities Exchange Act of 1934, including the filing of annual report on Form 20-F. At the same time the Company maintains a Global Depositary Receipts program and its GDRs are listed on the London Stock Exchange.

Note 2: Basis of Presentation

The entities of the Group maintain their accounting records and prepare their statutory financial statements principally in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements have been prepared from these accounting records and adjusted as necessary to comply with accounting principles generally accepted in the United States of America ("US GAAP"). The principal differences between RAR and US GAAP relate 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) business combinations and goodwill; and (11) consolidation and accounting for subsidiaries, equity investees and variable interest entities ("VIEs").

Note 2: Basis of Presentation (continued)

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

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

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

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, 2007 and 2006 was RR 24.55 and RR 26.33 to US Dollar, respectively. Average rate of exchange for the years ended December 31, 2007 and 2006 were RR 25.58 and RR 27.19 per US Dollar, respectively.

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

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"), formerly ZAO Nizhnekamsk oil refinery, 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, 2007 and 2006. 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.

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.

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, but not unusual/non-recurring costs or research and development costs.

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.

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.

(in millions of Russian Roubles)

Note 3: Summary of Significant Accounting Policies (continued)

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 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. For the years ended December 31, 2007 and 2006, capitalized interest was RR 425 million and 390 million, respectively.

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 pipelines to main transportation trunks. 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.

Note 3: Summary of Significant Accounting Policies (continued)

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 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.

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.

Note 3: Summary of Significant Accounting Policies (continued)

Non-monetary transactions. In accordance with Statement of Financial Accounting Standards 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. On December 31, 2000 the Board of Directors of the Company approved the Company's 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 must be 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, 2007 and 2006 is determined based on the final approved bonus payment. 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.

During the years ended December 31, 2007 and 2006 the Company issued 8,874,000 and 9,526,000 Awards, respectively, for its senior management and directors, of which 8,780,600 and 9,484,500, respectively, were ultimately settled at a calculated price of RR 145.25 and RR 153.54, respectively. The amount of related compensation expense recognized in the consolidated statements of operations and comprehensive income for the years ended December 31, 2007 and 2006 was RR 1,263 million and RR 1,454 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.

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"*.

Note 3: Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements:

Presentation of taxes collected from customers. In June 2006, the FASB ratified the earlier EITF consensus on Issue 06-3, *"How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross Versus Net Presentation),"* which became effective for the Group on January 1, 2007. The new accounting standard requires that a company discloses its policy for recording taxes assessed by a governmental authority on a revenue-producing transaction between a seller and a customer. The Group adopted the provisions of EITF Issue 06-3 on January 1, 2007. The Group reports sales gross of export duties and excise taxes and net of VAT. Sales and other operating revenues and taxes other than income taxes in the consolidated statement of operations and comprehensive income include export duties and excise taxes of RR 85,327 million and RR 85,358 million at December 31, 2007 and 2006, respectively.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*. The standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this standard does not require any new fair value measurements. In February 2008, the FASB issued a FASB Staff Position (FSP) on SFAS 157 that permits a one-year delay of the effective date for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Group will adopt this standard effective January 1, 2008, with the exceptions allowed under the FSP SFAS 157 described above. The Group does not expect SFAS 157 to have a material impact on the Group's consolidated financial statements, other than additional disclosures.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard permits all entities to choose to elect, at specified election dates, to measure eligible financial instruments at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred and not deferred. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Group will apply this standard for financial statements issued for fiscal year beginning from January 1, 2008. The Group does not expect this standard to have a material impact on the Group's financial position, results of operations or cash flows.

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 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 4 and Note 7) 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 cannot predict the impact that the adoption of SFAS No. 141(R) will have on its financial position, results of operations or cash flows with respect to any acquisitions completed after December 31, 2007.

Note 3: Summary of Significant Accounting Policies (continued)

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

Note 4: Acquisitions and Divestitures

Ukrtatnafta

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 $23.9 million and 100% of Seagroup for US$ 57.1 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 has been accounted for under the equity method. These acquisitions increased the Group's direct and indirect ownership in Ukrtatnafta. However, the Ukrtatnafta shares owned by AmRUZ and Seagroup have been under legal challenge since 2007 despite a number of court rulings in favour of AmRUZ and Seagroup taken in 2002, 2003 and 2006 (see Note 21).

As of December 31, 2007 the Group has RR 880 million in bearer promissory notes payable on demand, which were previously issued in June 1999 by Seagroup in exchange for ordinary shares in Ukrtatnafta. The Seagroup purchase price allocation was determined on a provisional basis and will be finalized within 12 months of the date of acquisition.

