

ecology

energy

purity of intentions

business transparency



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**JOINT MESSAGE TO THE SHAREHOLDERS,
INVESTORS AND PARTNERS FROM
CHAIRMAN OF THE BOARD OF DIRECTORS
AND GENERAL DIRECTOR, CHAIRMAN OF THE
MANAGEMENT BOARD OF OAO TATNEFT**



Sh.F. Takhautdinov
General Director, member of the Board of Directors,
Chairman of the Management Board of OAO Tatneft



R.N. Minnikhanov
Chairman of the Board of Directors of OAO Tatneft,
Prime Minister of the Republic of Tatarstan

DEAR SHAREHOLDERS, INVESTORS AND PARTNERS:

Concerted efforts of the members of the Board of Directors, management and employees of the Company in implementing its strategic objectives with efficient participation of our investors and partners contributed to a steady and sustainable development of Tatneft and increasing its investment appeal in the year under review.

The Company's capitalization hit a record high of \$7.5 billion at the end of 2005 and continues to grow. Extensive work to replace our oil and gas reserves was carried out outside our traditional territories of operations. The Company purchased assets and licenses for geological prospecting and development of hydrocarbon fields in the Orenburg and Samara regions, Nenets Autonomous District, Republic of Kalmykia, as well as in Libya and other countries.

The Company's integrated structure continued to enhance. Retail business strategy up to 2010 was adopted. Construction of a rubber mixing line for manufacture of high-performance radial car tires was commenced. The Board of Directors took a number of steps to further improve the corporate governance quality in the Group. In particular, corporate control mechanisms were upgraded and the number of independent directors was increased. Tatneft started work to introduce a uniform corporate style and a new logo. Brand management and intellectual property protection systems are being established. A non-financial report reflecting the results of social, economic, environmental and innovation activities of the Company was released to the public for the first time. Based on the results for the year, OAO Tatneft became the winner of the Best Russian Enterprise Contest in the high financial performance category.

The construction of the Nizhnekamsk petrochemical and refining complex, a unique facility in Russia whose foundation was laid in the past year, will become the key project in further development of the Company's vertical integration and diversification of its operations. A modern all-metal cord tire manufacturing project will be launched simultaneously. Special attention will be paid to the implementation of the program for the development of reserves of heavy oils and bitumen in the Republic of Tatarstan. Tatneft will expand its presence in foreign oil production projects, first of all in the Middle East.

Tatneft will continue to establish corporate standards and risk management systems. The Company plans to complete full certification of its environmental activities under international standards. The restructuring of our construction and transportation assets will be basically finalized. Energy-saving equipment utilization will expand. Tatneft is set to consistently honor the obligations assumed by the Company in respect of its shareholders and investors and invariably observe their rights in the future. Constructive business relations and mutually beneficial cooperation among all participants in the corporate process will give a new impetus to the dynamic development of our business.

Dear colleagues! A new stage in the development of Tatneft Group requires consolidation of our experience, knowledge and commitment to success. We are sure that an incremental effect from consolidated efforts of all parties will further strengthen our social and economic position, increase the capitalization of our Company and improve the well-being of our shareholders.

With sincere respect,

R.N. Minnikhanov,
General Director,
Chairman of the Board of Directors



Sh.F. Takhautdinov,
General Director,
Chairman of the Management Board



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DIRECTORS AND MANAGEMENT
BOARD OF THE COMPANY



ABOUT THE COMPANY

STATUS OF THE COMPANY

Tatneft is one of the largest companies in Russia's oil & gas sector. The principal activities of Tatneft are conducted in the Russian Federation.

The Company is a holding entity including oil and gas production departments, oil and gas refineries, petrochemical facilities, as well as services and organizations marketing crude oil, refined oil and gas products and petrochemicals. In addition, the Company is engaged in banking and insurance businesses.

At present the Company holds development licenses for 77 fields in the Republic of Tatarstan, which contain the bulk of the Republic's oil reserves. Tatneft also has stakes and management control in a number of leading petrochemical facilities in the Republic of Tatarstan.

In implementing its reserves stabilization and replacement program, the Company is developing business projects outside the Republic both in the Russian Federation, in the FSU and other foreign countries, enhancing its raw materials and petroleum processing bases and expanding its markets.

The Company produces 25 million tonnes of oil and more than 700 million m3 of gas per year. The key priorities of the Company include environmental protection and industrial and occupational safety. Improvement and development of new oil production

methods are important components of Tatneft's activities. Development of advanced knowledge-intensive technologies and expanding the scope and range of high-technology production services rendered by the Company enhance its innovation potential and give it a major competitive advantage in the industry.

MISSION OF THE COMPANY

To strengthen and enhance the status of an internationally recognized, financially stable company, as one of the largest vertically integrated producers of oil, gas, refined products and petrochemicals in Russia, and to maintain a high level of social responsibility.

STRATEGIC INITIATIVES AND TASKS FOR 2005–2010

- To stabilize and optimize profitable oil and gas production at the Company's licensed fields through the use of state-of-the-art field development technologies and broad application of modern enhanced oil recovery methods and through expanded reserves replacement from geographic areas outside the Republic of Tatarstan
- To ensure financial and economic stability in the situation of increasing competition and volatile market conditions by creating an up-to-date corporate governance system

- To strengthen the equity structure and value
- To increase the sales of highly competitive finished products through further development of own oil & gas refining and petrochemical facilities
- To formulate and implement an innovation-oriented engineering and technological policy. To expand the geography and increase the scope and range of high-tech and knowledge-intensive production services
- To achieve a high level of corporate social responsibility and social security of employees and to facilitate the development of small and medium-sized businesses with optimization of production structure

THE COMPANY'S POSITION IN THE INDUSTRY

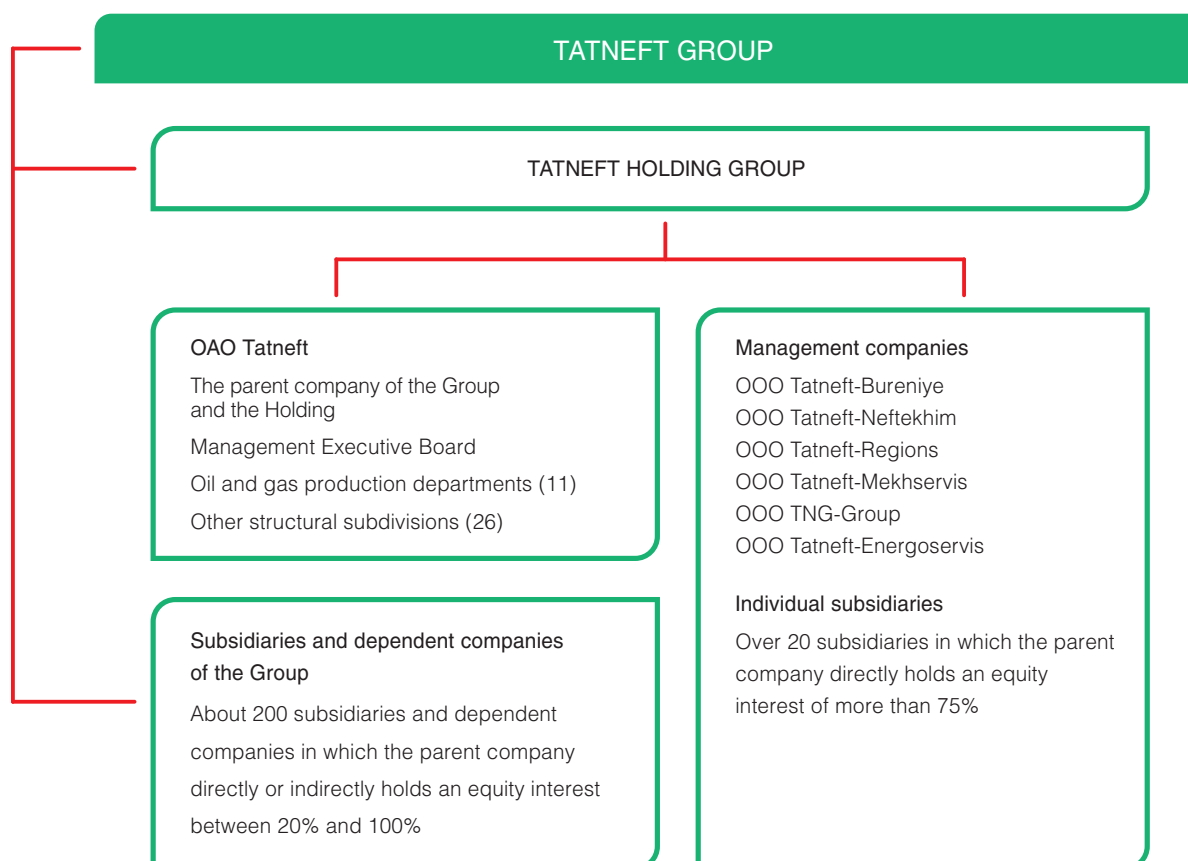
The Company's environment in the petroleum business segments includes leading Russian oil companies operating in Russia: OAO LUKoil, OAO Surgutneftegaz, OAO Sibneft, OAO TNK-BP and others.

In the petrochemical sector the Company mainly competes in Russian and CIS tire markets with other Russian tire manufacturers, such as the Yaroslavl, Omsk (Sibur), and Voronezh (Amtel) plants.

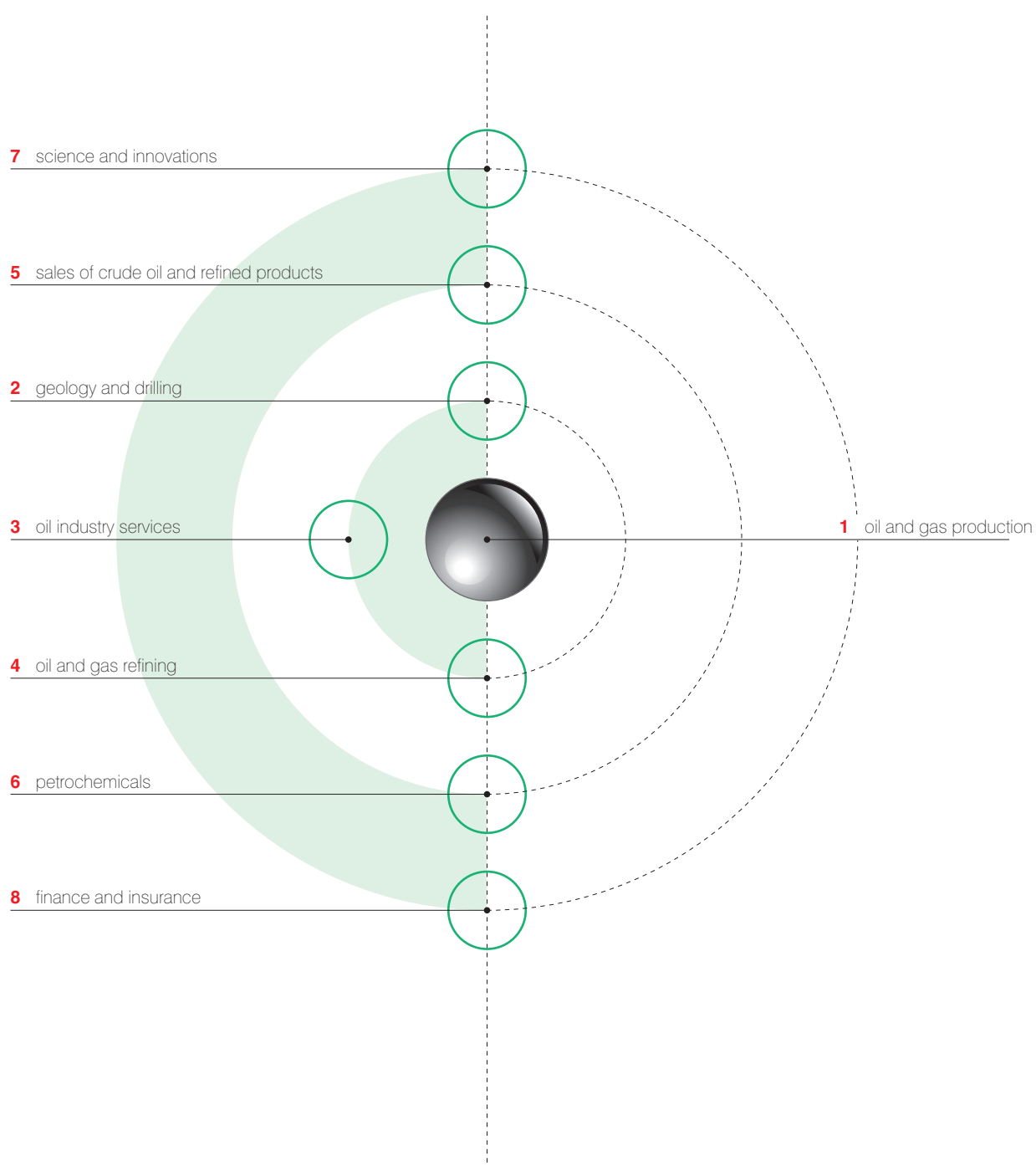
The factors ensuring its high competitive capacity include:

- development of own oil and gas refining and petrochemical facilities
- use of advanced technologies ensuring profitable development of reserves and a high oil recovery rate at the fields of OAO Tatneft while maintaining a competitive cost level
- availability of service units within the holding structure, engaged in geological prospecting, drilling, construction of wells, transport support, engineering and research, which helps to improve the management efficiency and control over capital and operating expenses.

▼ STRUCTURE OF THE HOLDING COMPANY (STATUS OF THE COMPANY AND THE GROUP) as of 31.12.2005



▼ LINES OF BUSINESS OF TATNEFT GROUP



EQUITY STRUCTURE

OAo Tatneft was established pursuant to Decree of the President of the Republic of Tatarstan "Concerning Measures for Transformation of State-Owned Enterprises, Organizations and Associations Into Joint-Stock Companies" No. UP-466 of 26.09.1992 and Law of the Republic of Tatarstan No. 1403-XII of 05.02.92 "On Transformation of State-Owned and Communal Property in the Republic of Tatarstan (On Denationalization and Privatization)".

In accordance with the privatization plan, 40% of the Company's shares were transferred to the Tatarstan Government, and the remaining shares were placed among the employees, related enterprises, investment funds and residents of the region.

In respect of more than 59 thousand of its shareholders, the Company adheres to the principles of strict observance of their lawful rights, equal access to information, information transparency, and implementation of the corporate dividend policy.

A stock market infrastructure designed to promote the shareholders' rights was created and improved in south-eastern Tatarstan with participation of OAo Tatneft.

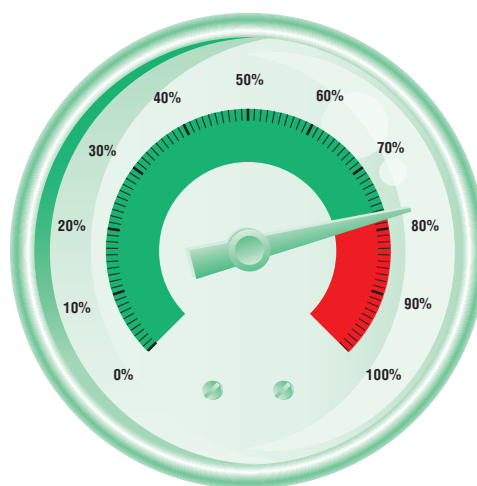
In the year under review, OAo Tatneft managed to maintain the balance between the interests of all shareholder

groups and partners, which have a wide geography of location: USA, Russia, EU and CIS countries. The owners of the Company's American Depositary Receipts (ADRs) in 2005 included more than 168 major institutional investors from the United States and Europe.

For information: The Company has an authorized capital of 2,326,199,200 rubles, divided into 2,326,199,200 shares with a nominal value of 1 ruble each, including:

- 2,178,690,700 ordinary shares representing 93.66% of the authorized capital;
- 147,508,500 preferred shares representing 6.34% of the authorized capital

▼ EQUITY STRUCTURE

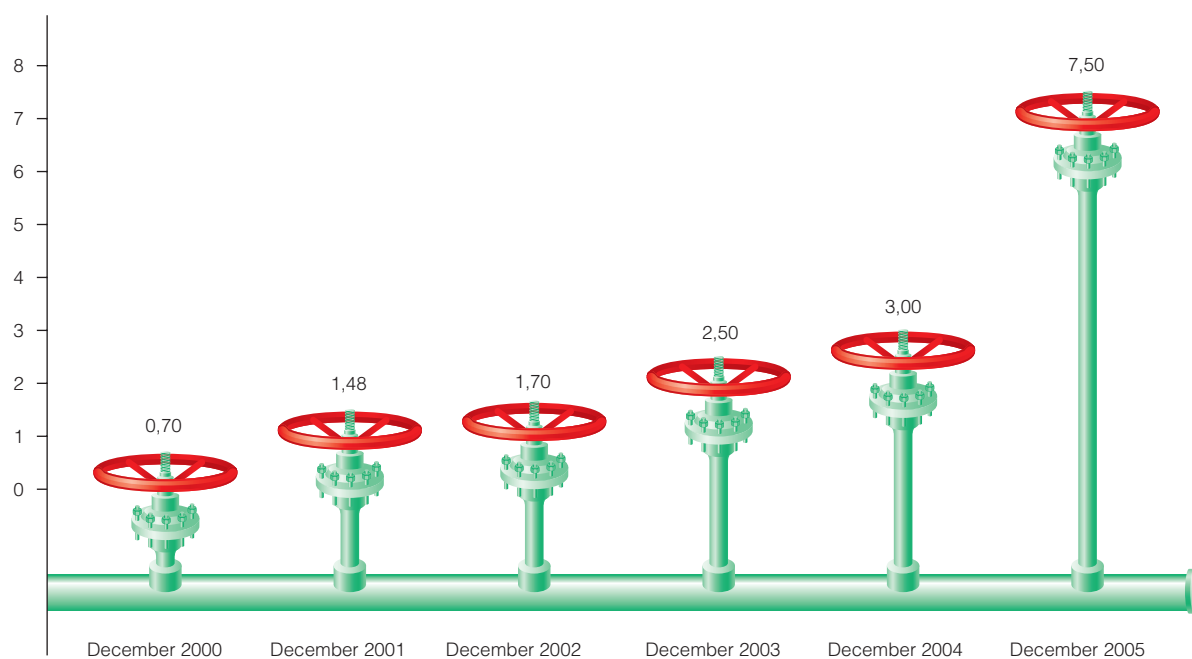


▼ MAJOR SHAREHOLDERS OF OAo TATNEFT (holding 5% of shares or more) as of 15.05.2006

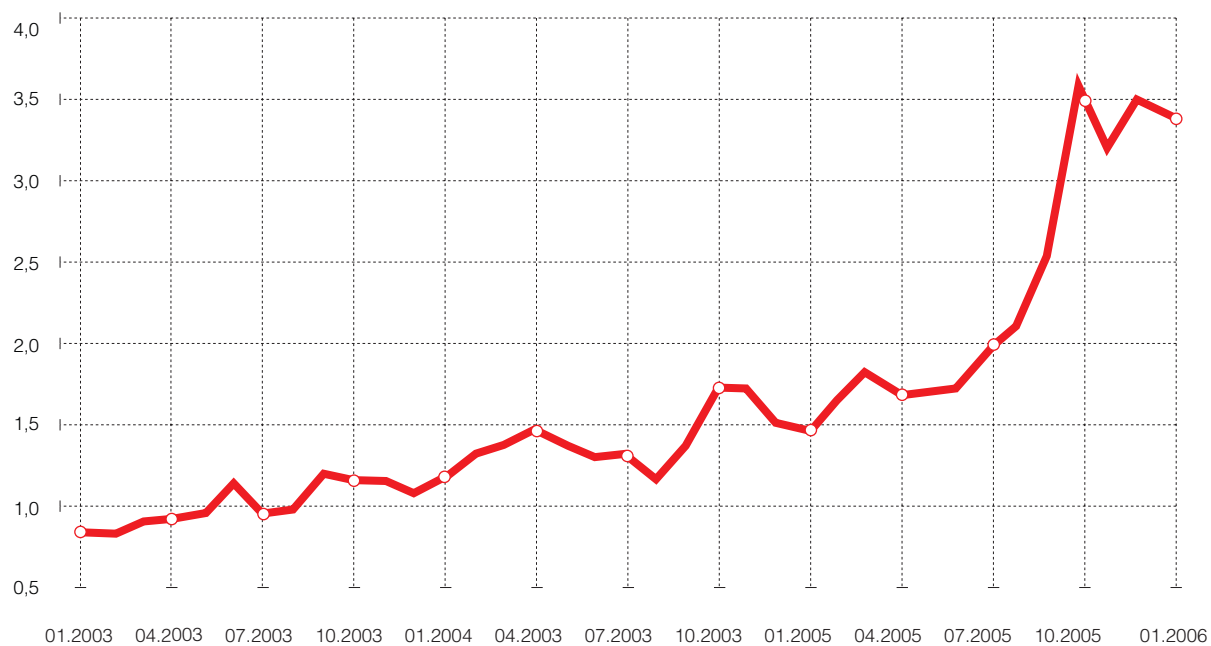
Shareholder	Stake
OAo Svyazinvestneftekhim	30,44%
The Bank of New York International Nominees	22,93%
UBS AG	6,96%

- legal entities and individuals – 77,07%
- foreign investors (ADR holders) – 22,93%

▼ OAO TATNEFT CAPITALIZATION DYNAMICS (USD bn)



▼ OAO TATNEFT STOCK PRICE DYNAMICS, 2003-2005 (USD)



The implementation of its stock program enabled the Company to become a leading issuer among Russia's blue chips.

SECURITIES MARKET. STOCK MARKET

The implementation of its stock program developed in May 1995 enabled OAO Tatneft to become one of the leading issuers in the Russian Federation among its blue-chip companies, which serve as the benchmark for calculating key stock indices and a kind of a "barometer" indicating the economic climate in the country.

Tatneft is a pioneer among Russian oil companies in introducing its stock to global capital markets. The issue of Level I ADRs, which was one of the first in Russia, and successful offering of shares in international stock mar-

kets (on the London Stock Exchange) in December 1996 became a milestone in the Company's history. The interest in Tatneft's ADR Program from investors gave a powerful impetus to growth of its stock prices. Listing on the New York Stock Exchange in March 1998 was an important step towards achieving one of the key strategic objectives – enhancing the status of an internationally recognized company occupying a prominent place among the world's leading oil producers.

Ordinary and preferred shares of OAO Tatneft are currently included in quotation lists of the following stock exchanges:

- RTS Stock Exchange – A1 (ordinary shares), A2 (preferred shares);
- MICEX Stock Exchange – First Level "A" List (ordinary and preferred shares).

