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 September 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

	Nine months ended September 30, 2009	Change	Nine months ended September 30, 2008
Sales (millions of RR)	273,683	(27.61)%	378,066
Net income (millions of RR)	47,151	55.12%	30,397
EBITDA [(*)] (millions of RR)	70,562	41.06%	50,022
Basic and Diluted net income per share of common stock (RR)			
Common…………….	21.04	53.7%	13.69
Preferred……………...	20.94	56.4%	13.39
Crude oil production by the Group (thousand of tonnes)	19,521	(1.1)%	19,734
Crude oil production by the Group (thousand of barrels)	139,048	(1.1)%	140,568
Gas production by the Group (millions of cubic meters)	596.1	(2.0)%	608.5
Refined gas products produced (thousand of tonnes)	812.3	0.1%	811.8

[(*)] *As defined on page 14*

Decrease in our revenue for the nine-month period 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). 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 34.8%, including a result of the decrease of tax burden on the industry in the nine-month period of 2009, compared to the corresponding period of 2008, all contributed to the increase of our income by 55.12% in the nine-month period 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 the nine-month period of 2009 the Group decreased production by 1.1% compared to the corresponding period of 2008 (mostly due to the decrease in the first half of 2009 based on the production plan responding to unfavorable economic environment at the end of 2008 and early 2009), 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 nine months of 2009 the Company put 248 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 nine-month period 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 nine months 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 nine-month period 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 nine months 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 nine-month period of 2009 the core entity of the Group's petrochemicals segment – OAO Nizhnekamskshina produced 6.9 million tires in comparison to 9.05 million tires in the nine-month period 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 was officially launched in December 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:

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Crude oil daily production, (thousand bbl per day)	509.3	513.5
Gas daily production (thousand boe per day)	12.8	13.1
Crude oil extraction expenses (RR per bbl)	150.1	140.5
	(RR millions)	
Sales of crude oil	213,704	301,626
Crude oil extraction expenses	20,873	19,752
Exploration expenses	1,813	2,134
Unified production tax	37,832	67,445

Crude oil production of the Group (including production of consolidated subsidiaries OAO Ilekneft, ZAO Tatneft-Samara, ZAO Tatneft-Severny and ZAO Kalmtatneft) decreased by 1.1% to 19.5 million metric tonnes in the nine months of 2009 compared to the nine months of 2008. Our gas production decreased by 2.0% to 596.1 million cubic meters in the nine-month period of 2009 from 608.5 million cubic meters in the corresponding period of 2008.

Refining and marketing

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Refining of crude oil throughput (thousand bbl per day)	10.25	10.33
Refining of gas products throughput (thousand boe per day)	11.02	11.08
Number of petrol (gas) stations in Russia*	473	422
Number of petrol (gas) stations outside of Russia*	137	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 nine months of 2009 and 2008, the Group exported from Russia approximately 67% of all its crude oil sold.

In the nine-month period of 2009 the Company delivered 26% (46% in the nine months of 2008) of crude oil for export through Transneft's Druzhba pipeline (mainly to Poland, Czech Republic and Germany); 47% (46% in the nine months of 2008) of crude oil was shipped through Russian Black Sea ports (mainly Novorossiysk); 9% (7% in the nine months of 2008) of crude oil exported through Baltic Sea port Primorsk and 17% (1% in the nine months 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 primary key driver of our revenue is the selling price of crude oil and refined products. In the six months of 2008, the crude oil prices were at the historical highs. Starting from July 2008 crude oil prices started to decline reaching their lowest price since July 2004 ($33.6 at the end of December 2008). From the beginning of 2009, the Brent crude oil price fluctuated between $39 and $74 per barrel, reaching its maximum of $74.75 in August.

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 nine months of 2009 and 2008, respectively.

	Average for the nine months ended September 30		Change	At September 30		Change
	2009	2008		2009	2008	
	(in US dollars per barrel, except for figures in percent)					
Brent crude	57.2	111.0	*(48.5)%*	65.7	93.7	*(29.9)%*
Urals crude (*CIF Mediterranean*)*	56.6	108.0	*(47.6)%*	65.7	92.3	*(28.8)%*
Urals crude (*CIF Rotterdam*)*	56.6	108.1	*(47.7)%*	65.9	92.5	*(28.7)%*

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.

