Management's Discussion and Analysis

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

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

Background

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

As of June 30, 2009 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, hold approximately 36% of the Company's voting stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization of the Company and "major" and "interested party" transactions as defined under Russian law. The Golden Share currently has an indefinite term. The Tatarstan government, including through OAO Svyazinvestneftekhim, also controls or exercises significant influence over a number of the Company's suppliers and contractors, such as the electricity producer OAO Tatenergo and the petrochemicals company OAO Nizhnekamskneftekhim.

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

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

Key financial and operational results

	Six months ended June 30, 2009	Change	Six months ended June 30, 2008
Sales (millions of RR)	163,972	(33.48)%	246,487
Net income (millions of RR)	29,686	41.33%	21,005
EBITDA [(*)] (millions of RR)	44,470	23.38%	36,043
Basic and Diluted net income per share of common stock (RR)			
Common……………	13.22	40.04%	9.44
Preferred…………...	13.13	43.34%	9.16
Crude oil production by the Group (thousand of tonnes)	12,924	(2.3)%	13,224
Crude oil production by the Group (thousand of barrels)	92,056	(2.3)%	94,196
Gas production by the Group (millions of cubic meters)	394.5	(3.4)%	408.5
Refined gas products produced (thousand of tonnes)	536.5	(0.4)%	538.9

[(*)] *As defined on page 15*

Decrease in our revenue for the first half of 2009 in comparison to the corresponding period of 2008 accounts for the effect of substantially lower crude oil prices, partly offset by devaluation of the Ruble against the US Dollar (most of the Group's revenues are denominated in US Dollars). Also, our revenues were partially affected by the decrease of export duties by 51%, for which our revenue is grossed up in accordance with US GAAP. At the same time, stabilization and growth of crude oil prices (compared to a significant drop at the end of 2008), decrease of total costs and other deductions by approximately 40% compared to the corresponding period of 2008, decrease of tax burden on the industry, in the first half of 2009, all contributed to the increase of our income by 41.33% in the first half of 2009 in comparison to the corresponding period of 2008.

Segment information

Our operations are currently divided into the following main segments:

- **Exploration and production** – consists of the Company's oil and gas extraction and production divisions, well repair and reservoir oil yield improvement subdivisions, pumping equipment repair centers, security and logistics. Most oil and gas exploration and production activities are concentrated within OAO Tatneft.

- **Refining and marketing** – consists of our participation in OAO TANECO, a company established to build and operate a refining and petrochemical complex in Nizhnekamsk, Tatarstan; our gas production, transportation and refining division Tatneftegaspererabotka, OOO Tatneft-AZS-Center, OOO Tatneft-AZS-Zapad, OOO Tatneft-AZS-Sibir and OOO Tatneft-AZS-Yug, management companies for the Tatneft branded gas stations network; and certain other oil trading and ancillary companies.

- **Petrochemicals -** our petrochemicals segment has been consolidated under a management company, Tatneft-Neftekhim, which manages OAO Nizhnekamskshina, one of the largest tire manufacturers in Russia, and the companies technologically integrated with it, including OAO Nizhnekamsk Industrial Carbon Plant, ZAO Yarpolymermash-Tatneft, OAO Nizhnekamskiy Mekhanicheskiy Zavod and OOO Nizhnekamskiy Shinny

Zavod CMK. OOO Tatneft-Neftekhimsnab and OOO Trading House Kama are responsible for procuring supplies and marketing products produced by the companies within this segment, respectively.

These segments are determined by the way management recognizes the segments within the Group for making operating decisions and how they are evident from the Group structure.

Executive overview

Recent developments and outlook

E&P activities in Tatarstan

Although in response to unfavorable economic environment in the first half of 2009 the Group decreased production by 2.3% compared to the corresponding period of 2008, the Company has the ability to successfully pursue one of its primary strategic goals - to maintain current levels of crude oil production from its licensed fields in Tatarstan. Due to the relative maturity of the Company's main producing fields significant portion of all crude oil produced by the Company in Tatarstan was extracted using various enhanced recovery techniques. In the first half of 2009 the Company put 172 new wells into operation in Tatarstan.

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

E&P activities outside of Tatarstan

The Group continues to expand its operations outside of Tatarstan. In the first half of 2009 the Group obtained two new E&P licenses in the Kalmykia Republic.