American Depositary Receipts representing ordinary shares of OAO Tatneft are quoted on:

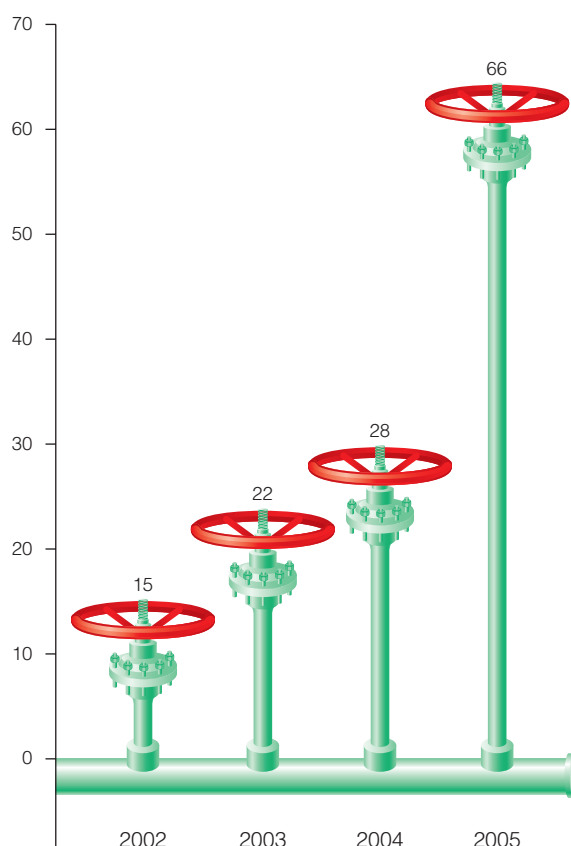
- the New York Stock Exchange;
- the London Stock Exchange;
- the Deutsche Boerse (German Stock Exchange)

The Company's stock prices continued to rise both on the Russian and foreign trading floors. Thus, on December 30, 2005 its ordinary shares traded on the RTS at \$3.45 per share, 150% higher than in 2004.

At the end of 2005 the Company's market capitalization reached \$7.5 billion versus \$3.0 billion in 2004, experiencing more than 2.5 times growth year on year.

Trading volumes were RUB21.448 billion on the MICEX and over \$60 million on the RTS.

▼ CHANGES IN PRICES OF ADRs REPRESENTING SHARES IN OAO TATNEFT, 2002-2005 (\$/ADR)



DISTRIBUTION OF AUTHORITY AND RESPONSIBILITY AMONG MEMBERS OF THE BOARD OF DIRECTORS AND MANAGEMENT BOARD

The management of the Company is carried out by its supreme management body, the Shareholders' Meeting, and the Board of Directors authorized thereby.

The Company's Chief Executive Officer is the General Director. The Management Board performs the functions of a collective executive body.

Implementation of strategic tasks and direction of day-to-day activities are handled through distribution of responsibility among the members of the Board of Directors and Management Board and vesting executive powers in the Company's officers in the following areas:

- Corporate governance
- Management of the oil & gas production facilities
- Management of the refining and petrochemical facilities
- Management of the service facilities
- Social policy
- Protection of the shareholders' and investors' rights



Nail
Gabdulbarievich
Ibragimov

Member of the Board of Directors, member of the Management Board, First Deputy General Director for Production, Chief Engineer of OAO Tatneft
Doctor of Engineering

Management of the
oil & gas production facilities

Renat
Khaliullovich
Muslimov

Member of the Board of Directors, State Counsel to the President of the Republic of Tatarstan responsible for subsoil usage and oil & gas issues,
Doctor of Geology and Mineralogy

Management of the
oil & gas production facilities



Rais
Salikhovich
Khisamov

Member of the Board of Directors,
Deputy General Director,
Chief Geologist of OAO Tatneft,
Doctor of Geology and
Mineralogy

Management of the
oil & gas production facilities

Nail
Ulfatovich
Maganov

Member of the Board of Directors,
member of the Management
Board, First Deputy General
Director for Refining and Sales of
Oil and Refined Products,
Head of Oil and Refined
Products Sales Department
of OAO Tatneft

Management of the refining and
petrochemical facilities

Zagit
Foatovich
Sharafeyev

Member of the Management
Board, Deputy General
Director of OAO Tatneft,
Director of
OOO Tatneft-Neftekhim
Management Company

Management of the refining
and petrochemical facilities

Mirgaziyan
Zakievich
Taziev

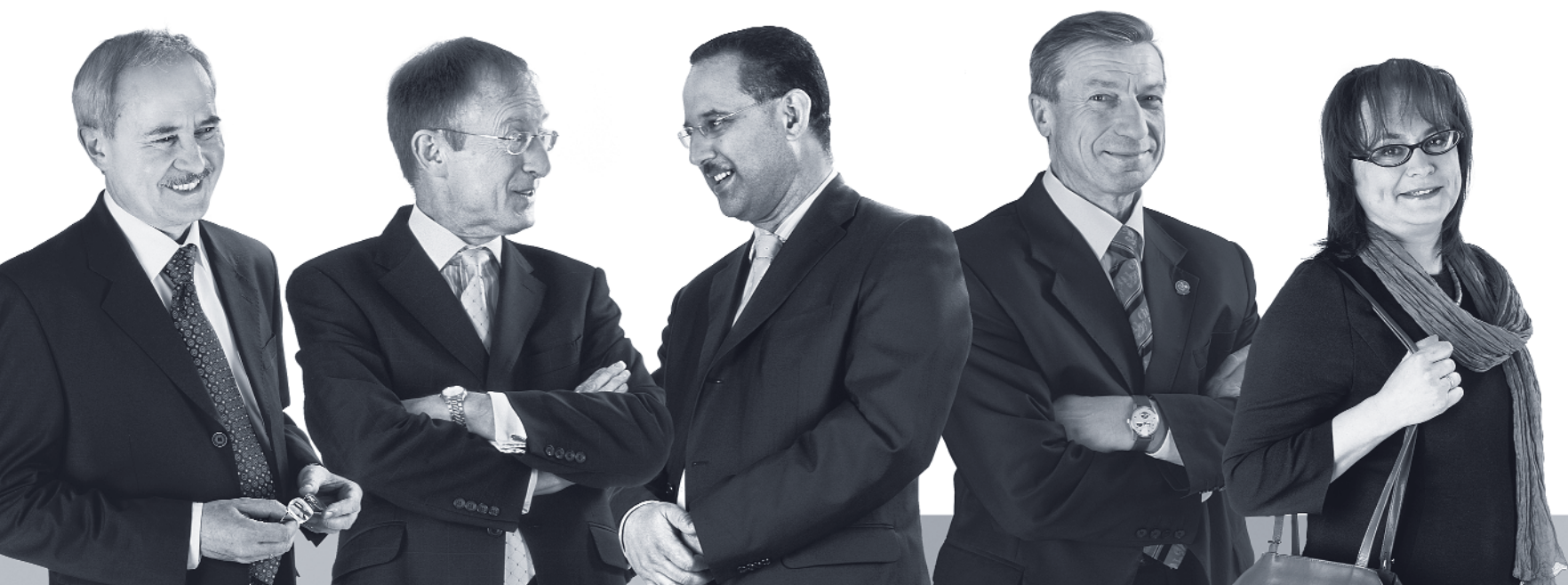
Member of the Board of Directors,
member of the Management
Board, Head of Almeteyevneft
– oil and gas production
department of OAO Tatneft
Candidate of Technical Sciences

Management of the
oil & gas production facilities

Rafael
Saitovich
Nurmukhametov

Member
of the Management Board,
Head of Leninogorskneft
– oil and gas production
department of OAO Tatneft

Management of the
oil & gas production facilities



Khamit
Zagirovich
Kaveyev

Member of the Management Board, Deputy General Director of OAO Tatneft, Director of OOO Tatneft-Regions Management Company

Management of
oil & gas production facilities

David
William
Waygood

Member of the Board of Directors, Chairman of Human Resources and Compensation Committee at the Board of Directors of OAO Tatneft, Director of Waygood Limited

Protection of shareholders' and investors' interests

Sushovan
Ghosh

Member of the Board of Directors, Chairman of Audit Committee at the Board of Directors of OAO Tatneft, Managing Director of SGI Enterprises Ltd

Protection of shareholders' and investors' interests

Valery
Pavlovich
Vasiliev

Member of the Board of Directors, Minister of Land and Property Relations of the Republic of Tatarstan

Protection of shareholders' and investors' interests

Maria
Leonidovna
Voskresenskaya

Member of the Board of Directors, Director of Brentcross Ltd

Protection of shareholders' and investors' interests



Valery
Yurievich
Sorokin

Member of the Board of Directors,
General Director of OAO
Svyazinvestkhim

Protection of shareholders' and
investors' interests

Vladlen
Aleksandrovich
Voskoboinikov

Member of the Management
Board, Head of Consolidated
Financial Reporting
Department of OAO Tatneft

Protection of shareholders'
and investors' interests

Alexander
Trofimovich
Yukhimets

Member of the Management
Board,
Secretary of the Board
of Directors of OAO Tatneft

Protection of shareholders'
and investors' interests

Vladimir
Nikolaevich
Zinoviev

Member of the Management
Board,
Deputy General Director
for Capital Construction
of OAO Tatneft

Management of the service
facilities

Fyodor
Lazarevich
Shchelkov

Member
of the Management
Board,
Deputy General Director
for General Issues
of OAO Tatneft

Management of the service
facilities



Rafkat
Mazitovich
Rakhmanov

Member of the Management Board, Deputy General Director for Well Repair and Improved Oil Recovery of OAO Tatneft

Management of the service facilities

Mikhail
Nikolaevich
Studensky

Member of the Management Board, Deputy General Director for Drilling of OAO Tatneft, Director of Management Company OOO Tatneft-Bureniye

Management of the services facilities

Rishat
Fazlutdinovich
Abubakirov

Member of the Board of Directors, Head of the Almetyevsk Municipal Region Administration, Candidate of Economic Sciences

Social policy

Radik
Raufovich
Gaizatullin

Member of the Board of Directors, Minister of Finance of the Republic of Tatarstan

Social policy

Rustam
Nabiullovich
Mukhamadeev

Member of the Management Board, Deputy General Director for Personnel and Social Development of OAO Tatneft

Social policy



Vladimir
Pavlovich
Lavushchenko

Member of the Board of Directors, member of the Management Board, Chairman of Disclosure Committee of the Board of Directors of OAO Tatneft, Deputy General Director for Economics of OAO Tatneft, Doctor of Economics

Corporate governance

Viktor
Isakovich
Gorododny

Member of the Management Board, Chairman of Corporate Governance Committee of the Board of Directors of OAO Tatneft, Deputy General Director, Head of Property Management Department of OAO Tatneft, Doctor of Economics

Corporate governance

Valery
Dmitrievich
Ershov

Member of the Management Board, Head of Legal Department of OAO Tatneft

Corporate governance

Iskandar
Gatinovich
Garifullin

Member of the Management Board, Head of Accounting and Reporting Department, Chief Accountant of OAO Tatneft

Corporate governance

Evgeny
Aleksandrovich
Tikhturov

Member of the Management Board, Head the Finance Department of OAO Tatneft

Corporate governance

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OPERATING ACTIVITIES

KEY OPERATING PERFORMANCE INDICATORS FOR 2005

Thanks to an efficient production management, implementation of the reserves stabilization and replacement program, improvement of field development technologies, application of enhanced oil recovery methods, and a high professional level of its personnel, in 2005 the Company enjoyed further growth of its oil and gas output and sales of crude oil and refined oil & gas products.

The development of oil & gas refining and petrochemical facilities based on the maximum utilization of the entire raw materials potential of the Company continued:

- oil output totaled 25,332.0 thousand tonnes, representing a 1.0% increase over 2004
- associated gas production was 737 million m³, an increase of 0.1% over 2004
- NGL output grew by 4.2% from 2004 to 295 thousand tonnes
- 383 new producing wells were commissioned, with the total operating well stock reaching 21,460 wells
- production drilling totaled 700,000 m, including 458,000 m drilled for OAO Tatneft
- exploratory drilling grew by 35% to 80,500 m, including 50,000 m drilled for OAO Tatneft
- crude oil sales reached 21,880 thousand tonnes, increasing by 2,841 thousand tonnes or 14.9% from 2004

- the Company sold 3,785 thousand tonnes of oil products and 897 thousand tonnes of gas products, which is 6.5% more than in the previous year
- revenue from sales of crude oil, refined oil and gas products amounted to RUB125,048 million, RUB24,203 million and RUB3,871 million, respectively
- in the year under review, the Company shipped 2.1% or 236,700 more tires than in 2004
- technical carbon output reached 101.1 thousand tonnes, representing an increase of 4.6% from 2004
- semi-synthetic oil and PAO output was 846.0 tonnes and 1,318.0 tonnes, respectively
- total commercial output in the petrochemical sector in money terms reached RUB16,501.4 million, which is 19.2% or RUB2,655.4 million more than in 2004
- revenue from sales of petrochemical products grew by 1.9% from 2004 to RUB16,661.3 million.

▼ OIL AND GAS PRODUCTION

Item	2004	2005	Change, %
Crude oil output, thousand tonnes	25,099.5	25,332.0	101
Associated petroleum gas output, mln. m ³	736	737	100.1
NGL output, thousand tonnes	283	295	104.2
Production drilling, thousand meters	710.1	700	99
including for OAO Tatneft, thousand meters	502.6	458	91
Wildcat and exploration drilling, thousand meters	59.7	80.5	135
including for OAO Tatneft, thousand meters	50.1	50	100

▼ SALES OF PRODUCED CRUDE OIL AND OIL AND GAS PRODUCTS

Item	2004	2005	Change, %
Sales, thousand tonnes:			
- crude oil	19,039	21,880	114.9
- oil products	6,638	3,729	56.2
- gas products	842	897	106.6
Sales revenue (net), RUB millions:			
- crude oil	84,485	125,048	148
- oil products	28,112	24,203	86.1
- gas products	2,702	3,871	143.3

▼ KEY TECHNICAL AND ECONOMIC INDICATORS OF TATNEFT'S PETROCHEMICAL FACILITIES

Item	2004	2005	Change, %
Total shipments of tires, thousand units	11,166.2	11,402.9	102.1
Technical carbon output, thousand tonnes	95.7	100.1	104.6
Commercial output*, RUB millions	13,782.3	16,501.4	119.7
Sales revenue*, RUB millions	13,903.8	16,661.3	119.8

* These figures relate to all petrochemical facilities excluding trading companies (OOO TD Kama and OOO TN-Neftekhimsnab)

GEOLOGICAL PROSPECTING AND OIL & GAS PRODUCTION

Reserves stabilization and replacement program

Structure of reserves

OAo Tatneft currently holds 68 licenses (45 Series NE licenses, 14 Series NR licenses, and 9 Series NP licenses) for the development of 77 fields in the Republic of Tatarstan, which contain about 78.4% of the Republic's remaining oil reserves. OAo Tatneft has two licenses for prospecting and development of oil and gas fields outside the Republic of Tatarstan - one in the Ulyanovsk region and one in the Chuvash Republic. The Company has applied for licenses for geological survey of Baltasinsky area 1, 2, 3 and Kovalinsky area 1, 2, 3 for the purposes of prospecting and evaluating hydrocarbon fields in the Republic of Tatarstan.

In 2005 OAo Tatneft carried out exploration and prospecting activities at 35 licensed sites in the Republic of Tatarstan. Investments in geological prospecting in 2005 totaled RUB974 million.

In 2005 exploratory drilling began on 6 elevation structures: Vozhaevskoye, Gornoye, Vostochno-Yurginskoye, Yuzhno-Bishevskoye, Lazovoye in the Republic of Tatarstan and Krestovoye in the Ulyanovsk region. Seismic prospecting crews of OAo Tatneftegeofizika and other geophysical enterprises prepared for deep-hole drilling 9 structures with resources of C3 category and 7 structures with expected resources of D1 category.

Consistent geological prospecting works carried out by OAo Tatneft every year enabled the Company to provide an increase in the recoverable oil reserves over the last 5 years exceeding the production level by a factor of

1,2 times

According to estimates by Miller & Lents, the Company's proved oil and condensate reserves as of January 1, 2005 were 5,801.1837 MMbbls, or 814.4 million tonnes.

Exploratory well No. 232 found new oil deposits at the Ballaevskoye elevation structure at the Novo-Yelkhovskoye field in Lower and Medium Carboniferous and Upper Devonian formations, with the Devonian well flow rate of 17 tonnes per day at a working level of 340 m. Exploratory well No. 900 at the Yuzhno-Bishevskoye elevation structure in the Bastrykskoye oilfield tapped oil-saturated reef reservoirs in the Devonian carbonate formations. The well completion job is currently under way.

Two new fields, Kirpichnoye and Tautashskoye, were discovered in the Republic of Tatarstan. In addition, OAo Tatneft is increasing investments in prospecting and exploration outside the Republic of Tatarstan, including in the Republic of Kalmykia and Chuvash Republic; the Orenburg, Samara, Ulyanovsk regions; the Nenets Autonomous District; as well as Syria and Libya. The subsoil users are 14 affiliated companies of OAo Tatneft.

The Company's subsidiaries in total were granted 35 licenses. The sites licensed to subsidiaries of OAo Tatneft include 23 fields. Therefore, at 01.01.2006 OAo Tatneft together with its 14 subsidiaries held 103 licenses.

In addition to standard technology such as seismic prospecting, OAo Tatneft employs a number of new exploration techniques:

- forecasting prospective fields using the artificial intellect technology Neuroseism
- soil gas collection and evaluation of hydrocarbons diffusion by the Gore-Sorber method
- using microleptonic radiation to explore physics of interaction among fine energies
- determining the pattern of fluid migration and accumulation and generating maps of fluid dynamics showing probable oil accumulation areas (Dynamic Fluid Method, or DFM)
- low frequency seismic sounding (LFSS).

Oil and gas output

OAo Tatneft currently develops 73 oilfields within and outside the Republic of Tatarstan.

In 2005 oil production by OAo Tatneft grew by 1% compared with 2004 to 25.332 million tonnes. The Company produced 377,209 tonnes of oil in excess of the plan.

The bulk (75%) of current oil output comes from six major fields: Romashkinskoye, Bavlinskoye, Sabanchinskoye, Novo-Yelkhovskoye, Pervomaiskoye, Bondyuzhskoye, with the Romashkinskoye oil field accounting for 59.1% of the output. The Company completed construction of 338 wells (versus 324 wells envisaged by the plan).

The average well flow rate in OAo Tatneft in 2005 was 4.2 tonnes per day (versus 4 tonnes per day in 2004). The scheduled package of field development control and management measures was implemented, with 338 new producing wells (including 324 wells commissioned from drilling) put into operation. Works to rehabilitate depleted well stock by sidetracking and drilling horizontal boreholes were completed at 65 wells. WWO was performed at 2,508 wells, work to improve the RPM system continued, 249 wells were completed for water injection.

Special attention was given to the application of new drilling techniques. 23 technologies or 1,030 well techniques were employed at 352 wells. Out of the 324 wells commissioned from drilling, 301 wells (over 92%) were drilled using new technologies. The most efficient technologies at present include underbalanced drilling and construction of horizontal and multibranch wells.

Application of new technologies enabled the Company to increase the average flow rate of new wells commissioned from drilling from 6.5 tonnes per day in 2004 to 7.7 tonnes per day in 2005.

New wells produced 414.5 thousand tonnes of oil, which is 22 thousand tonnes more than in 2004.

▼ PRODUCTION FROM MAJOR FIELDS IN 2005

Field	thousand tonnes
Romashkinskoye	14,986.3
Novo-Yelkhovskoye	2,464.5
Bavlinskoye	922.3
Bondyuzhskoye	367.4
Pervomaiskoye	406.0
Sabanchinskoye	653.6

▼ WELL STOCK (number of wells)

Fond	2005
Producing stock	18,867
Inactive stock	2,578
Stock of test wells and expected completions	15
Operating stock	21,460

An important reserve for building up oil production from the fields with hard-to-extract reserves was new technology based on deep (up to 100 m) radial penetration in the formation. Radial drilling operations were performed in 43 wells.

Enhanced oil recovery methods played the crucial role in the oil output stabilization. Incremental production in 2005 attributable to tertiary EOR methods was 4 914 thousand tonnes versus the target of 4 375.5 thousand tonnes (112% of the target), or 103% of the 2004 level (4 760 thousand

tonnes). Oil produced by these EOR methods accounted for 19.4% of total oil output in 2005. Incremental production in 2005 attributable to the works carried out by Neftekhimservis was 2,313.5 thousand tonnes vs. the target of 2,040.4 thousand tonnes (113.7%).

Oil & gas production geography, including production outside the Republic of Tatarstan

In pursuing the strategic lines of activities for expanding the geography of hydrocarbon reserves replacement outside the Republic of Tatarstan and increasing the scope and range of high-tech and knowledge-intensive services rendered by the Company, a new management company, Tatneft-Regions, was created as a result of the restructuring of Tatneft's External Economic Company.

The key tasks faced by the new entity are:

- securing an increase in the Company's reserves
- investment activities
- sale of R&D products.

At present the management company OOO Tatneft-Regions operates 9 enterprises in the RF, in which OAO Tatneft has an equity interest of 50% or more and which is engaged in the prospecting and development of 25 licensed areas. These enterprises are: ZAO Tatneft-Samara (Samara region), OAO Ilekneft, ZAO NGDP Abdulinskneftegaz, OOO Tatneft-Severnoy, OOO Tatneft-Abdulino (Orenburg region), ZAO Severgaznefteprom, ZAO Severgeologiya (Nenets Autonomous District), ZAO KalmTatneft, OAO Kalmneftegaz (Republic of Kalmykia).

Transfer of the powers of the sole executive body to the management company was fully completed by 5 enterprises. Uniform corporate governance standards were introduced in all companies.

