OAO «TATNEFT»

Contents

Mission

Tatneft management has set the following mission:

To become an internationally recognized oil company, ensuring maximization of the company's value on the basis of:

- Strengthening, growing and effectively using the existing potential of Tatneft's reserve base through an active capital investment program which, in the long run, will reap financial benefits far exceeding the cost of raising capital and allow Tatneft to maintain an industry leading position in profitability, technology and environmental protection;
- In the long-term, broadening and diversifying Tatneft's resource base.

Corporate Values

- Achievement of the highest level of professionalism and efficiency in our work;
- Implementation of a goal-oriented environmental protection program.

Key priorities

- Further stable increase of the company's capitalization;
- Stabilization and optimization of the production levels at existing fields;
- Expansion of the crude oil reserves and production outside of Tatarstan;
- Decrease and optimization of production costs through continuing improvements in work organization and oil recovery techniques;
- Creating a vertically integrated oil company to increase profitability and shareholder value.

Dear Shareholders!

In 2001 our Company — Tatneft — successfully accomplished all of the objectives set by the Board of Directors at the beginning of the year. Despite instability in global and domestic oil markets, the Company continues to remain profitable and to enjoy a promising outlook for the future. We are making steady progress in carrying out the tasks of stabilizing our oil production volume, developing service companies, and reinvesting profits into capital projects.

OAO Tatneft has consistently ensured high levels of oil production thanks to the implementation of comprehensive measures for controlling and improving the development of our oil fields, as well as the extensive use of various methods for increasing oil recovery. Considerable attention has been devoted to development and production activities.

As a result of our systematic efforts to becoming a vertically integrated oil company, Tatneft has today fully developed an «upstream-downstream-petrochemical» structure. Thus, in addition to our production divisions, the company also has oil refining and petrochemicals enterprises, drilling service companies, and an extensive network of retail stations in various cities throughout Russia. In 2001, we continued those efforts by aquiring the Minnibaevsky Gas Processing Plant, which is the cornerstone of a network of Tatarstan-based gas production and processing enterprises, and the Yarpolimermash Plant in Yaroslavl, which will supply modern equipment for tire production.

Tatneft is a leader in the area of developing and testing new equipment and technology. This has enabled the Company to successfully maintain a stable volume of production at mature oil fields that have already been under intensive development for over 50 years. Tatneft's innovative engineering solutions have become widely recognised in the industry and are now actively used in Russia and the CIS as well as in countries such as Vietnam, Iran, and China.

In the 5th Annual «Russia's Best Companies» Competition, in which 1,200 companies from all regions of Russia took part, Tatneft was among other nine companies to win the «Most Dynamic Development» award.

Looking ahead to the future, we are confident that our diligent approach to financial and production management, in combination with the cohesive team spirit and thorough professionalism of our employees, will facilitate further growth in shareholder value for our Company.

Shafagat Fakhrazovitch Takhautdinov
General Director

Key Achievements in 2001

- Total capital investment increased by 32.5%;
- Oil production volume amounted to 24.6 million tonnes;
- Tatneft continued to build and purchase retail stations, total number of own retail stations at the end of 2001 exceeded 350;
- Standard & Poor's upgraded its credit rating for Tatneft from CC to B-; Fitch Agency increased the Company's International Long-Term Rating from CC to B- and International Short-Term Rating from C to B; and Moody's increased Tatneft's Eurobond Rating from Ca to B3;
- Thanks to the accelerated pace of construction work on Stage 1 of the Base Complex at the Nizhnekamsk Refinery in 2001, the Unoxidized Bitumen Line — the first Base Complex facility to go on stream — produced its first batch of marketable output in early 2002;
- Tatneft took full control of tire manufactuer OAO Nizhnekamskshina, which recored 12% production growth for the year.

Overview of Company Activities in 2001

financial indicators (million RR)

	2001	2000	1999	1998
Sales and other operating revenues	135,086	173,300	71,845	44,315
Income (loss) before income taxes and minority interest	21,643	45,731	20,046	(19,077)
Net income (loss)	21,152	28,191	12,212	(29,501)
Basic and diluted net income (loss) per common share (RR per share):	9.6	12.4	5.4	(13.8)
Weighted average common shares outstanding (millions):				
Basic	2,057	2,113	2,129	2,146
Diluted	2,062	2,113	2,129	2,146
Capital and exploration expenditures	22,281	24,129	11,086	11,701
Total assets	198,983	176,336	134,284	122,091
Total debt	38,063	31,954	34,778	17,756
Interest expense, net	1,179	3,048	2,892	3,036

The above financial information is based on Tatneft's US GAAP consolidated financial statements.

production and reserves (million tonnes)

	2001	2000	1999	1998
Total annual production	25	25	25	25
Oil reserves — total proved	766	834	862	892
Oil reserves — proved producing	444	471	409	395

1 tonne of crude oil = 1 metric ton of crude oil = approximately 7.123 barrels of crude oil (assuming a specific gravity of 0.883°).

Shareholders' Equity and Corporate Governance

Since 2001, Tatneft's stock has consistently been one of the most actively traded Russian corporate securities that form the backbone of Russia's leading equity market indices.

In 2001, the average annual turnover in Tatneft shares on the Russian stock market exceeded $200 million. In global financial markets, the Company's stock enjoyed a combined average daily turnover on the London Stock Exchange and the New York Stock Exchange of over $13.5 million.

At December 31, 2001, the Company's capitalization was over $1.3 billion.

Tatneft continues to improve its corporate transparency and ensure the efficient management of its Group entities. As of December 31, 2001, the Tatneft Group encompassed over 140 affiliates, 73 of which are joint-stock companies. A proposal has been prepared for the Tatneft Executive Board that calls for the further development of controls and performance indicators for these companies.

For the purpose of improving corporate governance practices and strengthening control over the activities of subsidiaries, Tatneft's service enterprises were reorganized and directly incorporated into the Company as structural units. In addition,

Tatneft made a strategic decision to create a management company so as to more efficiently administer its equity stakes in petrochemicals sector enterprises.

Tatneft faithfully adheres to an open information policy with respect to its shareholders, and strictly observes the rights of all of its 90,000 shareholders.

The Board of Directors has reviewed a draft Corporate Governance Code for the Company, which constitutes a comprehensive set of recommendations on all fundamental aspects of corporate governance and was developed on the basis of international best practice while simultaneously taking into account the specifics of the Russian business environment.

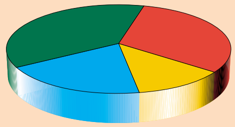
Also in 2001, Tatneft issued stock options to senior management, which it views as a key incentive for motivating management to focus its efforts on increasing the Company's capitalization, and thus its shareholder value, over the long term.

General Market Overview and the Company's Operational Performance

By the end of 2001, a series of factors had resulted in a worsening situation in global and domestic oil markets. The economic downturn in the United States and a number of other countries, as well as the tragic events of September 11 in the US, led to structural changes in the global supply and demand balance. The major consequence of this was a decline in world oil prices, which fell by 15% as compared to 2000. And, by the end of 2001, oil prices in the domestic market had dropped by as much as 50%.

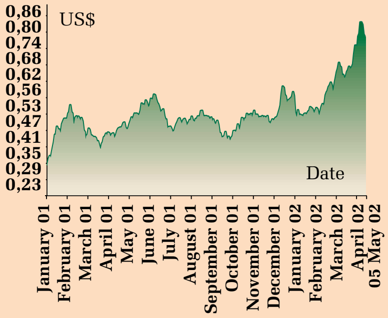
Tatneft, which ranks No. 5 in Russia and No. 32 in the world in terms of oil production volume, has consistently pursued a course of putting the Company's carefully planned strategy into practice. Despite a whole series of unfavorable factors, Tatneft succeeded in fully meeting all of its prime objectives and challenges facing the Company in 2001, while maintaining a rather strong position with respect to its production operations. This was possible thanks to stable oil production volume, which in 2001 reached 24.6 million tonnes, as well as the sound financial position of the Company. The achievement of these results was also facilitated by a number of other factors; among which were the Company's international activities, continued investment in oil field development and production projects, and the ongoing process of internal reorganization and optimization of operations at Tatneft's subdivisions.

Ownership Distribution of the Company's Stock as of December 31, 2001



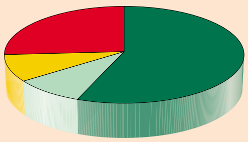
Russian Investors	37.7%
State's Stock	31.3%
Foreign Investors	19.0%
Employees	12.0%

RTS Quotation of Tatneft Shares in 2001-2002



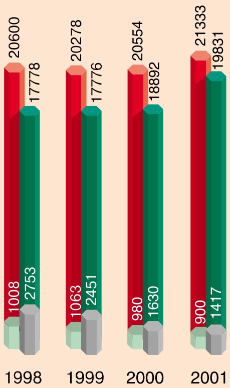
Crude Oil Reserves by Fields as of December 31, 2001

(total 766 million tonnes)



Romashikhinskoye	56%
Novo-Elokhovskoye	9%
Bavlinskoye, Tat-Kandyzhskoye, Sabanchinskoye, Urustamakskoye, Matrosovkoye	9%
Others	26%

Crude Oil Wells



Development wells

Active wells

Shut-in wells

Idle wells

Upstream Operations: Oil Field Development and Oil Production

In 2001, Tatneft successfully met its key objectives in the areas of oil field development and oil production.

Last year, the Company boosted its investment in oil well construction by 70% as compared to 2000, while the volume of drilling work rose 11.3% and the aggregate depth of wells drilled reached 1,274,000 meters. Construction was completed on 894 wells, including 611 expressly designated for the Company's operations. The volume of horizontal drilling carried out by Tatneft enterprises grew by 79.8%, amounting to 54,300 meters. Technical retooling and equipment upgrade programs implemented in 2000-2001 allowed the Company's drilling enterprises to fully meet the needs of Tatarstan for the drilling of new wells by the beginning of 2002.

The Company operates 57 oil fields – including its «flagship» Romashkinskoye field, one of the world's largest — with combined proven reserves of 432 million tonnes.

According to an estimate of the Company's reserves conducted by Miller and Lents, as of December 31, 2001, proven developed and undeveloped reserves amounted to 766 million tonnes. Given a continuation of existing economic conditions, these reserves should ensure that production remains at current levels for another 31 years.

One of the key factors in the stabilization of oil production volumes in 2001 was the commissioning of 532 new productive wells, which was 39.6% more than in 2000. The volume of oil recovered from these wells equaled 365,200 tonnes. In addition, the time required for bringing new wells on line following the completion of well drilling and finishing work was significantly reduced.

In 2001, oil production of OAO Tatneft reached 24,6 million tonnes, representing a year-on-year increase of nearly 1,5 million tonnes. Moreover, the actual level of production exceeded the projected volume by 490,600 tonnes. In addition, last year the Company produced 274,000 tonnes of natural gas liquids (NGL) and recovered over 750 million cubic meters of associated gas.

Tatneft's success in meeting its targeted oil production volume was largely due to the extensive use of tertiary, technologically-advanced methods for more fully exploiting recoverable oil deposits, that resulted in 4 million tonnes of oil produced in 2001. Totally in 2001, oil produced through the application of such new technologies reached 11 million tonnes (or 45% of the overall production volume), thus exceeding the previous year's level by 11%.

The Company devoted particular attention in 2001 to the reconstruction of its oil gathering system. A large volume of work was carried out for the creation of databases and a geoinformation system for oil field facilities. In addition, 193 kilometers of oil pipeline was laid according to an optimized design, which has made it possible to shorten Tatneft's oil gathering system by 170 kilometers.

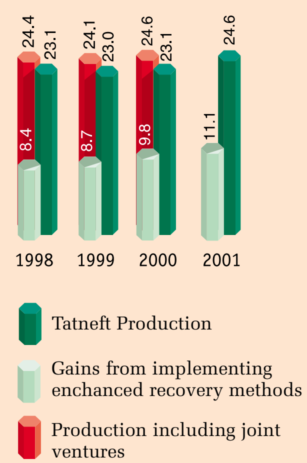
Expanding the Geographical Scope of the Company's Operations

In 2001, Tatneft continued its efforts at developing business contacts with governmental authorities and oil companies in Iran, Iraq, Vietnam, China and other countries. During the past year, the Company fulfilled a contract for applying local well casing technology in Vietnam and carried out the first stage of a contract for the demercaptanization of refined products and oxidized petroleum gas in Iran. Another contract with the Islamic Republic of Iran is now being carried out for testing microbiological bed stimulation technology, and in January the Company signed a new contract with its Iranian partners for implementing local well casing technology. In addition, several proposals have been prepared and submitted for participation in tenders in Iran to provide engineering services related to the development of a number of fields, as well as for obtaining exploration and development licenses for a group of oil fields.

Another noteworthy event of 2001 was the launch of oil production operations in Kalmykia by KalmTatneft, a joint venture created by Tatneft and regional oil company Kalmneft on a parity basis. Kalmneft recently won a tender for the development rights to four license areas, including two licenses for the prospecting and exploration of new fields and their subsequent development. Work is now being done to establish the necessary infrastructure for the company's further development.

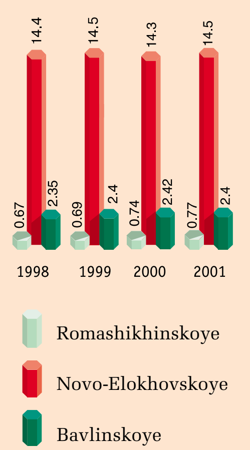
Production

(million tonnes)



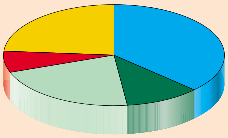
Oil Output at Tatneft's Three Largest Fields

(million tonnes)



Crude Shipments to Russian Refineries

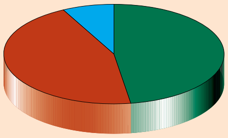
(total 10.66 million tonnes)



YANOS	3.94
NKNKh	1.19
Moscow Refinery	2.27
Norsi	0.73
Others	2.53

Crude Shipments by Market

(total 22.45 million tonnes)



Russian refineries	10.66
Non-CIS export	10.07
CIS export	1.72

Downstream Operations: Refining and Marketing Oil and Petroleum Products

Nizhnekamsk Refinery — Building the Base Complex

Tatneft has continued its focused efforts towards building the Nizhnekamsk Refinery, in which it holds a 63% interest. Indeed, in terms of investment (over 2 million RR), scope of the work, and the significance of the project to Tatarstan economy, construction of the refinery's Base Complex was one of the Company's highest priority projects in 2001.

In March 2002, the Unoxidized Bitumen Line was put into operation — the first Base Complex facility to be commissioned — well ahead of the originally scheduled launch date in the second half of 2002. The entire Base Complex has been designed to process seven million tonnes of mixed crude oil each year, from which the following types of refined petroleum products will be made: aviation kerosene, diesel and boiler fuel, unoxidized bitumen, vacuum gas oil, gas oil from viscosity breaking, and industrial sulfur.

The Nizhnekamsk Refinery will give Tatneft the capability to refine heavy sour crude, which represents a large portion of the Company's production mix. With light oils yield in the range of 82-84%, this will support production of ecologically-clean petroleum products that meet European quality standards.