On October 23, 2006, the Group entered into a five-year agreement with the Tatarstan government for the fiduciary management of 28.78% ordinary shares of Ukrtatnafta held by the Tatarstan government. Under this agreement, the Group is entitled to exercise principle shareholder rights vested into these shares but may not manage them without prior approval of the Tatarstan government. The Group's investment of 18.6% in Ukrtatnafta (represented by those shares owned by the Company and its subsidiary SeaGroup directly) is accounted for under cost method in these consolidated financial statements as Management believes the Group does not currently have the ability to exercise significant influence over Ukrtatnafta, given the current corporate conflict and the Company's lack of effective influence through Ukrtatnafta's Board of directors.

International Petro-Chemical Growth Fund

In December 2005, Tatneft Oil AG, a subsidiary of the Company, acquired participation shares with a total value of US $394 million in the open-ended investment company IPCG Fund, incorporated in Jersey, Channel Islands, by contributing 116 million ordinary shares of Tatneft and US $1 million in cash into the fund. IPCG Fund invests in debt and equity securities of companies operating in the Russian Federation in general, and the Republic of Tatarstan in particular with priority given to those entities operating in the oil and chemicals industry and, to a lesser extent, the banking sector. IPCG Fund is managed by MARS Capital Management Limited, a company regulated by Jersey Financial Services Limited. The Fund is an indirect shareholder of TANECO and is expected to participate in the financing of the new refinery and petrochemical facility. At December 31, 2005, the Company owned approximately 93.81% of the total participation shares in IPCG Fund, and its equity investee Bank Zenit owned the remaining 6.19%. As a result, as of December 31, 2005 the 116 million ordinary shares contributed to IPCG Fund were accounted for as treasury shares of the Group.

Note 4: Acquisitions and Divestitures (continued)

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

In December 2006, the Group contributed an additional 18.5 million of Tatneft ordinary shares to IPCG Fund in exchange for US $86.8 million in participation shares. In December 2006, the Group contributed all its shares (50% of all issued shares) of Tatoilgas AG, a Russian joint stock company with a net book value of RR 2,805 million, which were fair valued at US $30 million, into IPCG Fund in exchange for US $30 million in participation shares of the fund. As a result of this transaction, the Company recorded an impairment loss of RR 2,014 million. Subsequent to these transactions, the Company's ownership interest in IPCG Fund was increased to 47.39%, which did not affect the accounting treatment of the Group's investments into the fund. As a result of share redemptions by other participants during 2007, the Group's ownership in IPCG Fund was increased to 48.75%.

At December 31, 2007, IPCG Fund owned 142.2 million Tatneft ordinary shares, of which the Group's share is accounted for as treasury shares. At December 31, 2007, IPCG Fund owned an indirect ownership interest in Bank Zenit of 41.81%.

Banking

In May 2006, the Group increased its shareholding in Bank Zenit from 25.95% to 39.73% as a result of acquiring 2,935.3 million newly issued shares of the bank at their par value for RR 2,935.3 million. In March 2007, the Group disposed of 1,138 million of Bank Zenit shares for RR 1,787 million, decreasing the Company's ownership in Bank Zenit to 28.35%. The Group recorded a gain of RR 195 million as a result of this transaction.

Also, 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 June 2006 the Company increased its shareholding in Bank AK Bars from 29.46% up to 32.19% as a result of acquiring newly issued shares at their par value for RR 3,825 million. In August 2007, the Company disposed of its entire interest in Bank AK Bars for RR 6.8 billion to parties unrelated to the Group. The Group recorded a loss from the sale of this investment of RR 694 million. The sales price for this transaction approximated the asset carrying value under Russian statutory accounting, which is lower than its related US GAAP carrying value (see Note 2).

Other

During 2007, the Group sold a number of oil field service assets to two newly formed entities unrelated to the group for RR 1,826 million. As a result of this transaction, the Group recognized an impairment of RR 4,455 million. The sales price for these transactions approximated the asset carrying values under Russian statutory accounting, which is lower than their related US GAAP carrying values (see Note 2). The disposal does not qualify for discontinued operations as the new entities will continue to provide services to the Group. The Group did not incur any restructuring or exit liabilities as a result of these activities.

Note 5: Cash and Cash Equivalents

The consolidated statements of cash flows provide information about changes in cash and cash equivalents. At December 31, 2007 and 2006, cash and cash equivalents of the Group, include US Dollar denominated amounts of RR 2,954 million (US $120 million) and RR 294 million (US $11 million), respectively.

(in millions of Russian Roubles)

Note 6: Accounts Receivable

Accounts receivable are as follows:

	At December 31, 2007			At December 31, 2006		
	Total accounts receivable	Accounts receivable from related parties (Note 19)	Accounts receivable from third parties	Total accounts receivable	Accounts receivable from related parties (Note 19)	Accounts receivable from third parties
Trade - domestic	7,880	544	7,336	6,627	330	6,297
Trade - export	34,464	-	34,464	18,924	-	18,924
Other receivables	2,900	507	2,393	1,743	165	1,578
Total accounts receivable, net	**45,244**	**1,051**	**44,193**	**27,294**	**495**	**26,799**

Export trade receivables consist of US $1,404 million and US $719 million at December 31, 2007 and 2006, respectively.