In addition to the activities in the Russian Federation, this management company coordinates and implements projects abroad:

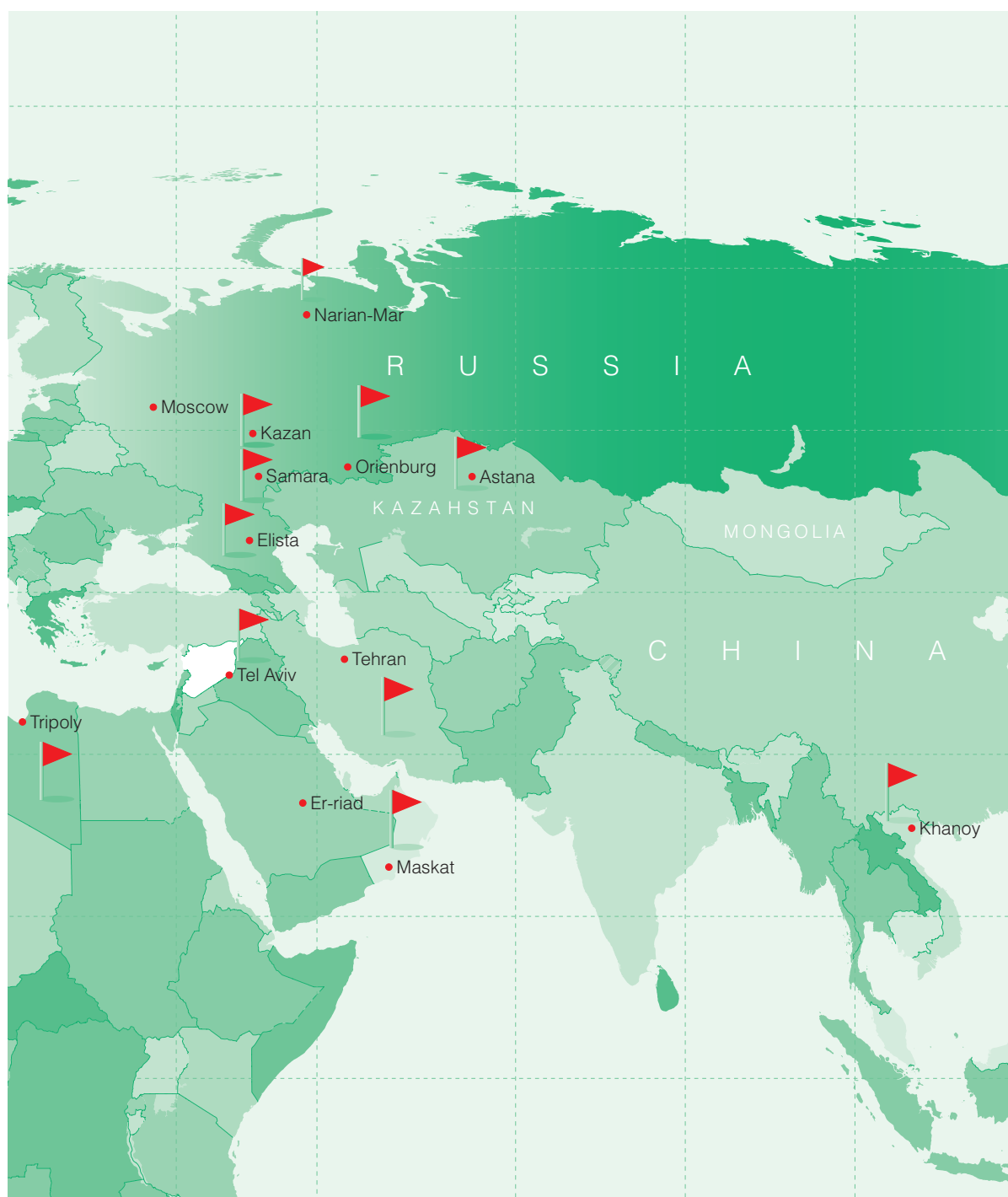
- under a contract signed in Libya, an affiliate of OAO Tatneft carries out prospecting and exploration of Block 82-4
- an agreement for prospecting and development of Block 27 in Syria terms was signed on PSA terms.
- a number of service contracts providing for application of the liquid hydrocarbons demercaptanization technology and other technologies are implemented in the Islamic Republic of Iran as part of the efforts to promote technologies, services and products of OAO Tatneft in the Persian Gulf markets.
- a joint venture, Tatneft Gulf LLC, was established in Oman. At present the potential for using the expandable pipe technology at wellsites in Oman is explored.
- work to introduce the expandable pipe technology in Vietnam is underway
- OAO Tatneft and KazMunaiGaz (Kazakhstan) have concluded contracts providing for the supply of bottom-hole pump chain drives manufactured by BMZ and the provision of services, such as introduction of EOR technology, optimization of the organizational structure and training of KazMunaiGaz personnel.

Production efficiency improvement programs.

Innovational technology

Improvement of production technology and organization has permitted the Company to substantially reduce production costs and achieve a greater economic effect. In 2005 OAO Tatneft spent RUB365.7 million for R&D in all of its key lines of activities: oilfield geology and development, drilling, major overhaul and improved oil recovery (IOR), automation, communications and transport. 100 % of the targets set by the IOR and advanced technology and equipment application program, which included 120 activities, were achieved.

▼ OAO TATNEFT OIL AND GAS PRODUCTION AND SCIENTIFIC-TECHNICAL PRODUCTS SUPPLEMENT TERRITORIES



6,661 innovations and inventions were introduced in the production processes, yielding an aggregate economic effect of RUB1,339.7 million. The Federal Industrial Property Institute issued

295 titles of protection

in respect of submitted applications for inventions.

A team of authors from OAO Tatneft was awarded the title of the winner of the State Award of the Republic of Tatarstan in the field of science and technology for the work "Development and commercial introduction of a corporate information system for operating control and management of oil production processes" and received the State Award of the Republic of Tatarstan in the Field of Science and Technology for 2005.

In the All-Russian contest "Engineer of the Year", nine specialists from OAO Tatneft were awarded the title of the Engineer of the Year 2005.

The Republican Council of the RT Society of Inventors and Innovators awarded OAO Tatneft the title of the Best Enterprise in Innovation and Rationalization - 2005 and presented the Company with the Grand Cup, the Council's diploma and certificates of the RT Ministry of Economy. Twenty-five innovators were conferred RT degrees for Excellence in Invention.

The key R&D division of OAO Tatneft is the Tatar Oil Industry Research and Design Institute (TatNIPIneft), one of Russia's leading oil production research institutes, which has been already operating for 50 years. The Institute specializes in oil field development, development of oil and gas production methods and protection of oil production equipment against corrosion.

The IOR and advanced technology and equipment application program included 50 projects developed by TatNIPIneft, which included 32 new activities.

In 2005 these activities generated:

- 261 thousand tonnes of incremental oil output
- RUB201.4 million in resource savings.

The total economic effect from the introduction of these developments amounted to RUB760.5 million.

The greatest economic effect was achieved from the application of the following developments:

- Geological and Technological Feasibility Study for Construction of Horizontal Wells - RUB234.6 million
- EOR Technology Employing Viscoplastic Systems and Polymer Compositions (APC Technology) - RUB136.0 million
- Technology and Facilities for Well Rehabilitation through Sidetracking and Horizontal Sidetracking - RUB66.6 million
- EOR Technology for Late Field Development Stages Using Cross-Linked Cellulose Esters (CWP Technology) - RUB55.1 million

At present a part of fields exploited by OAO Tatneft are at the late development stage, complicated by a high degree of oil reserves depletion and watering of productive reservoirs. Under these conditions, creating and introducing new developments and techniques designed to reduce oil research and exploration costs, increase the returns on the existing fields and extend the field life take on special significance.

Well drilling technology

Special attention is given to the application of new drilling techniques. Tatneft has recently adopted the underbalanced drilling technology, as well as horizontal and multibranch drilling methods. As a result of the application of new technologies, the average flow rate of new wells over the last five years increased 1.7-fold.

Oil & gas production

Tatneft carries out systematic work to increase the efficiency of producing wells, reduce oil production costs and the volume of produced water, and shut down non-profitable wells.

For these purposes, high-performance technology and equipment significantly extending the time between overhauls of wells and reducing the number of frequently repaired wells have been developed and are widely introduced. These include: chain drives for oil-well sucker-rod pumps, phase dividers, dual well pumping system and others.

A consistent technological policy providing for the introduction of innovational technology and equipment permitted OAO Tatneft to achieve positive oil output dynamics and extend the TBO.

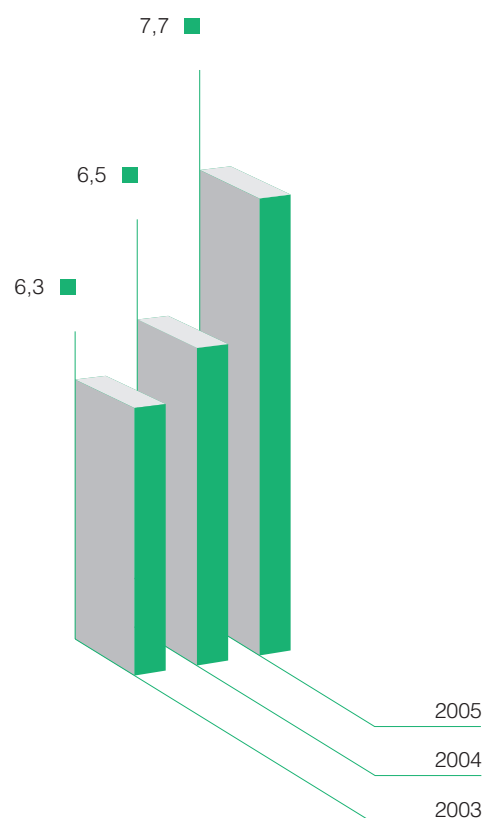
Reservoir pressure maintenance

To reduce the accident rate on pipelines, 98% of the pipes used in the reservoir pressure maintenance system currently consist of corrosion-resistant pipes.

IOR and WWO

In order to boost the reservoir recovery rate in the situation of natural aging of its well stock and a growing share of hard-to-extract reserves at the late field development stage, the Company is widely introducing state-of-the-art technology, such as hydraulic fracturing of formations, coiled tubing and many other techniques intended to stimulate well production.

The Company attaches special significance to improving well repair technology and equipment. Its repair unit possesses all required technical facilities and technology, which permit it not only to restore the operability of a well, but also to significantly enhance its productivity. Improved quality of well operation and repair has extended the TBO of wells.



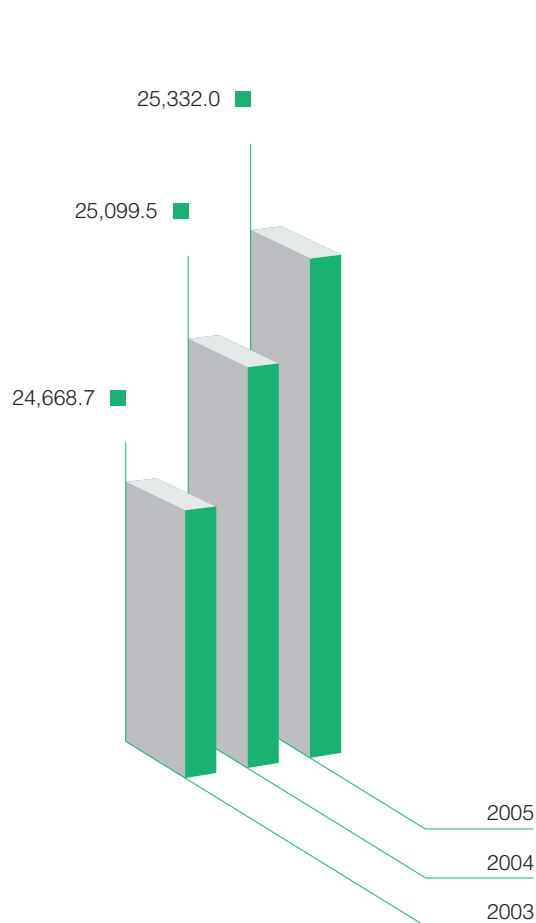
▲ CHANGES IN THE FLOW RATE OF NEW WELLS IN OAO TATNEFT (tonnes per day)

EOR methods

In the year under review, 44.3% of total oil production was received through application of more than 50 advanced hydrodynamic and tertiary EOR methods. The most efficient EOR methods are increasing the reservoir recovery rate at late oilfield development stages using cross-linked cellulose esters (CWP Technology) and boosting reservoir recovery through the use of viscoplastic systems and polymer compositions (APC Technology).

Energy

An important component of the Company's energy saving program is its energy-saving procedure "Operational interaction between the electricity supplier and the consumer based on the application of time-specific tariffs". Operational interaction with the electricity supplier in the

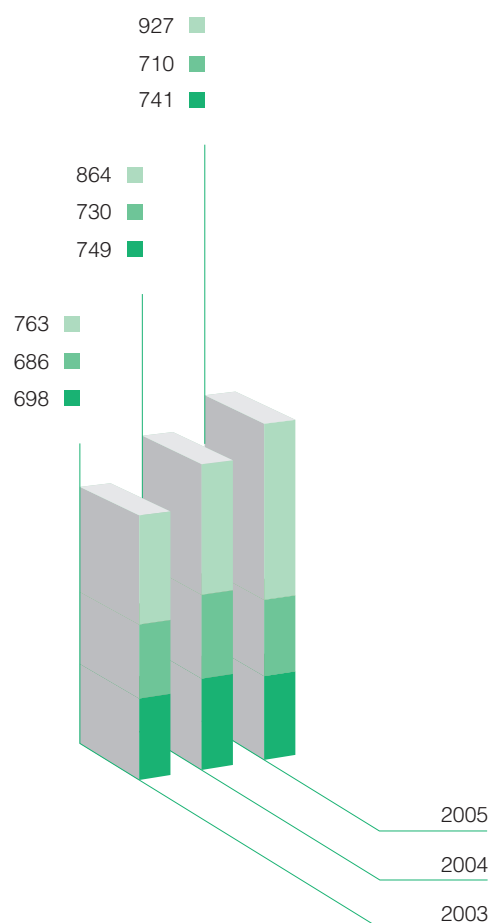


▲ OIL PRODUCTION BY OAO TATNEFT IN 2003-2005 (thousand tonnes)

year under review permitted the Company to reduce the costs associated with payment of approved electricity tariffs by 14%.

Information technology

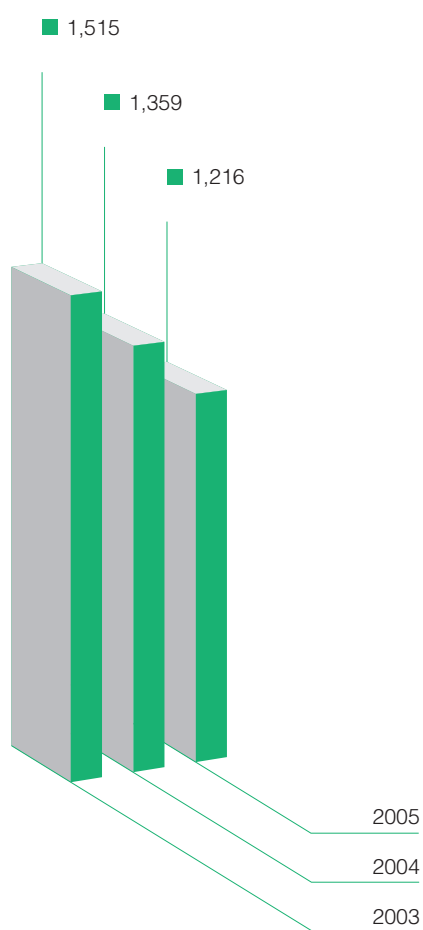
In recent years OAO Tatneft has created a common information space shared by all of its enterprises and basic processes. An integrated fiber-optic network covering the territory of the Company's operations was built, the main and back-up data processing centers supporting the corporate data bank and providing real-time control and management of oilfield development processes based on permanently-active models were brought on stream.



▲ CHANGES IN TBO OF WELLS IN 2003-2005 (days)

Using the available computational capabilities, permanently-active models of the Romashkinskoye field and a number of other major fields, which make it possible to localize the remaining reserves and increase the efficiency of field development, were built.

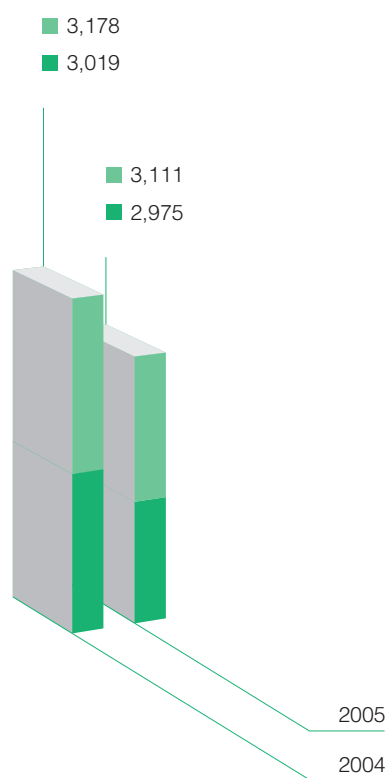
The most efficient technologies used by the Company include a motor transport satellite monitoring system and a micro-processor-based sucker rod pumping unit control station. Tatneft's data processing center and its corporate engineering workstation information system (ARMITS) substantially reduce operating costs and time expenditures, optimize well operation processes, improve the motor transport efficiency.



▲ **CHANGES IN HEAT CONSUMPTION**
(thousands of GCal)

Industrial safety

Industrial safety and labor protection policy designed to prevent industrial injuries and reduce occupational diseases is regulated by the Basic Guidelines on Labor Protection Management in the Oil Industry and by the Regulations on the Organization and Provision of Production Control Over Compliance with Industrial Safety Requirements at Hazardous Production Facilities of OAO Tatneft. With a view to improving labor discipline, industrial safety and labor protection in OAO Tatneft, the Company has developed a staff motivation standard, which provides incentives for employees to promote industrial and occupational safety and establishes the



- electricity consumption in all production activities
- electricity consumption in oil production

▲ **CHANGES IN ELECTRICITY CONSUMPTION IN ALL
PRODUCTION ACTIVITIES AND IN OIL PRODUCTION (mln GCal)**

responsibility for violation of industrial and occupational safety regulations.

The Company's structural units implemented the activities included in the Complex of Priority Measures for Improving Industrial Safety at OAO Tatneft Facilities for 2001-2005, which enhanced the reliability of equipment and operational safety at hazardous production facilities, improved working conditions of the Company's personnel, and helped to prevent injuries. More than RUB1.3 billion was spent on these activities.

The organizational, technical and preventive work in the Company helped to prevent blowouts and showings of gas and oil at its facilities in 2005.

As a result of a significant scope of work undertaken by Tatneft to ensure the radiation safety at its facilities, the Company did not have any accidents resulting in exposure to radiation of its employees in 2005. In addition, over the last 5 years the maximum and average annual radiation exposure levels have remained unchanged, attesting to the stability of the radiation environment at the Company's facilities.

▼ STRUCTURE OF LABOR PROTECTION EXPENDITURES IN 2005

Items	2005
Total labor protection expenditures, RUB millions including:	276.1
- obligatory social insurance against industrial accidents and occupational diseases	94.5
- employees' personal protection equipment, working clothes and footwear	81.1
- induction, periodic and unscheduled medical examinations	0.7
- milk and dietary meals	3.9
- sanitary, medical and preventive treatment services	58.5
- staff training and professional development	0.7
- appraisal of working conditions at workplaces with subsequent job certification	2.8
Other, RUB millions	33.8
Labor protection expenditures per employee, RUB	5,990

Environmental policy

The environmental policy of OAO Tatneft is formulated and implemented in line with the government's strategy for environmental protection and rational use of natural resources and with its Corporate Code.

The environmental activities of OAO Tatneft are consistent with the environment protection laws of Russia and Tatarstan, comply with all current environmental rules and regulations, take into account the requirements stipulated by international-level documents and are implemented under a special extended ecological program for the period 2000 through 2015.

In accordance with this program, all engineering processes are focused on resource saving and are environmentally safe and cost-effective.

An environmental monitoring system serving as the source of primary data for planning and implementing the Company's environmental activities provides objective monitoring of the ecological situation in the region and permits the Company to promptly identify and liquidate environmental emergency situations at the oil-field facilities. No man-made accidents, which could cause material harm to the environment, occurred in 2005.

With a view to providing a sustainable and accident-free operation of its oilfield facilities and enhance their industrial and environmental safety, in 2005:

- 469 km of metal-plastic and 550 km of polymer-coated pipes were manufactured
- 6,275 tonnes of corrosion inhibitors, including 4,656 tonnes for the Company's own needs, were produced
- 21,269 m² of VSST and HT internal surfaces were protected by lacquer coating
- 545 wells were equipped with cathodic protection, with protective coating installed on more than 700 km of pipelines
- diagnostics were performed on 3,195 km of pipelines.

Atmospheric air protection

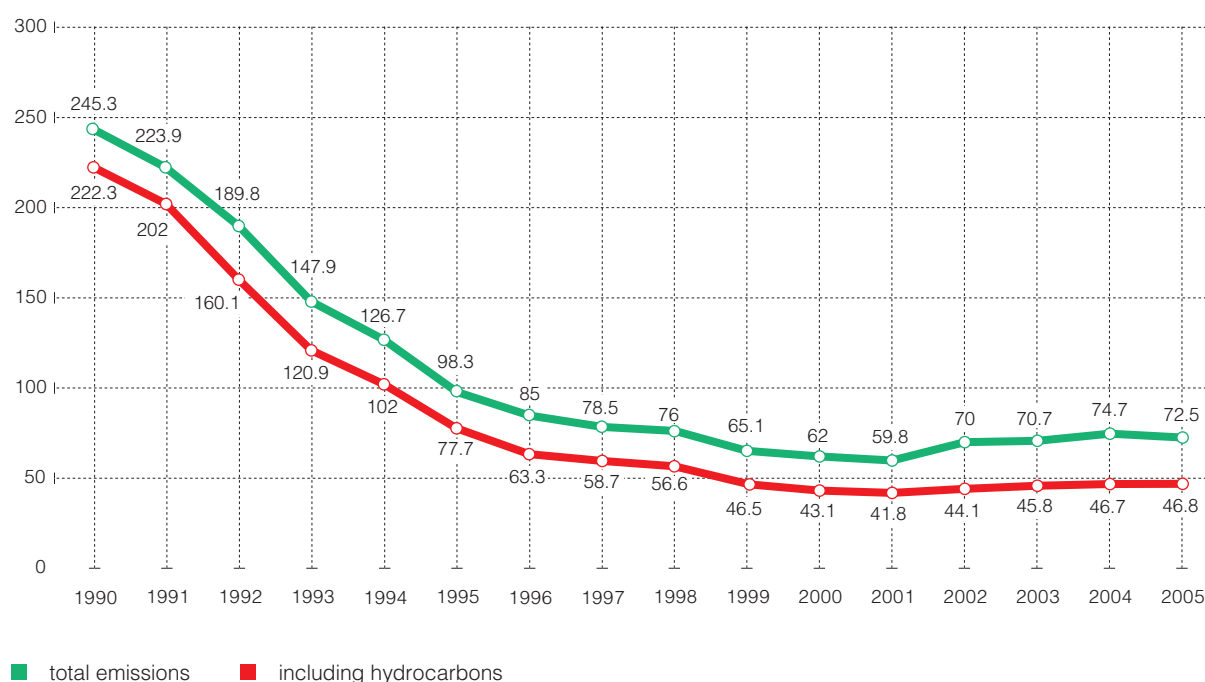
The vapor recovery technology, which has been used in Tatneft from 1991 to capture light ends evaporating from tanks and vessels, substantially reduces hydrocarbon emissions into the atmosphere and enables the Company to receive extra hydrocarbons. As of 01.01.2006, OAO Tatneft had 41 operating vapor recovery units.