Sales of Crude Oil and Refined Petroleum Products

In 2001 the Company delivered 22,446,000 tonnes of crude oil to customers. The share of exports to non-FSU countries amounted to 44.8% of total production. In the domestic market, the Company's oil marketing efforts were geared towards boosting the share of oil refining linked to subsequent sales of petroleum products.

The Company's overall earnings in 2001 broke down as follows: proceeds from oil sales amounted to 60.3%, while sales of petroleum and gas products accounted for 28.7% of aggregate revenues.

Exports represented 66% of total 2001 earnings from oil sales, while the domestic market accounted for 34%.

In 2001 Tatneft continued to develop its network of retail stations located in Moscow and Moscow Region, as well as in Ulyanovsk, Leningrad and Nizhny Novgorod regions and the Republic of Udmurtia. Thus, as at end of 2001 the Company owned over 350 retail stations.

Diversification of Operations

Tatneft fully realizes the need to diversify its operations and to devote even greater attention and resources to further developing its refining and petrochemical segments. The Company now controls tire manufacturer OAO Nizhnekamskshina and OAO Nizhnekamsk Technical Carbon Plant. In addition, the Company has undertaken the restructuring of OAO Minnibaevsky Gas Processing Plant and transport company OAO Transuglevodorod, and is now planning a program of investments aimed at modernizing tire production facilities.

In order to enhance the operational efficiency of its petrochemicals enterprises, in early 2002 Tatneft created a management company – OAO Tatneft-Neftekhim. The new entity will manage Tatneft's interests in Nizhnekamskshina, Nizhnekamsk Technical Carbon Plant, Elastika, Tatneft-Yarpolimermash and other companies in the petrochemical segment.

At the end of 2001, Tatneft announced plans to consolidate its three gas subsidiaries into a holding company by mid-2002. The new structure will take in Tatneft production unit Tatneftegaz, OAO Minnibaevsky Gas Processing Plant, and gas transportation company OAO Transuglevodorod.

The Company believes that diversification of its operations will enable Tatneft to receive the maximum return from extracted associated gas, production of which amounted to 750 million cubic meters in 2001.

Moreover, beyond the operational goal of maximizing the efficient use of hydrocarbons, Company management firmly believes that Tatneft will be able to command a more stable and durable presence in the market by positioning itself as a truly integrated oil and gas company.

Enhancing the Professional Skills of Our Employees

Tatneft is intensely focused on personnel training issues and providing professional development and growth opportunities for its employees. Our efforts in this area have been targeted at creating the necessary infrastructure for enhancing the professional skills of our employees.

In 2001, the Company spent more than RR 100 million on training programs. Individual corporate training units are being upgraded into full-scale educational centers to serve Company-wide personnel training needs. Instructors and lecturers from Russia's most prestigious institutions of higher learning have been brought in to teach customized courses. In 2001, over 31,000 Tatneft employees participated in professional training, representing an increase of over 20% compared to 2000.

Our Social Responsibility

Tatneft has played a key role in the social and economic development of Tatarstan for more than 50 years. Being fully aware of the responsibility that comes with this role, the Company has come forward with numerous initiatives aimed at improving the region's infrastructure and building new facilities of social, cultural and spiritual significance.

In 2001 Tatneft continued to fulfill its fundamental commitment to the community by carrying out a large number of socially-oriented projects, among which are:

- Granting home-construction and purchase loans (in 2001 funds totaling RR 56.5 million were allocated for this program);
- Housing construction (altogether 60,200 square meters of residential

housing was built and commissioned in 2001);

- Construction of public schools, health and medical facilities and additional specialized sections within the regional Medical Center;
- Support for retirees and senior citizens (retired Tatneft employees are paid an additional monthly premium to their regular state pensions);
- Participation in philanthropic, cultural and educational activities (sponsorship support for the Charity philanthropic foundation);
- The Company's total expenditures for charitable activities was RR 1752 million.

The Environment

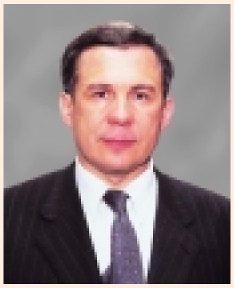
Environmental protection is a key component of Tatneft's overall corporate policy. The Company operates in an area that has been inhabited for many centuries and is fully cognizant of its responsibility for preserving the environmental safety of the region. In the early 1990s, Tatneft was the first Russian oil company to develop its own corporate environmental concept, and, as a result, began implementing a comprehensive Ecology Program, which encompasses a wide range of environmental protection measures.

In those years, one of the most widespread manifestations of popular ecological awareness was the movement to restore and preserve natural springs. Today, over 500 springs located on the territory of Company subdivisions have been purified and restored to a pristine state.

Chloride levels in rivers and waterways flowing through the Company's zone of operations have been reduced. Efforts aimed at increasing the operational reliability of pipelines of various uses have led to the creation of a solid in-house base for producing highly-durable, long-lasting metal plastic pipe, the extensive use of which has resulted in a significant reduction in the number of accidental pipe ruptures in the oil gathering and waste-water injection systems.

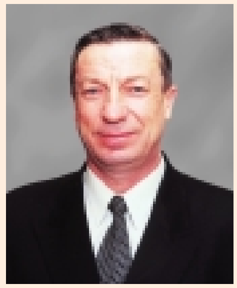
Since 2000, Tatneft has been implementing its third ecological program, which was designed to cover a 15-year period. Along with anti-corrosion measures, this program calls for expanding efforts aimed at eliminating existing pollution and utilizing waste generated by the oil production process. Another area of dynamic activity has been the Company's project for rehabilitating pipe taken from decommissioned pipelines.

Board of Directors

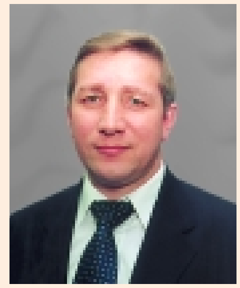


MINNIKHANOV
Rustam Nurgalievich
Chairman. Prime Minister of the Republic of Tatarstan

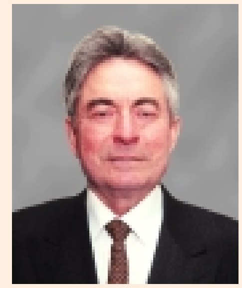
TAKHAUTDINOV
Shafagat Fakhrazovich
General Director



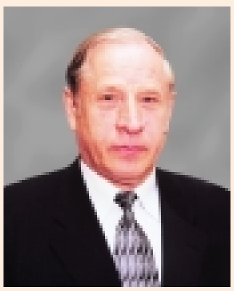
VASILIEV
Valery Pavlovich
Minister of Land and Property Relations of the Republic of Tatarstan



GAIZATULLIN
Radik Raufovich
First Deputy Minister of Finance of the Republic of Tatarstan



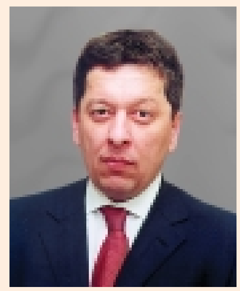
GALEEV
Rinat Gimadelislamovich
Chairman of the Board of Devon-Credit Bank



ZALYATOV
Mars Shaikhrazievich
Head of Oil and Gas Production Division Almetyevneft

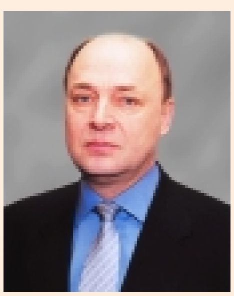
IBRAGIMOV
Nail Gabdulbarievich
First Deputy General Director for Production, Chief Engineer

LAVOUSHCHENKO
Vladimir Pavlovich
Deputy General Director for Economcs



MAGANOV
Nail Ulfatovich
First Deputy General Director for Refining and Oil and Petroleum Products Sales

MUSLIMOV
Renat Khaliullovich
Advisor to the President of the Republic of Tatarstan on oil, gas and use of subsurface resources

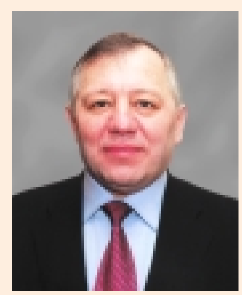


SEMERNIN
Vladimir Vladimirovich
General Director IFK SOLID

SOKOLOV
Alexei Arkadyevich
Chairman of the Board of Bank «Zenit»

FARDIEV
Ilshat Shaekhovich
General Director of production association «Tatenergo»

KHISAMOV
Rais Salikhovich
Deputy General Director, Chief Geologist



SHIGABUTDINOV
Albert Kashafovich
General Director of OAO «Tataro-American Investments and Finance»

Members of the Managing Board

Takhautdinov Shagafat Fakhrazovitch
General Director

Garifullin Iskandar Gatinovich
Chief Accountant, Head of the Accounting and Reporting Department

Gorodny Victor Isakovich
Deputy General Director, Head of Property Department

Ershov Valery Dmitrievich
Head of the Legal Department

Efremov Yuri Alexandrovich
Deputy General Director

Ibragimov Nail Gabdulbarievich
Deputy General Director for Production, Chief Engineer

Kaveev Khamit Zagirovich
Deputy General Director, Head of Foreign Economic Firm

Lavushenko Vladimir Pavlovich
Deputy General Director for Economics

Maganov Nail Ulfatovich
First Deputy General Director for Refining and Oil and Petroleum Products Sales, Head of the Oil and Refined Products Sales Department

Mukhamadiev Rustam Nabiullovich
Deputy General Director

Nugaibekov Ardinat Galeevich
Head of the Oil and Gas Production Division Elkhovneft

Nurmukhametov Rafael Saitovich
Head of the Oil and Gas Production Division Leninogorskneft

Rakhmanov Rafkat Mazitovich
Deputy General Director

Smykov Victor Vasilyevich
Head of the Oil and Gas Production Division Yamashneft

Studensky Mikhail Nikolaevich
Deputy General Director

Taziev Mirgaziyan Zakievich
Head of the Oil and Gas Production Division Dzhalilneft

Tikhturov Evgeny Alexandrovich
Head of the Finance Department

Feldman Semen Afroimovich
Deputy General Director

Khannanov Robert Gabdrakhmanovich
Deputy General Director

Schelkov Fedor Lazarevich
Deputy General Director

Yukhimets Alexandr Trofimovich
Secretary of the Board of Director

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Management's Discussion and Analysis

The following discussion should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this annual report. 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 the risks discussed elsewhere in this annual report.

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. Tatneft is an open joint-stock company organized under the laws of Russia and Tatarstan. Tatneft's principal business is to explore for, develop, produce and market crude oil and petroleum products.

Tatneft is the legal successor to the Soviet-era production association "PA Tatneft", formed in 1950, along with the several other oil production-related state enterprises. As part of the process of privatization of state-owned enterprises following the dissolution of the Soviet Union, substantially all of the assets of these enterprises were transferred to Tatneft.

Substantially all of Tatneft's production and other operations are located in Tatarstan, a republic of Russia situated between the Volga River and the Ural Mountains and located approximately 750 kilometers southeast of Moscow. Tatneft currently holds most of the exploration and production licenses and produce substantially all the crude oil in Tatarstan. As of December 31, 2001, Tatneft's total proved reserves of crude oil were 766 million tonnes (5,455 million barrels ("mmbbl"). Together with its majority-owned subsidiaries (other than agricultural subsidiaries), Tatneft has approximately 80,000 employees.

In 2000, Tatneft acquired a 35% interest in OAO Nizhnekamskshina ("Nizhnekamskshina"), one of the largest tire producing companies in Russia, and increased its interest in OAO Zenit Bank ("Zenit Bank"), a commercial bank registered in Russia, to a controlling 50% plus one share interest.

In 2001 Tatneft acquired an additional 16% interest in Nizhnekamskshina and increased its holding to control 51% of the voting equity interest. The acquisition of a controlling interest in Nizhnekamskshina was in line with management's strategy for Tatneft to diversify its operations and become a more vertically integrated oil company with a petrochemical segment.

Currently, Tatneft's most significant capital project is the construction of a refinery in Nizhnekamsk, Tatarstan. In 1999 Tatneft entered into an agreement with OAO Nizhnekamskneftekhim and OAO Tataro-American Investment Fund (TAIF), related parties under the significant influence of a common shareholder, to form a joint venture company, OAO Nizhnekamsk Refinery. This joint venture is expected to expand, upgrade, and operate the existing refinery in Nizhnekamsk. The Group's total investment in the refinery amounted to approximately US $155 million as of December 31, 2001. This investment is reflected in balance sheet as property, plant and equipment as neither party had contributed assets into the joint venture as of December 31, 2001. Tatneft's interest in the joint venture is still under negotiation.

Results of Operations

RR'millions (except as indicated)	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Net income	21,152	28,191	12,212
Sales and other operating revenues			
Crude oil	82,716	103,339	53,173
Refined products	38,098	56,568	12,664
Petrochemicals	3,590	2,061	-
Other sales	10,682	11,332	6,008
Average crude oil price (RR per tonne)			
Domestic	2,637	3,210	1,452
Export (to CIS)(1)	3,542	2,621	2,758
Export (to Europe)	4,821	6,540	4,276
Average refined products price (RR per tonne)			
Domestic	2,500	2,890	2,245
Export (to CIS)(1)	5,058	4,000	-
Export (to Europe)	3,118	5,193	3,764

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

Year Ended 31 December 2001 Compared to Year Ended 31 December 2000

Sales and other operating revenues

Sales and other operating revenues decreased in 2001 by 22% to RR 135,086 from RR 173,300 in 2000. This decrease was primarily attributable to the fall in world market prices for oil and refined products.

Sales of crude oil decreased by 20% to RR 82,716 from RR 103,339 in 2000. The table below provides an analysis of the changes in sales of crude oil:

	Year ended December 31, 2001	Year ended December 31, 2000
Domestic sales of crude oil		
Revenues (RR million)	28,119	30,105
Volume (thousand tonnes)	10,664	9,378
Price (RR per tonne)	2,637	3,210
Export (to CIS) sales of crude oil		
Sales (RR million)	6,078	1,502
Volume (thousand tonnes)	1,716	573
Price (RR per tonne)	3,542	2,621
Export (to Europe) sales of crude oil		
Sales (RR million)	48,519	71,732
Volume (thousand tonnes)	10,065	10,968
Price (RR per tonne)	4,821	6,540

Domestic sales of crude oil decreased by 7% to RR 28,119 from RR 30,105 in 2000. The increase in volumes did not offset the decrease in the average selling price of crude oil. The increase in volumes is primarily attributable to the increase in purchases of crude oil on the domestic market.

Export (to CIS) sales of crude oil increased due to both a 35% rise in the average selling price and a 199% increase in volumes. The major portion of crude sales to CIS countries in 2000 was sold out at a fixed price. In 2001, Tatneft began supplying crude oil to the Kremenchugsky refinery in the Ukraine and realized a market price on all CIS sales rather than a lower fixed price realized in 2000.

