Management's Discussion and Analysis

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

For financial reporting purposes, Tatneft converts metric tons of crude oil to barrels using a conversion factor of 7.123. This factor represents a blend of varying conversion factors specific to each of Tatneft's fields. Because the proportion of actual production by field varies from period to period, total reserves and production volumes for the Group in barrels converted from tons using the blended rate may differ from total reserves and production calculated on a field by field basis.

Background

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

As of September 30, 2008 OAO Svyazinvestneftekhim, a company wholly owned by the government of Tatarstan, together with its subsidiary, hold approximately 36% of the Company's voting stock. These shares were contributed to Svyazinvestneftekhim by the Ministry of Land and Property Relations of Tatarstan in 2003. Tatarstan also holds a "Golden Share", a special governmental right, in the Company. The exercise of its powers under the Golden Share enables the Tatarstan government to appoint one representative to the Board of Directors and one representative to the Revision Committee of the Company as well as to veto certain major decisions, including those relating to changes in the share capital, amendments to the Charter, liquidation or reorganization 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

	Nine months ended September 30, 2008	Change	Nine months ended September 30, 2007
Sales (millions of RR)	378,066	46.3%	258,436
Net income (millions of RR)	30,397	2.9%	29,531
EBITDA [(*)] (millions of RR)	50,022	1.8%	49,131
Basic and Diluted net income per share of common stock (RR)			
Common…………….	13.69	2.9%	13.31
Preferred……………...	13.39	2.4%	13.08
Crude oil production by the Group (thousand of tons)	19,734	0.9%	19,558
Crude oil production by the Group (thousand of barrels)	140,568	0.9%	139,312
Gas production by the Group (millions of cubic meters)	608.5	(0.5)%	611.5
Refined and gas products produced (thousand of tons)	811.8	(5.3)%	856.7

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

During the nine-month period of 2008 our net income was RR 30,397 million, which is RR 866 million, or 3%, more than in the corresponding period of 2007.

Improvement in our performance was supported by an increase in average crude oil market prices in the nine months of 2008 compared to the corresponding period of 2007. On the other side, we were affected by increasing cost of purchased crude oil, tax expenses, selling, general and administrative expenses and transportation tariffs. In addition, in 2008 there were a number of nonrecurring charges. These factors, as well as other drivers impacting the results of our operations are considered in detail below.

Nonrecurring Charges

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

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

Reconciliation of Net income to Net income before nonrecurring charges

RR millions	Nine months ended September 30, 2008
Net income	30,397
Nonrecurring charges:	
Bad debt provision related to Ukrainian sales[(1)]	11,093
Write-off of unrecoverable debt	960
Losses of the first time consolidated company	689
Disposal of a medical facility	1,345
Exploration expenses of newly consolidated companies	1,444
Net income before nonrecurring charges	**45,928**

[(1)] The difference with the amount shown in the six months 2008 US GAAP financial statements and the related MD&A is due to a foreign exchange loss incurred as a result of timing difference in recording the provision in the US GAAP and RAR accounts.

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

Segment information

Our operations are currently divided into the following main segments:

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

- **Refining and marketing** – consists of our participation in OAO TANECO, a company established to build and operate a refining and petrochemical complex with a throughput capacity of seven million tones of crude oil per year in Nizhnekamsk, Tatarstan; our gas production, transportation and refining division Tatneftegaspererabotka, OOO Tatneft-AZS-Center and OOO Tatneft-AZS-Zapad, management companies for the Tatneft branded gas 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

One of the Company's primary strategic goals is to maintain current levels of crude oil production from its licensed fields in Tatarstan. During the nine-month period of 2008 the Company increased production by 0.5% from its fields in Tatarstan compared to the corresponding period of 2007. 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 nine months of 2008 the Company put 246 new production wells into operation in Tatarstan.