Hydrocarbons captured by vapor recovery units installed on the Company's tank batteries in 2005 totaled 63.4 thousand tonnes (65.2 thousand tonnes in 2004). The Company has 5 desulfurization units designed to reduce hydrogen sulfide emissions. Amine treatment for acid gas removal by oxidation using a solid catalyst in a fluidized bed is under development.

OAO Tatneft has achieved an associated petroleum gas utilization rate of 95%, which is one of the highest in the industry.

The Company provides continuous atmospheric air monitoring in the communities located within its geographic areas of operations. In 2005, 9,918 (9,012 in 2004) air samples taken in 68 (63 in 2004) communities were analyzed for pollutants. Pollutant emissions in 2005 decreased by more than 2,000 tonnes from 2004 to 72,500 tonnes.

▼ **CHANGES IN POLLUTANT EMISSIONS INTO THE AIR BY
STATIONARY SOURCES IN OAO TATNEFT, 1999-2005 (thousand tonn)**



Protection of water bodies

A part of production and business facilities of OAO Tatneft is located in the basin of the Kama River and its tributaries. The Company takes steps to prevent the pollution of underground and surface fresh water.

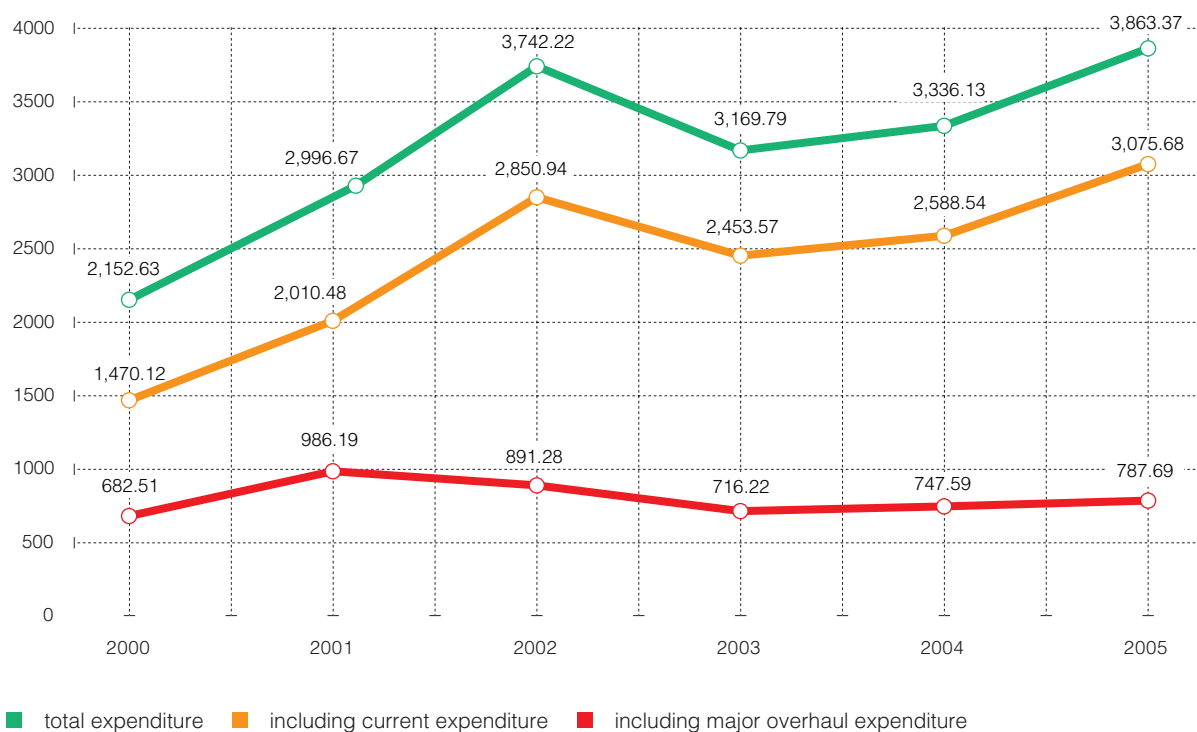
As a result of improvements in oilfield development technologies, the volume of produced water has been reduced two-fold. In addition, almost 100% of wastewater from oil production and preparation processes is used for RPM purposes, i.e. is returned to the reservoir.

A substantial scope of work to improve the reliability of various pipelines and well structures has been completed in recent years.

As a result of the reconstruction of the RPM system using corrosion-resistant pipes, the number of pipeline ruptures declined by several ten-fold.

OAO Tatneft was one of the first oil & gas companies in Russia to receive in 2005 licenses for nonconsumptive use of surface water bodies in construction and operation of underwater and above-water facilities (pipelines), i.e. all pipeline water crossings are licensed in accordance with the Russian Water Code.

▼ **DYNAMICS OF ENVIRONMENT PROTECTION EXPENDITURES FROM THE START OF TATNEFT'S ECOLOGICAL PROGRAM 2000 THROUGH 2015 (in RUB millions)**



Monitoring of water sources

OAO Tatneft has created a network of observation points to evaluate the efficiency of measures for protection of surface and underground fresh water against pollution. This in-house observation network has been operating since 1968.

Water quality control is provided by 71 water points located on the Kama, Ik, Stepnoy Zai, Sheshma rivers and their tributaries. The Company maintains control over more than 563 water sources.

Water is analyzed by the chemical analytical laboratories of the DPPFMRP and all NGDUs.

Tatneft uses a hydromonitoring system with automated data processing, which is included in the Integrated State Program of the Republic of Tatarstan initiated in 1993.

Observations are summarized by specialized laboratories and an automated hydromonitoring team from Tatneft's Tatarstan Geology Prospecting Department. In 2005 the Company's central laboratory responsible for control over water bodies, alone collected 3,476 samples (2,430 samples in 2004) and performed 23,320 (22,268 in 2004) analyses. 579 springs located within the Company's geographic area of operations were cleaned, capped and landscaped.

Protection of land resources

Thanks to the steps taken by the Company, the area of disturbed lands at the end of 2005 contracted by 20% from 2004, i.e. the area of polluted (fuel-oil-contaminated and salinated) lands at the end of the year under review contracted more than two-fold compared to 2004.

Environmental safety and industrial waste recycling

OAo Tatneft conducts systematic work to reduce and recycle wastes in oil production processes. The Company has a complex of specialized installations and facilities for these purposes. Investments in environmental activities from all financing sources between 2000 and 2005 exceeded RUB19 billion, of which over RUB3.8 billion was invested in 2005.

Ecological ratings and awards

The Company's environmental activities in the past year were not left unnoticed by the public and by environmental authorities. In 2005 the Cabinet of Ministers and the Ministry of Ecology and Natural Resources of the Republic of Tatarstan for the second year in a row announced OAo Tatneft the absolute EcoLeader in the Republic.

In 2005 the Independent Ecological Rating Agency (ANO NERA), an autonomous non-profit organization operating under the auspices of the World Bank with support from the International Bank for Reconstruction and Development, ranked Tatneft as the best company in Russia in terms of the reduction of environmental costs during 2000-2003 and the environmental policy efficiency and placed it in the top position in the rating of 75 largest companies from all Russian industries.

Furthermore, OAo Tatneft was ranked number one among Russia's oil producers in the 2005 rating "Environmental Responsibility of Major Russian Industrial Enterprises" by the interregional public organization Independent Environmental Protection Initiative (NESPI) and Interfax Agency.

Based on the results of the competition for National Ecological Award ECOMIR, the Company was awarded the title of the 2nd degree laureate in the environmental policy category for successful implementation of its ecological program for the period 2000 through 2015.

SALES OF CRUDE OIL, GAS AND PETROLEUM PRODUCTS. OIL & GAS REFINING

The general management of oil and gas sales and refining, marketing of petroleum and gas products and development of the retail network is carried out by the Oil and Refined Products Sales Department.

Crude oil produced by OAo Tatneft is sold in three markets: Russia's domestic market, FSU market, and other foreign markets. The bulk of domestic oil deliveries are made under sales contracts to Russian refineries (Moscow, Ufa, Ryazan, Yaroslavl, Nizhny Novgorod). Oil delivered to Ukraine (Kremenchug Refinery) is also supplied on a purchase-and-sale basis.

A part of crude oil supplied by the Company to foreign countries, such as Germany, Poland, Czechia and Slovakia, is shipped via the Druzhba pipeline. The rest is exported via the ports of Novorossiysk, Primorsk and Butinge to Germany, Turkey, Sweden, the Netherlands, Italy and the USA.

In 2005, 24.54 million tonnes of resources of OAo Tatneft were prepared and delivered to the transportation system, with 24.5 million tonnes (net) delivered to consumers, which is 0.28 million tonnes or 1.2% more than in 2004.

▼ CRUDE OIL SALES STRUCTURE BY MARKET

Market	Share
Non-FSU	52.6%
FSU	23.4%
Domestic market	24.0%

▼ **CRUDE OIL DELIVERIES BY DESTINATION IN 2005**
(in thousand tonnes)

Items	2005
Exports to non-FSU countries	12,087.4
Exports to FSU countries	4,948.8
Russian refineries, including:	9,659.2
- OAO Nizhnekamsk Refinery	5,878.7
- export shipments by rail	32.0
- OAO Moscow Refinery	2,019.4
- OAO Slavneft-YaroslavlNOS	–
- OAO Ryazan Refinery	243.3
- NORSI	1,234.2
Other deliveries (transfer of resources)	283.6

The Company's physical exports to non-FSU foreign countries in 2005 totaled 1,925.3 thousand tonnes, representing an increase of 19.0% from 2004; exports to FSU countries were 1,862.8 thousand tonnes, which is 60.4% more than in 2004; and sales in the domestics market were 3,523.8 thousand tonnes, 32.1% less as compared to 2004.

Deliveries of Tatneft's resources, including those of joint ventures (JVs), independent oil companies (IOCs) and third-party enterprises, are divided into two major categories by destination:

- exports (FSU and other foreign countries)
- Russian refineries.

The world price of Brent crude, which at the beginning of 2005 traded at \$38.2/bbl, rose to \$67.0/bbl at the end of August and averaged \$56.3/bbl in December 2005.

Export sales prices for crude oil delivered to non-FSU foreign countries during 2005 varied from \$248.0 to \$431.0 per tonne.

Prices of oil sold by OAO Tatneft in the domestic market ranged from RUB2,400 to RUB8,500 per tonne (including VAT).

The Nizhnekamsk Refinery, which up to September 2005 received crude oil under a tolling agreement, accounted for a dominant share in the domestic deliveries in the year under review. However, beginning from September 2005, in view of the transfer of the ownership of distilling unit ELOU-AVT-7 to OAO TAIF, crude oil shipped to the Nizhnekamsk Refinery has been delivered under a supply agreement between OAO Tatneft and OAO TAIF. In addition to this destination, crude oil supplied to the domestic market is delivered to OAO Moscow Refinery and NORSI.

The presence of OAO Tatneft in Moscow's petroleum products market is explained by favorable market conditions, a high capacity of this market, geographical proximity of the refinery and the availability of the Company's own retail network of gas filling stations. The wholesale and retail sales operator in Moscow, the Moscow region and other Russian regions for petroleum products purchased from the Moscow Refinery is OOO Tatneft-Moskvanefteproduct.

Oil products manufactured by the Nizhnekamsk and Ufa Refineries from the Company's raw materials were sold in the domestic and foreign markets. Net revenue from sales of oil products in 2005 was RUB24,202.6 million, of which RUB10,185.8 million or 42.1% came from the domestic sales and RUB14,016.8 million, or 57.9%, was generated by exports.

From 01.09.2005 the Company's own oil refining capacity has been concentrated at the Yelkhovneft NGDU

(Yelkhov refining unit) and has been characterized by a stable procurement of raw materials and a high capacity utilization rate. As a result of a series of organizational and technical activities implemented on recommendations of the VNIIUS research institute, new products such as high octane gasoline Regular-92 and household stove fuel were launched. This, in its turn, made it possible to fully commercialize the fractions of oil products, which previously did not have regular usage.

Efficient use of isopentane fraction produced by Tatneftegazpererabotka led to an improvement in the quality characteristics of high-octane gasoline and a 10% increase in gasoline output.

In 2005 Tatneftegaspererabotka implemented a number of organizational and technical measures to increase the output and improve the quality of gas products. As a result, 633 mln. m³ of petroleum gas and 294,7 thousand tonnes of NGL were processed by TNGP using the COTU in 2005.

The quantity of feedstock accepted for processing in 2005 in the aggregate exceeded the quantity received in 2004. The renovation of production facilities, which is currently underway, is expected to create a feasible opportunity to process up to 130,000 tonnes of additional NGL feedstock per year.

▼ OUTPUT OF FINISHED PRODUCTS BY TATNEFTEGASPERERABOTKA

Product	Unit	2005
Stripped gas	mln. m³	310.8
Liquid products, total	thousand tonnes	545
Liquefied gases, including:	thousand tonnes	338.6
- propane	thousand tonnes	194
- isobutane	thousand tonnes	86.66
- normal-butane	thousand tonnes	104.9
Pentanes	thousand tonnes	65.4
Stable natural-gas gasoline	thousand tonnes	141
NGL on own account	thousand tonnes	-
Ethane	thousand tonnes	90.2
Sulfur	thousand tonnes	2.26
Nitrogen	thousand m³	468.5
Oxygen	thousand m³	298

In addition, NGL owned by OAO Tatneft was processed by OAO Nizhnekamskneftekhim, where 94.42 thousand tonnes of feedstock were delivered.

In accordance with the Federal Agency's balance tasks, 37.52 thousand tonnes of liquefied gas were supplied to households at fixed prices in 2005.

Pursuant to the decision of the Security Council of the Republic of Tatarstan dated June 9, 2005, a resolution of the RT Council of Ministers and a resolution of the Board of Directors of OAO Tatneft, the implementation of a project for the construction of a refining and petrochemical complex in Nizhnekamsk began in 2005. The

▼ **SHIPMENTS OF OIL AND GAS PRODUCTS TO REFINING AND PETRO-CHEMICAL FACILITIES IN THE REPUBLIC OF TATARSTAN IN 2005**

Product	thousand tonnes
Straight-run gasoline	427,18
Isobutane	29,84
Pentanes	49,52
Ethane	89,49
Hexane	4,28

aim of the project is to establish a facility for deep processing of hydrocarbons by achieving higher value-added product yield in the petrochemical production. A distinctive characteristic of the project is that the feedstock to be used by the Complex will consist of crude oil produced in Tatarstan.

The technological concept of the Complex focuses on manufacturing products which would be highly competitive in the world market, including high-quality motor gasoline and propylene.

RETAIL BUSINESS

As of 31.12.2005, the Company operated 553 Tatneft-branded gas filling stations, including 408 stations in the Russian Federation and 145 stations in Ukraine.

Retail sales of oil and gas products by Tatneft's filling stations in 2005 totaled 1,076,109 tonnes. Total revenue from sales of oil and gas products by Tatneft's filling stations amounted to RUB19,324 million (including VAT).

The network of filling stations covers 12 regions in Russia – Moscow and the Moscow region, the Vladimir region, St. Petersburg and the Leningrad region, the Arkhangelsk region, the Republic of Tatarstan, the

▼ **REVENUE FROM SALES OF OIL AND GAS PRODUCTS BY THE GAS FILLING STATION NETWORK IN 2005**

Item	RUB mln
Total sales revenue of the network, including:	19,324.214
oil products	19,112.819
gas products	211.395

▼ **SALES OF OIL AND GAS PRODUCTS BY THE GAS FILLING STATION NETWORK IN 2005**

Product	thousand tonnes
Total sales of the network, including:	1 076,109
oil products	1 060,635
gas products	15,474

Chuvash Republic, the Republic of Udmurtia, the Republic of Marij El, the Ulyanovsk, Samara, Chelyabinsk and Sverdlovsk regions, and 3 regions in Ukraine – the Poltava and Kharkov regions and the Autonomous Republic of Crimea.

With a view to increasing the sales of oil and gas products, the Company, pursuant to a resolution of the Board of Directors of OAO Tatneft, has adopted a strategy for the development of the retail sales network up to 2010. This strategy provides for:

- expanding the network of filling station by entering into new target regions and by increasing the number of filling stations in the existing regions of presence
- implementing the new brand concept.

DEVELOPMENT OF PETROCHEMICAL FACILITIES

Tire manufacturing.

Operating indicators and markets

The petrochemical assets of OAO Tatneft consist of seven entities:

- OOO Tatneft-Neftekhim
- OAO Nizhnekamskshina
- OOO Tatneft-Neftekhimsnab
- OOO Kama Trading House
- OAO Nizhnekamsktekhuglerod
- OAO Nizhnekamsk Mechanical Plant
- ZAO Yarpolimer mash-Tatneft

The management of the petrochemical assets is carried out by the management company OOO Tatneftneftekhim.

Commodity output by the petrochemical facilities in 2005 was RUB16.5 billion, representing an increase of 19.7% from 2004. Sales revenue grew 19.8% in 2005 to RUB16.7 billion. Gross profit amounted to RUB1.5 billion. The average number of employees was 14 thousand.

OAO Nizhnekamskshina

Tire production volume in physical terms in 2005 was 11.4 million tires, or 101.3% of the 2004 level. Commodity output in 2005 grew by 20.5% as compared to 2004. Gross profit at year-end amounted to RUB1.1 billion, or 106.2% of the 2004 level. Average number of employees declined by 1,524 compared with 2004.

OOO Tatneft-Neftekhimsnab

In 2005 OOO Tatneft-Neftekhimsnab delivered to Tatneft's petrochemical facilities raw materials, supplies and equipment worth approximately RUB11.1 billion, representing an increase of 43.7% from 2004. The average number of employees declined by 28.2% compared to 2004.

OOO Trading House Kama

In the year under review, Trading House Kama shipped about 11.4 million tires (including original completion tires), representing 102.1% of the 2004 level. Gross profit was RUB125.5 million, or 101.6% of the 2004 level. The average number of employees declined by 43.6% compared to 2004.

To provide a more efficient operation of its distribution network, OOO Trading House Kama:

- increased its shareholding in all of its subsidiaries and dependent companies to 50% or more
- established fully-owned enterprises in strategic regions (St. Petersburg, Nizhny Novgorod, Kazan)
- opened new offices in Ufa, Yaroslavl and Ukraine.

A budgeting system designed to increase the efficiency of subsidiaries management was introduced.

OA O Nizhnekamsktekhnuglerod

Output of technical carbon in 2005 was 100.1 thousand tonnes, which is 4.6% more than in 2004.

Commodity output in 2005 amounted to RUB.2 billion, or 110.7% of the 2004 level.

Sales revenue in 2005 grew by 12.1% to RUB1.2 billion. Gross profit was RUB55.1 million. The average number of employees declined by 7.5% compared to 2004.

OA O Nizhnekamsk Mechanical Plant

Commodity output by Nizhnekamsk Mechanical Plant in 2005 was RUB152 million, or 138.8% of the 2004 level.

Sales revenue exceeded the 2004 level by 44.6%.

ZAO Yarpolymermash-Tatneft

Commodity output in 2005 totaled RUB383.6 million, or 113% of the 2004 level. Sales revenue in 2005 grew by 13.6% to RUB394.9 million. Gross profit amounted to RUB34.7 million. The average number of employees in 2005 was 928, or 6.2% lower than in 2004.

With a view to improving the management of its petrochemical assets, the Company took certain steps in 2005, which permitted it:

- to enhance the manageability of petrochemical facilities
- to provide transparent cash flows
- to increase production per employee in the service units
- to reduce costs per ruble of sales by service units.

▼ INTRODUCTION OF NEW TIRE MODELS IN 2005

Size	Model	Description	IDC Report		Manufacturing plant
			Plan-scheduled	implemented	
480/70R20	KAMA-429	UralAZ	March 2006	-	Truck Tire Plant
185/70R14	KAMA EURO-236	RENAULT X90 (Avtoframos), VAZ-2170 and modifications, VAZ-2173 and modifications	January 2006	December 2005	Passenger Car Radial Tire Plant
185/65R15	KAMA EURO-236	Renault X90 (Avtoframos)	February 2006	-	Passenger Car Radial Tire Plant
10.00R20	KAMA-701	KAMAZ	February 2006	-	Truck Tire Plant
12.00R20	KAMA-701	KAMAZ	February 2006	-	Truck Tire Plant
12.00R20	KAMA-310	KAMAZ, MAZ	February 2006	-	Truck Tire Plant
11.00R20	KAMA-128	Ikarus buses	February 2006	-	Truck Tire Plant

The economic security services and a number of functions, such as the management of capital construction, petrochemical assets and corporate relations, were centralized in the management company. Respective services within the petrochemical enterprises were reorganized.

Key products launched in 2005

An acceptance certificate for full-scale production of new tire modification, 185/70R14 KAMA EURO-236, was signed in 2005.

Manufacturing of winter tires 185/65R14 KAMA-518, 19S/65R1S KAMA 518, 205/60R15 KAMA-518 launched ahead of the schedule was adapted to the passenger car radial tire production processes, acceptance certificates for their full-scale production were issued.

SERVICES

The Company carried out systematic work on the restructuring and development of its services in 2005 in order to optimize its operating and business operations pursuant to resolutions of the Board of Directors of OAO Tatneft.

Spun-off non-core operations include:

- general-purpose transportation services (3,223 employees)
- general construction works (1,700 employees)
- power equipment maintenance at oil production facilities (850 employees)
- maintenance of sucker rod pumping units and mechanical services (1,163 employees)
- protection of oil production equipment against corrosion (263 employees)
- laboratory and field research services (198 employees)
- external activities (development of fields outside the Republic of Tatarstan – 32 employees)
- preventive treatment and health recovery services provided to employees of OAO Tatneft (197 employees).

The restructuring activities in 2005 in the aggregate involved more than 7,500 jobs.