	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Ruble inflation	8.1%	10.6%
Period-end exchange rate (Ruble to US $)	30.09	25.25
Average exchange rate (Ruble to US $)	32.48	24.04
Nominal devaluation of the Ruble	(2.4)%	(2.9)%
Real Ruble appreciation	5.5%	7.5%

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. 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:

	Nine months ended September 30, 2009	**Nine months ended September 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)]	2,136	3,803	*(43.8)%*	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	-	Metric tonne produced and sold domestically [(2)]
Motor oils	2,951	2,951	-	
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	156.6	379.0	*(58.7)%*	Metric tonne exported
Refined products export duty average rates:				
Light refined products (gasoline products) and mid refined products (diesel fuel)	117.8	267.6	*(56.0)%*	Metric tonne exported
Fuel oil (mazut)	63.4	144.2	*(56.0)%*	

(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 nine-month period of 2009 compared to the corresponding period of previous year. Unified production tax decreased by 44%, average crude oil export duties by 59%, and average refined products export duties by 56%.

The decrease in unified production tax rates in the nine-month period of 2009 was a result of decrease in the average Urals blend price by 48% 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 nine months of 2008, except for excise tax for straight run gasoline which increased by 47% in the nine months 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 nine months of 2009 of RR 4.85 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 nine months of 2009 attributed to that production of RR 38 million.

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 59% in the nine-month period of 2009 to US$ 156.6 per tonne (US$ 21.5 per barrel) from US$ 379.0 per tonne (US$ 51.9 per barrel) in the corresponding period of 2008. The decrease was associated with the decrease of average Urals prices by 48% to US$ 56.6 per barrel in the nine-month period of 2009 compared to US$ 108.0 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%.

Nine months ended September 30, 2009 compared to the nine months ended September 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	Nine months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2008 (unaudited)	Change
Sales and other operating revenues	**273,683**	**378,066**	**(27.6)%**
Costs and other deductions			
Operating	45,056	48,349	(6.8)%
Purchased oil and refined products	26,816	48,080	(44.2)%
Exploration	1,813	2,134	(15)%
Transportation	10,644	9,049	17.6%
Selling, general and administrative	14,992	28,567	(47.5)%
Depreciation, depletion and amortization	9,799	7,621	28.6%
Loss on disposals of property, plant and equipment and investments and impairments	29	3,117	(99.1)%
Taxes other than income taxes	106,115	182,645	(41.9)%
Maintenance of social infrastructure and transfer of social assets	1,838	3,369	(45.4)%
Total costs and other deductions	**217,102**	**332,931**	**(34.8)%**
Earnings/(loss) from equity investments	1,015	(750)	(235.3)%
Foreign exchange gain/ (loss)	445	(225)	(297.8)%
Interest income	3,146	2,576	22.1%
Interest expense, net of amounts capitalized	(502)	(277)	81.2%
Other income /(expense), net	2,722	(1,759)	(254.7)%
Total other income/ (expense)	**6,826**	**(435)**	**(1,669.2)%**
Income before income taxes and non-controlling interest	**63,407**	**44,700**	**41.9%**
Current income tax expense	(13,934)	(15,288)	(8.9)%
Deferred income tax benefit	127	1,081	(88.3)%
Total income tax expense	**(13,807)**	**(14,207)**	**(2.8)%**
Less: net income attributable to non-controlling interest	(2,449)	(96)	2,451%
Net income attributable to the Company shareholders	**47,151**	**30,397**	**55.1%**

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, 2009	Nine months ended September 30, 2008
Crude oil	213,704	301,626
Refined products	31,878	42,476
Petrochemicals	14,342	17,140
Corporate and other sales	13,759	16,824
Total sales and other operating revenues	**273,683**	**378,066**

Sales and other operating revenues decreased in the nine months of 2009 by 27.6% to RR 273,683 million from RR 378,066 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 29.1% to RR 213,704 in the nine months of 2009 from RR 301,626 million in the corresponding period of 2008. The table below provides an analysis of the changes in sales of crude oil:

	Nine months ended September 30, 2009	Change	Nine months ended September 30, 2008
Domestic sales of crude oil			
Revenues (RR millions)	40,060	*(30.4)%*	57,519
Volume (thousand tonnes)	*6,611*	*(4.3)%*	*6,910*
Realized price (RR per tonne)	*6,060*	*(27.2)%*	*8,324*
CIS export sales of crude oil [1]			
Revenues (RR millions)	12,598	*(3.5)%*	13,060
Volume (thousand tonnes)	*1,241*	*14.3%*	*1,086*
Realized price (RR per tonne)	*10,151*	*(15.6)%*	*12,026*
Non-CIS export sales of crude oil			
Revenues (RR millions)	161,046	*(30.3)%*	231,047
Volume (thousand tonnes)	*12,257*	*(3.2)%*	*12,663*
Realized price (RR per tonne)	*13,139*	*(28)%*	*18,246*

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

Sales of refined products

Sales of refined products decreased by 25% to RR 31,878 million in the nine months of 2009 from RR 42,476 million in the corresponding period of 2008. The table below provides an analysis of the changes in sales of refined products:

	Nine months ended September 30, 2009	Change	Nine months ended September 30, 2008
Domestic sales of refined products			
Revenues (RR millions)	27,961	*(23.1)%*	36,356
Volume (thousand tonnes)	*2,180*	*8.2%*	*2,015*
Realized price (RR per tonne)	*12,826*	*(28.9)%*	*18,043*
CIS export sales of refined products			
Revenues (RR millions)	729	*(8.6)%*	798
Volume (thousand tonnes)	*86*	*138.9%*	*36*
Realized price (RR per tonne)	*8,477*	*(61.8)%*	*22,167*
Non-CIS export sales of refined products			
Revenues (RR millions)	3,188	*(40.1)%*	5,322
Volume (thousand tonnes)	*270*	*(18.9)%*	*333*
Realized price (RR per tonne)	*11,807*	*(26.1)%*	*15,982*

Decrease in the average realized price on CIS export sales of refined products in the current period was due to increase in volumes sold of fuel oil realized price of which on CIS export sales was 56% lower than that of other refined products.

Sales of petrochemical products

The table below provides an analysis of petrochemical products sales.

RR millions	Nine months ended September 30, 2009	Change	Nine months ended September 30, 2008
Tires sales	13,685	*(16.5)%*	16,394
Other petrochemicals sales	657	*(11.9)%*	746
Total sales of petrochemical products	**14,342**	***(16.3)%***	**17,140**

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 nine months of 2009 decreased by 24% compared to the corresponding period of 2008 and amounted to 6.9 million tires due to decrease in demand in line with overall market downturn.

Other sales

Other sales decreased by 18.2% to RR 13,759 million in the nine months of 2009 from RR 16,824 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	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Crude oil extraction expenses	20,873	19,752
Petrochemical production expenses	12,148	14,401
Other operating expenses	11,344	14,260
Change in operating expenses in inventory of crude oil produced by the Group*	691	(64)
Total operating expenses	**45,056**	**48,349**

** 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.

Lifting expenses averaged to RR 150.1 per barrel in the nine-month period of 2009 compared to RR 140.5 per barrel in the corresponding period of 2008. The increase of 6.8% is primarily a result of increases in regulated tariffs (predominantly electricity) as well as certain equipment service costs on the back of lower production level.

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 15.6% to RR 12,148 million in the nine months 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 11,344 million, or by 20.4%, compared to the nine months 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	**Nine months ended September 30, 2009**	**Nine months ended September 30, 2008**
Purchased crude oil (RR millions)	5,076	19,182
Volume (thousand tonnes)	*438*	*1,444*
Average price per tonne (RR)	*11,589*	*13,285*
Purchased refined products (RR millions)	21,740	28,898
Volume (thousand tonnes)	*1,631*	*1,706*
Average price per tonne (RR)	*13,329*	*16,942*
Total purchased oil and refined products	**26,816**	**48,080**

Purchases of crude oil in the nine months of 2009 decreased by 74% to RR 5,076 million from RR 19,182 million in the corresponding period of 2008 due to decrease in volumes of purchased crude oil for trading by 70% as well as decrease in average purchase price per tonne by 13%.

Purchases of refined products decreased by 25% to RR 21,740 million in the nine-month period of 2009 from RR 28,898 million in the corresponding period of 2008 primarily due to decrease in average purchase price per tonne by 21%.

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 1,813 million in the nine-month period of 2009 from RR 2,134 million in the corresponding period of 2008. Exploration expenses in the nine months of 2008 included accumulated prior years' exploration expenditures in the amount of RR 1,444 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 17.6% to RR 10,644 million in the nine months of 2009 from RR 9,049 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 13,575 million to RR 14,992 million in the nine-month period 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 nine-month period of 2008 the Group recorded a bad debt provision on accounts receivables related to its crude oil sales to Ukraine till October 2007 in the amount of RR 11,093 million (US$ 439,4 mln). During the nine months of 2009 part of debt was collected in the amount of RR 3,174 million resulting in a decrease of the bad debt provision amount to RR 10,060 mln (US$ 334.3 mln) as of September 30, 2009.

Loss on disposals of property, plant and equipment and impairment of investments. In the nine-month period of 2009 we recorded a loss on disposals of property, plant and equipment and impairment of investments amounted to RR 29 million compared to RR 3,117 million losses in the corresponding period of 2008.