Tatneft is planning to continue expansion and diversification of its reserve base by gaining access, including through establishing strategic alliances, to reserves outside of Tatarstan, particularly in the Kalmykia Republic, the Ulyanovsk, Samara, Orenburg and Krasnoyarsk regions, Nenets Autonomous Region and the Chuvash Republic. Outside of the Russian Federation, Tatneft is engaged in projects in Libya, Syria and other countries.

Highly viscous oil (natural bitumen) production

During the first half of 2009 the Company continued a pilot project to produce highly viscous oil (natural bitumen) from the Ashalchinskoye and Mordovo-Karmalskoye fields in Tatarstan using parallel steam injection and producing wells. The Company continues to assess the economic parameters and expansion of the activities relating to highly viscous oil production in Tatarstan.

The Group benefits from a zero unified production tax rate related to the production of highly viscous oil in Tatarstan.

Crude oil refining and marketing

During the first half of 2009 the Group continued the construction by OAO TANECO ("TANECO"), formerly known as ZAO Nizhnekamsk Refinery, of a new refining and petrochemicals complex in Nizhnekamsk, Tatarstan. In the first half of 2009 majority of expenditures related to the construction were primarily financed from a US$ 2 billion senior secured credit facility arranged by ABN AMRO (now RBS), BNP Paribas (Suisse) SA, Citibank International PLC, Bayerische Hypo-und Vereinsbank AG, Sumitomo Mitsui Finance Dublin and WestLB AG in 2008 as well as from the Company's own funds.

Petrochemicals

In the first half of 2009 the core entity of the Group's petrochemicals segment – OAO Nizhnekamskshina produced 4.1 million tires in comparison to 5.96 million tires in the first half of 2008. The decrease was associated with the decline in, and in certain circumstances a temporary halt on, production of vehicles by major clients of Nizhnekamskshina, which was a reaction to the current economic crisis.

A new advanced rubber mix production line was launched in 2007 with monthly capacity of 1,200 tonnes, which allows Nizhnekamskshina to produce modern high performance tires. The Group continued to invest in the modernization and upgrading of Nizhnekamskshina's production facilities to strengthen its market competitiveness, including the construction of a new plant to produce modern radial tires for trucks and other heavy load vehicles, which is expected to be launched by the end of 2009.

Changes in the Group Structure

In December 2008 the Group submitted a redemption request to IPCG Fund to redeem a part of its holdings in the Fund. The IPCG Fund accepted this request subject to certain conditions which were met in May 2009. The participation was redeemed (on a non cash basis) by delivering to the Group of 51% shares in TANECO. As a result, the Group currently owns 91% in TANECO.

In June 2009, Osmand Holdings Ltd ("Osmand"), a subsidiary of the Company, issued additional shares to investors who contributed a 17.05% ownership interest in Ak Bars Bank. As a result of this transaction, the Group's ownership interest in Osmand decreased to 29.5%.

Operational highlights

Crude oil and gas production

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

	Six months ended June 30, 2009	Six months ended June 30, 2008
Crude oil daily production, (thousand bbl per day)	504.4	516.1
Gas daily production (thousand boe per day)	12.7	13.2
Crude oil extraction expenses (RR per bbl)	146.7	130.8
	(RR millions)	
Sales of crude oil	126,655	199,775
Crude oil extraction expenses	13,503	12,317
Exploration expenses	1,081	1,929
Unified production tax	22,387	44,489

Crude oil production of the Group (including production of consolidated subsidiaries OAO Ilekneft, ZAO Tatneft-Samara, ZAO Tatneft-Severny and ZAO Kalmtatneft) decreased by 2.3% to 12.9 million metric tonnes in the first half of 2009 compared to the first half of 2008. Our gas production decreased by 3.4% to 394.5 million cubic meters in the first half of 2009 from 408.5 million cubic meters in the corresponding period of 2008.

Refining and marketing

	Six months ended June 30, 2009	Six months ended June 30, 2008
Refining of crude oil throughput (thousand bbl per day)	10.33	10.24
Refining of gas products throughput (thousand boe per day)	10.76	10.78
Number of petrol (gas) stations in Russia*	468	422
Number of petrol (gas) stations outside of Russia*	138	143

** including stations rented from third parties*

Export of crude oil from Russia

The Group is using transportation services of Transneft, the state-owned monopoly owner and operator of Russia's trunk crude oil and export pipelines, upon export of its crude oil. During the first half of 2009, the Group exported from Russia approximately 64% of all its crude oil sold compared with approximately 65% in the corresponding period of 2008.