With a view to improving the management structure and development of outsourcing, OAO Tatneft is creating management companies responsible for spun-off non-core activities. Two management companies, OOO Tatneft-Mekhservis and OOO TNG-Group, were formed in 2005.

The performance of small and medium-sized service businesses in 2005 indicates that the selected direction in restructuring is yielding certain positive results. Thus, the construction and transportation companies provided services worth approximately RUB2.0 billion. In addition, the construction and transportation business became more transparent.

Structure of OOO Tatneft-Bureniye

Tatneft Bureniye organized as a limited liability company is a member of Tatneft Holding Company and a management company coordinating the operation of the drilling units.

The objective of its activities is to provide efficient management of drilling assets aimed at optimizing their costs, generating profit and expanding the market for their products and services. The management company's activities in 2005 were in general carried out in accordance with the investment program.

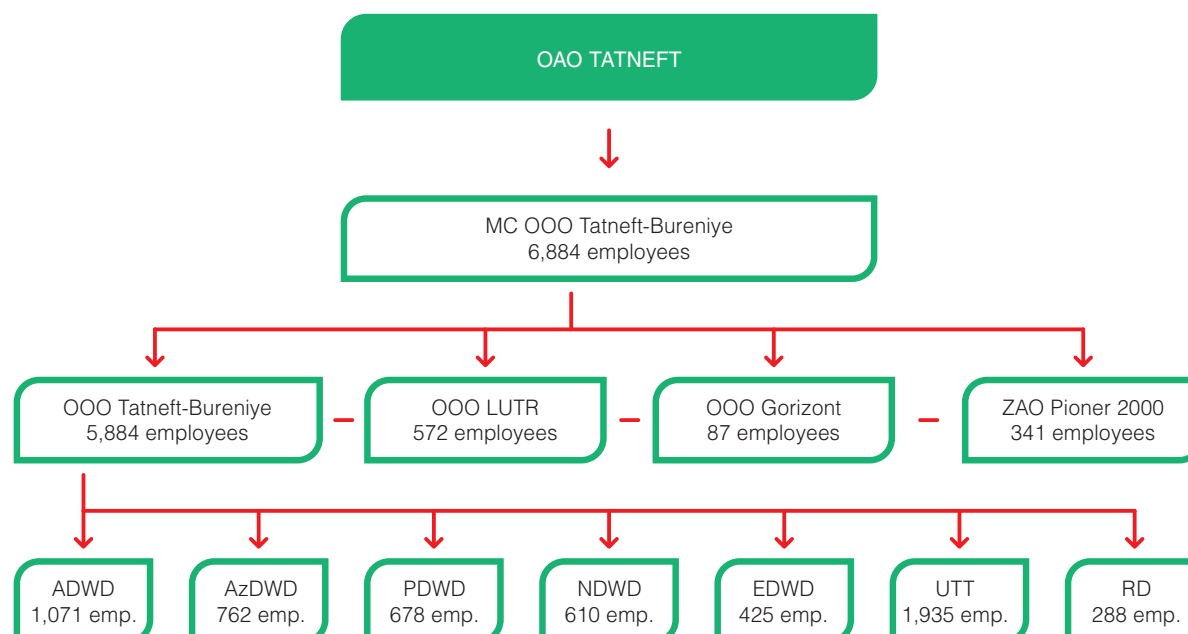
The key function of Tatneft-Bureniye is the construction of all types of wells and geological prospecting facilities.

The activities of Tatneft-Bureniye in 2005 were focused on achieving a key long-term strategic objective of the Company – stabilizing and increasing crude oil production both within and outside the Republic of Tatarstan.

In 2005 the company drilled 780.5 thousand meters (including exploratory drilling) in Tatarstan, representing 101% of the annual target, with 7.7 thousand meters drilled in excess of the plan. The drilling meterage increased by 10.7 thousand meters in 2005, or by 1.4%, compared to 2004. 549 wells were completed and delivered to customers (103.8% of the target), with 20 wells constructed and delivered to oil producers in excess of the plan.

508.4 thousand meters (including exploratory drilling) were drilled (101% of the target) and 354 wells (104.4% of the target) were commissioned for OAO Tatneft, with another 36.2 thousand meters drilled and 22 wells delivered under agreements on joint activities, and 235.9 thousand meters drilled and 173 wells delivered to JVs and IOCs. In addition, the company performed well workovers by sidetracking and horizontal sidetracking

▼ ORGANIZATIONAL STRUCTURE OF TATNEFT'S DRILLING OPERATIONS



methods through the efforts of 9 crews. Drillers delivered 69 newly worked over wells, including 65 wells for OAO Tatneft.

Well construction works were performed for 11 NGDUs of OAO Tatneft and 22 joint ventures and independent oil companies (JVs and IOCs).

Drilling operations were carried out by 53 crews, including 2 crews involved in underbalanced drilling. Drilling meterage per crew was 14,764 meters.

More than 30% of wells were drilled using special technological approaches designed to increase the average flow rate: lateral drilling in old wells, underbalanced drilling, horizontal drilling to Devonian, horizontal sidetracking. Competitive prices and the quality of its work permitted the Company to noticeably increase the scope of operations outside the Republic of Tatarstan.

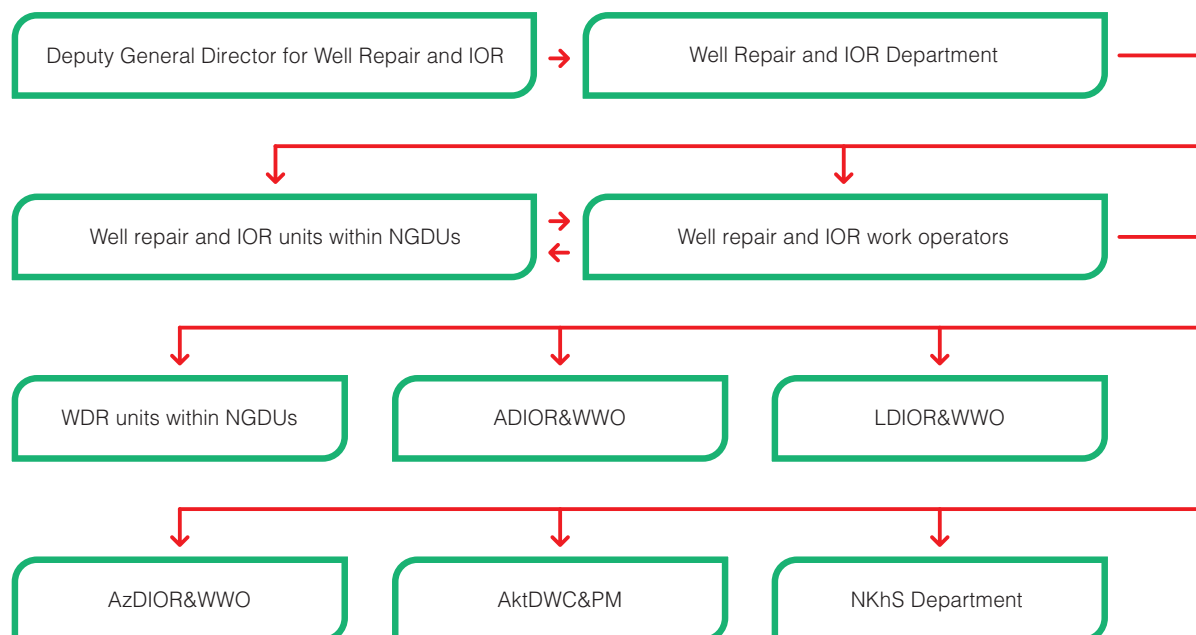
23 thousand meters of rocks were drilled and 12 wells were delivered to customers at fields located in the Samara, Orenburg and Ulyanovsk regions, generating a total revenue of RUB124 million.

The financial results for the year under review are in line with the set targets. Sales generated RUB166.873 million of gross profit.

Structure of the Well Repair and Improved Oil Recovery Department

In order to improve the operating efficiency of existing capacities and optimize costs, the Company has established a special structural unit, the Well Repair and Improved Oil Recovery Department headed by a Deputy General Director. The Almet'yevsk, Leninogorsk, and Aznakaevo Improved Oil Recovery and Well Repair Departments, the Aktyubinsk Department for Wireline/Container and Packer Methods, and

▼ ORGANIZATIONAL STRUCTURE OF WELL REPAIR AND IMPROVED OIL RECOVERY SERVICE OF OAO TATNEFT



▼ KEY INDICATORS OF WELL SERVICE EFFICIENCY IN OAO TATNEFT IN 2004 AND 2005

Indicator	2004	2005
Number of repairs	12,308	12,298
Number of crews	175.60	179.60
Number of shifts	495.52	523.54
Shift work ratio	1.73	1.81
Average well downtime per day	1,10	0,80
General TBO of oil wells, days, including	749	741
- for ESP wells	864	927
- for SRP wells	730	710

Neftekhimservis were included into OAO Tatneft as economically independent structural units.

The ongoing restructuring in recent years yielded the following results:

- optimization of well repair capacity during 2000-2005: the number of crews was reduced from 468 to 277
- time between overhauls of wells increased to 742 days
- annual undeproduction of oil due to DWR decreased by 40%, underproduction due to WWO declined by 41%
- flow rate after WWO increased from 0.6 tonnes per day in 2001 to 2.4 tonnes per day in 2005.

This permitted the Company to engage in forward-looking activities using the existing downhole well repair & well workover capacity, such as well survey for reservoir properties maintenance and improved oil recovery purposes. Thus, the number of hydrofracturing operations (HFOs) increased by 76%. Incremental production from wells after HFOs increased 6.4 times year on year. The number of wells repaired using coiled tubing systems increased 2.7 times.

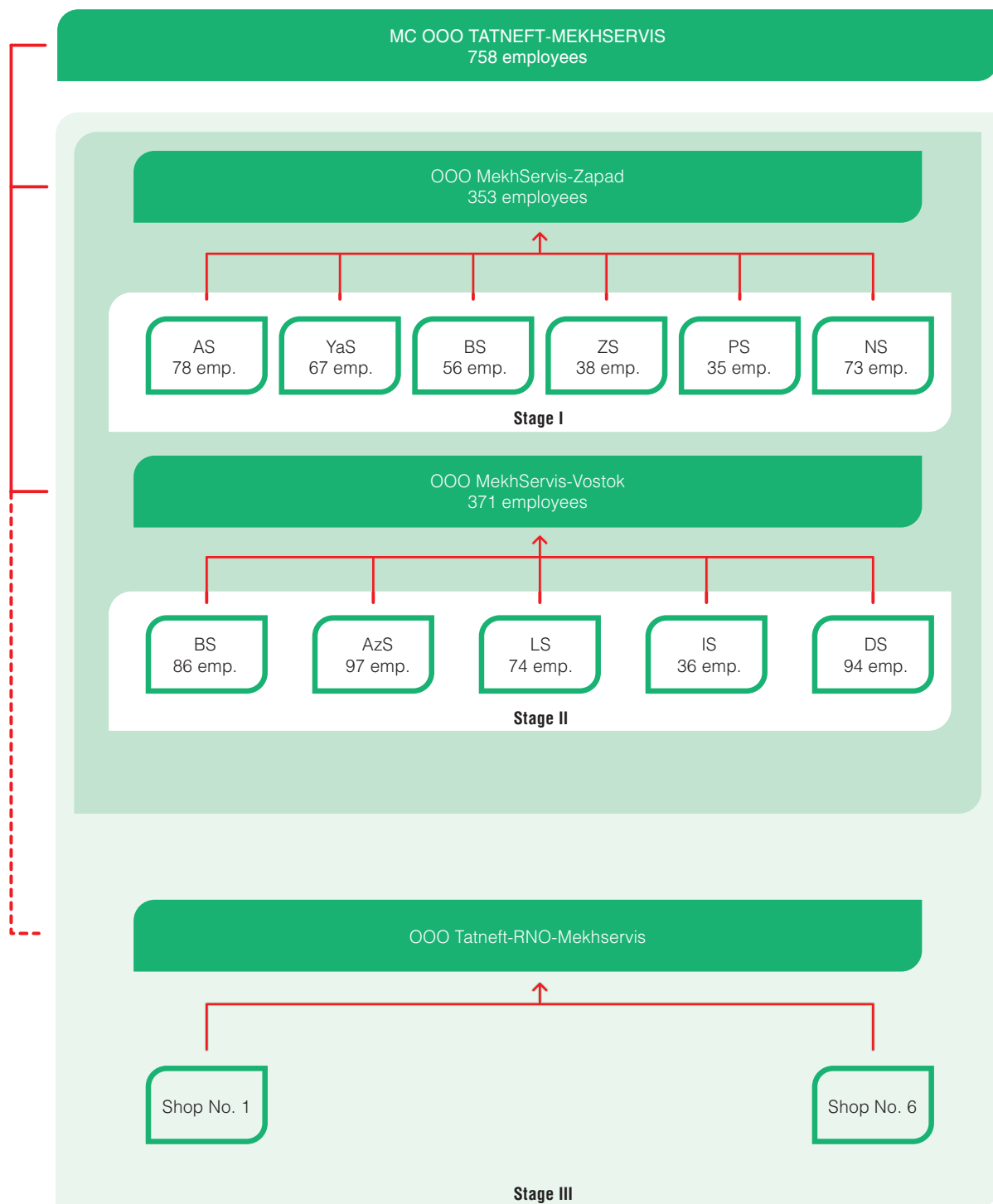
Centralization of IOR activities and production of chemicals (demulsifiers, corrosion inhibitors and RPM agents) in Neftekhimservis contributed to the growth of the output of chemical products to 23 thousand tonnes and expansion of the product range.

Neftekhimservis employs all chemical IOR methods adopted by OAO Tatneft and produces more than 20 thousand tonnes of chemicals per year for own needs of OAO Tatneft and for other oil companies operating in Tatarstan and Russia.

Structure of OOO Tatneft-MekhServis

Under the restructuring and operations optimization program of OAO Tatneft, a new management company, OOO Tatneft-MekhServis, was established in the fourth quarter of 2005. The new company consolidated the production equipment hire-and-repair (PEH&R) shops of all 11 NGDUs of OAO Tatneft. Two subsidiaries, MekhServis-Zapad and Mekhservis-Vostok, organized along geographic lines, were formed. MekhServis-Zapad

▼ STAGES OF MC 000 TATNEFT-MEKHSERVIS RESTRUCTURING



included 6 shops – Almet'yevsky, Yelkhovsky, Zainsky, Nurlatsky, Prikamsky and Yamashsky. MekhServis Vostok included 5 shops – Aznakaevsky, Bavlinsky, Irkensky, Dzhaliilsky, and Leninogorsky.

The MC Tatneft-Mekhservis formation process of 2005 consisted of two stages:

Stage I: Transfer of the NGDU hire-and-repair shops personnel engaged in servicing of oilfield equipment (sucker rod pumping units and chain drives)

Stage II: Establishment of 2 subsidiaries, OOO MekhServis-Zapad and OOO MekhServis-Vostok, transfer of NGDU hire-and-repair shops personnel engaged in pumping equipment servicing, and a part of the machinery and repair shops personnel.

Stage III (1Q'2006): establishment of a subsidiary, OOO Tatneft-RNO-Mekhservis, employing 364 people, on the basis of ACPSB OPER Shops 1 and 6.

The management company provides maintenance services for pumping units (15,400 units), chain drives, rotary and jockey pumps (2,200 units) and manufacture of machinery and repair shop products.

In 2005 the company completed works worth RUB 72.7 million (101% of the target), of which RUB 70.5 million represented the value of services related to maintenance of pumping units.

Main guidelines and regulations on the relationships between the structural units and subsidiaries of OAO Tatneft and MC OOO Tatneft-MekhServis were approved. In forming the management company, the emphasis was put on the social factors: the employees transferred from PEH&R shops retained their jobs; the average salary levels and all social guarantees to the employees remained unchanged.

Structure of TNG-Group

The objective of TNG-Group Management Company is to provide efficient management of the group of enterprises engaged in geophysical works and field research

The performance of small and medium-sized service businesses in 2005 indicates that the selected direction in restructuring is yielding positive results. Thus, the construction and transportation businesses provided services worth approximately RUB2.0 billion

of wells. The company was formed in 2005 through reorganization of OAO Tatneftegeofizika into 10 legal entities along geographic lines on the basis of branch network both inside and outside the Republic of Tatarstan.

TNG-Group continued production activities after assuming all obligations under agreements with the customers and service users. Field research laboratories (FRLs) and 183 employees were transferred from NGDUs to production companies in Almet'yevsk, Leninogorsk and Nurlat.

Procurement management structure

Over the 12 months of 2005, structural units of OAO Tatneft were supplied ENICE worth RUB1,900 million (98.5% of allotments) and RON materials worth RUB2,984 million (95.3%), with 100% of the requisitions filled in terms of the product range. OOO Tatneft-Bureniye was provided with the materials in full.

Procurement on a consignment basis

Establishment of a consignment-based procurement system created a transparent and efficient mechanism for the provision of structural units and subsidiaries with spare parts, consumables and components. Sales of materials via consignment warehouses in 2005 amounted to RUB1,300 million, net of VAT (RUB577 million in 2004). The value of commodity stocks and supplies in storage at Tatneftsnab

▼ STRUCTURE OF TNG-GROUP



▼ DEVELOPMENT OF THE NETWORK OF CONSIGNMENT WAREHOUSES

Item	2003	2004	2005
Number of consignment warehouses	20	39	52
Sales on a consignment basis (transit + storage), RUB millions	195	577	1,300
Value of the consignee's property – the minimum merchandise mix at warehouses of OAO Tatneft, RUB millions	53	158	162

Department at 31.12.2005 was RUB162 million. This permitted the Company to avoid the diversion of working capital for creating and storing own stocks of equivalent value.

The merchandise mix held on consignment currently includes 120 thousand products. The availability and current status of this mix are provided by a system for continuous monitoring of consignment warehouses operation.

Sales of products via Technical Trading House

Sales revenue of Tatneft's Technical Trading House (TTH) in 2005 amounted to RUB701.4 million vs. RUB531.0 million in 2004 (1.3-fold growth).

The TTH sold 268 km of pipes for various applications worth RUB146.2 million, representing a 1.13-fold growth year on year. Pipes were supplied to OAO OC Rosneft-Purneftegaz, OOO Lukoil-Perm, OAO OC Rosneft-Stavropolneftegaz, OAO TNK, OAO Samaraneftegaz, ZAO Nefteconsortium and others.

Cable and wire products worth RUB336.5 million (RUB243.3 million last year, a 1.4-fold growth) were sold to OAO TNK-BP, OOO TD-Lukoil, OOO Usinsk-Alnas-Servis and other customers (a 1.4-fold growth).

Petrochemicals worth RUB73.5 million were sold to Ondo Nalko, NIlneftpromkhim, OOO Gektor and other customers. Sales of petrochemicals grew 2.3-fold year on year. Six chain drives worth RUB4.0 million were delivered to Kazakhstan.

Paving bitumen sales in 2005 were 27.1 thousand tonnes or RUB89.0 million, representing a 1.1 times growth over the previous year.

The total value of commodity stocks and supplies delivered under the centralized scheme was RUB6,049 million.

▼ IMPLEMENTATION OF PROGRAMS FOR PURCHASE OF EQUIPMENT NOT INCLUDED IN CONSTRUCTION ESTIMATES AND MATERIALS (in RUB millions)

Item	2005
ENICE (leasing, depreciation) for NGDUs	1,900
RON materials	2,984
Materials for OOO Tatneft-Bureniye	2,209

CORPORATE GOVERNANCE

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CORPORATE GOVERNANCE

COMPANY GOVERNING ENTITIES

Shareholders board

According to the charter of the company and OAO Tatneft corporate governing Code, the supreme governing entity of the company is the general shareholders board.

Once a year the board sets an annual general assembly not earlier than two months and not later than six months after the end of the fiscal year. Except the general assembly there can be convoked a special session of the shareholders.

Board of Directors. Committees

The general governing of the company is conducted by the Board of Directors. It can make decisions in venture's key activities except those, which had been referred by the present legislation to the competence of the general board of shareholders. The board of directors consists of 15 persons. The members of the board of directors are elected by the board of shareholders which also can discontinue its credentials. In aim of improving the corporate governing under the Board of Directors there are committees, which tasks are to assist the board in support of the loyalty of all parties:

- corporate governance committee
- audit committee
- human resources and compensation committee
- information disclosure committee

The General Director. The Management Board

The General Director and the Management Board are accountable to the Board of Directors and are responsible for the management of the Company's day-to-day activities. The General Director and the members of the Management Board act in conformity with the legislation in force and the Company's Charter. The Management Board consisting of 19 members is a collective executive body of the Company. The General Director is the Chairman of the Management Board. The General Director organizes current activities of the Company through his deputies, special structures and the Company's authorized representatives in management bodies of subsidiaries and dependent companies.

Management Executive Board

In order to provide efficient management of its vertically integrated business, the Company has established the Management Executive Board (under the General Director).

Furthermore, the following divisional business units were formed to provide management of the production sectors of OAO Tatneft:

- Management Company OOO Tatneft-Bureniye
- Management Company OOO Tatneft-Nefterservis and others.

The Oil and Refined Products Sales Department is responsible for the management of oil and gas products sales and for the development of refining and petrochemical facilities.

Operating management of the property portfolio is carried out by the Property Department, Lease Relations Department, and Tatneft-Aktiv.

The Finance Department is responsible for the corporate financial policy. The Company's investment activities are planned and coordinated by the Investments Department.

PRINCIPLES OF CORPORATE GOVERNANCE

In fulfilling its obligations to the shareholders, investors, employees, partners and the society as a whole, the Company strictly complies with the adopted legislation, rules of international law, requirements for listing on foreign stock exchanges, and puts forward initiatives for developing and introducing internal corporate governance standards in line with the best corporate practices and the principles stated in the Code of Corporate Governance approved by the Board of Directors.

The key principles of corporate governance of OAO Tatneft are:

Equal treatment of all shareholders

The members of the Board of Directors and the executive bodies undertake to manage the Company for the benefit of all of its shareholders.

Protection of shareholders' rights

The Company's executive officers assume the obligation to act in the interests of the shareholders and to ensure their rights provided for by the legislation, the Company's Charter and internal documents, including:

- the right to participate in management of the Company
- the right to receive accurate and complete information about the Company's activities on a regular and timely basis.

Mutual confidence and respect

The relationships between the shareholders, the directors and the executive management are built on mutual confidence and respect. In order to create and maintain

According to the Company's Charter and Code of Corporate Governance, the supreme management body of OAO Tatneft is the General Shareholders' Meeting

mutual confidence and respect, the shareholders, the directors, the executive bodies of the Company, and other stakeholders undertake to perform their duties in good faith.