Export (to Europe) sales of crude oil decreased by 32% to RR 48,519 from RR 71,732 due to a 8% fall in volumes and 26% decline in the average sales price. Average export sales prices decreased from RR 6,540 per tonne in 2000 to RR 4,821 per tonne in 2001 in line with the decline in world oil prices.

Sales of refined products decreased by 33% to RR 38,098 from RR 56,568 in 2000. The table below provides an analysis of changes in sales of refined products:

	Year ended December 31, 2001	Year ended December 31, 2000
Domestic sales of refined products		
Sales (RR million)	16,479	18,588
Volume (thousand tonnes)	6,591	6,431
Price (RR per tonne)	2,500	2,890
Export (to CIS) sales of refined products		
Sales (RR million)	612	24
Volume (thousand tonnes)	121	6
Price (RR per tonne)	5,058	4,000
Export (to Europe) sales of refined products		
Sales (RR million)	21,007	37,956
Volume (thousand tones)	6,737	7,309
Price (RR per tonne)	3,118	5,193

Sales of refined products decreased primarily due to a decline in average sales prices on the domestic market and to Europe. This decline reflects the general decline in market prices of fuel oil (mazut) and diesel fuel.

Sales of petrochemical products increased by 74% to RR 3,590 in 2001 from RR 2,061 in 2000. The increase is primarily attributable to the acquisition of the controlling interest in Nizhnekamskshina in September 2001, which provided tire sales of RR 2,361 in the fourth quarter of 2001.

Other sales decreased by 6% to RR 10,682 from RR 11,332 in 2000. All other sales consist primarily of revenues received from the sale of raw materials and equipment and the provision of field services to third parties.

Costs and other deductions

Operating expenses increased by 26% to RR 27,187 from RR 21,574 in 2000. RR 1,617 of the increase relates to the consolidation of Nizhnekamskshina, the financial results of which were only consolidated from September 30, 2001. The remaining increase is primarily attributable to a RR 1,445 increase in processing costs and a RR 510 increase in electricity tariffs in 2001. The increase in processing costs reflects a change in Tatneft's strategy in 2001 to switch from purchasing refined products to paying processing fees to refine its own crude oil. The remaining increase is primarily attributed to increased operating costs required to maintain stable production levels. Tatneft's oil fields are mature and would experience a decline in production without increasing maintenance costs.

As noted above, the decrease in purchased oil and refined products is due to a change in strategy by Tatneft to pay processing fees to refine its own oil rather than to buy refined products. Tatneft decreased its purchases of refined products from RR 35,995 (8,939 thousand tonnes) in 2000 to RR 11,372 (6,171 thousand tonnes) in 2001.

Purchases of crude oil increased from RR 17,503 in 2000 to RR 18,253 in 2001 as the Group increased its volumes of purchased crude oil by 86% to 6,361 thousand tonnes, which more than offset the 45% decrease in the average purchase cost per tonne.

Exploration costs increased by 13% to RR 729 from RR 643 in 2000 due to the increase in the exploration work as the Group continues to evaluate its unproven properties.

Transportation expenses increased by 19% to RR 4,502 from RR 3,778 in 2000 due to an increase in Transneft transportation tariffs.

Selling, general and administrative expenses increased by 66% to RR 15,904 from RR 9,607 in 2000. The increase is primarily attributable to a RR 1,420 increase in insurance costs, a RR 1,297 increase in overheads of production divisions, a RR 1,228 charge for commissions paid on back to back crude oil transactions, and a RR 892 increase in the bad debt provision.

Depreciation, depletion and amortization increased by 10% to RR 5,057 from RR 4,597 in 2000. This increase is attributable to increased investment in oil producing fixed assets occurring during the last two years in order to maintain production levels.

Loss on disposals and impairment decreased by 4% to RR 2,173 from RR 2,262 in 2000. Impairments during 2001 include RR 342 relating to the write off of fixed assets of one of the Group's telecommunication subsidiaries; RR 850 relating to losses on the disposal of fixed assets; and RR 642 relating to the write down of equity securities received from the Tatarstan Government in connection with the settlement of its loan receivable to Tatneft.

Taxes other than income taxes decreased by 11% to RR 28,990 from RR 32,501 in 2000. The decrease is primarily attributable to reduction in charges for mineral use taxes, excise taxes, road users tax, housing fund and fuel sales taxes more than offsetting the increase in export tariffs. Mineral use taxes decreased by RR 911 to RR 3,954 in line with the decline in domestic crude oil prices. Excise taxes decreased by RR 1,759 as Tatneft received a refund from the Tatarstan Government for excise taxes paid to both the federal budget and Tatarstan budget from 1996 to 2000. The refund amounted to RR 1,815. Road users tax decreased by RR 656 to RR 1,116 due to the reduction in crude oil prices and the reduction in the tax rate from 2.5% to 1%. Federal housing fund and fuel sales taxes decreased by RR 2,444 as they were abolished in 2001. Export tariffs increased RR 2,490 to RR 14,504 in line with higher tariffs on crude oil and refined product sales. The average crude oil and refined products export tariff increased by Euro 6.69 per tonne to Euro 29.18 in 2001.

Maintenance of social infrastructure expenses increased by 95% to RR 427 from RR 219 in 2000. The increase is attributable to the increases in agriculture support and city reconstruction costs.

Losses on transfer of social assets increased from RR 111 to RR 515, primarily due to the increase in construction of local housing which was subsequently transferred to municipal authorities.

Other income and expenses

Foreign exchange loss increased to RR 739 in 2001. This was due to increased devaluation of the rouble from 4% in 2000 to 7% in 2001. The exchange loss results primarily from the revaluation of higher US Dollar denominated liabilities which more than offset the exchange gain associated with US Dollar denominated accounts receivable.

Monetary gain decreased from RR 3,219 in 2000 to RR 1,532 in 2001 due to lower inflation of 19% in 2001 compared to 20% in 2000 and a decrease in the Group's net monetary liability position compared to 2000.

Net interest income from banking consists of interest income of RR 1,685 and interest expense of RR 512 primarily related to the operations of Zenit Bank.

Other net - banking primarily consists of net income from commissions (RR 274), net gains from the sale and purchase of securities and foreign currencies (RR 520), loan loss provision (RR 302) and operating expenses (RR 873) related to the operations of Zenit Bank.

Interest expense net of interest income decreased by 61% to RR 1,179, primarily due to an increase in interest accrued on debt securities and the decrease in average annual interest rates in line with the decrease in LIBOR, which more than offset the impact of higher total debt.

Income taxes

Income taxes changed from a RR 17,127 expense in 2000 to a RR 984 benefit in 2001. This change was primarily attributable to a decrease in current income tax from RR 9,400 in 2000 to RR 6,143 in 2001 which is in line with the decrease in taxable income; and deferred income tax changing from RR 7,727 expense in 2000 to RR 7,127 benefit in 2001. The change in deferred tax was due to the change in the Russian income tax rate from 35% to 24%, enacted in August 2001 and effective January 1, 2002.

Minority interest

Income attributable to minority interest increased from RR 413 in 2000 to RR 1,475 in 2001, primarily due to consolidation of Nizhnekamskshina and Zenit Bank and an increase in the profitability of other majority-owned subsidiaries.

Year Ended 31 December 2000 Compared to Year Ended 31 December 1999

Sales and other operating revenues

Sales and other operating revenues increased in 2000 by 141% to RR 173,300 from RR 71,845 in 1999. This increase is primarily attributable to the increase in both crude oil and refined products prices and the significant increase in the volume of refined products sold by the Group.

During 2000, the nature of the Group's operations in domestic markets shifted from selling mainly crude oil to selling refined products. Since Tatneft does not have sufficient refining capacity of its own, the Group sold crude oil to domestic intermediaries who refine the oil in domestic refineries and sell refined products back to Tatneft.

Sales of crude oil increased by 94% to RR 103,339 in 2000 compared to RR 53,173 in 1999. Domestic and non-CIS average crude oil prices per tonne increased by 121% and 53% over 1999, respectively, while CIS average crude oil prices per tonne decreased by 5%. In volume terms, non-CIS sales increased from 38% of total sales in 1999 to 53% in 2000. Purchasing costs of oil resold increased to RR 17,503 in 2000 from RR 753 in 1999.

Sales of refined products increased by 347% to RR 56,568 in 2000 compared to RR 12,664 in 1999. This is in line with the Group's new strategy to increase the volume of refined products purchased. Total refined product purchasing costs increased by RR 31,055 to RR 35,994 in 2000 compared to RR 4,939 in 1999. Sales of products refined by the Group through leased refining unit amounted to RR 15,063 in 2000 compared to RR 3,903 in 1999. The Government of Tatarstan requires Tatneft to maintain a continuous supply of both crude oil and refined products to Nizhnekamskneftekhim. In 2000, Tatneft fulfilled this requirement and sold 1,043 thousand tonnes of oil fuel for RR 3,500 to Nizhnekamskneftekhim. Tatneft’s refined products are primarily mazut, diesel fuel and oil fuel.

Other revenues consist primarily of revenues Tatneft received from selling materials and equipment to third parties and those derived from the provision of field services to third parties and joint ventures by the Group's drilling subsidiaries. Revenues from these activities increased 89% to RR 11,332 in 2000 from RR 6,009 in 1999, mainly due to higher prices charged by Tatneft.

Costs and other deductions

Operating expenses increased by 38% to RR 21,574 from RR 15,582 in 1999, mainly as a result of increased repairs and maintenance work on wells and pipelines and higher prices charged by suppliers for equipment and materials. Repairs and maintenance work in 1998 and 1999 had been low due to the liquidity crisis faced by the Group. Another contributing factor was higher inflation rates in Tatarstan in 2000, catching up with the average inflation rates in the Russian Federation.

As discussed above, expenses on purchase of oil and refined products for further processing and resale increased to RR 53,498 in 2000 from RR 5,693 in 1999.

Exploration expenses increased by 268% to RR 643 in 2000 from RR 175 in 1999. This increase is mainly due to the expansion of exploration activity through the acquisition of Tatneftegeophisika in 1999, a research and development company engaged in geological exploration. However, exploration expenses remain low and the Group continued to focus on development of existing fields.

Transportation expenses increased by 25% to RR 3,778 in 2000 from RR 3,032 in 1999. The increase is due to the increase in Transneft transportation tariffs.

Selling, general and administrative expenses increased by 37% to RR 9,607 in 2000 from RR 7,004 in 1999. The increase is primarily attributable to increased salary and overhead costs at the production divisions and higher blending costs.

Depreciation, depletion and amortization increased by 25% to RR 4,597 in 2000 as compared to RR 3,688 in 1999. This increase is attributable to significantly higher investments in oil and gas production fixed assets in 1999 and 2000.

Loss on disposals and impairment increased by 100% to RR 2,262 in 2000 from RR nil in 1999. The 2000 charge is primarily attributable to a RR 941 impairment in the carrying value of fixed assets of the Group's telecommunications subsidiary and RR 1,151 of losses on the disposal of fixed assets.

Taxes other than income taxes increased by 125% to RR 32,501 in 2000 from RR 14,458 in 1999. This is attributable to significant increases in export tariffs for both crude oil and refined products in line with higher export sales and to an increase in revenue-based taxes, such as mineral restoration tax and royalty, due to higher crude oil prices.

Maintenance of social infrastructure expense decreased by 22% to RR 219 in 2000 from RR 282 in 1999. The decrease is primarily attributable to the reduction of the Group's obligation to incur these costs as it continued to transfer social assets to local authorities.

Other income and expenses

Foreign exchange loss decreased by RR 8,450 to RR 513 in 2000 primarily due to a smaller devaluation of the Russian Rouble in 2000 compared to 1999 of 4% and 31%, respectively. The exchange loss results primarily from the revaluations of lower US Dollar denominated liabilities which offset the exchange gain associated with higher US Dollar denominated accounts receivable.

Monetary gain decreased by RR 5,949 to RR 3,219 in 2000 due to lower inflation during the year, from 20% in 2000 compared to 37% in 1999.

Net interest expense increased insignificantly by RR 156. There was no significant change in the debt structure and interest rates.

Income taxes

Income tax expense increased by 132% to RR 17,127 in 2000 from RR 7,388 in 1999. The charge for deferred taxes increased by 148% to RR 7,727 in 2000 from RR 3,118 in 1999. This is mainly due to the increase in the income tax rate from 30% to 35%, effective January 1, 2001, and the increase in capital expenditures. Current income taxes increased by 120% to RR 9,400 in 2000 from RR 4,270 in 1999 due to the increased taxable profits in line with overall higher profitability of the Group.

Financial Condition

Financial Indicators (in millions of RR)

	Year ended December 31, 2001	Year ended December 31, 2000
Total assets	198,983	176,336
Total liabilities	83,116	83,997
Current ratio	1.09	1.24
Total bank loans payable (including interbank loans and notes issued)	38,063	31,954
Shareholders' equity	111,262	90,149
Property, plant and equipment additions	21,552	23,486

Working capital position

As of December 31, 2001 working capital of the Group amounted to RR 5,120 million compared to RR 10,598 as at December 31, 2000. The decrease in working capital is primarily attributable to the reclassification of the Tatneft Finance Eurobonds (RR 9,042) from long-term debt to short-term debt as they mature in October 2002, which more than offset the increase in Tatneft Finance Eurobonds held by the Group as short-term investments.

Liquidity and Capital Resources

Summary of Consolidated Statement of Cash Flows (in millions of RR)

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Net cash provided by operating activities	18,820	19,925	12,003
Net cash used for investment activities	(20,778)	(16,698)	(3,695)
Net cash provided by (used for) financing activities	3,496	(2,375)	(6,713)
Net increase in cash and cash equivalents	1,165	404	1,386

Net Cash provided by operating activities.

Net cash provided by operating activities decreased in 2001 by RR 1,105 to RR 18,820. The decrease is primarily attributable to a decrease in net income before deferred tax, which more than offset the decrease in barter settlements and the decrease in operational working capital outflows.

Net cash used for investing activities

Cash used for investing activities increased by RR 4,080 to RR 20,778 in 2001. This increase is primarily due to a RR 3,734 increase in capital expenditures relating to oil producing properties and the Nizhnekamsk refinery, which more than offset the reduction in the net cash used in the purchase and sale of investments.

Net cash provided by financing activities.

Cash flow from financing activities changed from being an outflow in 2000 to a source of cash in 2001. During 2001, the Group obtained additional debt finance in excess of scheduled debt repayments.

In March 2002, the Group signed a loan agreement with Credit Suisse First Boston for US $200 million. The loan bears interest at LIBOR plus 3.78%, is secured by the Group's oil export contracts in the amount of 200 thousand tonnes per month and matures in March 2007.

In October 2002 the Tatneft Finance Eurobonds will mature and the related debt to Dresdner Bank will be repaid (US $300 million). Tatneft plan to repay this debt using a combination of operating cash flows, proceeds from the issuance of new debt and the sale of Tatneft Finance Eurobonds held within our own investment portfolio.

Capital expenditures

Tatneft anticipates a capital expenditure program for 2002 of approximately RR 21,000 million, which will be financed through debt and operating cashflows.