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

E&P activities outside of Tatarstan

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

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 nine months of 2008 the Company continued a pilot project to produce highly viscous oil (natural bitumen) from the Ashalchinskoye field in Tatarstan using parallel steam injection and producing wells. Highly viscous oil production from the pilot project wells currently yields up to 25 tons per day. The Company continues to assess the economic parameters and development of the related activities relating to highly viscous oil production in Tatarstan.

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

Crude oil refining and marketing

During the nine months of 2008 the Group continued the development and construction by OAO TANECO ("TANECO"), formerly known as ZAO Nizhnekamsk Refinery, of a new refining and petrochemicals complex in Nizhnekamsk, Tatarstan. The new facility's projected throughput capacity is seven million tones of crude oil per year. Expenditures related to the construction in the nine months of 2008 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 earlier in the year.

Petrochemicals

The core entity of the Group's petrochemicals segment – OAO Nizhnekamskshina in the nine months of 2008 produced 9.05 million tires. A new advanced rubber mix production line was launched in 2007 with monthly capacity of 1,200 tons, which allows Nizhnekamskshina to produce modern high performance tires. The Group continued to invest in the modernization and upgrading of Nizhnekamskshina's production facilities to strengthen its market competitiveness.

Operational highlights

	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Crude oil production (millions of metric tons)…………	19.7	19.6
Crude oil production (millions of barrels)……………..	140.6	139.3
Refining and tolling of crude oil throughput (millions of metric tons)…………………………………………..	0.4	0.4
Refining and tolling of crude oil throughput (millions of barrels)………………………………………………	2.8	2.9
Gas production by the Group (million of cubic meters)..	608.5	611.5
Refining of gas products throughput (million of cubic meters)………………………………………………	515.3	503.2

Crude oil and gas production

Crude oil production of the Group increased by 0.9% to 19.7 million metric tons in the nine months of 2008. Increase of crude oil production is mainly the result of implementing modern secondary and tertiary methods and new technologies on the Company's fields in Tatarstan as well as increase of production from fields outside of Tatarstan. Our gas production decreased by 0.5% to 608.5 million cubic meters in the nine months of 2008 from 611.5 million cubic meters in the corresponding period of 2007.

Export of crude oil from Russia

The Group continues to utilize Transneft, the state-owned monopoly owner and operator of Russia's trunk crude oil and export pipelines, upon export of its crude oil. During the nine-month period of 2008, the Group exported from Russia approximately 70% of its crude oil production compared with approximately 71% in the corresponding period of 2007.

Certain Macroeconomic Factors Affecting the Group's Results of Operations

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

Crude oil and refined product prices

The price at which we sell crude oil and refined products is the primary driver of our revenues. During the nine months of 2008, the Brent crude oil price fluctuated between $86 and $144 per barrel and reached its peak of $144.2 at the beginning of July.

In the first half of 2008, the price growth was driven by an escalation in geopolitical tensions which was strengthened by financial market speculation. The continued US dollar fluctuations and supply concerns also boosted prices. In the third quarter of 2008, the volatility of crude oil prices was significant: the price reached both its peak and bottom values since the beginning of the year. At the end of September 2008, the crude oil market suffered the most significant price fluctuations ever. The world financial crisis sent the crude oil price to a nine month minimum.

There is no independent or uniform market price for crude oil in Russia primarily because a significant portion of crude oil destined for sale in Russia is produced by vertically integrated Russian oil companies and is refined by the same vertically integrated companies. Crude oil that is not exported from Russia, refined by the producer or otherwise sold is offered for sale in the domestic market at prices determined on a transaction-by-transaction basis.

Substantially all the crude oil we sell in export and domestic markets is Urals blend. The table below represents average crude oil prices worldwide and in Russia in the respective periods of 2008 and 2007.