Transparency of corporate decision-making

Recognizing their responsibility to the shareholders, the management bodies regard the adherence to the principles of corporate decision-making transparency as indispensable. The Company complies with the disclosure standards based on equal access, availability, reliability and completeness.

Personal liability of directors and executive bodies and their accountability to the Company and its shareholders

The members of the management bodies are accountable to the shareholders and are responsible for the performance of their duties under the legislation in force.

Adherence to the standards of business ethics

In compliance with the corporate standards of business ethics, the Company safeguards the interests of its shareholders and other stakeholders, including its employees, local communities, partners and consumers, on the basis of corporate social responsibility and commitment to the environmental policy.

Ongoing improvement of the standards of corporate conduct

The Company improves the standards of corporate conduct in order to enhance the efficiency of corporate resources management, maintain long-term economic growth, guarantee the protection of the investments of its shareholders and investors and the Company's assets as a whole, while strengthening the system of corporate controls and interaction between the controlling and the management bodies.

THE BOARD OF DIRECTORS
OF OAO TATNEFT ELECTED
BY THE GENERAL SHAREHOLDERS' MEETING
ON JUNE 30, 2005



Rustam Nurgalievich Minnikhanov

Prime Minister of the Republic of Tatarstan,
Chairman of the Board of Directors of OAO Tatneft,
Doctor of Economics



Shafagat Fakhrazovich Takhautdinov

General Director and Chairman of the Management Board
of OAO Tatneft,
Doctor of Economics



**Rishat Fazlutdinovich
Abubakirov**

Head of the Almetyevsk Municipal Region
Administration
Candidate of Economic Sciences

**Valery Pavlovich
Vasilyev**

Minister of land
and property affairs
of the Republic of Tatarstan

**Maria Leonidovna
Voskresenskaya**

Director of Brentcross Ltd.

**David William
Waygood**

Director of Waygood Limited



**Radik Raufovich
Gaizatullin**

Minister of Finance of the
Republic of Tatarstan

**Sushovan
Ghosh**

Managing Director of SGI
Enterprises Ltd

**Nail Gabdulbarievich
Ibragimov**

First Deputy General Director for
Production and
Chief Engineer of OAO Tatneft,
Doctor of Engineering

**Vladimir Pavlovich
Lavushchenko**

Deputy General Director for Economics of
OAO Tatneft, Doctor of Economics



**Nail Ulfatovich
Maganov**

First Deputy General Director
and Head of Oil and Refined Products
Sales Department of OAO Tatneft

**Renat Khaliullovich
Muslimov**

State Counsel to the President
of the Republic of Tatarstan,
Doctor of Geology and Mineralogy,
Professor

**Valery Yurievich
Sorokin**

General Director of
OAO Svyazinvestneftekhim

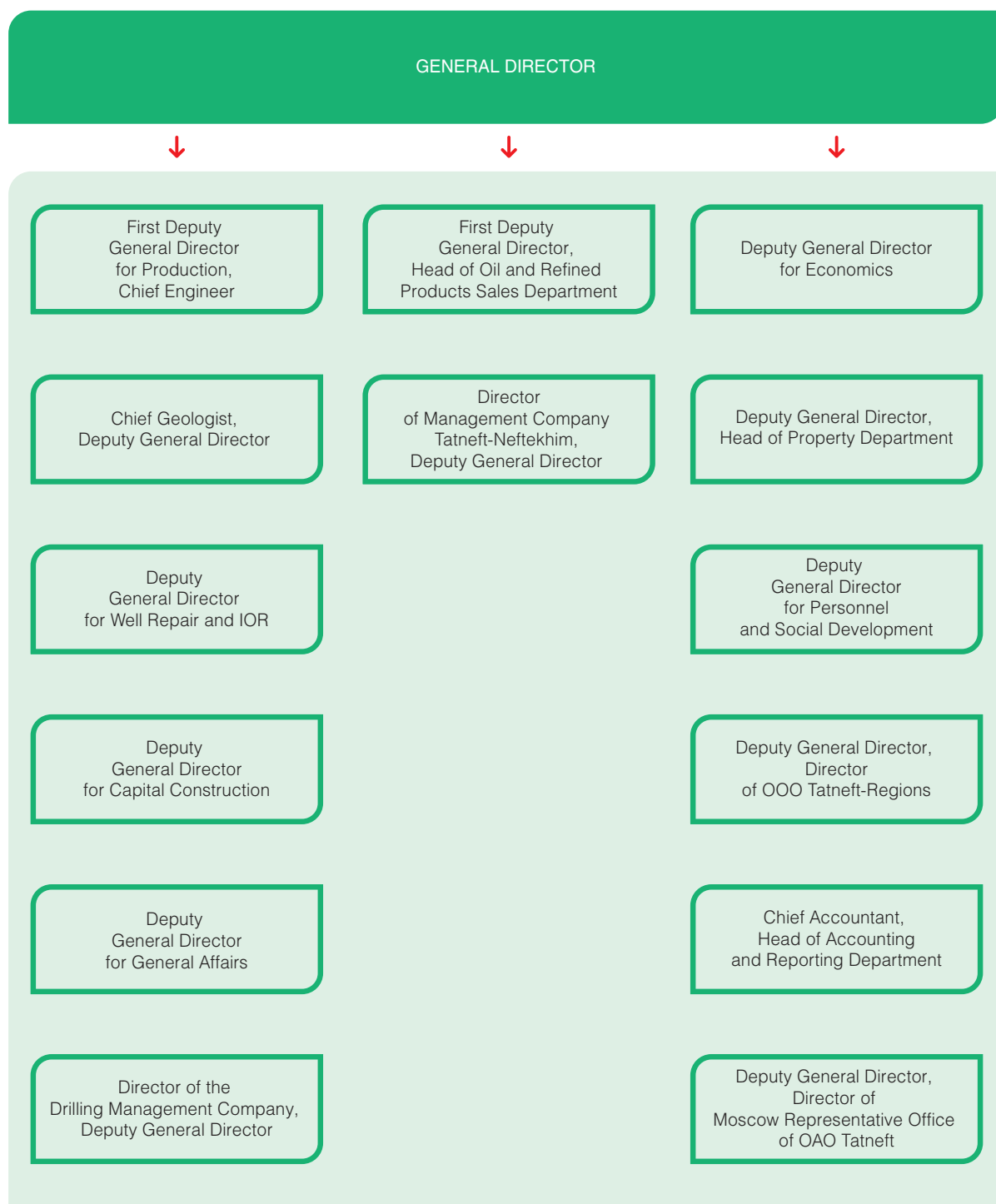
**Mirgaziyan Zakievich
Taziev**

Head of NGDU Almetyevneft
Candidate of mineralogical science

**Rais Salihovich
Hisamov**

Deputy General Director,
OAO Tatneft head geologist
Doctor of Geology and Mineralogy

▼ COMPANY MANAGEMENT STRUCTURE



CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee is responsible for developing and improving the Company's corporate governance system – regulating the relationships between the shareholders, the Board of Directors and the management, as well as for the interaction with the Company's subsidiaries and other stakeholders, and for establishing corporate standards.

Since its organization in April 2004 the Committee has held 8 meetings. The key directions of the Committee's activities are:

- establishing and enforcing the procedure for approving amendments and additions to the Charter and other internal documents of the Company
- preparing and submitting annual and quarterly reports on corporate governance and monthly bulletins to the shareholders and stock exchanges in a timely manner (in compliance with the legislation)
- assisting in the preparation of corporate reports on social, economic, environmental and innovation activities and in providing legal support for interested party transactions
- coordinating participation of the Company's management in the boards of directors of subsidiaries and dependent companies
- establishing corporate risk management and internal control mechanisms and uniform corporate governance standards.

▼ CORPORATE GOVERNANCE COMMITTEE

Position	Name
Chairman	Viktor Isakovich Gorodny
Members	Rais Salikhovich Khisamov Valery Yurievich Sorokin Valery Dmitrievich Ershov Rustam Minnegazievich Khisamov Ildar Asylgaraevich Rakhmatullin

SYSTEM OF CORPORATE GOVERNANCE OF THE GROUP COMPANIES (SUBSIDIARIES AND DEPENDENT COMPANIES)

Tatneft Holding Company consists of the parent company, OAO Tatneft, and its subsidiaries and dependent companies ("affiliates"). The parent company consists of structural units, which are directly managed by the Company's executive bodies.

Subsidiaries are defined as the companies in which the parent company owns a controlling stake (51% or more). The subsidiaries are managed through authorized representatives of the parent company in their management bodies (supervisors) or by including them in the structure of a specialized subsidiary management company.

Dependent companies are defined as the companies in which the parent company is able to exert influence. This ability arises together with the right to control a significant part of their capital (20% or more).

The mechanisms of corporate governance of the affiliates are:

- building a vertical affiliates management system by establishing the corporate governance system through management companies and the institute of supervisors
- introducing uniform corporate standards of OAO Tatneft in its affiliates
- appointing representatives in management bodies of the affiliates (boards of directors, internal audit commissions, sole executive bodies)
- appointing supervisors, ensuring unanimous voting on issues at hand by the representatives of OAO Tatneft in the boards of directors of the affiliates on the basis of recommendations given to the representatives on issues appearing on the agenda
- establishing control over the activities of the affiliates through representatives in their management bodies and through supervisors, conducting audits of their financial and business operations, electing the auditor, conducting balance sheet analyses, etc.

▼ TATNEFT GROUP MANAGEMENT CHART

BOARD OF DIRECTORS OF OAO TATNEFT			
GENERAL DIRECTOR OF OAO TATNEFT			
DEPUTY GENERAL DIRECTORS			
Business Centers			
Function	Head	Departments and services	
Operating activities	Oil production management	Nail Gabdulbarievich Ibragimov (First Deputy General Director, Chief Engineer)	Oil and Gas Production, Central Engineering-Technological Services, Oil and Gas Preparation, RPM, Engineering, Corrosion Control and Nature Conservation, In-Process Control Department, Industrial Safety and Labor Protection Department
	Geology management	Rais Salikhovich Khisamov (Chief Geologist, Deputy General Director)	Oil and Gas Field Geology Department, Oil and Gas Field Development Department, Department of Enhanced Oil Recovery Methods, Department for Development of Hydrocarbon Fields in New Regions
	Well repair and improved oil recovery management	Rifkat Mazitovich Rakhmanov (Deputy General Director for Well Repair and IOR)	Well Repair and Improved Oil Recovery Department
	Management of oil production services	Nail Gabdulbarievich Ibragimov (First Deputy General Director, Chief Engineer) Fyodor Lazarevich Schyelkov (Deputy General Director for General Affairs)	Plant Engineer's Office, Energy Department, Transport Department
	Information support management	Nail Gabdulbarievich Ibragimov (First Deputy General Director, Chief Engineer), Rustam Rasimovich Akhmetzyanov (Head of the IT Department)	Information Technology Department
	Drilling management	Mikhail Nikolaevich Studensky (Director of MC Tatneft-Bureniye, Deputy General Director)	Management Company OOO Tatneft-Bureniye
	Management of oil and petroleum products sales and refining	Nail Ulfatovich Maganov (First Deputy General Director, Head of Oil and Refined Products Sales Department)	Oil and Refined Products Sales Department

BOARD OF DIRECTORS OF OAO TATNEFT

GENERAL DIRECTOR OF OAO TATNEFT

DEPUTY GENERAL DIRECTORS

Production units

Equity interest in business units

Structural units	Subsidiaries (100%-51%)	Dependent companies (20-51%)
Operating activities	NGDUs (11 units) Engineering Center	MC 000 Tatneft-Regions ZAO Tatoilgas, ZAO Yambuloil, ZAO TATEX
	TGPD, TatNIPIneft	<div> <div> OAO Tatneftegeofizika MC 000 TNG-Group </div> </div>
	<div> <div>Almetyevsk DIOR&WWO Azanakaevsk DIOR&WWO Leninogorsk DIOR&WWO Neftekhimservis Aktyubinsk WC&PMD</div> </div>	
	<div> <div>ELI CPSB, Almetyevsk OPER CPSB, DPPFMRP, BMP Security Department</div> </div>	<div> <div>MC 000 Tatneft-Mekhservis, MC 000 Tatneft-Energoservis, OAO Tatneft – Central Base for Production Servicing and Repair of Drilling Equipment and Special Machinery, 000 Tatneftedor, 000 NPP Glass Reinforced Plastic Pipe Plant OAO TatNIlneftemash</div> </div>
	<div> <div>TatAISneft Department TatASUneft Department</div> </div>	<div> <div>OAO Modern Internet Technologies</div> </div>
		<div> <div>MC 000 Tatneft-Bureniye 000 Leninogorsk Backfilling Works Department ZAO Perekryvatel 000 Gorizont, ZAO Pioneer-2000</div> </div>
	<div> <div>Oil and Refined Products Sales Department, Tatneftegaspererabotka Department</div> </div>	<div> <div>000 Tatneft-Trans ZAO Tatneft-Oil AG OAO Nizhnekamsk Refinery 000 Saimen Sales companies</div> </div>

▼ TATNEFT GROUP MANAGEMENT CHART (continued)

Business Centers			
Function	Head	Departments and services	
Operating activities	Petrochemical production management	Nail Ulfatovich Maganov (First Deputy General Director, Head of Oil and Refined Products Sales Department), Zagit Foatovich Sharafiev (Director of Management Company OOO Tatneft-Neftekhim)	Management Company OOO Tatneft-Neftekhim
	Management of international projects and operations in Russian regions	Khamit Zagirovich Kaveev (Deputy General Director, Director of MC OOO Tatneft-Regions)	Management Company OOO Tatneft-Regions
	Capital construction management	Vladimir Nikolaevich Zinoviev (Deputy General Director for Capital Construction)	Capital Construction Department
Operating support	Procurement management	Feyodor Lazarevich Shchelkov (Deputy General Director for General Affairs)	Procurement Department
	Production economics and engineering management	Vladimir Pavlovich Lavushchenko (Deputy General Director for Economics)	Economic Department Labor Management and Payroll Office Investments Department
	Accounting management	Iskandar Gatimovich Garifullin (Chief Accountant, Head of the Accounting and Reporting Department)	Accounting and Reporting Department
	Financial management	Evgeny Aleksandrovich Tikhturov (Head of the Finance Department)	Finance Department
	Property management	Viktor Isakovich Gorodny (Deputy General Director for Property)	Property Department
	Legal support management	Valery Dmitrievich Ershov (Head of Legal Department)	Legal Department
	International reporting	Vladlen Aleksandrovich Voskoboinikov (Head of the Department)	Consolidated Financial Reporting Department
	Social development management	Rustam Nabiiullovich Mukhamadeev (Deputy General Director for Personnel and Social Development)	Personnel, Auxiliary Processes and Consumer Goods Office, & Economic Information and Best Practice Promotion

Production units		
Equity interest in business units		
Structural units	Subsidiaries (100%-51%)	Dependent companies (20-51%)
Operating activities	MC 000 Tatneft-Neftekhim	ZAO Polycell
	OA0 Nizhnekamsk Mechanical Plant	OA0 TKNK
	000 Tatneft-Nizhnekamsk	
	ZAO Yarpolymermash	
Operating support	MC 000 Tatneft-Regions	ZAO Kalmtatneft
	000 Tatneft-Abdulino	ZAO Abdulinskneftegas
	000 Tatneft-Severny	OA0 Kalmneftegas
	ZAO Tatneft-Samara	ZAO Severgasgeologiya
	OA0 Ilekneft	ZAO Severgasnefteprom
	Almetyevsk Repair and Construction Department	000 Neftestroyservis
	Tatneftesnab Technical Trading House	
	SRS	000 Innovational Production Technology Park Ideya-Yugo-Vostok, 000 Tatneft-Ak Bars
		ASK Chulpan National Non-Governmental Pension Fund
		Ak Bars Bank OA0 Zenit Bank
	Lease Relations Department	000 Tatneft-Aktiv Tatneft, Solid & Co. Partnership
		ZAO OLK Center-Capital
	Editorial offices of newspapers Petroleum News and Khazine	000 Tatneft-URS 000 Luch Television Company
		OA0 Sanatorium "Zelyonaya Roscha" 000 Tatneft-Zelyonaya Roscha Spiritual Revival Fund "Rukhiyat"

FINANCE AND INVESTMENT MANAGEMENT

Corporate finance management policy

The priorities in the corporate finance management policy are ensuring the Company's financial stability and efficient use of its financial resources.

OAo Tatneft, taking into consideration the oil market conditions, provided efficient debt management in 2005 (financing through short-term ruble borrowings). At the beginning of 2005, the Company obtained loans for funding the arising cash gaps. All ruble denominated loans were repaid ahead of schedule in February 2005. The loans denominated in foreign currencies were repaid according to the original schedule. Total loans were RUB16.0 billion at 01.01.2005 and RUB5.7 billion at 31.12.05.

The Russian Sberbank reconfirmed the Company's VIP customer status, which makes it eligible to receive banking services on preferential terms.

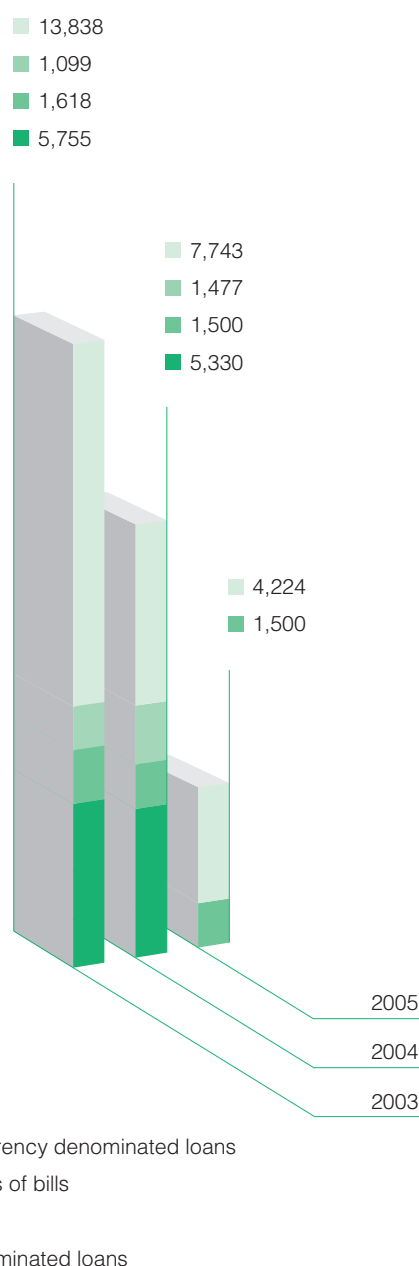
The Company systematically monitored payments of interest on the average daily balances on its accounts from banks.

Continuous monitoring of accounts receivable and stringent control over compliance with the orders, regulations and procedures helped to improve the Company's financial stability indicators:

- the required accounts receivable ratio is observed by all NGDUs
- overdue accounts receivable decreased by

2,5 times.

The Company attaches great importance to expanding its commodity and raw materials base and to diversifying its business, and actively invests in these activities. Expansion into new business segments and implemen-



- foreign currency denominated loans
- placements of bills
- bonds
- ruble denominated loans

▲ **CHANGES IN THE STRUCTURE
OF BORROWINGS OF OAO TATNEFT
IN 2003-2005 (RUB mln)**

tation of field exploration and development projects outside the Republic of Tatarstan require consideration of a wider spectrum of factors (risks) affecting the success of these activities at the design stage.

To improve the process of reviewing venture projects for evaluation of their investment attractiveness, the Company's financial and economic services (Investments Department, Economic Department, TatNIPIneft) have developed the related business process and Venture Fund Regulations.

With a view to increasing the efficiency of the Company's investments in its subsidiaries and dependent companies, the Standard of Corporate Relations between OAO Tatneft and its Subsidiaries and Dependent Companies was approved by Order of the General Director No. 163 of 01.07.05. This Standard establishes uniform corporate principles with regard to financial performance and operations of the affiliated companies:

- observing the required accounts payable ratio
- excluding the diversion of funds to overdue accounts receivable
- observing the required levels of circulating assets
- observing the limits approved in the financial and investment plans and investment programs of affiliated companies
- compulsory approval by OAO Tatneft of the borrowings and debt issues.

In 2006 the Company will engage in new types of foreign currency transactions to support Tatneft's operations outside the Russian Federation.

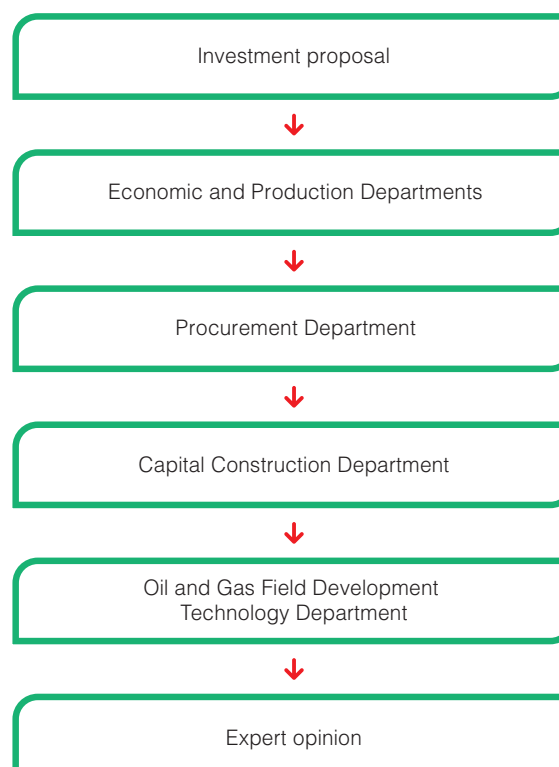
INVESTMENT POLICY

Investment management system

The investment activities of OAO Tatneft were carried out in 2005 in line with the investment policy defined in the Company's strategy for 2005 through 2010 and were aimed at achieving the following priority objectives:

- stabilizing and optimizing profitable oil production through the use of advanced field development technologies and wide application of state-of-the art enhanced oil recovery methods
- expanding reserves replacement outside the Republic of Tatarstan
- increasing the output of highly competitive finished products through further development of own oil and gas refining and petrochemical production

▼ LEVELS OF REVIEW OF PROPOSED INVESTMENTS IN OIL AND GAS PRODUCTION



- ensuring a high level of corporate social responsibility and social security of employees.

The Company's investment management is maintained according to the approved investment portfolio structure, with the Investments Department acting as the organizational and methodological center. Each project is subject to an individual engineering, geological and economic feasibility study and review by experts from the Company's management executive board, followed by issue of an expert opinion on the investment attractiveness (feasibility) and profitability of the project concerned. The approved projects are monitored at all investment and post-investment phases until the end of the payback period.