At December 31, 2007, approximately 31% of export trade receivables are due from one new customer, ChMPKP “Avto”, unrelated to the Group (see Note 21).

Accounts receivables are presented net of an allowance for doubtful accounts of RR 375 million and RR 317 million at December 31, 2007 and 2006, respectively.

Note 7: Short and Long-Term Investments

Short-term investments are classified as follows:

	At December 31, 2007	At December 31, 2006
Certificates of deposit	15,011	12,760
Trading securities	10,695	14,495
Total short-term investments	**25,706**	**27,255**
Less: due from related parties	(12,729)	(10,922)
Short-term investments, net	**12,977**	**16,333**

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, 2007	At December 31, 2006
Russian government debt securities	563	1,066
Corporate debt securities	2,781	3,624
Equity securities	7,351	9,805
Total trading securities	**10,695**	**14,495**
Less: corporate debt securities due from related parties	(223)	(1,172)
Trading securities, net	**10,472**	**13,323**

(in millions of Russian Roubles)

Note 7: Short and Long-Term Investments (continued)

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, 2007	December 31, 2007	December 31, 2006	2007	2006
Investments in equity affiliates and joint ventures:					
ZAO Tatex	50	2,146	2,028	303	222
IPCG Fund (Note 4)	49	11,553	7,070	4,545	(986)
Bank Zenit (Note 4)	25	4,044	5,057	677	837
Bank AK Bars (Note 4)	-	-	7,521	220	494
AmRUZ Traiding AG (Note 4)	49	591	-	-	-
Other	20-50	297	530	44	54
Total investments in equity affiliates and joint ventures / income		**18,631**	**22,206**	**5,789**	**621**
Long-term investments, at cost:					
ZAO Ukrtatnafta (Note 4)	19	2,751	504		
ZAO OLK Center-Kapital	13	193	193		
Other	0-20	385	315		
Total long-term investments, at cost		**3,329**	**1,012**		
Long-term certificates of deposit		10,350	1,250		
Less: due from related parties		-	(1,000)		
Total long-term investments		**32,310**	**23,468**		

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 31,2007 and 2006 the Group received dividends from equity investees of RR 501 million and RR 705 million, respectively.

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

	2007	**2006**
Sales / interest income	22,595	26,240
Net income	3,753	6,017
Current assets	152,214	205,562
Long-term assets	66,128	37,303
Current liabilities	130,978	151,975
Long-term liabilities	22,956	19,252

Note 8: Inventories

Inventories are as follows:

	At December 31, 2007	**At December 31, 2006**
Materials and supplies	4,857	5,186
Crude oil	2,965	3,577
Refined oil products	1,952	1,308
Petrochemical supplies and finished goods	1,149	1,332
Total inventories	**10,923**	**11,403**

(in millions of Russian Roubles)

Note 9: Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are as follows:

	At December 31, 2007	At December 31, 2006
VAT recoverable	5,817	7,396
Advances	3,225	4,293
Prepaid export duties	6,532	4,223
Prepaid income tax	527	2,188
Prepaid transportation expenses	499	414
Deferred tax asset (Note 16)	315	288
Other	1,053	1,199
Prepaid expenses and other current assets	**17,968**	**20,001**

Note 10: Loans Receivable

	At December 31, 2007	At December 31, 2006
Notes receivable	8,327	5,475
Loans to employees	924	1,110
Other foreign currency denominated loans receivable	1,365	790
Other Russian Rouble denominated loans receivable	10,515	10,418
Total loans and notes receivable	**21,131**	**17,793**
Less: current portion of loans receivable and short-term loans	(3,796)	(4,625)
Less: due from related parties (Note 19)	(12,493)	(8,176)
Total long-term loans and notes receivable	**4,842**	**4,992**

Loans and notes receivable reported as of December 31, 2007 in the amounts of RR 2,697 million, RR 2,382 million and RR 5,380 million mature in 2009, 2010 and after 2011, respectively.

The fair value of these loans is approximately RR 18,463 million and RR 14,544 million as of December 31, 2007 and 2006 assuming a discount rate of 10% and 11% as of December 31, 2007 and 2006, respectively (CBR interbank refinancing rate).

Note 11: Other long-term assets

	At December 31, 2007	At December 31, 2006
Prepaid license agreements	6,076	1,902
Prepaid computer programs	1,405	736
Prepaid pension assets (Note 15)	865	502
Non-current deferred tax assets (Note 16)	196	447
Long-term accounts receivable	1,925	280
Other long-term assets	1,669	450
Total other long-term assets	**12,136**	**4,317**
Less: due from related parties (Note 19)	(5)	-
Total other long-term assets, net	**12,131**	**4,317**

(in millions of Russian Roubles)

Note 12: Property, Plant and Equipment

Property, plant and equipment are as follows:

	Cost	Accumulated depreciation, depletion and amortization	Net book value
Oil and gas properties	252,776	116,361	136,415
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	**358,915**	**171,120**	**187,795**
Oil and gas properties	258,908	121,215	137,693
Buildings and constructions	31,811	10,898	20,913
Machinery and equipment	50,138	40,381	9,757
Assets under construction	10,176	-	10,176
December 31, 2006	**351,033**	**172,494**	**178,539**

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, Romashkinsokoye, 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.