World market	Nine months ended September 30, 2008, US $/ bbl	Change	Nine months ended September 30, 2007, US $/ bbl
Brent crude	111.0	*65.5%*	67.1
Urals crude (*CIF Mediterranean*)*	108.0	*68.7%*	64.0
Urals crude (*CIF Rotterdam*)*	108.1	*69.4%*	63.8

Source: Platts

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

Russian market	Nine months ended September 30, 2008, RR per ton*	Change	Nine months ended September 30, 2007, RR per ton*
Crude oil	8,077	*38.7%*	5,822

Source: Kortes

* Excluding VAT

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 crude oil production companies are dependent on the extent of diversification of transport infrastructure and access to it. Thus, transportation cost is an important macroeconomic 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. Although pipeline capacity in Russia has increased in recent years, this capacity has not kept up with increases in production experienced by Russian oil and gas companies and therefore the capacity of the pipeline network still acts as a constraint on exports and indirectly on oil production in Russia. Currently, there are government-sponsored and private programs to increase pipeline capacity.

Transportation of oil is based on contracts with Transneft and its subsidiaries, which set forth the basic obligations of the contracting parties, including the right of Transneft to blend or substitute a company's oil with oil of other producers. 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 to be 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. In particular, operating margins are generally adversely affected by an appreciation of the Ruble against the US Dollar, because this will generally cause costs to increase relative to revenues. The Group has not historically used financial instruments to hedge against foreign currency exchange rate fluctuations.

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

	Nine months ended September 30, 2008	**Nine months ended September 30, 2007**
Ruble inflation	10.6%	7.5%
US $ period-end exchange rate	25.25	24.95
Average US $ exchange rate	24.04	25.89
Nominal appreciation (devaluation) of the Ruble	(2.9)%	5.2%
Real Ruble appreciation	7.5%	13.5%

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

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

Taxation

The Group is subject to numerous taxes that have 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 for the respective periods:

	Nine months ended September 30, 2008	Nine months ended September 30, 2007	Change	Taxable base
Income tax – maximum rate	24%	24%	-	Taxable income
VAT	18%	18%	-	Added value
Property tax – maximum rate	2.2%	2.2%	-	Taxable property
	(in RR per metric ton, except for figures in percent)			
Unified production tax, average rates[(1)]	3,803	2,280	*66.8%*	Metric ton produced (crude oil)
Refined products excise tax:				
High octane gasoline	3,629	3,629	-	Metric ton produced and sold domestically [(2)]
Low octane gasoline	2,657	2,657	-	
Diesel fuel	1,080	1,080	-	
Motor oils	2,951	2,951	-	
Straight run gasoline	2,657	2,657	-	
	(in US $ per metric ton, except for figures in percent)			
Crude oil export duty, average rates	379.0	189.1	*100.4%*	Metric ton exported
Refined products export duty average rates:				
Light refined products (gasoline products) and mid refined products (diesel fuel)	267.6	139.7	*91.5%*	Metric ton exported
Fuel oil (mazut)	144.2	75.2	*91.7%*	

(1) *Without taking into account differentiated taxation*
(2) *Excise taxes are paid on refined products produced and sold domestically. Excise taxes are paid by the companies that sell refined products to the end customers, while producers and intermediary re-sellers accrue excise tax and subsequently recover it subject to certain conditions set by the legislation.*

During the nine-month period of 2008, the tax rates specific to the oil industry rose substantially compared to the corresponding period of previous year. Unified production tax increased by 67%, average crude oil export duties by 100%, and average refined products export duties by 92%.

The increase in unified production tax rates in the nine months of 2008 is a result of increase in the average Urals blend price by 69% partly offset by a decrease in the average exchange rate of US Dollar against Ruble by 7%, for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007. Excise taxes on refined products remained at the same level as in the respective period of 2007.