Analysis of investing activities by business area

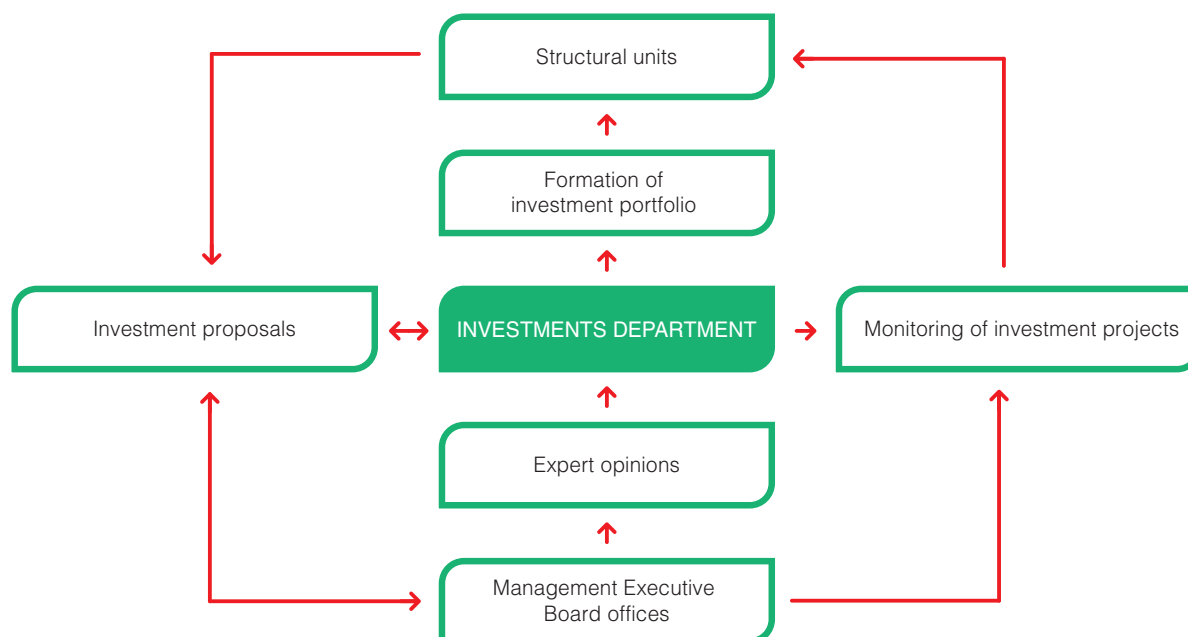
Investments of the Tatneft Group in 2005 totaled RUB18,701.2 million.

The top priority of the investment policy is investing in oil and gas production in the Republic of Tatarstan in the following areas: production and exploratory drilling, capital construction, equipment, geological-and-technical activities. 67% of the Company's total investments were directed to oil and gas production.

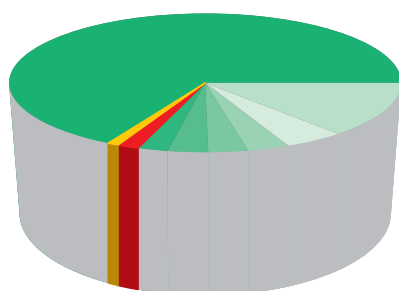
The bulk of investments in drilling and geological-and-technical activities was made in the application of advanced technologies, such as drilling of horizontal and multibranch wells, underbalanced drilling, radial drilling, hydraulic fracturing of formations.

The target for total incremental oil production in all operations envisaged by the investment program was achieved. Actual productivity of investments was 207.2 tonnes per million of rubles, which is 47.5% higher than the set target. The return per ruble of investment was 0.6 rubles. The investment payback period reduced to 1.6 years. The flow rate of new wells increased by 18%

▼ SCHEME OF FORMATION AND MONITORING OF THE PORTFOLIO OF INVESTMENTS IN OIL PRODUCTION



▼ KEY AREAS OF INVESTMENT ACTIVITIES IN 2005

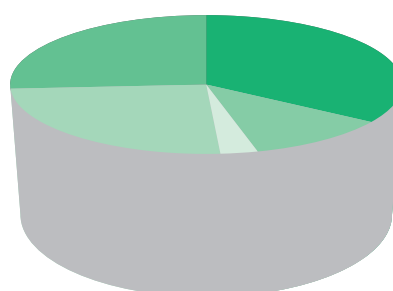


- 67% | oil and gas production in the Republic of Tatarstan
- 10% | oil and gas production outside the Republic of Tatarstan
- 5% | oil industry services
- 4% | development of petrochemical production and oil refining
- 4% | oil production by dependent oil producing companies
- 4% | long-term financial investments
- 3% | retail business development
- 2% | non-industrial activities
- 1% | construction of the petrochemical and refining complex

from the previous year (17.2% for sidetracking and horizontal sidetracking), the increase in oil output attributable to EOR and WWO was 4.0% and 15.7%, respectively. All this taken together permitted the Company to produce 25.3 million tonnes of crude oil, of which 11.3 million tonnes were produced using modern hydrodynamic and tertiary EOR methods.

A strategic direction in the investment activities is expanding the resource base and production outside the Republic of Tatarstan. To this end, OAO Tatneft has formed and acquired 9 subsoil user companies and coordinates their activities through its management company Tatneft-Regions (established in July 2005). In 2005, these companies utilized RUB1.8 billion of invest-

▼ STRUCTURE OF THE PORTFOLIO OF INVESTMENTS IN OIL PRODUCTION



- 31% | exploratory and production drilling of wells
- 26% | geological-and-technical activities
- 25% | capital construction
- 15% | ENICE
- 3% | acquisition of property and land

ments in geological prospecting and oil production. As a result, oil resources within the ABC1 category increased by more than 75 million tonnes.

With a view to provide deep processing of high sulfur content oil and production of top European quality petrochemicals, to adopt new technologies and to improve the ecological situation in the region, the Company has started the **implementation of the Refining and Petrochemical Complex Construction Project**. In 2005 the Company invested RUB240 million in the preparation of a feasibility study, due diligence, project documentation and in the preparatory building and assembly works.

▼ THE COMPANY'S INVESTMENT ACTIVITIES IN 2005 (in RUB millions)

Activities	2005
Investments in oil production in the Republic of Tatarstan	12,483.1
Drilling	3,880.1
Capital construction	3,091.7
Equipment not included in construction estimates	1,898.7
Geological-and-technical activities	3,250.0
Acquisition of property, land, etc.	362.6
Investments in oil production outside the Republic of Tatarstan	1,812.7
Investments in the construction of the Refining and Petrochemical Complex	240.0
Investments by petrochemical facilities	776.1
Investments in retail business development	654.1
Investments by dependent oil and gas producing companies	712.5
Investments by service and other entities	855.9
Investments in the development of social sphere	443.8
Long-term financial investments	723.0
Company total	18,701.2

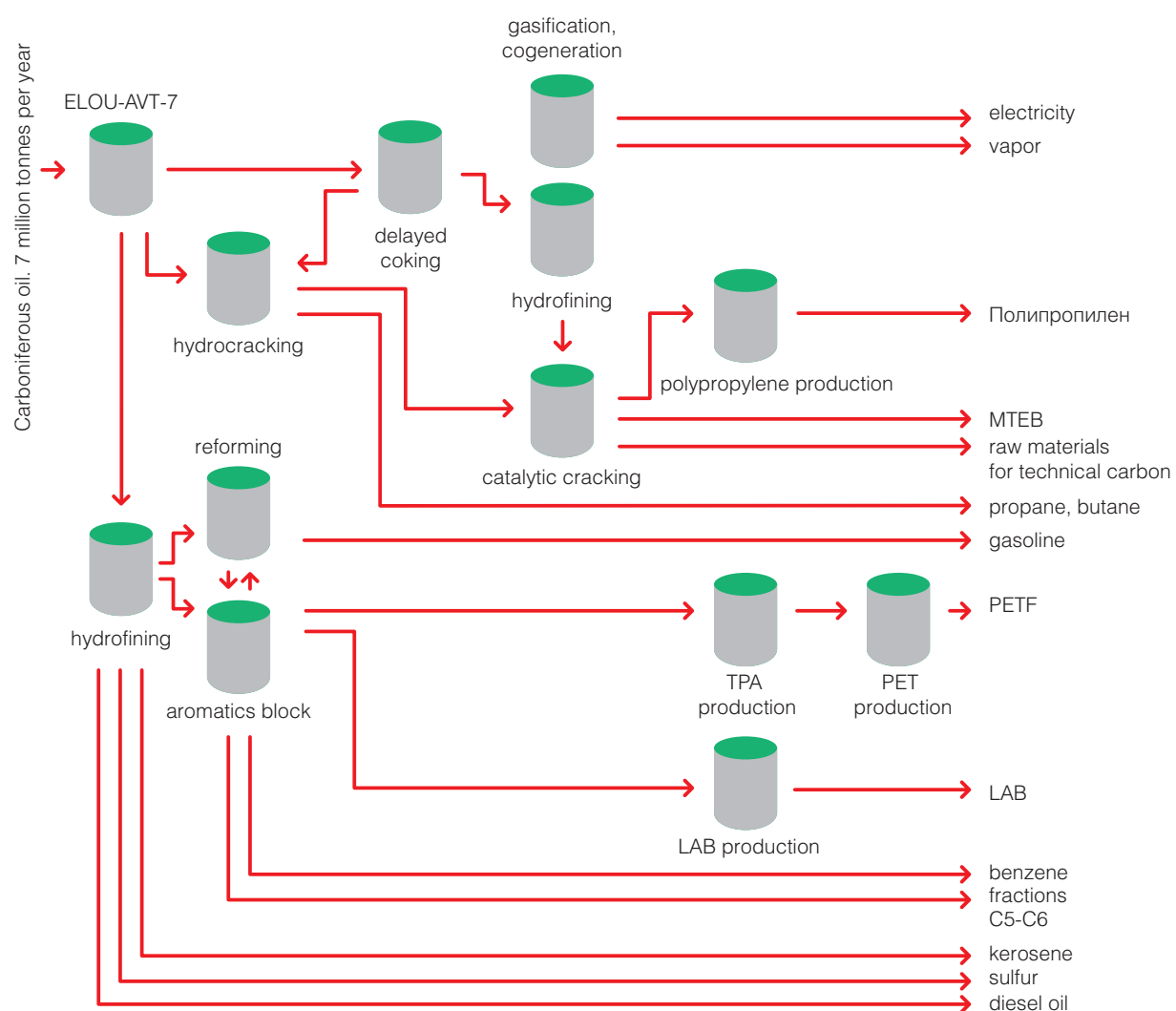
The Company's petrochemical sector, which contributes to its high competitive edge, continued to develop. Total investments in this sector in 2005 amounted to RUB776 million. From this amount, RUB483 million was allocated to financing the first phase of the project for the **reconstruction of preproduction facilities at OAO Nizhnekamskshina** with a total cost of RUB1,265 million.

As a result of the replacement and renovation of existing

manufacturing equipment at OAO Nizhnekamsk-shina, the output of automobile tires grew by 141.2 thousand units, with a total increase in the tire output of 1.3%.

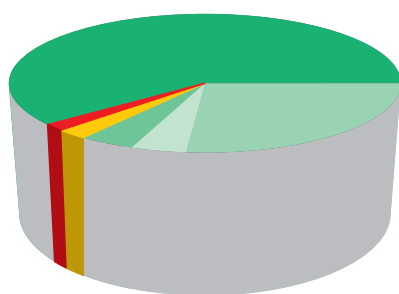
A new **power generating unit put into operation** at OAO Nizhnekamsktekhuglerod reduced electricity costs by RUB34.3 million. The implementation of the project for the expansion of existing flows permitted the plant to additionally produce 4.5 thousand tonnes of industrial carbon and increase its production volume by 4.6% over 2004.

▼ STAGES OF THE REFINING AND PETROCHEMICAL COMPLEX DESIGN, CONSTRUCTION AND COMMISSIONING



Refinery	Deep processing plant	Petrochemical plant	Main types of products
2005 – commencement of preparatory works 2006-2009	2006 – 2009	2006-2010 with the design capacity to be reached in 2011	

▼ **STRUCTURE OF INVESTMENTS BY
MAJOR PETROCHEMICAL PROJECTS**



- 62.2% | reconstruction of preproduction facilities (OAO NKSh)
- 26.5% | reconstruction, modernization, technical upgrading
- 4.6% | reconstruction of the metal cord cutting line SLO-5N KONSTRUKTA (OAO NKSh)
- 4.0% | expansion of existing flows (OAO NKTU)
- 2.1% | information telecommunication infrastructure (OAO NKSh)
- 0.6% | power generating unit (OAO NKTU)

To provide further development of its retail business in the oil products sales segment, the Company spent RUB654 million, including RUB267 million for the construction of 19 new and reconstruction of 33 existing filling stations and RUB262 million for purchasing assets of sales organizations.

Sales of fuel and lubricants totaled 1,085 thousand tonnes and generated before-tax profit of RUB633 million. The payback period for filling stations ranges from 4 to 7 years.

Between 2000 and 2005 the Company invested RUB7.6 billion in the development of sales infrastructure and received RUB2.2 billion in profit before taxes.

The total number of gas filling stations and complexes at 01.01.06 was

553

Investments in oil production by dependent oil producing companies (ZAO TATEX, ZAO Tatoilgas) amounted to RUB713 million and generated incremental oil output of 49.7 thousand tonnes.

Return per ruble of investment in the year was 0.6 rubles. The payback period is 1.7 years.

RUB856 million was allocated to the construction and purchase of equipment for service subsidiaries. In addition, adhering to the principle of high corporate social responsibility, the Company invested RUB44 million in the construction, renovation and acquisition of various equipment for the development of social sphere.

The sources of investment financing in 2005 included the Company's own funds consisting of depreciation charges and profits of RUB17.6 billion. In addition, investments in core activities were financed from attracted funds (leasing) amounting to RUB1.1 billion.

In the contest «Best Russian Enterprises–2005», Tatneft was ranked as the company with the highest financial performance

COST MANAGEMENT

Target-oriented programs designed to ensure the Company's financial and economic stability

Management improvement and production cost-saving program and its results

Ensuring yearly increases in oil production and cost optimization in the situation of depletion of fields, volatile market conditions and increasing tax burden represents one of the most significant tasks in the development strategy of OAO Tatneft for 2005-2007. To this end, the Company has developed and is implementing a complex of measures formulated in its management improvement and production cost-saving program.

The program consists of 11 parts covering various lines of activities. Among these, the top priority is assigned to oil production stabilization and introduction of new machinery and technology.

The program includes large-scale activities intended to provide energy saving, optimization of procurement and transport services, introduction of information technology, etc.

In general, the program is aimed at increasing the corporate governance efficiency. A special part of the program, Development of the System of Corporate Relations and Standards, formalizes the task of establishing corporate procedures and control mechanisms.

The timely implementation of the activities contemplated by the program enabled OAO Tatneft to close the year of 2005 with exceptionally successful financial, economic and operating results and to strengthen its position in the oil & gas sector.

Key economic results of the programs

Beginning from 2000, the Company has been implementing an integrated energy saving program designed to reduce its

energy costs. A significant saving of energy costs was achieved through adjustments, changes in shift work schedules, introduction of three-shift operation, and application of time-specific tariffs. The energy savings totaled 245 thousand tonnes of equivalent fuel in 2005 and 735 thousand tonnes from the start of the Program. The implementation of the activities contemplated by the energy saving program permitted the Company to reduce the expenditures on payment of approved electricity tariffs in 2005 by 14%.

As a result of a **complex of transport optimization measures** taken by the Company, the number of transport facilities in 2005 was reduced by 10%, consumption of fuel and lubricants decreased by 18%. The Company established regional transport lay-up centers, which increased the efficiency of its lay-up measures and created a strategic reserve, which is used in the implementation of investment projects.

The **procurement reorganization measures** released a significant amount of excessive warehousing space and reduced the inventory acquisition costs by 10%. A significant saving of working capital was achieved through the reduction of warehouse stocks and the development of a network of consignment warehouses. During 2005 alone, the balances of stocks subject to limits were reduced by 16%, and the sales of commodity stocks and supplies by consignment warehouses exceeded RUB1.3 billion, representing nearly 10% of total turnover.

In view of a significant rise in the prices of raw materials, supplies, metals and metal-intensive equipment and components, the Company continued the implementation of its **resources reuse program**. In the period under review, more than 400 km of idle pipelines were dismantled. The cost of a restored pipe on average amounts to 80% of a new one. Restored pipes were used to complete more than half of the volume of the conduit construction and major repair projects.

The Company continued the **efforts aimed at the optimization of its property portfolio** in 2005. Sales of excessive and inefficient fixed assets, construction in progress and other property generated approximately RUB1 billion, which is 30% more than in 2004. Lease revenue grew by a quarter to RUB2.2 billion.

Due to inflation, rising electricity tariffs and prices of metals and other materials, OAO Tatneft is forced to additionally spend about RUB1.7 billion per year on production supplies. This amount could have been more than twice as much, if the Company had not taken organizational, technical, financial and economic measures, which permitted it to offset 60% of the adverse impacts of inflation in 2005.

New economic mechanisms – Cost Savings Fund and Internal Repayable Source

In the course of conducting its business and development, the Company sets new tasks, which require additional sources of funds. To secure these funds, Tatneft has introduced two new economic mechanisms.

The resources of the **Cost Savings Fund (CSF)**, which accumulates all economic benefits from various cost optimization activities, are channeled to the priority areas of business. For example, during preparation of the budget for 2005, the Company identified a deficit of sources for payment of salaries and wages, well workover operations and major overhaul of pipelines, and the CSF funds were first of all directed towards these purposes. In this way, in addition to achieving the set cost reduction goal, the Company's divisions take organizational, technical and economic measures to create additional sources for financing operating activities.

Based on the results for 2005, the CSF formed by the Company amounted to

RUB1,2
billion

of which:

- RUB424 million was received from oil production in excess of the plan and from metal scrap sales
- RUB171 million was generated by incremental sales of products, works and services to third party organizations
- RUB591 million came from organizational and economic activities aimed at cost optimization and improvement of efficiency.

Internal Repayable Source (IRS)

Structural units are allocated target-oriented funds for implementation of additional investment projects, which are subject to repayment within three years. The divisions make repayments from the funds generated by the benefits received as a result of implementation of these projects, such as cost reduction, increased production volumes, improved quality and higher prices charged for products.

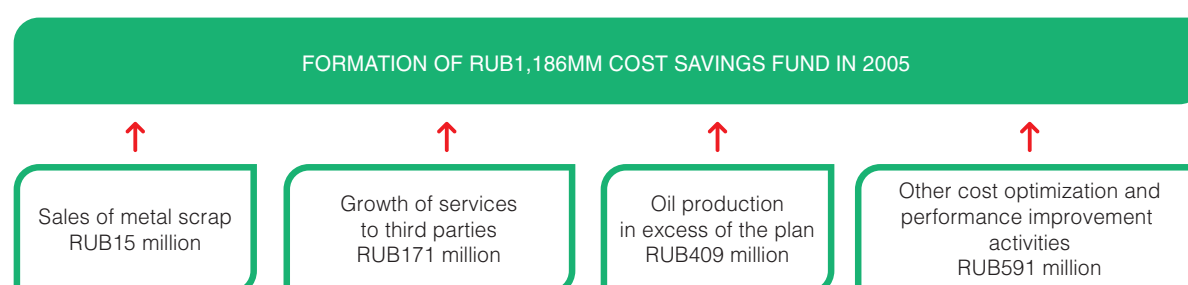
During 2005, 10 projects worth RUB176 million were financed using the IRS, with RUB28 million already repaid in the year under review.

System of norms and standards

The establishment and use of a normative base is a precondition for improving the efficiency of production cost management. Planning using norms and standards is one of the most accurate and flexible cost management tools currently employed by Tatneft.

OAO Tatneft has norms and standards covering all areas of its operations. The number of labor norms

▼ FORMATION OF THE COST SAVINGS FUND



alone used by the enterprises exceeds 9 thousand. The Company annually issues Order No. 1, which regulates the fulfillment of the set technical, economic and financial targets, norms and standards. This Order is the key tool for controlling the fulfillment of approved norms.

Based on the results of 2005, all established norms and standards were observed; many of the actual levels subject to limits even declined compared to the previous year.

Staying within the planned limits is a prerequisite for fulfilling a key measure of Order No. 1 – the maximum level of lifting costs per tonne of oil (for NGDUs) and the estimate of operating costs (for service units), as virtually each cost estimate item is calculated on the basis of the planned resources consumption rates, labor input, etc.

In addition to these production cost limits, the Company has a set of other norms and standards applicable, inter alia, to current assets, expenses paid from profits, accounts receivable, which help to maintain and enhance the financial and economic stability of the Company.

In order to achieve the set targets and better stimulate divisions to improve the operating and economic performance, the Company has a staff incentive system in place. The current and quarterly bonuses and annual

performance-based payments depend on the achievement of the targets set by Order No. 1.

An important role is assigned to stimulating compliance with the approved fuel and energy consumption rates. To this end, the Company has established a system of rewarding the Company's employees for the economic benefits generated by introduction of energy saving technologies and new high-performance equipment.

Cost management system

Cost management in OAO Tatneft is maintained at all stages, from process engineering to sales of products and services.

The process engineering stage involves development of a program for introduction of new technology and implementation of the energy saving program.