Proved reserves generally should be limited to those that can be produced through the license expiration date unless there is a long and clear track record which supports the conclusion that the extension of the license will be granted as a matter of course. The Group believes that the extension of the licenses is a matter of course as fully described above.

(in millions of Russian Roubles)

Note 12: Property, Plant and Equipment (continued)

Asset Retirement Obligations.

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

Asset Retirement Obligations

	Year ended December 31, 2007	Year ended December 31, 2006
Balance, beginning of period	**28,990**	**26,262**
Accretion of discount	2,899	2,626
New obligations	188	147
Spending on existing obligations	(40)	(45)
Balance, end of period	**32,037**	**28,990**
Less: current portion of asset retirement obligations (Note 14)	(100)	(67)
Long-term balance, end of period	**31,937**	**28,923**

Asset Retirement Costs

	2007	2006
Gross balance, beginning of year	**15,305**	**15,158**
New obligations	188	147
Gross balance, end of year	**15,493**	**15,305**
Less accumulated depreciation, depletion and amortization	(2,905)	(2,516)
Net balance, end of year	**12,588**	**12,789**

The Group's asset retirement costs are included within oil and gas properties.

Capital leases. The Group leases machinery and equipment.

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

	At December 31, 2007	At December 31, 2006
Machinery and equipment	6,617	5,830
Less: accumulated amortization	(3,889)	(2,644)
	2,728	**3,186**

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, 2007:

Year ended December 31:	
2008	575
2009	214
2010	124
2011	35
2012	-
Total future lease payments	**948**
Less interest	(131)
Present value of future minimum lease payments	**817**
Less current portion	(575)
Long-term portion of capital lease obligations	**242**

(in millions of Russian Roubles)

Note 12: Property, Plant and Equipment (continued)

Social assets. During the years ended December 31, 2007 and 2006 the Group transferred social assets with a net book value of RR 10 million and RR 40 million, respectively, to local authorities. At December 31, 2007 and 2006, the Group held social assets with a net book value of RR 3,434 million and RR 3,339 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 2,330 million and RR 288 million for the years ended December 31, 2007 and 2006, respectively, for maintenance that mainly relates to housing, schools and cultural buildings (see also Note 1).

Note 13: Debt

	At December 31, 2007	At December 31, 2006
Short-term debt		
Foreign currency denominated debt		
Current portion of long-term debt	-	1,391
Other foreign currency denominated debt	3,444	1,103
Rouble denominated debt		
Current portion of long-term debt	144	-
Other rouble denominated debt	838	1,697
Less: due to related parties (Note 19)	(94)	(412)
Total short-term debt	**4,332**	**3,779**
Long-term debt		
Foreign currency denominated debt		
BNP Paribas	8,591	1,097
Credit Suisse First Boston	-	290
Other foreign currency denominated debt	461	4
Rouble denominated debt	274	305
Total long-term debt	**9,326**	**1,696**
Less: due to related parties (Note 19)	(5)	(18)
Less: current portion	(144)	(1,391)
Total long-term debt, net of current portion	**9,177**	**287**

Foreign currency debts are primarily denominated in US Dollars.

Short-term foreign currency denominated debt. As of December 31, 2007 other short-term foreign currency denominated debt 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 1 month LIBOR plus varying margin of about 1.8% per annum and is collateralized by crude oil sales. The amount of loan outstanding as of December 31, 2007 and 2006 was RR 508 million (US $20.7 million) and RR 1,103 million (US $41.8 million), respectively.

In January 2007 the Group entered into a RR 1,678 million (US $65 million) credit agreement with BNP Paribas (Suisse), Geneva. The loan bears interest at 6 month LIBOR plus varying margin of 1.2% per annum and is collateralized by crude oil sales in amount of 33.5 thousand tons per month. The amount of loan outstanding as of December 31, 2007 was RR 307 million (US $12.5 million).

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

(in millions of Russian Roubles)

Note 13: Debt (continued)

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 838 million and RR 1,697 million bear contractual interest rates of 11% to 17% and 7% to 20% per annum for the years ended December 31, 2007 and 2006, respectively. The loans are collateralized by the assets of the Group.

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

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

In October 2002, the Group entered into a loan agreement with BNP Paribas for US $300 million. The amount outstanding under this loan as of December 31, 2006 was RR 1,097 million, of which all was classified as current. The loan bore interest at LIBOR plus 3.75%, per annum and was collateralized by crude oil export contracts of 120 thousand tons per month. The loan matured and was repaid in full in October 2007.