Unified production tax rate. Pursuant to the Federal Law No.151-FZ ‘‘On Amendments in Chapter 26 of Part II of the Tax Code of the Russian Federation and Considering Certain Expired Legislative Acts of the Russian Federation’’ dated July 27, 2006 (the ‘‘New Natural Resources Production Tax Law’’) effective from January 1, 2007, the rate for the unified production tax is differentiated. Under the New Natural Resources Production Tax Law, the tax rate for the production of oil is set at RR 419 per ton (unchanged from 2005). This tax rate is applied with a discount based on the levels of the international oil prices and the levels of depletion of the related oil fields as determined under Russian resource classification guidelines. Such formula benefits producers with oil fields having a depletion level 80% and above as determined by the Russian resourse reserve classifications.

Under the New Natural Resources Production Tax Law, the Company receives a benefit of 3.5% per field for each percent of depletion in excess of the 80% threshold. As Romashkinskoye field, the Company's largest, along with certain other fields, is more than 80% depleted, the Company received a benefit in the nine months of RR 7.09 billion.

Also one of the key provisions of the New Natural Resources Production Tax Law is zero unified production tax rate for high viscous crude oil (defined as crude oil of more than 200 Megapascal second under reservoir conditions) where the direct (segregated) method of accounting for produced oil is used. Since April 2007, the Company's production of highly viscous crude oil from the Ashalchinskoye and Mordovo-Karmalskoye fields was subject to a zero unified production tax rate, resulting in tax benefit in nine-month period of 2008 attributed to that production of approximately RR 47 million.

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

Crude oil export duties. Crude oil export duty rate is calculated on a progressive scale. Maximum rates of export duties for crude oil depend on a lagged average of Urals blend prices. The rates are zero when the lagged Urals blend price is at or below US $109.5 per metric ton. They then increase by US $0.35 per ton for each US $1.00 increase in the lagged Urals blend price when the lagged Urals blend price is between US $109.5 and US $146.0 per ton, by US $0.45 per ton for each US $1.00 increase in the lagged Urals blend price when the lagged Urals blend price is between US $146.0 and US $182.5 per ton, and by US $0.65 per ton for each US $1.00 increase in the lagged Urals blend price when the lagged Urals blend price is above US $182.5 per ton.

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 method of calculation 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 will be revised monthly on the basis of the immediately preceding one-month period of crude oil price monitoring.

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 0.335 for 2008 (0.293 for 2007) to be applied to the regular export duty rate set by the Russian Government for calculation of export duty on crude oil exports from Russia to Belorussia.

Property tax. In accordance with the amendments to Russian legislation effective from January 1, 2004 the maximum property tax rate was set to 2.2%. Exact tax rates are set by the local authorities.

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

Nine months ended September 30, 2008 compared to Nine months ended September 30, 2007

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

RR millions	Nine months ended September 30, 2008 (unaudited)	Nine months ended September 30, 2007 (unaudited)	Change
Sales and other operating revenues	**378,066**	**258,436**	**46.3%**
Costs and other deductions			
Operating	48,349	44,032	9.8%
Purchased oil and refined products	48,080	31,112	54.5%
Exploration	2,134	1,072	99.1%
Transportation	9,049	6,322	43.1%
Selling, general and administrative	28,567	17,250	65.6%
Depreciation, depletion and amortization	7,621	7,672	(0.7)%
Loss on disposals of property, plant and equipment and investments and impairments	3,117	2,779	12.2%
Taxes other than income taxes	182,645	106,649	71.3%
Maintenance of social infrastructure and transfer of social assets	3,369	995	238.6%
Total costs and other deductions	**332,931**	**217,883**	**52.8%**
(Losses)/earnings from equity investments	(750)	541	(238.6)%
Foreign exchange loss	(225)	(1,480)	(84.8)%
Interest income	2,576	1,927	33.7%
Interest expense, net of amounts capitalized	(277)	(267)	3.7%
Other (expense) /income, net	(1,759)	1,845	(195.3)%
Total other (expense) / income	**(435)**	**2,566**	**(117.0)%**
Income before income taxes and minority interest	**44,700**	**43,119**	**3.7%**
Current income tax expense	(15,288)	(13,951)	9.6%
Deferred income tax benefit	1,081	1,149	(5.9)%
Total income tax expense	**(14,207)**	**(12,802)**	**11.0%**
Minority interest	(96)	(786)	(87.8)%
Net income	**30,397**	**29,531**	**2.9%**