In the first half of 2009 the Company delivered 27% (45% in the first half of 2008) of crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Czech Republic and Germany); 51% (46% in the first half of 2008) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk); 5% (8% in the first half of 2008) of crude oil exported through Baltic Sea port Primorsk and 17% (2% in the first half of 2008) of crude oil was shipped through Ukrainian port Yuzhnyi.

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

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

Crude oil prices

The main driver of our revenue is our selling prices of crude oil and refined products. During the first half of 2009 the Brent crude oil price fluctuated between $39 and $71 per barrel, reaching its maximum of $71.47 in June. In the first half of 2008, the crude oil prices were at their ever maximum levels. Starting from July 2008 crude oil prices started to decline reaching their bottom values since July 2004 ($33.6 at the end of December 2008) drifted by the world economic downturn. From the beginning of 2009, the crude oil prices bottomed out stabilizing by the end of six-month period at around $60 per barrel.

Substantially all the crude oil we sell on export and domestic markets is Urals blend. The table below shows average and the end of the period crude oil prices for the first six months of 2009 and 2008, respectively.

	Average for the six months ended June 30		Change	At June 30		Change
	2009	2008		2009	2008	
	(in US dollars per barrel, except for figures in percent)					
Brent crude	51.6	109.1	*(52.7)%*	68.1	138.9	*(51.0)%*
Urals crude (*CIF Mediterranean*)*	50.9	105.3	*(51.6)%*	68.1	134.8	*(49.4)%*
Urals crude (*CIF Rotterdam*)*	50.9	105.6	*(51.8)%*	68.0	136.1	*(50.1)%*

Source: Platts

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

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

Transportation of crude oil and refined products

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

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

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

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

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

Inflation and foreign currency exchange rate fluctuations

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

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

	Six months ended June 30, 2009	Six months ended June 30, 2008
Ruble inflation	7.4%	8.7%
Period-end exchange rate (Ruble to US $)	31.29	23.46
Average exchange rate (Ruble to US $)	33.05	23.94
Nominal (devaluation) appreciation of the Ruble	(6.5)%	4.4%
Real Ruble appreciation	0.8%	13.7%

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

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

Taxation

The Group is subject to numerous taxes that have a significant effect on its results of operations. Russian tax legislation is and has been subject to varying interpretations and frequent changes.

In addition to income taxes, the Group is also subject to:

- unified natural resources production tax (or unified production tax);
- export duties;
- excise taxes on refined products;
- value added taxes;
- property taxes;
- land tax;
- vehicle tax;
- other local taxes and levies; and
- tax penalties and interest.

These taxes, except for value added taxes, are reflected in Taxes other than income taxes in the Group's consolidated statements of operations and comprehensive income. In addition, the Group is subject to payroll-based taxes, which are included as salary costs within Selling, general and administrative expenses or Operating expenses, as appropriate.

The table below presents a summary of statutory tax rates that the Company and the majority of its subsidiaries were subject to in the respective periods:

	Six months ended June 30, 2009	**Six months ended June 30, 2008**	**Change**	**Taxable base**
Income tax – maximum rate	20%	24%	*(16.7)%*	Taxable income
VAT	18%	18%	-	Added value
Property tax – maximum rate	2.2%	2.2%	-	Taxable property
	(in RR per metric tonne, except for figures in percent)			
Unified production tax, average rates[1]	1,873	3,701	*(49.4)%*	Metric tonne produced (crude oil)
Refined products excise tax:				
High octane gasoline	3,629	3,629	-	
Low octane gasoline	2,657	2,657	-	
Diesel fuel	1,080	1,080	-	
Motor oils	2,951	2,951	-	Metric tonne produced and sold domestically [2]
Straight run gasoline	3,900	2,657	*46.8%*	
	(in US $ per metric tonne, except for figures in percent)			
Crude oil export duty, average rates	122.6	336.9	*(63.6)%*	Metric tonne exported
Refined products export duty average rates:				
Light refined products (gasoline products) and mid refined products (diesel fuel)	94.9	239.3	*(60.3)%*	Metric tonne exported
Fuel oil (mazut)	51.1	128.9	*(60.4)%*	

[1] *Without taking into account differentiated taxation*

[2] *Excise taxes are paid on refined products produced and sold domestically. Excise taxes are paid by the companies that sell refined products to the end customers, while producers and intermediary re-sellers accrue excise tax and subsequently recover it subject to certain conditions set by the legislation.*

Due to decline in international crude oil prices the tax rates specific to the oil industry decreased substantially during the first half of 2009 compared to the corresponding period of previous year. Unified production tax decreased by 49%, average crude oil export duties by 64%, and average refined products export duties by 60%.