The Group remains significantly leveraged, which requires a substantial portion of its cash flow for debt service. In addition, cash flow from operations is dependent on the level of oil prices, which are historically volatile and significantly impacted by the proportion of production that can be sold on the export market. Historically, the Group has supplemented its cash flow from operations with additional borrowings and may continue to do so. Should oil prices decline for a prolonged period and should the Group not have access to additional capital, the Group would need to reduce its capital expenditures, which could limit its ability to maintain or increase production and in turn meet its debt service requirements.

Critical Accounting Policies

Oil Exploration and Producing activities

Tatneft accounts for its exploration and production activities using the successful efforts method as it provides a more timely accounting of the success or failure of Tatneft's exploration and production activities.

Assets associated with the exploration and production activities are primarily depleted using the unit-of-production method which is based on estimates of crude oil reserves existing in the field. Reserve estimates are determined in accordance with regulations established by the United States Securities and Exchange Commission by independent petroleum engineers and can vary significantly as a result of changes in such factors as forecasted oil prices, costs, reservoir performance and oil field technology.

Downward revision in reserve estimates on the field basis can result in either: (a) higher depreciation and depletion expense per tonne in future periods, or (b) an immediate write down of the assets' carrying value in accordance with accounting rules for the impairment of properties. The later condition would result if the downward revisions were so significant that the estimated future cash flows from the remaining reserves in the field were insufficient to recover the unamortised capitalized costs. Conversely, if the reserve quantities were revised upward, future per-tonne depreciation expense would be lower.

The application of successful efforts accounting can also cause material fluctuations between periods in exploration expense if drilling results are different than expected or if Tatneft changes its exploration and development plans. The determination that exploratory drilling was unsuccessful in finding economically productive reserves requires the immediate expensing of previously capitalised drilling costs.

Site Restoration and Environmental Conversion Costs

Site restoration costs that may be incurred by Tatneft at the end of the operating life of certain of its facilities and properties are recognised rateably over the asset's productive life. Liabilities for the environmental conservation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated.

The recording of liabilities for these costs is prescribed by US GAAP. Estimating the amounts and timing of these obligations that should be recorded requires significant judgement. This judgement is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to changes in laws, regulations and their interpretations.

Income Tax Accounting

The computation of Tatneft's income tax expense requires the interpretation of complex tax laws and regulations and the use of judgement in determining the nature and timing of accounting for differences between financial reporting and income tax reporting. This is particularly evident in the Russian Federation where tax legislation is constantly changing (specifically the statutory profits tax rate) and is subject to interpretation by the tax authorities. The change in the Russian statutory tax rate can significantly affect Tatneft's tax liability (both current and deferred). As prescribed by US GAAP any changes to the statutory tax rate are recognized by Tatneft in the period the tax law is enacted rather than the effective date of the change.

In August 2001, two new chapters of the Russian Tax Code were enacted that will significantly affect Tatneft's results of operations. Under the first of these chapters, the rate of corporate income tax was reduced from 35% to 24%, however, investment tax credits that could be used to half the corporate tax rate have been abolished. Under the second chapter, mineral restoration tax and mineral use tax (at the effective rate of approximately 6% and 8%, respectively, of oil and gas revenues recognised for Russian statutory purposes) and excise tax on crude oil production of approximately US $0.30 per barrel were replaced with a unified production tax. The unified production tax effective through 31 December 2004 is computed as US $1.55 per barrel multiplied by a coefficient linked to market prices for Urals blend crude oil (the "Urals price") over US $8.00 per barrel. From 1 January 2005, the unified rate is set by law at 16.5% of oil and gas revenues recognised for Russian statutory purposes. The two new chapters of the Russian tax code are effective January 1, 2002.

Although the Russian Tax Code has reduced the corporate tax rate from 35% to 24% effective January 1, 2002, other changes may still result in Tatneft recording a higher tax expense. Of particular significance is the elimination of the capital investment allowance. Prior to 2002 Tatneft was able to utilise capital investment allowances to reduce its corporate income tax expense up to 50% by claiming a deduction of capital expenditures incurred throughout the year. However, the impact of the elimination of the capital investment allowance may be partially offset by the deduction of certain expenses which were previously not deductible. Management is currently evaluating the impact these changes will have on Tatneft's results of operations.

The above assessment of critical accounting policies is not meant to be an all-inclusive discussion of the uncertainties to financial results that can occur from the application of the full range of Tatneft's accounting policies. Materially different results could occur in the application of the other generally accepted accounting policies as well. Additionally, materially different results can occur upon the adoption of the new accounting standards promulgated by the various rule-making bodies.

Recent accounting pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, *Business Combinations,* SFAS No. 142, *Goodwill and Other Intangible Assets,* and SFAS No. 143, *Accounting for Asset Retirement Obligations.* In August 2001, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* was also issued. SFAS No. 141, requires the purchase method of accounting for all business combinations and applies to all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill as well as other intangible assets with indefinite lives not be amortized but be tested annually for impairment and is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 141 and SFAS No. 142 did not significantly impact Tatneft's financial statements. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost should be allocated to expense using a systematic and rational method. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Tatneft is currently assessing the impact of SFAS No. 143 and therefore, at this time cannot reasonably estimate the effect of these statements on its financial condition or results of operations. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. It supersedes, with exceptions, SFAS No.121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and is effective for fiscal years beginning after December 15, 2001. Management does not believe the adoption of SFAS 144 will have a material effect on Tatneft's financial position or results of operations.

Report of Independent Accountants

To the Board of Directors and Shareholders of OAO Tatneft

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, of cash flows and of shareholders' equity, expressed in constant Russian Roubles of December 31, 2001 purchasing power, present fairly, in all material respects, the financial position of OAO Tatneft and its subsidiaries (the "Group") at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Group's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers

Moscow, Russia
June 10, 2002

Consolidated Balance Sheets

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except share information)

	Notes	At December 31, 2001	At December 31, 2000
Assets			
Cash and cash equivalents	6	4,232	3,067
Accounts receivable, net	7	20,631	20,455
Short-term investments	8	8,440	3,875
Current portion of loans receivable and advances	11	6,291	5,301
Inventories	9	10,252	10,174
Prepaid expenses and other current assets	10	13,347	12,297
Total current assets		**63,193**	**55,169**
Restricted cash	6	2,131	3,262
Long-term loans receivable and advances	11	1,519	1,867
Long-term investments	8	3,702	3,969
Property, plant and equipment, net (successful efforts)	12	128,438	112,069
Total assets		**198,983**	**176,336**
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	13	30,620	16,818
Banking customer deposits	14	6,855	5,693
Trade accounts payable		9,553	7,497
Other accounts payable and accrued liabilities	15	4,174	5,664
Taxes payable		5,695	7,287
Current deferred tax liability	16	1,176	1,612
Total current liabilities		**58,073**	**44,571**
Long-term debt	13	7,443	15,136
Deferred tax liability	16	17,600	24,290
Total liabilities		**83,116**	**83,997**
Minority interest		**4,605**	**2,190**
Shareholders' equity			
Preferred shares (authorized and issued at December 31, 2001 and 2000 – 147,508,500 shares; nominal value at December 31, 2001 and 2000 - RR 1.00 and RR 0.10, respectively)	17	148	148
Common shares (authorized and issued at December 31, 2001 and 2000 - 2,178,690,700 shares; nominal value at December 31, 2001 and 2000 - RR 1.00 and RR 0.10, respectively)	17	2,179	2,179
Additional paid in capital		77,027	76,885
Accumulated other comprehensive income		2,732	1,107
Retained earnings		31,357	10,514
Common shares held in treasury, at cost (176,133,000 shares and 66,575,000 shares at December 31, 2001 and 2000, respectively)		(2,181)	(684)
Total shareholders' equity		**111,262**	**90,149**
Commitments and contingent liabilities	22	-	-
Total liabilities and shareholders' equity		**198,983**	**176,336**

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

Consolidated Statements of Operations and Comprehensive Income

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except share information)

	Notes	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Sales and other operating revenues	19	**135,086**	**173,300**	**71,845**
Costs and other deductions				
Operating		27,187	21,574	15,582
Purchased oil and refined products		29,625	53,498	5,693
Exploration		729	643	175
Transportation		4,502	3,778	3,032
Selling, general and administrative		15,904	9,607	7,004
Depreciation, depletion and amortization	19	5,057	4,597	3,688
Loss on disposals and impairment	12	2,173	2,262	-
Taxes other than income taxes	16	28,990	32,501	14,458
Maintenance of social infrastructure	12	427	219	282
Transfer of social assets constructed after privatization	12	515	111	196
Total costs and other deductions		**115,109**	**128,790**	**50,110**
Other income (expenses)				
Earnings from equity investments		435	794	412
Foreign exchange loss		(739)	(513)	(8,963)
Monetary gain	2	1,532	3,219	9,168
Net interest income - banking		1,173	-	-
Other net - banking		(456)	-	-
Interest income		1,318	741	853
Interest expense		(2,497)	(3,789)	(3,745)
Other income, net		900	769	586
Total other income (expenses)		**1,666**	**1,221**	**(1,689)**
Income before income taxes and minority interest		**21,643**	**45,731**	**20,046**
Income taxes				
Current		6,143	9,400	4,270
Deferred (benefit) expense		(7,127)	7,727	3,118
Total income tax (benefit) expense	16	**(984)**	**17,127**	**7,388**
Income before minority interest		**22,627**	**28,604**	**12,658**
Minority interest		**(1,475)**	**(413)**	**(446)**
Net income		**21,152**	**28,191**	**12,212**
Foreign currency translation adjustments		142	-	-
Unrealized holding gains on available-for-sale securities, net of RR nil tax	8	2,023	663	444
Less: reclassification adjustment for realized gains included in net income	8	(540)	-	-
Comprehensive income		**22,777**	**28,854**	**12,656**
Basic and diluted net income per share (RR)	17			
Common		9.6	12.4	5.4
Preferred		9.7	12.8	5.5
Weighted average common shares outstanding (millions of shares)	17			
Basic		2,057	2,113	2,129
Diluted		2,062	2,113	2,129
Weighted average preferred shares outstanding (millions of shares)	17			
Basic		148	148	148
Diluted		148	148	148

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

Consolidated Statements of Cash Flows

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power)

	Notes	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Operating activities				
Net income		21,152	28,191	12,212
Adjustments:				
Minority interest		1,475	413	446
Depreciation, depletion and amortization		5,057	4,597	3,688
Net barter settlements	6	(3,672)	(9,340)	(7,613)
Deferred income tax (benefit) expense		(7,127)	7,727	3,118
Disposals and impairments	12	2,173	2,262	-
Realized gain on available for sale securities		(871)	-	-
Effects of foreign exchange		1,423	980	10,330
Monetary gain		(1,532)	(3,219)	(9,168)
Share in current earnings of equity investments less dividends received		(331)	(590)	(412)
Transfer of social assets constructed after privatization		515	111	196
Other		399	-	-
Changes in operational working capital, excluding cash:				
Accounts receivable		(1,300)	(6,618)	(5,105)
Inventories		1,162	(4,086)	(72)
Prepaid expenses and other current assets		(3,483)	(7,910)	(3,033)
Trade accounts payable		914	3,781	(385)
Other accounts payable and accrued liabilities		4,412	1,873	2,721
Taxes payable		(1,546)	1,753	5,080
Net cash provided by operating activities		**18,820**	**19,925**	**12,003**
Investing activities				
Additions to property, plant and equipment	6	(17,880)	(14,146)	(3,298)
Proceeds from disposals of property, plant and equipment		122	85	49
Purchase of investments and net increase in loans receivable		(5,825)	(1,278)	(50)
Proceeds from disposal of investments		2,437	96	177
Purchase of long-term investments, net of cash acquired		(292)	(468)	-
Change in restricted cash		660	(987)	(573)
Net cash used for investing activities		**(20,778)**	**(16,698)**	**(3,695)**
Financing activities				
Proceeds from issuance of short-term debt		11,207	7,076	479
Repayment of short-term debt		(16,691)	(10,493)	(6,906)
Proceeds from issuance of long-term debt		10,526	2,332	-
Issuance of loans receivable		-	(135)	-
Dividends paid		(599)	(560)	(286)
Purchase of treasury shares		(1,840)	(1,655)	-
Proceeds from sale of treasury shares		300	1,060	-
Proceeds from issuance of shares by subsidiaries		593	-	-
Net cash provided by (used for) financing activities		**3,496**	**(2,375)**	**(6,713)**
Effect of foreign exchange on cash and cash equivalents		(32)	83	93
Effect of inflation accounting		(341)	(531)	(302)
Net change in cash and cash equivalents		**1,165**	**404**	**1,386**
Cash and cash equivalents at beginning of year		3,067	2,663	1,277
Cash and cash equivalents at end of year		**4,232**	**3,067**	**2,663**

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

Consolidated Statements of Shareholders' Equity

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

	2001		2000		1999	
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**
Preferred shares:						
Balance at January 1 and December 31						
(shares in thousands)	147,509	148	147,509	148	147,509	148
Common shares:						
Balance at January 1 and December 31						
(shares in thousands)	2,178,691	2,179	2,178,691	2,179	2,178,691	2,179
Treasury shares, at cost:						
Balance at January 1	66,575	(684)	66,214	(360)	33,000	(332)
Purchases	131,889	(1,840)	165,511	(1,655)	112,177	(313)
Reissuances (disposal)	(22,331)	343	(165,150)	1,331	(78,963)	285
Balance at December 31						
(shares in thousands)	176,133	(2,181)	66,575	(684)	66,214	(360)
Additional capital						
Balance at January 1		76,885		76,885		76,885
Stock-based compensation		142		-		-
Balance at December 31		77,027		76,885		76,885
Accumulated other comprehensive income						
Balance at January 1		1,107		444		-
Change during year		1,625		663		444
Balance at December 31		2,732		1,107		444
Retained earnings (accumulated deficit)						
Balance at January 1		10,514		(16,441)		(28,383)
Net income		21,152		28,191		12,212
Dividends		(266)		(966)		(208)
Treasury share transactions		(43)		(270)		(61)
Balance at December 31		31,357		10,514		(16,440)
Total shareholders' equity at December 31		111,262		90,149		62,856

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

Notes to Consolidated Financial Statements

Note 1: Organization

OAO Tatneft (the "Company") and its subsidiaries (jointly referred to as "the Group") are engaged in crude oil exploration, development and production principally in the Republic of Tatarstan ("Tatarstan"), an autonomous republic within the Russian Federation. The Group also engages in refining and marketing of crude oil and refined products, petrochemical and banking activities (see Note 19).

The Group's banking activities mainly comprise the operations of Zenit Bank and Devon Credit Bank.

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

At December 31, 2001, the State held 728,183,691 (33%) common shares of the Company. As further described in Note 17, the State owns one "Golden Share" which carries the right to veto certain decisions taken at meetings of the shareholders and the Board of Directors. The Government of Tatarstan is able to exercise considerable influence through its ownership interest in the Company, its legislative, taxation and regulatory powers, its representation on the Board of Directors and informal pressure. Additionally, the Government of Tatarstan also controls a number of the Group's suppliers, such as OAO Tatenergo, the supplier of electricity to the Group, and a number of the Group's ultimate customers, such as OAO Nizhnekamskneftekhim ("Nizhnekamskneftekhim"), the principal petrochemical company in Tatarstan. The Government has used its influence over the Group to ensure, via intermediaries or directly, a supply of crude oil and refined products to Niznekamskneftekhim. Related party transactions are further disclosed in Note 20.