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	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Crude oil	301,626	194,972
Refined products	42,476	32,234
Petrochemicals	17,140	16,986
Corporate and other sales	16,824	14,244
Total sales and other operating revenues	**378,066**	**258,436**

Sales and other operating revenues increased in the nine months of 2008 by 46% to RR 378,066 million from RR 258,436 million in the corresponding period of 2007. The increase is mainly attributable to an increase in crude oil and refined product prices as well as increased volumes of non-CIS sales of crude oil.

Sales of crude oil

Sales of crude oil increased by 55% to RR 301,626 in the nine months of 2008 from RR 194,972 million in the corresponding period of 2007. The table below provides an analysis of the changes in sales of crude oil:

	Nine months ended September 30, 2008	Change	Nine months ended September 30, 2007
Domestic sales of crude oil			
Revenues (RR millions)	57,519	*53.8%*	37,395
Volume (thousand tons)	*6,910*	*7%*	*6,459*
Realized price (RR per ton)	*8,324*	*43.8%*	*5,790*
CIS export sales of crude oil [1]			
Revenues (RR millions)	13,060	*(74.8)%*	51,869
Volume (thousand tons)	*1,086*	*(77.5)%*	*4,833*
Realized price (RR per ton)	*12,026*	*12.1%*	*10,733*
Non-CIS export sales of crude oil			
Revenues (RR millions)	231,047	*118.6%*	105,708
Volume (thousand tons)	*12,663*	*40.6%*	*9,004*
Realized price (RR per ton)	*18,246*	*55.4%*	*11,741*

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

Sales of refined products

Sales of refined products increased by 32% to RR 42,476 million in the nine months of 2008 from RR 32,234 million in the corresponding period of 2007. The table below provides an analysis of the changes in sales of refined products:

	Nine months ended September 30, 2008	Change	Nine months ended September 30, 2007
Domestic sales of refined products			
Revenues (RR millions)	36,356	*33.7%*	27,183
Volume (thousand tons)	*2,015*	*(12.5)%*	*2,303*
Realized price (RR per ton)	*18,043*	*52.8%*	*11,805*
CIS export sales of refined products			
Revenues (RR millions)	798	*(67.4)%*	2,446
Volume (thousand tons)	*36*	*(74.3)%*	*140*
Realized price (RR per ton)	*22,167*	*27.3%*	*17,414*
Non-CIS export sales of refined products			
Revenues (RR millions)	5,322	*104.3%*	2,605
Volume (thousand tons)	*333*	*28.5%*	*259*
Realized price (RR per ton)	*15,982*	*58.9%*	*10,052*

Sales of petrochemical products

The table below provides an analysis of petrochemical products sales.

RR millions	Nine months ended September 30, 2008	Change	Nine months ended September 30, 2007
Tires sales	16,394	*(0.6)%*	16,494
Petrochemicals sales	746	*51.9%*	492
Total sales of petrochemical products	**17,140**	***0.9%***	**16,986**

The increase in sales of petrochemical products was primarily attributable to the combined effect of increased prices and higher volume sold. The Group's production of tires in the nine-month period of 2008 decreased by 2% compared to the respective period of 2007 and amounted to 9.05 million tires.

Other sales

Other sales increased by 18% to RR 16,824 million in the nine months of 2008 from RR 14,244 million in the corresponding period of 2007. Other sales primarily represent sales of materials and equipment and various field services provided by the Company's production subsidiaries to third parties (such as drilling, lifting, construction, repairs, and geophysical works). The increase in the nine-month period of 2008 of other sales was mainly attributable to the increased sales of materials, as well as other services sales.