The decrease in unified production tax rates in the first half of 2009 was a result of decrease in the average Urals blend price by 52% as well as changes in the tax calculation (see "Unified production tax rate" below). Excise taxes on refined products remained at the same level as in the first half of 2008, except for excise tax for straight run gasoline which increased by 47% in the first half of 2009.

Unified production tax rate. Effective from January 1, 2007, the rate of the unified production tax is differentiated. The base tax rate for the production of oil was set at RR 419 per metric tonne and was adjusted depending on the international market price of Urals blend and the ruble exchange rate. This tax rate is applied with a discount based on the levels of the international oil prices and the levels of depletion of the related oil fields as determined under Russian reserves classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above as determined by the Russian reserves classification. The Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As Romashkinskoye field, the Company's largest, along with certain other fields, is more than 80% depleted, the Company received a benefit from these fields in the first half of 2009 of RR 2.8 billion.

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

Also a zero unified production tax rate applies to the production of highly viscous crude oil (defined as crude oil of more than 200 Megapascal second in reservoir conditions) where the direct (segregated) method of accounting for produced oil is used. Since April 2007, the Company's production of highly viscous crude oil (bitumen) from the Ashalchinskoye and Mordovo-Karmalskoye fields was subject to a zero unified production tax rate, resulting in tax benefit during the first six months of 2009 attributed to that production of RR 21million.

Crude oil export duties. Prior to October 1, 2008, the Russian government set export tariff rates for two-month periods. The rates in a specific two-month period were based on Urals blend international market prices in the preceding two months. Thus, the calculation method that the Russian government employed to determine export tariff rates resulted in a two-month gap between movements in crude oil prices and the revision of the export duty rate based on those crude oil prices.

This approach changed in September 2008. The Russian government set the specific crude oil export duty rate for October and November 2008 at $372.20 and $287.30 per tonne respectively, in order to compensate oil companies for the negative effect of decline in crude oil prices. Beginning from December 2008, the crude oil export duty rate is revised monthly on the basis of crude oil price monitoring in the immediately preceding one-month period.

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

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

The export duty rate on crude oil decreased by 64% in the first half of 2009 to US$ 122.6 per tonne (US$ 16.8 per barrel) from US$ 336.9 per tonne (US$ 46.2 per barrel) in the corresponding period of 2008. The decrease was associated with the decrease of average Urals prices by 52% to US$ 50.9 per barrel in the first half of 2009 compared to US$ 105.3 per barrel in the corresponding period of 2008.

Starting from 2007, crude oil exported from Russia to Belorussia became subject to export duties. The latest amendments made by customs authorities set a multiplier of 0.356 for 2009 (0.335 for 2008) to be applied to the regular export duty rate set by the Russian Government for calculation of export duty on crude oil exports from Russia to Belorussia.

Property tax. The maximum property tax rate in Russia is 2.2%. Exact tax rates are set by the local authorities.

Value added tax (VAT). The Group is subject to value added tax (or VAT) of 18% on most purchases. VAT payments are recoverable against VAT received on domestic sales. Export sales are not subject to VAT. Input VAT related to export sales is recoverable from the Russian government. The Group's results of operations exclude the impact of VAT.

Income tax. Before 2009, operations in the Russian Federation were subject to an income tax rate of 24%. The Federal income tax rate was 6.5% and a regional income tax rate varied from 13.5% to 17.5% at the discretion of the individual regional administrations. Starting from January 1, 2009, the total income tax rate was decreased to 20%, including federal part which decreased to 2.0% and the regional part which varies now between 13.5% and 18.0%.