There has been no additional issuance of shares of the Company since its inception and the State continues to hold only those shares that it has not otherwise distributed pursuant to the privatization plan of the Group.

Note 2: Basis of Presentation

The Group maintains its accounting records and prepares its statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR"). The accompanying financial statements have been prepared from these accounting records and adjusted as necessary to comply with accounting principles generally accepted in the United States of America ("US GAAP").

Use of estimates in the preparation of financial statements. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the assets, liabilities, revenues and expenses reported in the financial statements, as well as amounts included in the notes thereto, including the discussion and disclosure of contingent assets and liabilities. While management uses its best estimates and judgments, actual results may vary from those estimates as future confirming events occur.

Exchange rates, restrictions and controls. The official rate of exchange of the Russian Rouble to the US Dollar ("US $") at December 31, 2001 and 2000 was RR 30.14 and RR 28.16 to US $1.00, respectively. Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a convertible currency outside of the Russian Federation and, further, the Company is required to sell up to 50% (75% from March 1999 through August 2001) of its hard currency earnings for Russian Roubles. Accordingly, any translation of Russian Rouble amounts to US Dollars should not be construed as a representation that such Russian Rouble amounts have been, could be, or will in the future be converted into US Dollars at the exchange rate shown or at any other exchange rate.

Inflation accounting. All amounts in the consolidated financial statements and notes are expressed in constant Russian Roubles of December 31, 2001 purchasing power, in accordance with Accounting Principles Board Statement 3, *Financial Statements Restated for General Price-Level Changes.* This remeasurement is calculated from conversion factors derived from the Russian Federation Consumer Price Index, an historical price index published by the Russian State Committee on Statistics ("Goskomstat" prior to October 1999 and "Russian Statistics Agency" since October 1999), and from indices obtained from other sources for years prior to 1992. Management believes that the above indices are the most appropriate and consistent measures of the impact of general price inflation in the Russian Federation for the periods indicated.

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

The amounts shown in the general price-level consolidated financial statements do not purport to represent appraised value, replacement cost or any other measure of the current value of assets or the price at which transactions would take place currently.

The indices and respective conversion factors for the three years ended December 31, 2001, 2000 and 1999 used to restate the consolidated financial statements, based on 1988 prices (1988 = 100), are as follows:

Year ended	Index	Conversion factor
December 31, 1999	1,661,481	1.4
December 31, 2000	1,995,937	1.2
December 31, 2001	2,371,572	1.0

The effects of inflation on the Group's net monetary position are included in the consolidated statements of operations and have resulted in net monetary gains totaling RR 1,532, RR 3,219 and RR 9,168 for the years ended December 31, 2001, 2000 and 1999, respectively. These effects arise as a result of the Group being in a net monetary liability position for these years.

Russian Rouble purchasing power gains and losses. The accompanying consolidated financial statements include certain Russian Rouble amounts which represent underlying US Dollar balances. In 2001, 2000 and 1999, the Consumer Price Index in the Russian Federation increased by 19%, 20% and 37%, respectively, while the US Dollar has gained value with respect to the Russian Rouble by 7%, 4% and 31%, respectively.

For US Dollar balances other than those existing at December 31, 2001, differences between the rate of devaluation of the Russian Rouble and Russian Rouble inflation indexation result in inconsistencies between disclosed Russian Rouble amounts and amounts obtained from converting US Dollar denominated items to Russian Roubles based on December 31, 2001 exchange rates. The disclosed Russian Rouble amounts, however, represent the December 31, 2001 purchasing power amounts in accordance with US GAAP.

Barter transactions. Transactions settled by barter are included in the accompanying consolidated balance sheets and statements of operations on the same basis as cash transactions.

Barter transactions relate to sales of crude oil and refined products and are generally either in the form of direct settlement by crude oil and refined products to the final customer, or through a chain of non-cash transactions involving several companies. In such cases, both sales and purchases are recorded as a result of the barter transaction. Barter sales are recognized at the fair value of the crude oil and refined products exchanged.

Disclosure of the effect of barter transactions on the cash flows of the Group is provided in Note 6.

Reclassifications. For comparative purposes, certain prior year amounts have been reclassified to conform to the current year's presentation.

Note 3: Operating Environment

The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of: a currency that is not freely convertible outside of the country, extensive currency controls, a low level of liquidity in the public and private debt and equity markets, and continued inflation.

The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments.

Note 4: Summary of Significant Accounting Policies

Principles of consolidation. The accompanying consolidated financial statements include the operations of all significant subsidiaries in which the Group directly or indirectly owns or controls more than 50 percent of the voting stock. Joint ventures and affiliates in which the Group has significant influence but not control (20 percent to 50 percent) are accounted for using the equity method. Investments in other companies are accounted for at cost and adjusted for estimated impairment.

Cash equivalents. Cash equivalents include all highly liquid securities with original maturities of three months or less when acquired, as well as amounts due from banks to the Group's banking subsidiaries.

Inventories. Crude oil and refined products inventories are valued at the lower of cost or net realizable value using the first-in, first-out method. Materials, supplies and finished goods inventories are recorded at the lower of average cost and net realizable value.

Investments. Investments include securities classified as available-for-sale, held-to-maturity, or trading. Securities are classified as available-for-sale when, in management's judgment, they may be sold in response to or in anticipation of changes in market conditions. Available-for-sale securities are carried at fair value on the consolidated balance sheet. Unrealized gains and losses on available-for-sale securities are reported net as increases or decreases to accumulated other comprehensive income (loss). The specific identification method is used to determine realized gains and losses on available-for-sale securities. Securities that management have the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost on the consolidated balance sheet. Securities classified as trading are bought and held principally for the purpose of selling them in the near term. Trading securities are carried at fair value on the consolidated balance sheet. Unrealized gains and losses on trading securities are included in earnings.

Loans receivable and advances to customers. Loans receivable and advances to customers, which primarily related to the Group's banking operations, are stated at the principal amounts outstanding net of provisions for losses on loans and advances. Provisions for losses on loans and advances are based on the evaluation by management of their collectibility. Specific provisions are raised against debts whose recovery has been identified as doubtful. A general provision is raised against the doubtful loans and advances, which are inherent in the loans and advances portfolio but which at the date of preparing the financial statements have not been specifically identified. Estimates of losses on loans and advances require the exercise of judgment and the use of assumptions.

Property, plant and equipment. The Group follows the successful efforts method of accounting for its oil and gas properties, whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes), and support equipment and facilities are capitalized. Unsuccessful exploratory wells are charged to expense at the time the wells are determined to be non-productive. Production costs, overheads and all exploration costs other than exploratory drilling are charged to expense as incurred. Acquisition costs of unproved properties are evaluated periodically and any impairment assessed is charged to expense.

Depreciation, depletion and amortization of capitalized costs of proved oil and gas properties is calculated using the unit-of-production method for each field based upon proved developed reserves. Estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are recorded using the unit-of-production method and included as a component of depreciation, depletion and amortization.

Gains or losses are not recognized for retirements of oil and gas producing properties, which are subject to composite depreciation, depletion and amortization. Gains or losses on retirements of other than oil and gas producing properties are included in earnings.

Other property, plant and equipment not associated with oil and gas properties are recorded at cost less accumulated depreciation. Depreciation of these assets, including social assets, is calculated on a straight-line basis as follows:

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

Long-lived assets, including proved oil and gas properties, are assessed for possible impairment in accordance with Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of ("SFAS 121").* SFAS 121 requires long-lived assets with recorded values that are not expected to be recovered through undiscounted future cash flows to be written down to current fair value. Fair value is generally determined from estimated future discounted net cash flows.

Maintenance and repairs and minor renewals of social assets and other assets are expensed as incurred. Major renewals and improvements are capitalized and the assets replaced are retired.

Social assets constructed prior to privatization, and the related deferred income tax balances, were charged to additional capital as a distribution of capital when the assets were permanently transferred to government authorities. Social assets constructed subsequent to privatization are charged to expense when the assets are permanently transferred to government authorities.

Derivative financial instruments. The Group adopted Statement of Financial Accounting Standards ("SFAS") SFAS 133, *Accounting for Derivatives Instruments and Hedging Activities* effective 1 January 2001. In accordance with SFAS 133 the Group recognises all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. Derivative instruments primarily represent foreign exchange and commodity forwards associated with the Group's banking operations. The accounting for changes in fair value depends on the derivatives' intended use and designation and could entail recording the gain or loss through earnings of the current period, or as part of comprehensive income and subsequently reclassifying into earnings when the gain or loss is realised. The adoption of SFAS 133 did not have a significant impact on the Group's results of operations or financial position.

Environmental liabilities. Liabilities for environmental remediation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated.

Pension and post-employment benefits. The Group's mandatory contributions to the governmental pension scheme are expensed when incurred. Discretionary pension and other post-employment benefits are not material.

Revenue recognition. Revenues from the production and sale of crude oil and petroleum products are recognized when deliveries of products to final customers are made and title passes to the customer. Sales of crude oil with next day obligations to repurchase are not accounted for as sales or purchases (see Note 20).

Foreign currency transactions and translation. The Russian Rouble is the functional currency for the Group's opeations. Balance sheet items denominated in foreign currencies have been translated using the exchange rate at the balance sheet date prior to restatement to December 31, 2001 purchasing power. The related foreign exchange gains and losses are included in earnings.

Stock-Based Compensation. The Group's stock-based compensation is accounted for in accordance with the intrinsic value method established by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.* Compensation expense is recognized for stock options granted when the exercise price of the options granted is below the fair market value of the Group's stock at the date of grant.

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

Comprehensive income. Comprehensive income includes all changes in equity during the period from non-owner sources and is detailed in the consolidated statement of operations and comprehensive income.

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

Treasury shares. Common shares of OAO "Tatneft" owned by the Group at the balance sheet date are designated as treasury shares and are recorded at cost. Any gain or loss on the resale of treasury shares is recorded as a component of equity.

Recent accounting pronouncements. In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, Business Combinations, SFAS No. 142, *Goodwill and Other Intangible Assets*, and SFAS No. 143, *Accounting for Asset Retirement Obligations.* In August 2001, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* was also issued. SFAS No. 141, requires the purchase method of accounting for all business combinations and applies to all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill as well as other intangible assets with indefinite lives not be amortized but be tested annually for impairment and is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS No. 141 and SFAS No. 142 did not significantly impact the Group's financial statements. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost should be allocated to expense using a systematic and rational method. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Group is currently assessing the impact of SFAS No. 143 and therefore, at this time cannot reasonably estimate its effect on the Group's financial condition or results of operations. SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of. It supersedes, with exceptions, SFAS No.121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and is effective for fiscal years beginning after December 15, 2001. Management does not believe the adoption of SFAS 144 will have a material effect on the Group's financial position or results of operations.

Note 5: Acquisitions

In 2000 the Group purchased a 35% interest in the charter capital of OAO Nizhnekamskshina. OAO Nizhnekamskshina is one of the largest tire manufacturing companies in the Russian Federation. The shares were acquired from the Tatarstan Government for cash consideration of RR 13. Under the terms of an investment agreement, the Group and the Tatarstan Government agreed to support the future expansion of OAO Nizhnekamskshina's operations and meet certain goals for the benefit of the employees, Tatneft and Tatarstan.

As part of management's strategy to become a vertically integrated oil company and thereby develop a petrochemical segment, in September 2001 the Group acquired an additional 16% interest in the charter capital of OAO Nizhnekamskshina, thereby increasing its holding to control 51% of the voting equity interest. In 2000 and up to September 30, 2001, the Group's investment in OAO Nizhnekamskshina was accounted for using the equity method. The Group took control of OAO Nizhnekamskshina effective September 30, 2001 and for accounting purposes the assets and liabilities and operating results of OAO Nizhnekamskshina were consolidated from that date. No pro forma results have been provided as the acquisition does not have a material impact on the Group's consolidated financial statements.

The purchase consideration for the additional 16% interest consisted of cash (RR 71) and settled indebtedness (RR 105). The condensed balance sheet of OAO Nizhnekamskshina as of September 30, 2001 was as follows:

Accounts receivable	1,276
Inventories	1,136
Property, plant and equipment	3,246
Accounts payable and short-term debt	(4,015)
Other (net)	(576)
Net assets	1,067

In November 2000, the Company purchased additional shares in Zenit Bank, a commercial bank registered in the Russian Federation, and increased its percentage holding to 50% plus one share. Up to December 31, 2000 Zenit Bank was accounted for as an equity investment. The Group took control of Zenit Bank effective December 31, 2000 and for reporting purposes Zenit Bank was consolidated at that date.

Note 6: Cash and Cash Equivalents, Restricted Cash, and Cash Flow Information

The consolidated statements of cash flows provide information about changes in cash and cash equivalents. At December 31, 2001, 2000 and 1999, cash holdings of the Group, consisting of cash, cash equivalents and restricted cash, include US Dollar denominated amounts of RR 4,383 (US $145 million), RR 4,337 (US $130 million), and RR 1,773 (US $46 million), respectively, of which RR 2,131 (US $71 million), RR 3,262 (US $97 million) and RR 1,692 (US $42 million), respectively, is restricted. Restricted cash consists of mandatory deposits with Central Bank of Russia, deposits with lending institutions and open letters of credit. Deposits with lending institutions are held over the life of the respective loans.

Net cash provided by operating activities reflects payments of interest and income taxes as follows:

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Interest paid	2,752	5,071	3,654
Income taxes paid	7,313	7,803	2,885

Non-cash sales. Non-cash sales for the years ended December 31, 2001, 2000 and 1999 totaled RR 7,436, RR 19,062 and RR 17,961, respectively, which approximates 5%, 11% and 25% of sales and other operating revenues, respectively.

Net cash provided by operating activities in the accompanying consolidated statements of cash flows is not affected by non-cash sales related to settlements of current period costs, because such sales have no effect on the net income figure. The remaining non-cash sales, representing barter transactions related to purchases of property, plant and equipment, have been excluded from net cash provided by operating activities and from net cash used for investing activities in the accompanying statements of cash flows.

The following table shows the distribution of non-cash transactions included in the consolidated statements of operations and as additions to property, plant and equipment:

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Taxes other than income taxes	794	479	6,404
Additions to property, plant and equipment	3,672	9,340	7,613
Operating and other expenditures	2,970	9,243	3,944
Total non-cash transactions	**7,436**	**19,062**	**17,961**

The majority of barter transactions represent transactions which have been settled through a chain of non-cash transactions involving several companies rather than transactions pursuant to standing barter arrangements or transactions originally intended to be settled through a contractual barter agreement.

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

Note 7: Accounts Receivable

Accounts receivable are as follows:

	At December 31, 2001	At December 31, 2000
Trade-domestic sales	13,147	12,068
Trade-export sales (US $248 million and US $251 million at December 31, 2001 and 2000, respectively)	7,484	8,387
Total accounts receivable, net	**20,631**	**20,455**

Trade receivables are presented net of an allowance for doubtful accounts of RR 1,082 and RR 517 at December 31, 2001 and 2000, respectively.