Costs and other deductions

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

RR millions	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Crude oil extraction expenses	19,688	16,195
Petrochemical production expenses	14,401	13,264
Other operating expenses	14,260	14,573
Total operating expenses	**48,349**	**44,032**

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

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

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

Lifting expenses averaged to RR 140.1 per barrel in nine-month period of 2008 compared to RR 116.3 per barrel in the corresponding period of 2007. The increase of 20% is primarily a result of increases in electricity tariffs, repair expenses and other service costs.

Petrochemical production expenses. Petrochemical production expenses primarily include the costs of raw materials, labour, maintenance and electricity consumed in the production of petrochemical products. Cost of petrochemical products increased by 9% to RR 14,401 million in the nine months of 2008 primarily due to increases in the cost of raw materials, electricity tariffs and other services costs.

Other operating expenses include accretion of the asset retirement obligation, change in crude oil and refined products inventory, and the costs of other services, goods and materials not related to the core oil and gas production activities of the Group. Other operating expenses decreased to RR 14,260 million, or by 2%, compared to the nine months of 2007.

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

RR millions	**Nine months ended September 30, 2008**	**Nine months ended September 30, 2007**
Purchased refined products (RR millions)	28,898	22,146
Volume (thousand tons)	*1,706*	*1,920*
Average price per ton (RR)	*16,942*	*11,534*
Purchased crude oil (RR millions)	19,182	8,966
Volume (thousand tons)	*1,444*	*1,058*
Average price per ton (RR)	*13,285*	*8,475*
Total purchased oil and refined products	**48,080**	**31,112**

Purchases of refined products increased by 31% to RR 28,898 million in the nine-month period of 2008 from RR 22,146 million in the corresponding period of 2007 due to to increase in average purchase price per ton by 47%.

Purchases of crude oil in the nine-month period of 2008 increased by 114% to RR 19,182 million from RR 8,966 million in the nine-month period of 2007 due to increase in volumes of purchased crude oil for trading by 37% as well as increase in average purchase price per ton by 57%.

Exploration expenses. Exploration expenses consist primarily of exploratory drilling, geological and geophysical costs, and the costs of carrying and retaining undeveloped properties. Exploration expenses increased to RR 2,134 million in the nine-month period of 2008 from RR 1,072 million in the corresponding period of 2007 mainly due to first-time consolidation of exploratory companies under provision of FIN 46R, Such activities have not yet resulted in the discovery of proved crude oil or gas reserves. Investments in these companies were previously accounted for under the equity method. Accumulated expenses of these companies amounted to RR 1,444 million were recorded in our nine-month 2008 financial statements.

Transportation expenses. Transportation expenses relate to the delivery of our own crude oil as well as purchased crude and refined products, which are primarily carried out using Transneft pipeline for deliveries of crude oil to our customers. Transportation costs increased by 43% to RR 9,049 million in nine-month period of 2008 from RR 6,322 million in the nine-month period of 2007 due to an increase in transportation tariffs and overall increase in sales volumes.

Selling, general and administrative expenses. Certain selling, general and administrative expenses are by nature fixed costs, which are not directly attributable to production, such as payroll, general business costs, insurance, advertising, share based compensation, legal fees, consulting and audit services, charity and other expenses, including bad debt provisions. Selling, general and administrative expenses increased by RR 11,317 million to RR 28,567 million in the nine-month period of 2008 compared to the corresponding period of 2007, primarily as a result of an increase in our bad debt provision on accounts receivables related to sales of crude oil to Ukraine prior to October 2007 in the amount of RR 11,093 million (see Commitments and Contingent Liabilities section on pages 18-19).

Loss on disposals of property, plant and equipment and impairment of investments. Loss on disposals of property, plant and equipment and impairment of investments in the nine-month period of 2008 amounted to RR 3,117 million compared to RR 2,779 million in the same period of 2007.