Six months ended June 30, 2009 compared to the six months ended June 30, 2008

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

RR millions	Six months ended June 30, 2009 (unaudited)	Six months ended June 30, 2008 (unaudited)	Change
Sales and other operating revenues	**163,972**	**246,487**	**(33.5)%**
Costs and other deductions			
Operating	27,646	30,117	(8.2)%
Purchased oil and refined products	16,268	31,966	(49.1)%
Exploration	1,081	1,929	(44)%
Transportation	6,822	5,677	20.2%
Selling, general and administrative	12,500	21,195	(41)%
Depreciation, depletion and amortization	6,326	5,252	20.4%
Loss on disposals of property, plant and equipment and investments and impairments	324	1,941	(83.3)%
Taxes other than income taxes	56,695	112,324	(49.5)%
Maintenance of social infrastructure and transfer of social assets	926	2,546	(63.6)%
Total costs and other deductions	**128,588**	**212,947**	**(39.6)%**
Earnings/(loss) from equity investments	882	(934)	(194.4)%
Foreign exchange loss	(535)	(1,626)	(67.1)%
Interest income	2,121	1,609	31.8%
Interest expense, net of amounts capitalized	(309)	(139)	122.3%
Other income /(expense), net	2,413	(189)	(1,376.7)%
Total other income/ (expense)	**4,572**	**(1,279)**	**(457.5)%**
Income before income taxes and non-controlling interest	**39,956**	**32,261**	**23.9%**
Current income tax expense	(10,234)	(10,531)	(2.8)%
Deferred income tax benefit/(expense)	1,284	(90)	(1,526.7)%
Total income tax expense	**(8,950)**	**(10,621)**	**(15.7)%**
Less: net income attributable to non-controlling interest	(1,320)	(635)	107.9%
Net income attributable to the Company shareholders	**29,686**	**21,005**	**41.3%**

The analysis of the main financial indicators of the above financial information is provided below.

Sales and other operating revenues

A breakdown of sales and other operating revenues (by product) is provided in the following table:

RR millions	Six months ended June 30, 2009	Six months ended June 30, 2008
Crude oil	126,655	199,775
Refined products	20,493	25,692
Petrochemicals	8,523	10,433
Corporate and other sales	8,301	10,587
Total sales and other operating revenues	**163,972**	**246,487**

Sales and other operating revenues decreased in the first half of 2009 by 33.5% to RR 163,972 million from RR 246,487 million in the corresponding period of 2008. The decrease is mainly attributed to an overall decrease in crude oil and refined product prices.

Sales of crude oil

Sales of crude oil decreased by 36.6% to RR 126,655 in the first half of 2009 from RR 199,775 million in the corresponding period of 2008. The table below provides an analysis of the changes in sales of crude oil:

	Six months ended June 30, 2009	Change	Six months ended June 30, 2008
Domestic sales of crude oil			
Revenues (RR millions)	27,186	*(30.2)%*	38,953
Volume (thousand tonnes)	*4,890*	*(0.3)%*	*4,906*
Realized price (RR per tonne)	*5,559.5*	*(30)%*	*7,940*
CIS export sales of crude oil [1]			
Revenues (RR millions)	10,789	*40.2%*	7,698
Volume (thousand tonnes)	*1,078*	*65.8%*	*650*
Realized price (RR per tonne)	*10,008.3*	*(15.5)%*	*11,843*
Non-CIS export sales of crude oil			
Revenues (RR millions)	88,680	*(42.1)%*	153,124
Volume (thousand tonnes)	*7,484*	*(12.4)%*	*8,544*
Realized price (RR per tonne)	*11,849.3*	*(33.9)%*	*17,922*

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

Sales of refined products

Sales of refined products decreased by 20.2% to RR 20,493 million in the first half of 2009 from RR 25,692 million in the corresponding period of 2008. The table below provides an analysis of the changes in sales of refined products:

	Six months ended June 30, 2009	Change	Six months ended June 30, 2008
Domestic sales of refined products			
Revenues (RR millions)	17,766	*(18.6)%*	21,819
Volume (thousand tonnes)	*1,401*	*1%*	*1,387*
Realized price (RR per tonne)	*12,680.9*	*(19.4)%*	*15,731*
CIS export sales of refined products			
Revenues (RR millions)	555	*37%*	405
Volume (thousand tonnes)	*70*	*268.4%*	*19*
Realized price (RR per tonne)	*7,928.6*	*(62.8)%*	*21,316*
Non-CIS export sales of refined products			
Revenues (RR millions)	2,172	*(37.4)%*	3,468
Volume (thousand tonnes)	*198*	*(9.6)%*	*219*
Realized price (RR per tonne)	*10,969.7*	*(30.7)%*	*15,836*

Sales of petrochemical products

The table below provides an analysis of petrochemical products sales.