Note 8: Short and Long-Term Investments

Short-term investments classified as available-for-sale are as follows:

	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair value (carrying value)
Bonds and other Russian government securities	926	-	-	926
Corporate debt securities	4,988	2,000	-	6,988
Equity securities	503	23	-	526
Total short-term investments at December 31, 2001	**6,417**	**2,023**	**-**	**8,440**
Bonds and other Russian government securities	1,234	503	-	1,737
Corporate debt securities	1,746	160	-	1,906
Equity securities	232	-	-	232
Total short-term investments at December 31, 2000	**3,212**	**663**	**-**	**3,875**

Short-term investments include debt securities held by a trust on behalf of the Group. The securities were purchased on behalf of the trust by a third party, who was funded by a loan provided by the trust in 1998. At December 31, 2001, short-term investments include Tatneft Finance Eurobonds with a carrying value of RR 5,585 (nominal value of US $186 million), of which RR 3,470 (nominal value of US $116 million) are held in the trust. At December 31, 2000, short-term investments included Tatneft Finance Eurobonds with a carrying value of RR 1,350 (nominal value of US $46 million), of which RR 554 (nominal value of US $21 million) were held in the trust. Tatneft Finance Eurobonds are classified as available-for-sale and mature in October 2002 (see note 13). The increase in carrying value includes an unrealized holding gain of RR 2,000 and RR 160 as of December 31, 2001 and 2000, respectively, which has been classified as other comprehensive income in the consolidated statements of operations for the year ended December 31, 2001 and 2000, respectively.

At December 31, 2001, total debt securities with fair values totaling RR 5,943 mature during 2002, and with fair values totaling RR 1,971 mature between 2003 and 2008.

Net realized gains on trading and available-for-sale securities for the years ended December 31, 2001, 2000 and 1999 were RR 1,508, RR 97 and RR nil, respectively.

Long-term investments are as follows:

	Percentage holding December 31,	Net book value at December 31,		Income from equity affiliates for the year ended December 31,		
	2001	2001	2000	2001	2000	1999
Investments in equity affiliates and joint ventures:						
ZAO Tatex	50	1,363	1,078	314	516	201
ZAO Finansovo-Leasingovaya Companiya (FLK)	28	515	-	6	-	-
Other		261	723	115	278	211
Total investments in equity affiliates and joint ventures		**2,139**	**1,801**	**435**	**794**	**412**
Long-term investments, at cost:						
ZAO Ukrtatnafta	9	437	437			
OAO AK Bars Bank	13	270	484			
OAO Tatfondbank	16	123	70			
Other		733	1,177			
Total long-term investments, at cost		**1,563**	**2,168**	**-**	**-**	**-**
Total long-term investments		**3,702**	**3,969**	**435**	**794**	**412**

Summary financial information pertaining to these investments has not been presented as the investments are not material to the Group's consolidated financial statements.

In prior years and up to September 30, 2001 OAO Nizhnekamskshina was accounted for as an equity investment. OAO Nizhnekamskshina became a subsidiary of the Group on the September 30, 2001 and has been consolidated from that date (see Note 5).

Note 9: Inventories

Inventories are as follows:

	At December 31, 2001	At December 31, 2000
Materials, supplies and finished goods	8,071	8,359
Crude oil, refined and petrochemical products	2,181	1,815
Total inventories	**10,252**	**10,174**

Note 10: Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are as follows:

	At December 31, 2001	At December 31, 2000
Prepaid VAT	6,479	6,722
Prepaid excise tax	1,241	-
Other taxes	887	172
Notes receivable	1,262	940
Advances	1,068	1,244
Interest receivable	989	245
Prepaid transportation expenses	114	599
Receivables under forward exchange contracts	-	690
Receivables from sales of securities	-	637
Other	1,307	1,048
Total prepaid expenses and other current assets	**13,347**	**12,297**

Note 11: Loans Receivable and Advances

Loans receivable and advances are as follows:

	At December 31, 2001	At December 31, 2000
Banking loans and advances to customers, net	7,810	5,570
Amounts due from the Government of Tatarstan (US $ nil million and US $44 at December 31, 2001 and 2000, respectively)	-	1,471
Other rouble denominated loans receivable	-	127
Total loans receivable	**7,810**	**7,168**
Less: current portion of loans receivable and advances	(6,291)	(5,301)
Total long-term loans receivable and advances	**1,519**	**1,867**

Amount due from the Government of Tatarstan. In 1998, the Group established a loan facility with Credit Suisse Financial Products at the request of the Government of Tatarstan and immediately loaned the proceeds to the Government of Tatarstan. The loan terms mirrored those of the facilities upon which the immediately loaned amounts are drawn.

As a settlement of its obligation during the year ended December 31, 2000 and 1999, the Government of Tatarstan repaid RR 63 and RR 3,794, respectively, through the relief of tax liabilities, and cash and cash equivalent payments. In 1999, the Government of Tatarstan reduced its obligation further through the transfer of controlling interests in a telecommunications company, OAO Tatincom ("Tatincom") (see Note 12), and a geophysical services company, OAO Tatneftegeofysika. The amount of debt settled in exchange for these common shares totaled RR 1,920 and was accounted for under purchase accounting.

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

In November, 2000 the Group restructured the terms of its short-term debt facilities, including the immediately loaned facilities which resulted in a portion of loans payable, and consequently, loans receivable becoming long-term. The debt restructuring is more fully described in Note 13.

In 2001, the Government of Tatarstan settled the remaining balance of the loan through relief of tax liabilities and the transfer of shares of companies in Tatarstan, such as AK Bars Bank and OAO Kamaz. The amount of debt that was settled through the transfer of shares was RR 1,436. The fair value of these shares as of settlement date was RR 816. The difference between the book value of debt settled through the transfer of shares and the fair value of shares received was charged to earnings.

Banking loans and advances to customers. Banking loans and advances to customers are presented net of allowance for losses of RR 998 and RR 791 as at December 31, 2001 and 2000, respectively.

At December 31, 2001, the weighted average year-end interest rate on banking loans and advances was 20% on balances denominated in Russian Roubles and 17% on balances denominated in foreign currency. The fair value of banking loans and advances approximate the carrying values as interest rates typically refix on a three month basis and the majority of these loans and advances are short-term in nature.

Long-term banking loans receivable and advances. Long-term banking loans receivable and advances at December 31, 2001 are comprised of loans issued by Zenit Bank and Devon Credit Bank of RR 1,495 and RR 24, respectively. These loans are denominated in Russian Roubles and foreign currency (US Dollars and Euro) and bear interest rates of 17% and 20% per annum for US Dollars denominated loans and Russian Rouble denominated loans.

Note 12: Property, Plant and Equipment

Property, plant and equipment are as follows:

	Cost	Accumulated depreciation, depletion and amortization	Net book value
Oil and gas properties	196,823	108,183	88,640
Buildings and constructions	21,620	5,757	15,863
Machinery and equipment	33,242	21,642	11,600
Assets under construction	12,335	-	12,335
December 31, 2001	**264,020**	**135,582**	**128,438**
Oil and gas properties	186,738	106,926	79,812
Buildings and constructions	15,359	4,605	10,754
Machinery and equipment	25,455	16,490	8,965
Assets under construction	12,538	-	12,538
December 31, 2000	**240,090**	**128,021**	**112,069**

The Group's estimates of future aggregate dismantling, abandonment and site restoration costs were RR 13,068 and RR 17,208 as of December 31, 2001 and 2000, respectively. Of this amount, RR 11,206 and RR 11,152 have been accrued in the accounts at December 31, 2001 and 2000, respectively, and are reflected as a component of accumulated depreciation. The Group has estimated its liability based on current environmental legislation and its best estimate of future costs.

The Group's oil and gas fields are situated on land belonging to the Government of Tatarstan. The Group obtains licenses from the local authorities and pays royalties to explore and produce oil and gas from these. These licenses expire between 2013 and 2015, and may be extended at the initiative of the Group. Management intends to extend licenses for properties, which are expected to produce hydrocarbons subsequent to the expiration of their respective licenses.

The Group remains significantly leveraged, which requires a substantial portion of its cash flow for debt service. In addition, cash flow from operations is dependent on the level of oil prices, which are historically volatile and significantly impacted by the proportion of production that can be sold on the export market. Historically, the Group has supplemented its cash flow from operations with additional borrowings and may continue to do so. Should oil prices decline for a prolonged period and should the Group not have access to additional capital, the Group would need to reduce its capital expenditures, which could limit its ability to maintain or increase production and in turn meet its debt service requirements.

In 1999, the Group entered into an agreement with Nizhnekamskneftekhim, and OAO Tataro-American Investment Fund (TAIF), related parties under the significant influence of a common shareholder, to form a joint venture company, OAO Nizhnekamsk Refinery. This joint venture is expected to expand, upgrade, and operate the existing refinery in Nizhnekamsk. The Group's total investment in the refinery amounted to approximately US $155 million as of December 31, 2001 and is included within assets under construction. The Group's interest in the refinery is still under negotiation.

Social assets. During 2001, 2000 and 1999 the Group transferred social assets with a net book value of RR 515, RR 111 and RR 196, respectively, to local authorities for no consideration. All the amounts transferred in 2001, 2000 and 1999 relate to assets that were constructed or procured by the Group subsequent to privatization and have been charged to operations. At December 31, 2001 and 2000, the Group held social assets with a net book value of RR 5,065 and RR 4,620, all of which were constructed after the privatization date. The Group incurred social infrastructure expenses of RR 427, RR 219 and RR 282 for the years ended December 31, 2001, 2000 and 1999, respectively, for maintenance that mainly relates to housing, schools and cultural buildings.

Impairment of fixed assets. In 2000, based on a reassessment of its future development plans and cash flows of a telecommunications subsidiary, the Group wrote off its investment resulting in a charge to operations of RR 941.

In 2001, based on a reassessment of its future development plans and cash flows of a second telecommunications subsidiary, the Group has written off its investment resulting in a charge to operations of RR 342.

Note 13: Debt

Short and long-term debt is as follows:

	At December 31, 2001	At December 31, 2000
Short-term debt		
Foreign currency denominated debt		
Current portion of Dresdner Bank AG loan ("Eurobonds")	9,042	-
Current portion of restructured debt	3,283	7,686
Current portion of other long-term debt	2,930	-
Other foreign currency denominated debt	4,918	2,286
Rouble denominated debt		
Notes payable	6,697	3,748
Other rouble denominated debt	3,750	3,098
Total short-term debt	**30,620**	**16,818**
Long-term debt		
Foreign currency denominated debt		
Dresdner Bank AG loan ("Eurobonds")	9,042	10,038
Restructured debt	3,283	10,367
Other foreign currency denominated debt	7,027	614
Rouble denominated debt	3,346	1,803
Less: current portion	(15,255)	(7,686)
Total long-term debt	**7,443**	**15,136**

Short-term foreign currency denominated debts.

Eurobonds. Included as short-term debt is the loan from Dresdner Bank AG ("Dresdner Bank") of RR 9,042 (US $300 million) as of December 31, 2001. In October 1997, the Group established a long-term loan agreement (the "Loan Agreement") with Dresdner Bank in the amount of US $300 million, bearing interest at 9% per annum, payable semi-annually. Simultaneously, Tatneft Finance Plc. ("Tatneft Finance"), an Irish public limited company not affiliated with the Group, issued US $300 million of 9% Eurobond notes due in October 2002 (the Tatneft Finance Eurobonds). Tatneft Finance used the proceeds from this issuance to purchase a US $300 million certificate of indebtedness with an annual interest rate of 9% (the "Certificate of Indebtedness") issued by Dresdner Bank. The proceeds from this sale were then loaned by Dresdner Bank to the Group under the Loan Agreement. Payments made by the Group under the Loan Agreement fund Dresdner Bank's payment obligations to Tatneft Finance under the Certificate of Indebtedness, and Tatneft Finance applies these payments to amounts due on the Tatneft Finance Eurobonds. As part of this series of transactions, the Group has guaranteed the obligations of Tatneft Finance under the Tatneft Finance Eurobonds. At December 31, 2001 and 2000, the entire amount under the Loan Agreement was outstanding. The fair value of loan as at December 31, 2001 is RR 8,861.

Restructured debt. On October 31, 2000 Tatneft signed an agreement to restructure RR 11,844 (US $354 million), which included the principal and capitalized deferred interest of short-term foreign currency debt with Dresdner Bank AG, Chase Manhattan Bank, BHF, Bankgesellschaft Berlin Aktiengesellschaft (formerly Berliner Bank), Credit Suisse First Boston, Credit Agricole Indosuez, West Merchant Bank, and Societe Generale. During November and December of 2000, Credit Suisse First Boston transferred a portion of its loans due from Tatneft to Bankgesellschaft Berlin Aktiengesellschaft, Standard Bank, Dresdner Bank AG, and Bayerische Hypound Vereinsbank AG.

Under the restructuring agreement, the debt is due to be fully repaid in 2002. Tatneft was to make monthly principal and interest payments in the range of US $15.5 - $22 million per month depending on the oil price. The restructured debt bears interest of LIBOR plus 3.95% to 4.2% and is collateralized with oil export contracts of approximately 560 thousand tonnes per month. Under the terms of the restructuring agreement, the Group is not permitted to pay or approve dividends above a certain amount, and shall not incur any new indebtedness other than as permitted by the restructuring agreement.

Other short-term foreign currency denominated debt. As of December 31, 2001 other foreign currency denominated debt includes loans from Societe Generale and BNP Paribas, as well as interbank loans and a syndicated loan from several international banks.

Societe Generale loan balances are RR 389 and RR 1,080 (US $13 million and US $32 million) as of December 31, 2001 and 2000, respectively. Societe Generale loan facility is comprised of US $19 million (including US $6 million of long term portion) loan facility, guaranteed by certain oil export contracts of the Group and bearing interest payable semi-annually at LIBOR plus 0.25%.

In July 2001 OAO Tatneft entered into a RR 905 (US $30 million) loan agreement with Winter Bank. The loan bears an interest rate of 6 month LIBOR plus 4.5% per annum. The loan must be repaid in full every six months and renewed immediately for the first three years. The loan matures in November 2004.

In June 2001 the Group entered into a RR 282 (US $9 million) syndicated credit facility with a consortium of international banks. The contractual maturity of the syndicated loan is June 2002. The credit facility bears an interest rate of 6.03 % per annum and the loan is collateralized by securities held as investments.

In December 2001 OAO Tatneft entered into a RR 497 (US $16.5 million) loan agreement with BNP Paribas. The loan bears an interest rate of 3.5% per annum and is secured by crude oil export contracts of approximately 176 thousand tonnes.

In 2000, a subsidiary of the Group entered into a loan agreement with Central Energy AG for RR 837 (US $25 million). As at December 31, 2000 the long term portion of this loan was RR 223. This loan is fully repaid by December 31, 2001.

Interbank loans from foreign banks of RR 2,845 and RR 983 as at December 31, 2001 and 2000 had average interest rates of 4% and 6% per annum, respectively.