In March 2002 the Group entered into a US $200 million loan agreement with Credit Suisse First Boston. The amount of loan outstanding as of December 31, 2006 was RR 290 million of which all was classified as current. The loan bore interest at LIBOR plus 3.78% per annum and was collateralized by crude oil export contracts of 80 thousand tons per month. The loan was repaid according to its scheduled maturity in March 2007.

For the year ended December 31, 2007 the Group was in compliance with all covenants required by the above loan agreements.

The fair value of the Group's long-term debt approximates its book value.

Aggregate maturities of long-term debt outstanding at December 31, 2007 are as follows:

2008	144
2009	545
2010	8,591
2011	-
2012	8
2013	8
Thereafter	30
Total long-term debt	**9,326**

Interest paid during the years ended December 31, 2007 and 2006 was RR 417 million and RR 517 million, respectively.

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

(in millions of Russian Roubles)

Note 14: Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities are as follows:

	At December 31, 2007	At December 31, 2006
Dividends payable	99	108
Salaries and wages payable	3,449	4,556
Advances received from customers	6,274	3,098
Insurance provision	1,106	2,577
Current portion of asset retirement obligations	100	67
Other accrued liabilities	5,867	2,904
Less: due to related parties (Note 19)	(75)	(20)
Total other accounts payable and accrued liabilities	**16,820**	**13,290**

Note 15: Pensions and Post Employment Benefits

On December 31, 2006, the Company adopted SFAS 158. This statement requires employers to recognize the funded status of all postretirement defined benefit plans in the statement of financial position. Upon the adoption SFAS 158 for the year-ended December 31, 2006, the Company determined it had certain unrecorded pension and other post employment benefit obligations. As a result, the Company recorded an adjustment for the unrecorded pension and other post employment benefit obligation of RR 1,889 million, an adjustment for the unrecorded prepaid pension asset of RR 371 million, and an adjustment to decrease beginning retained earnings (under the provision of SAB No. 108) by RR 1,518 million. The Company considered this adjustment to retained earnings be both quantitatively and qualitatively immaterial to prior periods.

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.

(in millions of Russian Roubles)

Note 15: Pensions and Post Employment Benefits (continued)

The following table provides information about the benefit obligations, plan assets and actuarial assumptions used as of December 31, 2007 and 2006. The benefit obligations below represent the projected benefit obligation of the plans.

	At December 31, 2007	At December 31, 2006
Benefit Obligations		
Benefit obligations as of January 1	3,212	3,202
Effect of exchange rate changes	(5)	(11)
Service cost	90	37
Interest cost	230	83
Benefit paid	(218)	(99)
Actuarial gain	(120)	-
Other	173	-
Benefit obligations as of December 31	**3,362**	**3,212**
Plan Assets		
Fair value of plan assets as of January 1	2,098	1,684
Return on plan assets	189	148
Contributions	435	365
Benefit paid	(38)	(99)
Actuarial gain	34	-
Other	(99)	-
Fair value of plan assets as of December 31	**2,619**	**2,098**
Funded status at end of year	**743**	**1,114**

Amounts recognized in the consolidated balance sheet	**Year ended December 31, 2007**	**Year ended December 31, 2006**
Accrued benefit liabilities included in “other accounts payable and accrued expenses”	-	(98)
Accrued benefit liabilities included in “other long-term liabilities”	(1,608)	(1,518)
Prepaid benefit obligations included in “other long-term assets”	865	502
Net amount recognized	**(743)**	**(1,114)**

Assumptions:	**Year ended December 31, 2007**	**Year ended December 31, 2006**
Discount rate	6.8%	9.0%
Expected return on plan assets	9.0%	9.0%
Rate of increase in salary levels	7.0%	6.0%

Components of net periodic obligations pension were as follows:

	Year ended December 31, 2007	**Year ended December 31, 2006**
Service cost	90	37
Interest cost	230	83
Less expected return on plan assets	(189)	(148)
Effect of exchange rates	(5)	(11)
Disposals	(155)	-
Other	272	-
Total net periodic benefit income / (expense)	**243**	**(39)**

(in millions of Russian Roubles)

Note 15: Pensions and Post Employment Benefits (continued)

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

Type of assets	**At December 31, 2007**	**At December 31, 2006**
Russian corporate bonds and Equity securities of Russian issuers	68.9%	48.5%
Russian municipal bonds	22.0%	40.6%
Russian state bonds	4.6%	5.9%
Bank deposits	4.4%	5.0%
Other	0.1%	0.0%
Total	**100%**	**100%**

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

	2008	**2009**	**2010**	**2011**	**2012**	**2013-2042**
Pension benefits	193	103	157	106	137	2,284
Other long-term employee benefits	169	131	138	137	139	3,612
Total expected benefits to be paid	**362**	**234**	**295**	**243**	**276**	**5,896**

Note 16: 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, 2007 and 2006:

	At December 31, 2007	**At December 31, 2006**
Accounts receivable	-	129
Obligations under capital leases	196	271
Other accounts payable	-	298
Prepaid expenses and other current assets	317	238
Pension liabilities	-	176
Other	949	710
Deferred tax assets	**1,462**	**1,822**
Property, plant and equipment	(16,672)	(18,960)
Inventories	(688)	(886)
Accounts receivable	(58)	-
Long-term investments	(1,869)	(941)
Undistributed Earnings	(833)	(663)
Pension liabilities	(364)	-
Other liabilities	(205)	(201)
Deferred tax liabilities	**(20,689)**	**(21,651)**
Net deferred tax liability	**(19,227)**	**(19,829)**

(in millions of Russian Roubles)

Note 16: Taxes (continued)

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

	At December 31, 2007	At December 31, 2006
Current deferred tax asset	315	288
Non-current deferred tax assets	196	447
Non-current deferred tax liability	(19,738)	(20,564)
Net deferred tax liability	**(19,227)**	**(19,829)**

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, 2007	Year ended December 31, 2006
Income before income taxes and minority interest	62,609	42,624
Theoretical income tax expense at statutory rate	15,026	10,230
Increase (reduction) due to:		
Non-deductible expenses, net	2,840	1,545
Other	388	331
Income tax expenses	**18,254**	**12,106**

No provision has been made for additional income taxes of RR 7,504 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 1,126 million if they were remitted as dividends.

Income taxes paid during the years ended December 31, 2007 and 2006 was RR 18,859 million and RR 13,735 million, respectively.

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

	Year ended December 31, 2007	Year ended December 31, 2006
Export duties	85,327	85,358
Unified production tax	58,049	56,843
Property tax	1,398	1,322
Excise taxes	300	602
Penalties and interest	205	102
Other	1,020	749
Total taxes other than income taxes	**146,299**	**144,976**

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

(in millions of Russian Roubles)

Note 16: Taxes (continued)

At December 31, 2007 and 2006, taxes payable were as follows:

	At December 31, 2007	At December 31, 2006
Unified production tax	6,105	4,430
Value Added Tax on goods sold	1,832	1,508
Other	1,730	1,623
Total taxes payable	**9,667**	**7,561**

Note 17: Share Capital, Additional Capital and Other Comprehensive Income

Authorized share capital. At December 31, 2007 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, 2007 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).

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, 2007 and 2006, the Company had a statutory current profit of RR 43,812 million and RR 35,649 million, respectively, as reported in the published statutory accounts of the Company.

(in millions of Russian Roubles)

Note 17: Share Capital, Additional Capital and Other Comprehensive Income (continued)

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, 2007	Year ended December 31, 2006
Net income	43,279	29,773
Common share dividends	(10,020)	(2,179)
Preferred share dividends	(681)	(148)
Income available to common and preferred shareholders, net of dividends	**32,578**	**27,446**
Basic and diluted:		
Weighted average number of shares outstanding (millions of shares):		
Common	2,073	2,034
Preferred	148	148
Combined weighted average number of common and preferred shares outstanding	2,221	2,182
Basic and diluted net income per share (RR)		
Common	19.50	13.65
Preferred	19.27	13.58

Minority interest. Minority interest is adjusted by dividends paid by the Group's subsidiaries amounting to RR 148 million and RR 186 million at December 31, 2007 and 2006, respectively.

Treasury shares. 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 18: 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.

(in millions of Russian Roubles)

Note 18: Segment Information (continued)

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, 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. For the year ended December 31, 2006, the Group had four customers which accounted for RR 174,561 million in crude oil sales, comprising 28%, 21%, 16% 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.

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

	Year ended December 31, 2007	Year ended December 31, 2006
Exploration and production		
Domestic own crude oil	48,924	48,430
CIS own crude oil	55,849	62,947
Non – CIS own crude oil	148,341	121,292
Other	3,625	3,725
Intersegment sales	5,155	5,497
Total exploration and production	**261,894**	**241,891**
Refining and marketing		
Crude oil purchased	6,030	4,121
Refined products	37,013	32,687
Domestic sales	43,043	36,808
Crude oil purchased	2,044	658
Refined products	2,669	6,487
CIS sales(1)	4,713	7,145
Crude oil purchased	9,772	421
Refined products	3,544	4,294
Non – CIS sales(2)	13,316	4,715
Other	1,893	1,748
Intersegment sales	2,129	2,204
Total refining and marketing	**65,094**	**52,620**
Petrochemicals		
Tires - domestic sales	18,100	15,610
Tires - CIS sales	3,337	3,168
Tires - non-CIS sales	1,080	1,165
Petrochemical products and other	1,609	1,466
Intersegment sales	1,370	989
Total petrochemicals	**25,496**	**22,398**
Total segment sales	**352,484**	**316,909**
Corporate and other sales	12,446	10,065
Elimination of intersegment sales	(8,654)	(8,690)
Total sales and other operating revenues	**356,276**	**318,284**

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

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

(in millions of Russian Roubles)

Note 18: Segment Information (continued)