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, 2009	Nine months ended September 30, 2008
Export duties	65,754	113,085
Unified production tax	37,832	67,445
Property tax	1,423	1,098
Excise taxes	255	239
Penalties and interest	90	67
Other	761	711
Total taxes other than income taxes	**106,115**	**182,645**

Taxes other than income taxes decreased by 41.9% to RR 106,115 million in the nine months of 2009 from RR 182,645 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 nine month of 2009 compared to the corresponding period of 2008, export duties paid by the Group decreased by 41.9%. The Group's unified production tax decreased by 43.9%. Our expenses on excise tax increased to RR 255 million from RR 239 million in the nine months 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 nine-month period of 2009 of RR 4.85 billion in comparison to RR 7.09 billion in the corresponding period of 2008 driven by a decrease in crude oil prices in the respective periods used in the calculation formula of such tax.

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 nine months of 2009 tax benefit of RR 38 million in comparison to RR 47 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 1,838 million in the nine months of 2009 from RR 3,369 million in the corresponding period of 2008.

Other income and expenses

The Group recorded a gain from equity investments amounted to RR 1,015 million in the nine months of 2009 compared to a RR 750 million loss in the corresponding period of 2008. This gain was mainly due to an increase of the IPCG Fund gains, RR 302 million of which was attributed to the Group compared to RR 1,601 mln loss attributed to the Group in the corresponding period of 2008.

The Group also recorded a foreign exchange gain amounted to RR 445 million in the nine months of 2009 compared to a RR 225 million foreign exchange loss in the corresponding period of 2008. This gain was mainly due to foreign exchange gain in the amount of RR 734 million on US dollars denominated debt incurred under the secured credit facility for the construction of TANECO's refinery and petrochemical complex partly offset by foreign exchange loss on dollar denominated sales of crude oil.

Interest income increased by 22.1% to RR 3,146 million in the nine months of 2009 compared to the corresponding period of 2008 due to more interest received on our short-term and long-term certificates of deposit. Interest expense increased from RR 277 million to RR 502 million in the nine months 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 nine months of 2009 compared with the corresponding period of 2008).

Other income, net in the nine months of 2009 amounted to RR 2,722 million compared with RR 1,759 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 nine months of 2009 was 21.8%, 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	**Nine months ended September 30, 2009**	**Nine months ended September 30, 2008**
Net income	47,151	30,397
Add back:		
Minority interest	2,449	96
Income tax expense	13,807	14,207
Depreciation, depletion and amortization	9,799	7,621
Interest expense	502	277
Interest and dividend income	(3,146)	(2,576)
EBITDA	**70,562**	**50,022**

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 September 30, 2009	At December 31, 2008
Current assets	130,855	116,620
Long-term assets	342,416	276,360
Total assets	**473,271**	**392,980**
Current liabilities	105,413	32,043
Long-term liabilities	63,204	96,078
Total liabilities	**168,617**	**128,121**
Shareholders' equity	**296,953**	**260,276**
Working capital	25,442	84,577

Working capital position

As of September 30, 2009 working capital of the Group amounted to RR 25,442 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 due to increase in current portion of long-term debt attributable to US$ 2 billion secured credit facility for the construction of TANECO's refinery and petrochemical complex.

Liquidity and Capital Resources

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

RR millions	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Net cash provided by operating activities	59,424	40,676
Net cash used for investment activities	(73,581)	(42,731)
Net cash provided by financing activities	21,396	6,312
Increase in cash and cash equivalents	7,239	4,257

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 46.1% to RR 59,424 million in the nine-month period of 2009 from RR 40,676 million in the corresponding period of 2008 which is explained primarily through higher net income received in the nine months of 2009.

Net cash used for investing activities

Net cash used for investing activities increased by 72.2% to RR 73,581 million in the nine months of 2009 from RR 42,731 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 21,396 million in the nine months of 2009 compared to RR 6,312 million provided by financing activities in the corresponding period of 2008. This is primarily due to net debt proceeds of RR 26,534 million in the nine months of 2009 compared with net debt proceeds of RR 15,719 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 nine-month period of 2009, compared to the corresponding period of 2008:

RR millions	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Exploration and production	13,236	16,366
Refining and marketing	45,978 [(1)]	16,147
Petrochemicals	4,408[(2)]	3,612
Corporate and other	834	1,141
Total additions to property, plant and equipment	**64,456**	**37,266**

[(1)] *Includes RR* 44,513 *million expenditure related to the refinery construction by TANECO*
[(2)] *Includes RR* 3,962 *million expenditure related to the new metal cord tires plant*

Analysis of Debt

At September 30, 2009, long-term debt, including the current portion of long-term debt, amounted to RR 69,276 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 September 30, 2009 are as follows:

RR millions	At September 30, 2009
September 2009 - September 2010	60,530
September 2010 - September 2011	8,686
September 2011- September 2012	-
September 2012- September 2013	-
September 2013- September 2014	-
September 2014- September 2015	-
September 2015 and thereafter	60
Total long-term debt	**69,276**