Short-term rouble denominated debt. Rouble denominated short-term debt primarily comprises of loans with Russian banks and notes payable used as financial instruments to obtain short-term financing. Short-term rouble denominated loans of RR 3,750 and RR 3,098 bear contractual interest rates from 10% to 22% and 18% to 25% per annum for the years ended December 31, 2001 and 2000, respectively. Notes payable in the amount of RR 6,697 and RR 3,748 as of December 31, 2001 and 2000, respectively, bear contractual interest rates of 2% to 5%.

Long-term foreign currency denominated debt. Included as long-term foreign currency denominated debt are loans from Commerzbank and BNP Paribas as well as long-term portion of Societe Generale loan in amounts of RR 195 (US $6 million).

In October 2001 the Group entered into the loan agreement with Commerzbank AG for RR 3,767 (US $125 million) to finance current operations. The loan bears interest at LIBOR plus 3.75% per annum, is secured by the Group's oil export contracts of 80 thousand tonnes per month and matures in October 2003.

In November 2001 the Group entered into the loan agreement with BNP Paribas for RR 3,014 (US $100 million) to finance current operations. The loan bears interest at LIBOR plus 3.5% per annum, is secured by the Group's oil export contracts of 50 thousand tonnes per month and matures on February 2004.

Included as short-term foreign currency denominated debt are the current portions of long-term loans from Commerzbank AG and BNP Paribas, amounting to RR 1,674 and RR 1,256, respectively, as of December 31, 2001.

Long-term rouble denominated debt. Long-term rouble denominated debt includes deposit certificates, notes payable, debentures and other loans. Deposit certificates of RR 1,000 and notes payable of RR 1,411 were issued by Zenit Bank with an interest rate of 12% per annum and maturity dates in 2003. In 2001 the Group issued RR 200 of debentures with a nominal value of 100 roubles per debenture. Interest on the debentures is determined based on the Central Bank of Russian Federation official refinance rate and the effective interest rates in 2001 ranging from 15% to 19%.

Other long-term rouble denominated debt is comprised of non-interest bearing promissory notes payable to AK Bars Bank in the amount of RR 167 and non-interest bearing rouble denominated loans of RR 568 with related parties. The loans mature from 2003 to 2015.

The fair value of the long-term debt is estimated by the current yields to maturity of debt with similar credit risk or by using discounted cash flows. Based on these estimates, the fair value of the Group's long-term debt is RR 6,089 (US $202 million) and RR 12,823 (US $383 million) at December 31, 2001 and 2000, respectively. This fair value assessment is subject to considerable uncertainty given the low trade volumes for debt of similar risk.

Aggregate maturities of long-term debt outstanding at December 31, 2001 are as follows:

Millions of RR	
2002	15,255
2003	6,457
2004 and thereafter	986
Total long-term debt (including current portion)	**22,698**

Note 14: Banking Customer Deposits

Banking customer deposits are as follows:

	At December 31, 2001	**At December 31, 2000**
Interest bearing deposits	2,859	3,874
Non interest deposits	3,996	1,819
Total banking customer deposits	**6,855**	**5,693**

Contractual interest rates were 13% and 11% for Russian Rouble interest deposits, and 9% and 8% for foreign currency interest deposits for the years ended December 31, 2001 and 2000, respectively. The majority of banking customer deposits matures within 12 months.

Note 15: Other Accounts Payable and Accrued Liabilities

Other accounts payable and accrued liabilities are as follows:

	At December 31, 2001	**At December 31, 2000**
Salaries and wages payable	1,510	1,210
Advances for purchase of securities	631	705
Interest payable	528	240
Advances received	462	820
Other accrued liabilities	210	119
Deferred revenues	157	27
Dividends payable	12	383
Obligations under forward exchange contracts	-	990
Other	664	1,170
Total other accounts payable and accrued liabilities	**4,174**	**5,664**

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

Note 16: Taxes

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for statutory tax purposes. Deferred tax assets (liabilities) are comprised of the following at December 31, 2001 and 2000:

	At December 31, 2001	At December 31, 2000
Inventories	-	80
Other accounts payable	37	67
Deferred tax assets	**37**	**147**
Property, plant and equipment	(17,087)	(22,571)
Accounts receivable	(882)	(1,552)
Inventories	(184)	(207)
Long-term investments	(513)	(1,719)
Other	(147)	-
Deferred tax liabilities	**(18,813)**	**(26,049)**
Net deferred tax liability	**(18,776)**	**(25,902)**

At December 31, 2001 and 2000, deferred taxes were classified in the consolidated balance sheet as follows:

	At December 31, 2001	At December 31, 2000
Current deferred tax liability	(1,176)	(1,612)
Non-current deferred tax liability	(17,600)	(24,290)
Net deferred tax liability	**(18,776)**	**(25,902)**

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

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Income before income taxes and minority interest	21,643	45,731	20,046
Theoretical income tax expense at statutory rate	7,575	16,006	6,014
Increase (reduction) due to:			
Inflationary effects	2,721	4,483	5,498
Non-deductible expenses	4,544	3,580	1,071
Tax credits	(6,668)	(8,311)	(3,001)
Non-taxable income	(1,415)	(94)	(43)
Effect of increase (reduction) in income tax rate	(8,124)	1,463	(2,151)
Other	383	-	-
Provision for income taxes	**(984)**	**17,127**	**7,388**

Inflationary effects include the impact of inflation on shareholders' equity, the opening deferred tax liabilities and current tax expense. Tax credits reduce taxable income in the period incurred and are granted by the governments of the Russian Federation and the Republic of Tatarstan.

In April 1999, changes in the Russian Tax Code were enacted reducing the income tax rate from 35% to 30%. In August 2000, the Russian Tax Code was amended again, restoring, effective January 1, 2001 the income tax rate of 35%. In August 2001, changes in the Russian Tax Code were enacted, which introduced a new income tax rate of 24%, effective January 1, 2002. The net (benefit) expense in the deferred tax liability recognized on an enactment date basis amounted to RR (8,124), RR 1,463 and RR (2,151) for the years ended December 31, 2001, 2000 and 1999, respectively.

No provision has been made for additional income taxes of RR 1,587 on undistributed earnings of a foreign subsidiary. These earnings have been and will continue to be reinvested. These earnings could become subject to additional tax of approximately RR 381 if they were remitted as dividends.

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

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Mineral restoration tax	6,273	6,119	3,170
Mineral use tax (royalty tax)	3,954	4,866	2,375
Housing fund	1,244	1,452	2,316
Export tariffs	14,504	12,014	1,775
Excise taxes	117	1,876	1,753
Road users tax	1,116	1,773	1,384
Property tax	945	595	605
Research and development tax	497	354	327
Other	340	3,452	753
Total taxes other than income taxes	**28,990**	**32,501**	**14,458**

Excise taxes. In the ordinary course of operations during years 1996 to 2000 the Group remitted excise taxes to both the Russian Federation and the Government of Tatarstan. Prior to 1998, the Group was able to have excise taxes paid to the Russian Federation offset against its liability for VAT. However, subsequent to May, 1998, as a result of the Russian Federation Presidential Decree #495, the Company was unable to do so. Due to the uncertainty surrounding the offset of excise taxes paid to the Russian Federation, the Group recorded such taxes as excise tax expense in consolidated statements of operations for years ended December 31, 1999, 2000, and 2001. As a result of negotiations with the Government of Tatarstan, in 2001 excise taxes in the amount of RR 1,810 have been reimbursed to the Group, and have been recorded as a reduction of excise tax expense in the consolidated statement of operations for the year ended December 31, 2001.

Note 17: Share Capital and Additional Capital

Authorized share capital. On June 22, 2001 the shareholders approved an increase in the nominal value per share from RR 0.10 up to RR 1.00. Authorized share capital for common and preferred shares and additional paid in capital amounts have been restated for all periods presented to reflect the change in the nominal value per share as at December 31, 2001 and 2000. At December 31, 2001 the authorized share capital consists of 2,178,690,700 voting common shares and 147,508,500 non-voting preferred shares; both classes of shares have a nominal value of RR 1.00 per share.

Golden share. One share of the Company, held by the Government of Tatarstan, carries the right to veto certain decisions taken at shareholders' and Board of Directors' meetings. Decisions subject to veto include: increases and decreases in share capital, amendments to the Company's charter, liquidation or reorganization of the Company or any of its subsidiaries or branches, investment in other legal entities and disposal or encumbrance of the Company's property. The term of the "Golden Share" was extended indefinitely in 1998 by a decree of the President of Tatarstan.

Restricted common and preferred shares. Under the privatization laws of Tatarstan, certain common shares were made subject to restrictions on transfer. These include shares sold to employees for a discount from nominal value and common shares sold to any individual for privatization vouchers. The preferred shares of the Company were also subject to restrictions on transfer. The preferred shares were originally allocated pursuant to applicable privatization laws to employees, former employees, and pensioners who had worked for the Group for a specified period of time. During 2001 by decree of the President of Tatarstan, all restrictions on common and preferred shares have been removed.

Rights attributable to preferred shares. Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The dividend per preferred share may not be less than the dividend per common share.

Preferred shareholders may vote at meetings only on the following decisions:

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

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

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that dividends are either not declared, or declared but not paid. On liquidation, the shareholders are entitled to receive a distribution of net assets equal to the nominal value of the shares prior to any distribution to common shareholders.

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

Amounts available for distribution to shareholders. Amounts available for distribution to shareholders are based on the Company's non-consolidated statutory accounts prepared in accordance with RAR, which differ from US GAAP, and are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit calculated in accordance with RAR. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to legal interpretation. For the years ended December 31, 2001 and 2000, the Company had a current year profit of RR 14,792 and RR 24,070, respectively, as reported in the published annual statutory accounts of the Company.

At the annual general meeting of shareholders on June 23, 2001, final dividends of RR 0.10 per common share and RR 0.20 per preferred share, expressed in nominal Russian Roubles, were approved for 2000 for all shareholders. At December 31, 2001 the Company had paid all of its accrued dividends for 2000. No interim dividends for 2001 were declared.

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

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Net income	21,152	28,191	12,212
Common share dividends	(236)	(861)	(177)
Preferred share dividends	(30)	(105)	(31)
Income available to common and preferred shareholders, net of dividends	20,886	27,225	12,004
Basic:			
Weighted average number of shares outstanding (millions of shares):			
Common	2,057	2,113	2,129
Preferred	148	148	148
Combined weighted average number of common and preferred shares outstanding	2,205	2,261	2,277
Basic net income per common share (RR)	9.6	12.4	5.4
Basic net income per preferred share (RR)	9.7	12.8	5.5
Diluted:			
Weighted average number of shares outstanding (millions of shares):			
Common	2,062	2,113	2,129
Preferred	148	148	148
Combined weighted average number of common and preferred shares outstanding	2,210	2,261	2,277
Diluted net income per common share (RR)	9.6	12.4	5.4
Diluted net income per preferred share (RR)	9.7	12.8	5.5

Note 18: Stock-Based Compensation

On January 20, 2001, the Board of Directors approved a stock based compensation plan which provides for the issuance of options to purchase up to 10,000,000 common shares of OAO Tatneft. In July 2001 options to purchase 9,395,000 common shares with an exercise price of RR 0.1 were granted to senior management and directors of the Group. All options vest in 270 days from the grant date and expire in 365 days after grant date. The market price of the Group's ordinary stock as of the date of grant was RR 14.2 per share. The full exercise price of the stock option issue in the amount of 939,500 Russian Roubles was paid by the option holders on grant date. As the exercise price of the options was lower than the market price at the date of grant, compensation expense of RR 142 was recognized in the consolidated statements of operations and comprehensive income in accordance with the provisions of by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees.*

	Number of shares underlying options
Options outstanding at January 1, 2001	-
Granted	9,395,000
Exercised	-
Forfeited	-
Options outstanding at December 31, 2001	**9,395,000**

In accordance with SFAS No 123, *Accounting for Stock-Based Compensation* pro forma information regarding net income and earnings per share is required to be presented as if the Group had accounted for its Stock Compensation Plan under the fair value method of that statement.

The fair value of the Group's stock options is the estimated present value at the date of grant using the Black-Scholes option pricing model with the following assumptions: expected volatility of 53%, a risk free interest rate of 18.75%, expected annual dividend yield of nil, and an expected term of 270 days. Based upon the above assumptions, the fair value of stock options granted was RR 15.2 per share.

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, this option pricing model requires the input of highly subjective assumptions, including the expected stock price volatility.

If compensation expense for the Group had been determined using the fair-value method prescribed by SFAS No. 123, the Group's net income and earnings per share would not substantially differ from what was recorded.

Note 19: Segment Information

The Group's business activities are conducted predominantly through four major business segments: Exploration and Production; Refining and Marketing; Petrochemicals; and Banking.

The segments were determined based on the way management recognises the segments within the Group for making operating decisions and how they are evident from the Group structure.

All periods reported have been restated to comply with the revised segment basis.

Exploration and production segment activities consist of oil extraction by production divisions. The oil is transferred to the refining and marketing segment at market prices to negotiate contracts for sales of oil and refined products in domestic and export markets.

Refining and marketing comprises purchases and sales of crude and refined products from the Group's own production divisions and third parties, own refining activities and retailing operations. The Company sold significant volumes of oil to intermediaries, which refine oil in domestic refineries, and purchased refined products processed from its oil. Since sales of oil are closely related to purchases and sales of refined products, sales of both own and purchased crude oil, as well as sales of refined products, are presented in one segment - refining and marketing.

The Group's petrochemical operations expanded in 2001 through the acquisition of a controlling interest in OAO Nizhnekamskshina. Subsequent to this acquisition, the Group's management considers the assets and operations of its subsidiaries OAO Nizhnekamskshina, OAO Nizhnekamsk Technical Carbon Plant and DOOO Tatneft-Neftekhim a separate petrochemical segment.

Earnings of the banking segment include earnings of Devon Credit Bank and Zenit Bank. As described in Note 5, Zenit Bank was consolidated effective December 31, 2000.

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

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

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Exploration and Production			
Intersegment sales	79,507	94,349	53,606
Other sales	10,598	11,244	6,008
Total exploration and production	**90,105**	**105,593**	**59,614**
Refining and marketing			
Crude oil	28,119	30,105	17,362
Refined products	16,540	18,588	7,342
Domestic sales	44,659	48,693	24,704
Crude oil	6,078	1,502	2,408
Refined products	612	24	-
CIS sales(1)	6,690	1,526	2,408
Crude oil	48,519	71,732	33,403
Refined products	20,946	37,956	5,322
Non – CIS sales(2)	69,465	109,688	38,725
Total refining and marketing	**120,814**	**159,907**	**65,837**
Petrochemical			
Intersegment sales	1,139	47	-
Tires	2,361	-	-
Refined products	1,229	2,061	-
Other	84	88	-
Total petrochemical	**4,813**	**2,196**	**-**
Total segment sales and other operating revenues	**215,732**	**267,696**	**125,451**
Elimination of intersegment sales	(80,646)	(94,396)	(53,606)
Total sales and other operating revenues	**135,086**	**173,300**	**71,845**

(1) CIS is an abbreviation for Commonwealth of Independent States (excluding the Russian Federation).
(2) Non-CIS sales of crude oil and refined products are mainly made to European markets.