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

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

	Nine months ended September 30, 2008	**Nine months ended September 30, 2007**
Export duties	113,085	63,629
Unified production tax	67,445	40,932
Property tax	1,098	1,017
Excise taxes	239	217
Penalties and interest	67	160
Other	711	694
Total taxes other than income taxes	**182,645**	**106,649**

Taxes other than income taxes increased by 71% to RR 182,645 million in the nine months of 2008 from RR 106,649 million in the nine months of 2007. The increase was primarily a result of an increase in export duty and unified production tax rates, which are linked to crude oil market prices partly offset by introduction of differentiated rates of unified production tax. In the nine months of 2008 compared to the corresponding period of 2007, our export duties increased by 78% compared to an increase in export duty rate by 100%. The Group's unified production tax increased by 65% compared to an increase in unified production tax rate by 67%. Our expenses on excise tax increased to RR 239 million from RR 217 million in the corresponding period of 2007, due to the increase in purchases of taxable refined products (mainly diesel fuel). Other taxes include land tax and non-recoverable VAT.

Effective January 1, 2007, the base tax rate formula for unified production tax was modified to provide a benefit for fields whose depletion rate is 80% or above as determined under Russian resource classification. Under 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 are more than 80% depleted, the Company received a benefit in the nine-month period of 2008 of RR 7.09 billion.

Since April 2007, the Company applied a zero unified production tax rate to production of highly viscous crude oil from Ashalchinskoye and Mordovo-Karmalskoye fields, resulting in the nine months of 2008 tax benefit of approximately RR 47 million.

Maintenance of social infrastructure and transfer of social assets. Social infrastructure expenses relate primarily to housing, schools and cultural buildings in Tatarstan. Maintenance of social infrastructure expenses and transfer of social assets increased to RR 3,369 million in the nine months of 2008 from RR 995 million in the corresponding period of 2007, which was mainly due to the disposal of a medical facility, a social asset of the Group, for the amount of RR 1,345 million.

Other income and expenses

The Group recorded losses from equity investments amounted to RR 750 million in the nine months of 2008 compared to a RR 541 million profit in the nine months of 2007. This loss was mainly due to an increase of the IPCG Fund losses amounted to RR 1,601 million attributed to the Group compared to RR 248 million losses in the nine months of 2007.

Our foreign exchange loss decreased from RR 1,480 million in the nine-month period of 2007 to RR 225 million in the nine months of 2008 due to decrease of the average exchange rate of the Russian Ruble against the US Dollar in the respective period of 2008 compared to the same period of 2007.

Interest income increased by 34% to RR 2,576 million in the nine months of 2008 compared to the corresponding period of 2007. Interest expense increased by 4% to RR 277 million in the nine months of 2008 compared to the corresponding period of 2007, which is a result of debt issuance (average debt increased in nine-month period of 2008 compared with the corresponding period of 2007), partly offset by an increase in capitalized interest related to the construction of TANECO refinery complex.

Other expense, net in the nine months of 2008 amounted to RR 1,759 million compared with RR 1,845 million of other income, net in the corresponding period of 2007. The change is primarily due to realized losses recorded on our trading investments.

Income taxes

The effective income tax rate in the nine months of 2008 was 32%, compared to the statutory tax rate of 24% in the Russian Federation. This difference is attributable to non deductible or partially deductible expenses incurred during the year.

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

RR millions	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net income	30,397	29,531
Add back:		
Minority interest	96	786
Income tax expense	14,207	12,802
Depreciation, depletion and amortization	7,621	7,672
Interest expense	277	267
Interest and dividend income	(2,576)	(1,927)
EBITDA	**50,022**	**49,131**

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

Financial Condition Summary Information

The following table shows certain key financial indicators:

RR millions	At September 30, 2008	At December 31, 2007
Current assets	142,612	126,595
Long-term assets	270,242	243,624
Total assets	**412,854**	**370,219**
Current liabilities	45,504	38,428
Long-term liabilities	81,711	63,233
Total liabilities	**127,215**	**101,661**
Shareholders' equity	**281,161**	**264,059**
Working capital	97,108	88,167
Current ratio	3.13	3.29

Working capital position

As of September 30, 2008 working capital of the Group amounted to RR 97,108 million compared to RR 88,167 million as of December 31, 2007. The increase in the working capital is primarily attributable to an increase in cash and cash equivalents as well as prepaid expenses and other current assets.