RR millions	Six months ended June 30, 2009	Change	Six months ended June 30, 2008
Tires sales	8,171	*(18.7)%*	10,050
Other petrochemicals sales	352	*(8.1)%*	383
Total sales of petrochemical products	**8,523**	***(18.3)%***	**10,433**

The decrease in sales of petrochemical products was primarily due to the lower volumes of tires sold. The Group's production of tires in the first half of 2009 decreased by 31% compared to the corresponding period of 2008 and amounted to 4.1 million tires due to decrease in demand in line with overall market downturn.

Other sales

Other sales decreased by 21.6% to RR 8,301 million in the first half of 2009 from RR 10,587 million in the corresponding period of 2008. Other sales primarily represent sales of materials and equipment and various oilfield services provided by the Company's production subsidiaries to third parties (such as drilling, lifting, construction, repairs, and geophysical works).

Costs and other deductions

Operating expenses. Operating expenses include the following costs:

RR millions	Six months ended June 30, 2009	Six months ended June 30, 2008
Crude oil extraction expenses	13,503	12,317
Petrochemical production expenses	6,766	8,333
Other operating expenses	6,563	9,398
Change in operating expenses in inventory of crude oil produced by the Group*	814	69
Total operating expenses	**27,646**	**30,117**

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

Operating expenses include the following main categories: lifting expenses connected with extraction of crude oil, refining and processing expenses, cost of petrochemicals production, cost of materials other than oil and gas, and other direct costs.

Crude oil extraction expenses. The Group's extraction ("lifting") expenses relate to oil and gas production and are incurred by the Company's oil and gas producing divisions and subsidiaries. They include expenditures related to maintenance services, repairs and insurance of extraction equipment, labor costs, expenses on artificial stimulation of reservoirs, fuel and electricity costs, materials and goods consumed in oil and gas production, and other similar costs.

Expenses of the Company's oil and gas production units and subsidiaries consisting of the purchase of services and goods (such as electricity, heat, etc.) that are unrelated to core activities, accretion of the Company's asset retirement obligations, and the change in crude oil and refined products inventory, have been excluded from extraction expenses and are included in other operating costs.

Our lifting expenses in the first half of 2009 in comparison to the second half of 2008 decreased by 21% from RR 185.4 per barrel to RR 146.7 per barrel due to decreases in repair expenses, transportation services costs and other service costs. However, it increased by 12% compared to the corresponding period of 2008 (RR 130.8 per barrel) which was primarily a result of increases in equipment service costs and electricity tariffs.

Petrochemical production expenses. Petrochemical production expenses primarily include the costs of raw materials, labour, maintenance and electricity consumed in the production of petrochemical products. Cost of petrochemical products decreased by 18.8% to RR 6,766 million in the first half of 2009 compared to the corresponding period of 2008 primarily due to decrease in volumes of petrochemicals produced.

Other operating expenses include accretion of the asset retirement obligation and the costs of other services, goods and materials not related to the core oil and gas production activities of the Group. Other operating expenses decreased to RR 6,563 million, or by 30.2%, compared to the first half of 2008 primarily due to decrease of costs of other services.

Cost of purchased crude oil and refined products. A summary of purchased oil and refined products for the corresponding periods of 2009 and 2008, respectively, is as follows:

RR millions	**Six months ended June 30, 2009**	**Six months ended June 30, 2008**
Purchased crude oil (RR millions)	2,468	14,618
Volume (thousand tonnes)	192	*1,071*
Average price per tonne (RR)	*12,854*	*13,646*
Purchased refined products (RR millions)	13,800	17,348
Volume (thousand tonnes)	*1,121*	*1,141*
Average price per tonne (RR)	*12,310*	*15,200*
Total purchased oil and refined products	**16,268**	**31,966**

Purchases of crude oil in the first half of 2009 decreased by 83% to RR 2,468 million from RR 14,618 million in the corresponding period of 2008 due to decrease in volumes of purchased crude oil for trading by 82% as well as decrease in average purchase price per tonne by 6%.

Purchases of refined products decreased by 20% to RR 13,800 million in the first half of 2009 from RR 17,348 million in the corresponding period of 2008 primarily due to decrease in average purchase price per tonne by 19%.

Exploration expenses. Exploration expenses consist primarily of exploratory drilling, geological and geophysical costs, and the costs of carrying and retaining undeveloped properties. Exploration expenses decreased to RR 1,081 million in the first half of 2009 from RR 1,929 million in the corresponding period of 2008 Exploration expenses in the first six months of 2008 included accumulated prior years' exploration expenditures in the amount of RR 1,179 mln of first-time consolidated E&P companies under provisions of FIN 46R.