Intersegment sales in exploration and production constitute transfers of crude oil and gas from production divisions to the refining and marketing divisions and subsidiaries. The intersegment sales are measured at the estimated market prices of those transactions and are eliminated on consolidation.

"Other" exploration and production sales include revenues from ancillary services provided by the specialized subdivisions and subsidiaries of the Group, such as sales of oilfield equipment and drilling services provided to other companies in Tatarstan. Business activities, which do not constitute reportable business segments, are also included in "Other" exploration and production sales. "Other" petrochemical sales represent revenues from the sales of raw materials to external petrochemical plants.

During 2001, 2000 and 1999 the Group's refining and marketing revenues for non-CIS oil sales included RR 25,930, RR 39,067 and RR 31,725, respectively, attributable to the customers to whom the Group is obliged to make sales under its debt agreements as described in Note 13.

Segment earnings and assets. The Group evaluates the performance of its operating segments on a before-tax basis, without considering the impacts of non-banking net interest expense, monetary effects and the earnings of minority interest shareholders. Segment earnings are as follows:

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Segment earnings			
Exploration and production	17,287	40,106	19,344
Refining and marketing	3,341	5,840	3,366
Petrochemical	293	110	-
Banking	1,108	17	23
Total segment earnings	**22,029**	**46,073**	**22,733**
Exchange loss	(739)	(513)	(8,963)
Monetary gain	1,532	3,219	9,168
Other interest expense, net	(1,179)	(3,048)	(2,892)
Income before income taxes and minority interest	**21,643**	**45,731**	**20,046**

Segment assets are as follows:

	At December 31, 2001	At December 31, 2000
Assets		
Exploration and production	141,190	139,839
Refining and marketing	33,167	25,732
Petrochemical	8,337	2,003
Banking	16,289	8,762
Total assets	**198,983**	**176,336**

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

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Depreciation, depletion and amortization			
Exploration and production	4,341	4,119	3,659
Refining and marketing	401	465	24
Petrochemical	301	8	-
Banking	14	5	5
Total segment depreciation, depletion and amortization	**5,057**	**4,597**	**3,688**
Additions to property, plant and equipment			
Exploration and production	16,352	20,061	8,424
Refining and marketing	4,367	3,319	2,487
Petrochemical	816	32	-
Banking	17	74	-
Total additions to property, plant and equipment	**21,552**	**23,486**	**10,911**

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

Note 20: Related Party Transactions

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

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

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Revenues (expenses)			
Sales of crude oil	9,079	1,780	1,991
Volumes of crude oil sales (thousand tonnes)	3,460	600	702
Sales of refined products	5,963	6,487	5,972
Volumes of refined product sales (thousand tonnes)	2,301	1,696	1,839
Purchases of crude oil	(9,952)	(526)	-
Volumes of crude oil purchases (thousand tonnes)	3,372	144	-
Purchases of refined products	(1,596)	(1,374)	(44)
Volumes of refined products purchases (thousand tonnes)	838	382	-
Purchases of petrochemical products	(2,212)	-	-
Volumes of petrochemical products purchases (thousand tonnes)	249	-	-
Purchases of electricity	(2,019)	(1,969)	(1,440)
Other purchases	(822)	-	-
Sales of investments (AK Bars Bank shares sold to FLK)	350	-	-
Accrued interest receivable	29	-	-
Bank commission receivable	48	-	-

	At December 31, 2001	At December 31, 2000
Assets (liabilities)		
Trade accounts receivable	2,998	4,206
Short-term investments	578	-
Banking loans and advances to customers	231	400
Banking customer deposits	(77)	(353)
Loans payable	(112)	-
Trade accounts payable	(740)	-
Other		
Investments held in trusts with related parties	587	-
Loan guarantee obligations	(214)	-

During 2001, the Group entered into back to back crude oil transactions with related parties and other parties. These transactions are not recorded as purchases and sales of crude oil and the net commission amounting to RR 1,228, of which RR 517 was associated with transactions with related parties, is included within selling, general and administrative expenses. The volumes of crude oil purchased and sold under these transactions was 2,500 thousand tonnes for the year ended December 31, 2001.

Note 21: Financial Instruments

Fair values. The carrying amounts of short-term financial instruments, other than short-term debt and the related loans receivable, approximates fair value because of the relatively short period of time between the origination of these instruments and their expected realization.

Information concerning the fair value of long-term investments is disclosed in Note 8.

Information concerning the fair value of loans receivable and advances is disclosed in Note 11.

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

Credit risk. A significant portion of the Company's accounts receivable are from export trading companies, as described in Note 19.

Note 22: Commitments and Contingent Liabilities

Taxation. Russian tax legislation is subject to varying interpretations and constant changes. Further, the interpretations of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. Also interpretations on the application of the tax legislation may vary between regional and Federal tax authorities. As a result, transactions may be challenged by tax authorities and the Group may be assessed for additional taxes, penalties and interest. Tax periods remain open to review by the tax authorities for three years.

Environmental liabilities. The Group, through its predecessor entities, has operated in Tatarstan for many years and certain environmental problems have developed. Environmental regulations are currently being considered in the Russian Federation and the Group is evaluating its obligations related thereto. The outcome of environmental liabilities under proposed or any future environmental legislation cannot reasonably be estimated at present, but could be material. Under existing legislation, however, management believes that there are no probable liabilities, that are in addition to amounts which have already been accrued in the consolidated financial statements, that will have a materially adverse effect on the operating results or financial position of the Group.

Legal contingencies. The Group is the named defendant in a number of lawsuits as well as the named party in numerous other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a materially adverse effect on the operating results or the financial position of the Company.

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

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

Banking commitments and contingent liabilities. Credit related commitments comprise Zenit Bank loan commitments and guarantees of RR 1,338 and RR 745 at December 31, 2001. The contractual amount of these commitments represents the value at risk if the bank's clients default and all existing collateral becomes worthless.

Zenit Bank fiduciary assets and trust arrangements at nominal value amounted to RR 12,979 and RR 6,299 at December 31, 2001 and 2000, respectively, and recorded off balance sheet as they are not assets of Zenit Bank. There is no insurance coverage maintained.

Note 23: Subsequent Events

In March 2002, the Group signed a loan agreement with Credit Suisse First Boston for US $200 million. The loan bears interest at LIBOR plus 3.78%, is secured by the Group's oil export contracts of 200 thousand tonnes per month and matures in March 2007.

In April 2002, the Group signed a letter of intent with Sibir Energy Plc and Corus Holdings Limited. Under the letter of intent, the parties will consider the formation of an alliance between the Company and Corus Holdings Limited to invest in Sibir Energy Plc. Sibir Energy Plc will then facilitate the transfer of its interest in the Priobskoye group of oil fields and the interests of the City of Moscow downstream oil assets into a newly created company. Under the letter of intent, the joint investment between the Company and Corus Holdings Limited could amount to US $240 million, plus a loan of up to US $120 million to the Central Fuel Company, one of the companies associated with Sibir Energy plc, to repay its outstanding loan obligations.

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

Supplemental Information on Oil and Gas Exploration and Production Activities (Unaudited)

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

The Group operates exclusively in Tatarstan within the Russian Federation; therefore, all of the information provided in this section pertains entirely to that region.

Oil Exploration and Production Costs

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

Costs incurred in exploration and development activities

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Exploration costs	729	643	175
Development costs	12,502	14,879	7,368
Total costs incurred in exploration and development activities	**13,231**	**15,522**	**7,543**

Property acquisitions are immaterial to the Group's oil activities.

Capitalized costs of proved oil properties

	At December 31, 2001	At December 31 2000
Wells, support equipment and facilities	196,823	186,738
Uncompleted wells, equipment and facilities	4,539	5,541
Total capitalized costs of proved oil properties	**201,362**	**192,279**
Accumulated depreciation, depletion and amortization	(108,183)	(106,926)
Net capitalized costs of proved oil properties	**93,179**	**85,353**

Results of Operations for Oil and Gas Producing Activities

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

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

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Revenues from net production:			
Sales	68,586	83,614	48,084
Transfers(1)	10,921	10,735	5,522
Total revenues from net production	**79,507**	**94,349**	**53,606**
Less:			
Production costs(2)	23,299	22,508	12,929
Exploration expenses	729	643	175
Depreciation, depletion and amortization	2,887	2,526	2,034
Taxes other than income taxes	17,661	24,619	12,324
Related income taxes	6,288	13,216	9,150
Results of operations for oil and gas producing activities	**28,643**	**30,837**	**16,994**

(1) Transfers represent crude oil to the refining subsidiaries at the estimated market price of those transactions.
(2) Production costs include transportation expenses.

Oil Reserves

As determined by the Group's independent reservoir engineers, Miller and Lents, the following information presents the balances of proved oil reserves at December 31, 2001, 2000 and 1999. The definitions used are in accordance with applicable US Securities and Exchange Commission regulations.

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

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

"Net" reserves exclude royalties and quantities due to others when produced, and reflect contractual arrangements and royalty obligations in effect at the time of the estimate.

Proved reserves

	December 31, 2001		December 31, 2000		December 31, 1999	
	(millions of barrels)	(millions of tonnes)	(millions of barrels)	(millions of tonnes)	(millions of barrels)	(millions of tonnes)
Net proved developed producing reserves	3,160	444	3,353	471	2,910	409
Net proved developed non-producing reserves	1,875	263	2,151	302	2,837	398
Net proved developed reserves	**5,035**	**707**	**5,504**	**773**	**5,747**	**807**
Net proved undeveloped reserves	420	59	440	61	388	55
Net proved developed and undeveloped reserves	**5,455**	**766**	**5,944**	**834**	**6,135**	**862**

A significant portion of the Group's total proved reserves are classified as either developed non-producing or undeveloped. Of the non-producing proved reserves, a significant portion represents existing wells which are to be put back into production at a future date.

Net proved developed and undeveloped oil reserves (millions of tonnes)

	2001	2000	1999
Balance at January 1	**834**	**862**	**892**
Revisions	(43)	(3)	11
Production	(25)	(25)	(25)
Sales and transfers	-	-	(16)
Balance at December 31	**766**	**834**	**862**

Net proved developed and undeveloped oil reserves (millions of barrels)

	2001	2000	1999
Balance at January 1	**5,944**	**6,135**	**6,353**
Revisions	(314)	(17)	74
Production	(175)	(174)	(178)
Sales and transfers	-	-	(114)
Balance at December 31	**5,455**	**5,944**	**6,135**

(Expressed in millions of constant Russian Roubles of December 31, 2001 purchasing power, except as indicated)

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

For the purposes of the following disclosures, estimates were made of quantities of proved reserves and the periods in which they are expected to be produced. Future cash flows were computed by applying year-end prices (as described below) to the Group's estimated annual future production from proved oil reserves. Future development and production costs were computed by applying year-end costs to be incurred in producing and further developing the proved reserves. Future income taxes were computed by applying, generally, year-end statutory tax rates (adjusted for tax deductions, tax credits and allowances) to the estimated future pretax cash flows. The discount was computed by application of a 10% discount factor. The calculations assumed the continuation of existing political, economic, operating and contractual conditions at each of December 31, 2001, 2000 and 1999. However, such arbitrary assumptions have not necessarily proven to be the case in the past. Other assumptions of equal validity would give rise to substantially different results. As a result, future cash flows calculated under this methodology are not necessarily indicative of the Group's future cash flows nor the fair value of its oil reserves.

The net price used in the forecast of future net revenue is the weighted average year end price received for sales domestically, for exports to former Commonwealth of Independent States ("CIS") countries, and for exports to non-CIS countries, after adjustments, where applicable, for certain costs, duties, and taxes. The weighted average net prices per tonne used in the forecasts for 2001, 2000 and 1999, are US $81.89, US $115.25 and US $79.22, respectively.

	Year ended December 31, 2001	Year ended December 31, 2000	Year ended December 31, 1999
Future cash inflows	1,920,852	3,225,650	2,637,443
Future development and production costs	(1,301,234)	(1,545,939)	(784,431)
Future income taxes	(141,953)	(579,348)	(535,048)
Future net cash flows	**477,665**	**1,100,363**	**1,317,964**
10% annual discount	(303,580)	(757,260)	(928,155)
Discounted future net cash flows	**174,085**	**343,103**	**389,809**

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

	2001	2000	1999
Beginning of year	**343,103**	**389,809**	**151,742**
Sales and transfers of oil produced, net of production costs and other operating expenses	(56,209)	(47,221)	(28,353)
Net change in prices received per tonne, net of production costs and other operating expenses	(292,213)	56,979	406,535
Change in estimated future development costs	(12,951)	(22,786)	(3,183)
Revisions of quantity estimates	(11,541)	(2,347)	(3,571)
Development costs incurred during the period	12,502	15,522	7,543
Accretion of discount	47,179	47,584	20,852
Net change in income taxes	131,358	(43,248)	(95,006)
Changes in production rate and other	12,857	(51,189)	(66,750)
End of year	**174,085**	**343,103**	**389,809**

The following condensed balance sheets and condensed profit and loss statements of Open Joint Stock Company Tatneft as of and for the years ended December 31, 2001 and 2000 are derived from the statutory accounting reports which were prepared by management of the company in accordance with the Federal Law on Accounting and Regulation on Accounting and Reporting in the Russian Federation adopted by the decree of the Ministry of Finance of the Russian Federation dated 29 July 1998 No. 34H(n) and audited by PricewaterhouseCoopers.

Condensed Balance Sheet

(Expressed in millions of Russian Roubles)

	At December 31, 2001	At December 31, 2000
Assets		
Intangible assets	72	126
Fixed assets and construction in progress	43,403	30,817
Long-term financial investments and other non-current assets	12,710	12,302
Inventories	8,691	9,008
Accounts receivable	28,338	22,838
Cash and short-term financial investment	5,335	4,306
Other current assets	2,580	1,484
Total assets	**101,129**	**80,881**
Equity and liabilities		
Equity and reserves	59,224	44,839
Long-term borrowings	5,051	12,403
Short-term borrowings	25,124	12,351
Trade accounts payable	5,885	4,222
Payable to budget (taxes)	564	1,986
Other payables and accrued liabilities	4,465	4,539
Other current liabilities	816	541
Total equity and liabilities	**101,129**	**80,881**

Condensed Profit and Loss Statement

(Expressed in millions of Russian Roubles)

	For the year ended December 31, 2001	For the year ended December 31, 2000
Sales of goods, products, work, services (less Value Added Tax, excise and other similar compulsory payments)	100,844	105,874
Cost of goods, products, work, services sold	69,253	62,801
Selling expense	6,726	5,592
Gross profit on sales	24,865	37,481
Interest income	170	341
Interest expense	2,153	2,775
Participation in other companies	164	243
Other operating income	1,273	646
Other operating expense	3,233	2,478
Non-sale profit	6,332	5,463
Non-sale losses	8,100	8,376
Pre-tax profit	19,318	30,545
Income tax	4,526	6,475
Retained earnings for the reporting year	**14,792**	**24,070**