Segment earnings and assets. Segment earnings are as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Segment earnings (loss)		
Exploration and production	61,982	44,206
Refining and marketing	11,007	6,751
Petrochemicals	3,843	2,826
Total segment earnings	**76,832**	**53,783**
Corporate and other	(20,104)	(14,610)
Other income	5,881	3,451
Income before income taxes and minority interest	**62,609**	**42,624**

Segment assets are as follows:

	At December 31, 2007	At December 31, 2006
Assets		
Exploration and production	225,817	189,963
Refining and marketing	21,715	16,853
Petrochemicals	13,881	15,962
Corporate and other	108,806	96,646
Total assets	**370,219**	**319,424**

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

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

	Year ended December 31, 2007	Year ended December 31, 2006
Depreciation, depletion and amortization		
Exploration and production	7,582	7,678
Refining and marketing	598	974
Petrochemicals	773	692
Corporate and other	1,426	1,329
Total segment depreciation, depletion and amortization	**10,379**	**10,673**
Additions to property, plant and equipment		
Exploration and production	19,445	12,032
Refining and marketing	10,754	3,101
Petrochemicals	2,061	621
Corporate and other	2,175	6,249
Total additions to property, plant and equipment	**34,435**	**22,003**

(in millions of Russian Roubles)

Note 19: 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.

In July 2005, the Group provided a subordinated loan to Bank Zenit in the amount of RR 1.7 billion, maturing in 7 years, bearing interest at 8.5% per annum. As at December 31, 2007 and 2006 the Group's subordinated loans to Bank Zenit totaled RR 1.7 billion.

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

In February 2008, the Company issued a RR 3.0 billion short term loan to its shareholder OAO Svyazinvestneftekhim. The loan bears interest at the rate of 4% per annum and matures in July 2008.

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, 2007	Year ended December 31, 2006
Sales of crude oil	6	-
Volumes of crude oil sales (thousand tons)	1	-
Sales of refined products	82	135
Volumes of refined product sales (thousand tons)	5	11
Sales of petrochemical products	-	-
Other sales	851	1,711
Purchases of crude oil	(7,766)	(2,016)
Volumes of crude oil purchases (thousand tons)	693	342
Purchases of refined products	(18)	-
Volumes of refined products purchases (thousand tons)	1	-
Purchases of petrochemical products	-	-
Purchases of electricity	(2,669)	(2,628)
Other purchases	(218)	(501)

For the years ended December 31, 2007 and 2006, the Group sold crude oil on a commission basis from related parties for RR 5,220 million (533 thousand tons) and RR 10,308 million (997 thousand tons), respectively.

	At December 31, 2007	At December 31, 2006
Assets		
Accounts receivable (Note 6)	1,051	495
Notes receivable (Note 10)	5,021	1,861
Short-term certificates of deposit (Note 7)	12,506	9,750
Trading securities (Note 7)	223	1,172
Loans receivable (Note 10)	931	1,075
Due from related parties short-term	**19,732**	**14,353**
Long-term certificates of deposit (Note 7)	-	1,000
Long-term loans receivable (Note 10)	6,541	5,240
Long-term accounts receivable (Note 11)	5	-
Due from related parties long-term	**6,546**	**6,240**
Liabilities		
Other accounts payable (Note 14)	(75)	(20)
Notes payable	-	-
Short-term debt (Note 13)	(94)	(412)
Trade accounts payable	(1,218)	(826)
Due to related parties short-term	**(1,387)**	**(1,258)**
Long-term debt (Note 13)	(5)	(18)
Due to related parties long-term	**(5)**	**(18)**

Note 20: Financial Instruments and Risk Management

Fair values. The carrying amounts of short-term financial instruments approximates fair value because of the relatively short period of time between the origination of these instruments and their expected realization.

Information concerning the fair value of long-term investments is disclosed in Note 7.

Information concerning the fair value of loans receivable is disclosed in Note 10.

Information concerning the fair value of short-term and long-term debt is disclosed in Note 13.

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 21: Commitments and Contingent Liabilities

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

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

Taxation. Russian tax 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. The years 2006 and 2007 are currently open for review.

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.

Note 21: 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

As described in Note 4, in December 2007 the Company acquired a substantial interest in AmRUZ and a controlling interest in Seagroup, whose principle activities are investments in Ukrtatnafta. Historically, and in particular during the course of 2007, there have been a number of attempts by Ukraine to challenge AmRUZ and Seagroup's acquisition of shares in Ukrtatnafta, and in particular, by the State Property Fund and NJSC Naftogaz of Ukraine ("Naftogaz"). Naftogaz is 100% owned by the Ukrainian Government and also owner of record of 43% Ukrtatnafta's common shares.