Transportation expenses. Transportation expenses relate to the delivery of our own crude oil produced as well as purchased crude oil and refined products, which are mostly carried out using Transneft pipeline for deliveries of crude oil to our customers. Transportation costs increased by 20.2% to RR 6,822 million in the first half of 2009 from RR 5,677 million in the corresponding period of 2008 due to an increase in transportation tariffs and shift of some export volumes from Druzhba pipeline to port Yuzhnyi in Ukraine.

Selling, general and administrative expenses. Certain selling, general and administrative expenses are by nature fixed costs, which are not directly related to production, such as payroll, general business costs, insurance, advertising, share based compensation, legal fees, consulting and audit services, charity and other expenses, including bad debt provisions. Selling, general and administrative expenses decreased by RR 8,695 million to RR 12,500 million in the first half of 2009 compared to the corresponding period of 2008, primarily as a result of decrease in our bad debt provision on accounts receivables. In the first half of 2008 the Group posted a bad debt provision on accounts receivables related to sales of crude oil to Ukraine in the amount of RR 10,307 million.

Loss on disposals of property, plant and equipment and impairment of investments. In the first half of 2009 we recorded loss on disposals of property, plant and equipment and impairment of investments amounted to RR 324 million compared to RR 1,941 million losses in the corresponding period of 2008.

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

	Six months ended June 30, 2009	**Six months ended June 30, 2008**
Export duties	32,513	66,438
Unified production tax	22,387	44,489
Property tax	962	736
Excise taxes	163	145
Penalties and interest	178	91
Other	492	425
Total taxes other than income taxes	**56,695**	**112,324**

Taxes other than income taxes decreased by 49.5% to RR 56,695 million in the first half of 2009 from RR 112,324 million in the corresponding period of 2008. The decrease was primarily a result of a decrease in export duty and unified production tax rates, which are linked to crude oil market prices. In the first half of 2009 compared to the corresponding period of 2008, export duties paid by the Group decreased by 51.1%. The Group's unified production tax decreased by 49.7%. Our expenses on excise tax increased to RR 163 million from RR 145 million in the first half of 2008, due to the increase in domestic sales of taxable refined products (mainly diesel fuel and gasoline). Other taxes include land tax and non-recoverable VAT.

Effective January 1, 2007, the base tax rate formula for unified production tax was modified to provide a benefit for fields whose depletion rate is 80% or above as determined under Russian reserves classification. Under these new rules, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As Romashkinskoye field, the Company's largest, along with certain other fields is more than 80% depleted, the Company received a benefit in the first half of 2009 of RR 2.8 billion in comparison to RR 4.4 billion in the corresponding period of 2008.

Since April 2007, the Company applied a zero unified production tax rate to production of highly viscous crude oil (bitumen) from Ashalchinskoye and Mordovo-Karmalskoye fields, resulting in the six months of 2009 tax benefit of RR 21 million in comparison to RR 30 million in the corresponding period of 2008.

Maintenance of social infrastructure and transfer of social assets. Social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan. Maintenance of social infrastructure expenses and transfer of social assets decreased to RR 926 million in the first half of 2009 from RR 2,546 million in the corresponding period of 2008.

Other income and expenses

The Group recorded gain from equity investments amounted to RR 882 million in the first half of 2009 compared to a RR 934 million loss in the corresponding period of 2008. This gain was mainly due to an increase of the IPCG Fund gains, RR 391 million of which was attributed to the Group.

Our foreign exchange loss decreased to RR 535 million in the first half of 2009 from RR 1,626 million in the corresponding period of 2008. The decrease was mainly due to foreign exchange gain on dollar denominated sales of crude oil partly offset by foreign exchange loss in the amount of RR 1,663 million on US dollars denominated debt incurred under the secured credit facility for the construction of TANECO's refinery and petrochemical complex.

Interest income increased by 31.8% to RR 2,121 million in the first half of 2009 compared to the corresponding period of 2008 due to more interest received on our long-term financial promissory notes. Interest expense increased from RR 139 million to RR 309 million in the first half of 2009 in comparison to the corresponding period of 2008, which is a result of further drawdowns under the US$ 2 billion secured credit facility for the construction of TANECO's refinery and petrochemical complex (average debt increased by more than 100% in the first half of 2009 compared with the corresponding period of 2008).