Liquidity and Capital Resources

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

RR millions	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net cash provided by operating activities	40,676	28,441
Net cash used for investment activities	(42,731)	(17,247)
Net cash provided by/(used for) financing activities	6,312	(8,585)
Increase in cash and cash equivalents	4,257	2,609

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 43% to RR 40,676 million in the nine months of 2008 from RR 28,441 million in the corresponding period of 2007 which is explained primarily through working capital change.

Net cash used for investing activities

Net cash used for investing activities increased by 148% to RR 42,731 million in the nine months of 2008 from RR 17,247 million in the corresponding period of 2007, which is primarily due to an increase in spending for purchases of property, plant and equipment.

Net cash provided by/ (used for) financing activities

Cash flow provided by financing activities amounted to RR 6,312 million in the nine months of 2008 compared to RR 8,585 million used for financing activities in the corresponding period of 2007. This is primarily due to net debt proceeds of RR 15,719 million in the nine months of 2008 compared with net debt repayments of RR 409 million in the corresponding period of 2007.

Additions to property, plant and equipment

The following additions to property, plant and equipment (by segment) were made in the nine months of 2008, compared to the corresponding period of 2007:

RR millions	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Exploration and production	16,366	13,646
Refining and marketing	16,147 (1)	4,791
Petrochemicals	3,612(2)	709
Corporate and other	1,141	1,808
Total additions to property, plant and equipment	**37,266**	**20,954**

(1) Includes RR 15,716 million expenditure related to the refinery construction by TANECO
(2) Includes RR 2,860 million expenditure related to the new metal cord tires production line

Analysis of Debt

At September 30, 2008, long-term debt, including the current portion of long-term debt, amounted to RR 25,906 million as compared to RR 9,326 million at December 31, 2007. The related increase is due to an increase in the long-term foreign currency denominated debt through disbursements under the US$ 2 bln 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 September 30, 2008 are as follows:

RR millions	At September 30, 2008
September 2008 – September 2009	-
September 2009 – September 2010	25,789
September 2010 - September 2011	5
September 2011 - September 2012	2
September 2012 and thereafter	110
Total long-term debt	**25,906**

Commitments and Contingent Liabilities

Ukrtatnafta

In December 2007 the Company acquired a substantial interest in AmRUZ Trading AG ("AmRUZ") and a controlling interest in Seagroup International Inc. ("Seagroup"), whose principle activities are investments in Closed Joint Stock Company Ukrtatnafta ("Ukrtatnafta"), the owner of the Kremenchug refinery located in Ukraine. As of September 30, 2008, the Company's investments in Ukrtatnafta totalled RR 3,342 million.

Historically, and in particular during the course of 2007, there had 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 is also the owner of the record of 43% Ukrtatnafta's common shares.

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

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

In May 2008, Tatneft commenced international arbitration against Ukraine on the basis of the agreement between the government of the Russian Federation and the Cabinet of Ministries of Ukraine on the Encouragement and Mutual Protection of Investments of November 27, 1998 ("Russia-Ukraine BIT"). The arbitration concerns losses suffered by Tatneft as a consequence of the forcible takeover of Ukrtatnafta. Tatneft requested the arbitral tribunal to declare that 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.

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

There are a number of legal proceedings currently in process in the Ukraine, Russian Federation and international courts to recover the Group's assets. Management expects the matter to be resolved in due course, however, an unfavourable outcome in a number of these proceedings could have a material impact on the Group's financial statements.