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

In October 2007 the existing management of Ukrtatnafta, as appointed by its shareholders, was forcibly removed based on an alleged court order. Subsequently installed new management at Ukrtatnafta immediately 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. As of December 31, 2007 receivables of RR 10.7 billion are due from ChMPKP Avto. Following this forced change of control of Ukrtatnafta, the Company (originally the key crude supplier to the Kremenchug refinery) suspended its deliveries to Ukrtatnafta and initiated legal proceedings against the Ukrainian side 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.

Also, the Group continues to defend its interests as of a shareholder in Ukrtatnafta in respective court hearings in Ukraine and has initiated court proceedings to recover the unpaid receivable. As of December 31, 2007, no allowance has been recorded against the investments in Ukrtatnafta. Management continues to litigate this matter and seek additional means for recovering its assets; however, an unfavorable outcome could have a material effect on the Group's consolidated financial statements.

(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, 2007	Year ended December 31, 2006
Exploration costs	2,302	2,223
Development costs	9,843	7,754
Total costs incurred in exploration and development activities	**12,145**	**9,977**

Property acquisitions for the years ended December 31, 2007 and 2006 are immaterial to the Group's oil activities.

Capitalized Costs of Proved Oil Properties

	At December 31, 2007	At December 31, 2006
Wells, support equipment and facilities	252,776	258,908
Uncompleted wells, equipment and facilities	3,127	2,428
Total capitalized costs of proved oil properties	**255,903**	**261,336**
Accumulated depreciation, depletion and amortization	(116,361)	(121,215)
Net capitalized costs of proved oil properties	**139,542**	**140,121**

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

	Year ended December 31, 2007	Year ended December 31, 2006
Net productive development wells drilled	390	348
Net productive exploratory wells drilled	29	31
Total wells drilled	**419**	**379**

As of December 31, 2007 and 2006 the number of net productive oil wells was 19,602 and 19,185, respectively.

(in millions of Russian Roubles)

Results of Operations for Oil and Gas 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, 2007	Year ended December 31, 2006
Revenues from net production:		
Sales	253,114	232,668
Transfers[1]	5,155	2,993
Total revenues from net production	**258,269**	**235,661**
Less:		
Production and operating costs[2]	36,347	34,724
Exploration expenses	1,577	1,555
Depreciation, depletion and amortization	7,582	5,709
Taxes other than income taxes	142,164	141,722
Related income taxes	16,944	12,468
Results of operations for oil and gas producing activities	**53,655**	**39,483**

(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 2007 and 2006 are RR 9,654 and RR 9,238 respectively. The average production and operating cost per ton for 2007 and 2006 are RR 1,402 and RR 1,349, 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, 2007 and 2006. 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.

(in millions of Russian Roubles)

Proved Oil Reserves (continued)

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 12).

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.

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, 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**

Net proved reserves of crude oil recoverable up to license expiry dates at December 31, 2007 presented in the table above includes the effect of the Group renewal of the Romashkinskoye Field in August, 2006, which was extended through 2038.

(in millions of Russian Roubles)

Proved Oil Reserves (continued)

Net proved reserves of crude oil at December 31, 2006:

	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	2,301	323	1,275	179	3,576	502
Net proved developed non-producing reserves	693	97	1,436	202	2,129	299
Net proved developed reserves	**2,994**	**420**	**2,711**	**381**	**5,705**	**801**
Net proved undeveloped reserves	52	7	154	22	206	29
Net proved developed and undeveloped reserves	**3,046**	**427**	**2,865**	**403**	**5,911**	**830**

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, 2005	**3,167**	**445**	**2,705**	**379**	**5,872**	**824**
Revisions	62	8	160	24	222	32
Production	(183)	(26)	-	-	(183)	(26)
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**

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, 2007 and 2006. 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.

(in millions of Russian Roubles)

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

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 2007 and 2006, are US $335.71 and US $187.46 (US $47.13 and US $26.32 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, 2007	**As of December 31, 2006**
	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	7,330,086	4,289,534
Future development and production costs	(3,703,830)	(2,792,398)
Future income taxes	(859,820)	(349,835)
Future net cash flows	**2,766,436**	**1,147,301**
10% annual discount	(2,105,211)	(840,320)
Discounted future net cash flows	**661,225**	**306,981**

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

	Year ended December 31, 2007	**Year ended December 31, 2006**
	Future cash flows attributable to total net proved reserves	Future cash flows attributable to total net proved reserves
Beginning of year	**306,981**	**372,834**
Sales and transfers of oil produced, net of production costs and other operating expenses	(79,759)	(59,215)
Net change in prices received per ton, net of production costs and other operating expenses	512,923	(98,906)
Change in estimated future development costs	(14,593)	3,782
Revisions of quantity estimates	9,843	5,314
Development costs incurred during the period	7,470	8,314
Net change in income taxes	(112,649)	21,409
Accretion of discount	38,039	44,130
Other	(7,030)	9,319
End of year	**661,225**	**306,981**

For the years ended December 31 2007 and 2006 discounted future cash flows for total net proved reserves include RR 105,349 million and RR 64,140 million, respectively, attributable to net proved reserves recoverable past license expiry dates.