Other income, net in the first half of 2009 amounted to RR 2,413 million compared with RR 189 million of other expense, net in the corresponding period of 2008. The change is primarily due to increase in realized gain on our trading marketable securities.

Income taxes

The effective income tax rate in the first six months of 2009 was 22.4%, compared to the statutory tax rate of 20% in the Russian Federation. This difference is due to non deductible or partially deductible expenses incurred during the reporting period.

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

RR millions	Six months ended June 30, 2009	Six months ended June 30, 2008
Net income	29,686	21,005
Add back:		
Minority interest	1,320	635
Income tax expense	8,950	10,621
Depreciation, depletion and amortization	6,326	5,252
Interest expense	309	139
Interest and dividend income	(2,121)	(1,609)
EBITDA	**44,470**	**36,043**

EBITDA is a non-US GAAP financial measure, defined as net income before interest, taxes and depreciation and amortization. The Company believes that EBITDA provides useful information to investors because it is an indicator of the strength and performance of our business operations, including our ability to finance capital expenditures, acquisitions and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under US GAAP, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our EBITDA calculation is commonly used as a basis by some investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies within the oil and gas industry. EBITDA should not be considered in isolation as an alternative to net income, operating income or any other measure of performance under US GAAP. EBITDA does not consider our need to replace our capital equipment over time.

Financial Condition Summary Information

The following table shows certain key financial indicators:

RR millions	At June 30, 2009	At December 31, 2008
Current assets	133,320	116,620
Long-term assets	325,460	276,360
Total assets	**458,780**	**392,980**
Current liabilities	54,212	32,043
Long-term liabilities	117,221	96,078
Total liabilities	**171,433**	**128,121**
Shareholders' equity	**280,862**	**260,276**
Working capital	79,108	84,577
Current ratio	2.46	3.64

Working capital position

As of June 30, 2009 working capital of the Group amounted to RR 79,108 million compared to RR 84,577 million as of December 31, 2008. The decrease in the working capital is primarily attributable to an increase in current liabilities (mainly dividends payable).

Liquidity and Capital Resources

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

RR millions	Six months ended June 30, 2009	Six months ended June 30, 2008
Net cash provided by operating activities	35,121	32,153
Net cash used for investment activities	(45,323)	(27,916)
Net cash provided by financing activities	21,755	4,015
Increase in cash and cash equivalents	11,553	8,252

Net cash provided by operating activities

Our primary source of cash flow is funds generated from our operations. Net cash provided by operating activities increased by 9.2% to RR 35,121 million in the first half of 2009 from RR 32,153 million in the corresponding period of 2008 which is explained primarily through higher net income received in the first half of 2009.

Net cash used for investing activities

Net cash used for investing activities increased by 62.4% to RR 45,323 million in the first half of 2009 from RR 27,916 million in the corresponding period of 2008, which is primarily due to an increase in expenditures, related to the construction of TANECO's refinery and petrochemical complex.

Net cash provided by financing activities

Cash flow provided by financing activities amounted to RR 21,755 million in the first half of 2009 compared to RR 4,015 million provided by financing activities in the corresponding period of 2008. This is primarily due to net debt proceeds of RR 22,134 million in the first half of 2009 compared with net debt proceeds of RR 4,436 million in the corresponding period of 2008.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment) were made in the first half of 2009, compared to the corresponding period of 2008:

RR millions	Six months ended June 30, 2009	Six months ended June 30, 2008
Exploration and production	9,420	8,857
Refining and marketing	32,236 [1]	8,510
Petrochemicals	3,758[2]	2,451
Corporate and other	646	1,907
Total additions to property, plant and equipment	**46,060**	**21,725**

[1] *Includes RR 31,855 million expenditure related to the refinery construction by TANECO*
[2] *Includes RR 2,481 million expenditure related to the new metal cord tires plant*

Analysis of Debt

At June 30, 2009, long-term debt, including the current portion of long-term debt, amounted to RR 64,226 million as compared to RR 44,889 million at December 31, 2008. The related increase is due to an increase in the long-term foreign currency denominated debt through further drawdowns under the US$ 2 billion secured credit facility for the construction of TANECO's refinery and petrochemical complex.

The aggregate maturities of total long-term debt, including current portion as of June 30, 2009 are as follows:

RR millions	At June 30, 2009
June 2009 - June 2010	450
June 2010 - June 2011	63,713
June 2011- June 2012	-
June 2012- June 2013	-
June 2013 and thereafter	62
Total long-term debt	**64,225**