At the production planning stage, cost management is maintained through the development and approval of norms and standards for consumption of materials, power inputs, labor input, etc. Each year the any tightens the labor expenses, resulting in higher labor productivity. For example, in 2005 labor productivity increased by 11% compared to the previous year. Cost control and reduction methods in procurement include competitions and tenders among suppliers of material

▼ SYSTEM OF NORMS FOR PRODUCTION (LIFTING) COSTS

Resource	Norm	Division responsible for the preparation of norms	Divisions responsible for the application of norms
Electricity	Electricity consumption rate	Energy Department Chief Technologist's Office	NGDUs Energy Department Chief Technologist's Office
Boiler and furnace fuels	Boiler and furnace fuel consumption rate	Energy Department Chief Technologist's Office	NGDUs Energy Department Chief Technologist's Office
Auxiliary materials, including: материалы, - demulsifiers - corrosion inhibitors	Consumption rate per tonne of treated oil, g/tonne	Chief Technologist's Office	NGDUs Chief Technologist's Office
	Consumption rate per tonne of treated oil, g/tonne	Corrosion Control and Nature Conservation	Corrosion Control and Nature Conservation
Salaries and wages	Payroll-to-commercial output ratio, %	Labor and Payroll	NGDUs Labor and Payroll
Geological-and-technical activities	Limit established by the approved investment program with the specified rate of return and payback period	Investments Department Oil and Gas Field Development Department Well Repair and IOR Department EOR Methods Department	NGDUs Investments Department Oil and Gas Field Development Department Well Repair and IOR Department EOR Methods Department
Transport	General limit of operating costs per tonne of produced oil, RUB/tonne	Standards Research Station Pricing and Budgeting	Transport Department
Major repair of other fixed assets	General limit of operating costs per tonne of produced oil, RUB/tonne	Capital Construction Department	NGDUs Capital Construction Department
Amortization	General limit of operating costs per tonne of produced oil, RUB/tonne	Investments Department (amortization rate)	NGDUs Capital Construction Department (commissioning of other fixed assets) - Oil and Gas Field Development Department (commissioning of wells from drilling)
Lease payments	General limit of operating costs per tonne of produced oil, RUB/tonne	- Investments Department - Procurement Department	- Investments Department - Procurement Department

resources and services. The activities of the tender committee in 2005 helped to achieve up to 10% reductions in prices of goods.

At the production organization stage, cost management is maintained through supervisors' control, work administrator's service, work time study and photographs, etc. The introduction of a new work organization system in 2005 helped to achieve improvements in production and technological processes: the average daily flow rate of new wells commissioned from drilling increased by 18% compared to the previous year, the increase in the well flow rate after WWO rose by 20%. The shift work ratio for WWO crews grew by 3%.

The final stage, sale of products and services, involves control over pricing of the products intended for internal use and prices of the products, works and services supplied to third parties. In order to enhance control over the prices charged by structural units, subsidiaries and third parties, the Company issues a quarterly schedule of prices and tariffs for products, works and services. The schedule contains the agreed and approved prices for more than 6,700 items.

PROPERTY MANAGEMENT

Structure and principles of the Company property management

In line with the policy of efficient use of the property portfolio pursued by OAO Tatneft, and in order to improve property manageability and secure its timely registration and legal protection, the Company has established an integrated Corporate Property Management Center comprised of:

- Property Department
- Lease Relations Department and
- OOO Tatneft-Aktiv

Over the time of operation of the integrated Corporate Property Management Center, uniform policies in respect of lease relationships, depreciation and property management for the benefit of the Company as a whole have been worked out. The uniform system of lease relationships enables the Company to respond to changes in lease rates, taking into account the economic situation and the solvency of legal entities leasing its assets.

Results of activities of the Corporate Property Management Center in 2005:

- 552 real estate properties worth RUB3.4 billion were registered
- unused property items worth RUB600 million (RUB528 million in 2004) were sold
- RUB2,056 million (RUB1,918 million in 2004) was received in rental fees for leased property

The Tatneft brand and intangible assets

The Company regards the Tatneft brand as a strategic asset of the corporate property portfolio.

The trademark of Tatneft, which pursues the vertical integration and geographical expansion strategy, is used in various sectors of its business, including oil and gas production, retail business (sale of oil and gas prod-

ucts by gas filling stations), services, marketing of technology and know-how, research and others.

At present the Company is implementing a **uniform corporate style and brand building program** approved by the Board of Directors of OAO Tatneft.

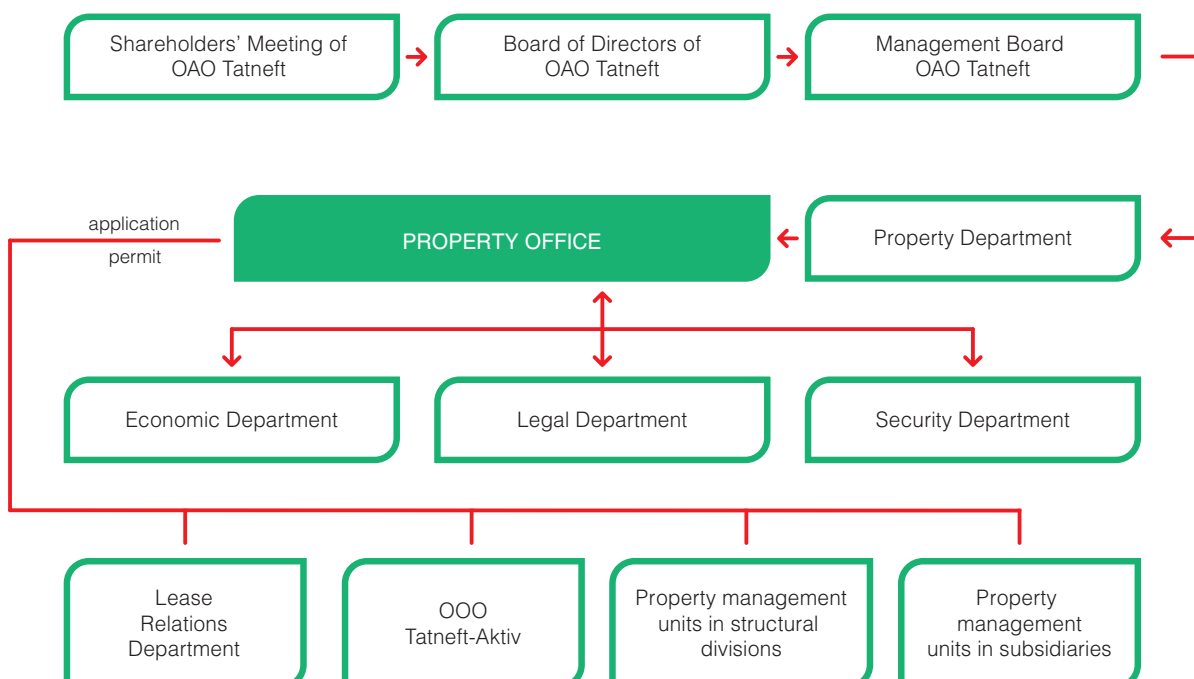
A new Tatneft logo, which will become the common symbol of the Tatneft Group as its corporate brand, has been approved and registered under this program. At the same time it is expected to obtain an appraisal of the market value of the Tatneft brand as a long-term intangible asset contributing to the Company's capitalization. At the first stage of the appraisal, the market value of the exclusive rights to the Tatneft trademark was determined. According to the appraisal results, the market value of the exclusive rights to the Tatneft trademark at January 1, 2006 was \$480 million.

The appraisal was conducted in compliance with the current Russian legislation applicable to the valuation activities, the standards promulgated by the International Valuation Standards Committee (IVSC) and the code of standards ROO-2005. This appraisal is regarded as basic and will be amended in the course of phased implementation of the scheduled activities designed to strengthen the Tatneft trademark as the Group's brand.

The studies conducted in the process of this work permitted to conclude that the brand has a high commercial potential, which will be taken into account in the development of the trademark utilization strategy.

Efficient management of intellectual property and ensuring its legal protection represent a special priority of the

▼ CORPORATE PROPERTY MANAGEMENT CENTER



Company's corporate policy. With a view to establishing uniform principles and organizing the development, accounting and rational use of intellectual property (IP), the Company has approved an **intangible assets and intellectual property management program**.

Under this program, a register of intangible assets has been generated and the procedures for their use and legal support have been developed.

Activities of the Lease Relations Department and OOO Tatneft-Aktiv

The Lease Relations Department, an in-house lease relationships center, was established in 2003 for the purposes of corporate property management within OAO Tatneft and consolidation of the Company's assets leased to third party organizations.

The consolidation of property on the balance sheets of the Lease Relations Department and OOO Tatneft-Aktiv enhanced control over leased assets and permitted the

As of
January 1, 2006,
the market value
of the exclusive rights
to the Tatneft trademark
was USD480 million

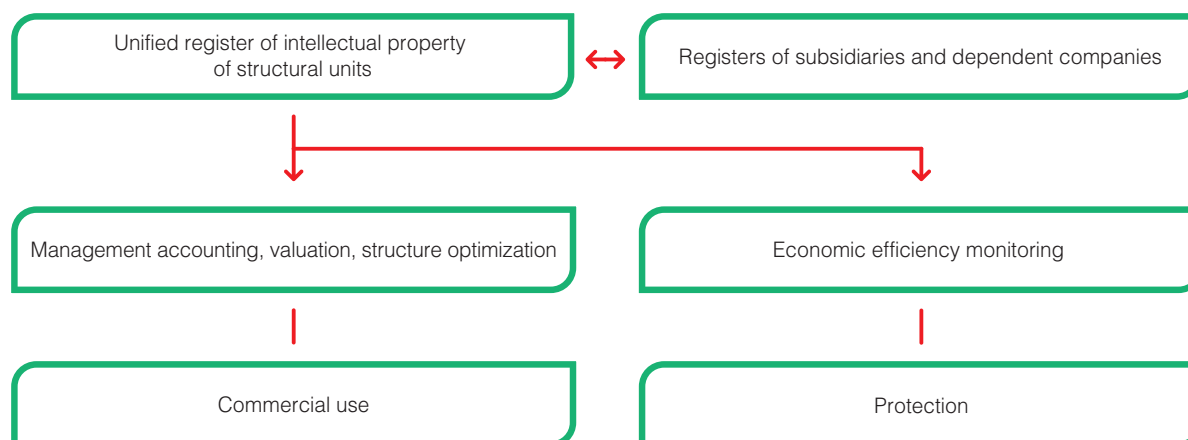
Company to initiate work on reducing accounts receivable, improving property utilization efficiency, creating a common information base on released and little used assets.

At present, 62,204 fixed asset items with a combined carrying value of RUB9.0 billion are consolidated on the balance sheet of the Lease Relations Department. These include:

- 7,796 fixed asset items with a carrying value of RUB0.3 billion (transferred in connection with the spin-off of non-core operations from NGDUs)
- 22,388 fixed asset items with a carrying value of RUB4.8 billion (transferred in connection with the reorganization of structural units).

OOO Tatneft-Aktiv, an external corporate property management center, was created in order to address the

▼ UNIFIED REGISTER. TATNEFT'S INTELLECTUAL PROPERTY MANAGEMENT CHART



problem of optimal utilization of the property held by the Company's subsidiaries. OOO Tatneft-Aktiv operates in 2 regions: the Republic of Tatarstan (11 districts) and the Samara region.

The formation of OOO Tatneft-Aktiv continued in 2005 through:

- affiliation of OOO Tatneft-RETO (May 2005)
- increasing the charter capital by contribution of fixed assets by the Lease Relations Department (November-December 2005)
- affiliation of transport assets, OOO Almet'yevskoye UTT-3 and OOO Bugul'minskoye UTT (December 2005).

In the year under review, the book value of the property held by OOO Tatneft-Aktiv substantially increased, to RUB2,379.9 million. Over the year the number of property items grew more than 1.5-fold compared to 2004 to 10,270 items.

HR MANAGEMENT

The Company's personnel structure

As at 31.12.2005, OAO Tatneft employed 44,350 persons. The average number of employees of OAO Tatneft in 2005 was 46,538.

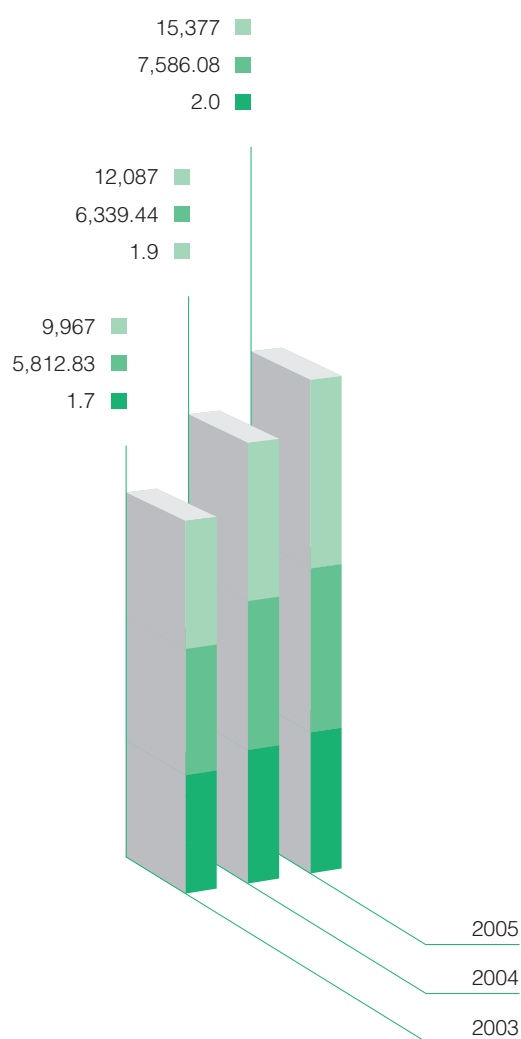
Personnel policy and income structure

The corporate wage policy is aimed at ensuring adequate living standards for the Company's employees and developing their professional and creative potential. Main income items of the Company's personnel are:

- salary/wages
- social package.

The wages-and-salary structure is comprised of two main components:

- a tariff-based (constant) component – the uniform tariff scale of OAO Tatneft (40%)
- a variable component (60%).



- average wages in OAO Tatneft, RUB
- minimum consumer budget (MCB), RUB
- wages-to-MCB ratio

▲ CHANGES IN THE SALARIES AND WAGES IN OAO TATNEFT AND IN THE MINIMUM CONSUMER BUDGET IN 2003-2005

The weight of the variable component increases from year to year. Between 2003 and 2005 it increased from 51% to 60% as a result of additional incentive payments introduced in order to improve production efficiency. This is reflected in the bonuses paid for:

- implementation of the energy-efficient economics program, aimed at creating and using energy saving technologies
- implementation of the complex oil production stabilization program
- introduction of advanced technologies and equipment.

Additional incentives in the long run permit the Company to improve its operating, financial and economic performance.

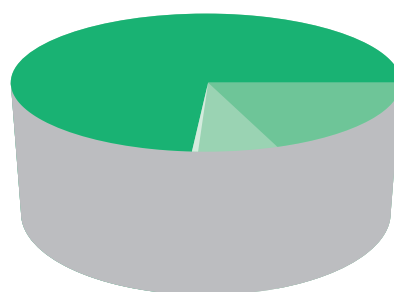
In addition to salaries and wages, employees receive a substantial social package. The weight of social payments in the total income of employees is about 11%.

Steady and profitable operations of OAO Tatneft permit the Company to raise salaries and wages of its staff on a regular basis. In 2005 salaries and wages were increased twice by 10%. The indicators used in making decisions concerning pay rises are:

- consumer price index (inflation rate)
- minimum wages in the country
- subsistence level
- minimum consumer budget
- salary level in other companies in the industry.

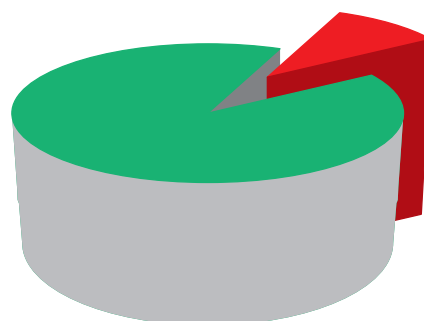
The average wages in OAO Tatneft in 2005 rose by 27% from the previous year to RUB15,377, reflecting the inflation rate in the country and increased minimum consumer budget in the region.

▼ THE COMPANY'S PERSONNEL STRUCTURE IN 2005



■ 31,878 (71.87%)	workers
■ 7,535 (17%)	specialists
■ 4,821 (10.87%)	managers
■ 116 (0.26%)	office employees

▼ STRUCTURE OF TOTAL INCOME OF THE COMPANY'S PERSONNEL IN 2005



■ 89.2%	share of salaries and wages
■ 10.8%	share of social payments

Staff training, professional development and retraining

A continuing professional education system, which includes training and professional development of the Company's workers, middle-level specialists and top management, has taken shape over the recent years and is currently in place in OAO Tatneft.

Today workers and specialists are prepared for Tatneft by 12 educational units, where its workers, engineers, technicians and specialists receive advanced training. Teaching staff from prestigious institutes of higher education in Russia and the Republic of Tatarstan are invited to take part in the teaching process. In the aggregate, the network of educational facilities and courses provides training in 213 professions, including 76 professions subject to supervision by Rostekhnadzor.

An important role in the staff training is assigned to the corporate Personnel Training Center, which has been operating as part of NGDU Yelkhovneft from 1999. The PTC acts as a coordinating center and renders instructional support to all educational units of Tatneft.

As of today, the PTC has a license for training in 157 professions and areas. 13,650 persons were trained in 2005, including 8,157 workers; pre-certification training was completed by 4,891 managers and specialists. The welders' certification unit certified 602 persons. New (primary) training in 54 professions was completed by 2,528 persons, retraining and professional development in 73 professions was received by 5,629 persons. Out of the mentioned 4,891 managers and specialists, 2,794 completed pre-certification training in industrial safety (including as officers responsible for safe operation of hazardous production facilities), 1,440 in occupational safety, and 657 in traffic safety. Revenue from educational services in 2005 amounted to RUB23.9 million.

Middle-level specialists receive advanced training at the Almeteyevsk Oil Institute and other Russian and regional specialized institutes of higher education, including the Gubkin Russian State University, Institute of Advanced Training under the Russian Ministry of Energy, Kazan State University, Ufa State Technical University of Oil, Kamsky Polytechnical Institute and others.

In aggregate, more than 13,000 specialists of Tatneft improved their professional skills at these educational establishments in 2005 in the areas envisaged by the professional development program.

Senior management members receive training in the Institute of Oil and Gas Business at the Academy of National Economy under the Russian Government, where OAO Tatneft annually sends employees from its structural units and subsidiaries selected on a tender basis for training in oil & gas business.

In 2005, professional training was completed by

35582

employees of Tatneft's structural units, with RUB77.28 million spent for these purposes.

Activities of the Human Resources and Compensation Committee

The main objective of the Human Resources and Compensation Committee is to create conditions for engag-

ing skilled specialists in management of the Company and provide incentives required for their efficient work.

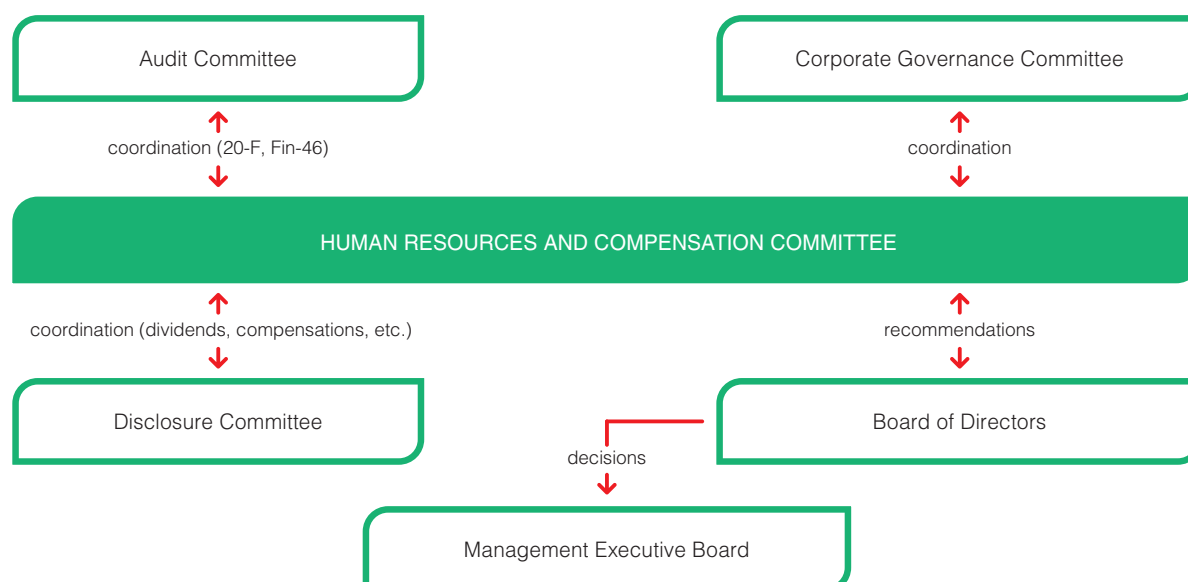
The Committee was formed on 28.09.2004. In 2005 it held 5 meetings. The key areas of the Committee's activities were:

- developing the Regulations on Stimulating and Retaining Young Specialists and Scientists in OAO Tatneft
- analyzing the performance of the management in achieving the targets for 2005
- reviewing amendments and additions to the Regulations on the Remuneration of the Members of the Board of Directors and the Management Board of OAO Tatneft
- improving the content and form of employment contracts with the executives and top management
- promoting the efficiency of the Youth Policy of OAO Tatneft
- promoting the efficiency of the management staff reserve training system.

▼ NOMINATION AND COMPENSATIONS COMMITTEE

Position	Name
Chairman	David William Waygood
Vice-Chairman	Vladimir Pavlovich Lavuschenko
Members	Nail Gabdulbarievich Ibragimov Viktor Isakovich Gorodny Iskandar Gatinovich Garifullin Rustam Nabiulloevich Mukhamadeev

▼ HUMAN RESOURCES AND COMPENSATION COMMITTEE INTERACTION CHART



PROTECTION OF THE SHAREHOLDERS' AND INVESTORS' INTERESTS

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- 84 DISCLOSURE COMMITTEE
- 85 COMMUNICATION OF INFORMATION
TO THE SHAREHOLDERS AND
INVESTORS
- 89 CORPORATE CONTROL MECHANISMS
- 90 PAYMENT OF DIVIDENDS
- 90 AUDIT COMMITTEE



PROTECTION OF THE SHAREHOLDERS' AND INVESTORS' INTERESTS

The Company ensures the protection of the lawful interests of its shareholders and investors according to the principles reflected in the Code of Corporate Governance of OAO Tatneft and the requirements for listing on stock exchanges.

INSTITUTE OF INDEPENDENT DIRECTORS

The Board of Directors of OAO Tatneft includes three independent directors: representatives of foreign investors, Mr. David Waygood and Mr. Sushovan Ghosh, and Ms. M.L. Voskresenskaya, who was elected to the Board in 2005 for the first time.

According to the Code of Corporate Governance of OAO Tatneft, an independent director on the Board of Directors of OAO Tatneft is defined as a person:

- who is not and was not within the 3 previous years an official or employee of the Company or the Company's managing organization
- is not an official of another company, in which any of the Company's officials serves on the Human Resources and Compensation Committee of its Board of Directors
- is not an affiliate of an officer (Manager) of the Company or of the managing organization of OAO Tatneft

■ is not an affiliate of OAO Tatneft or an affiliate of such an affiliate

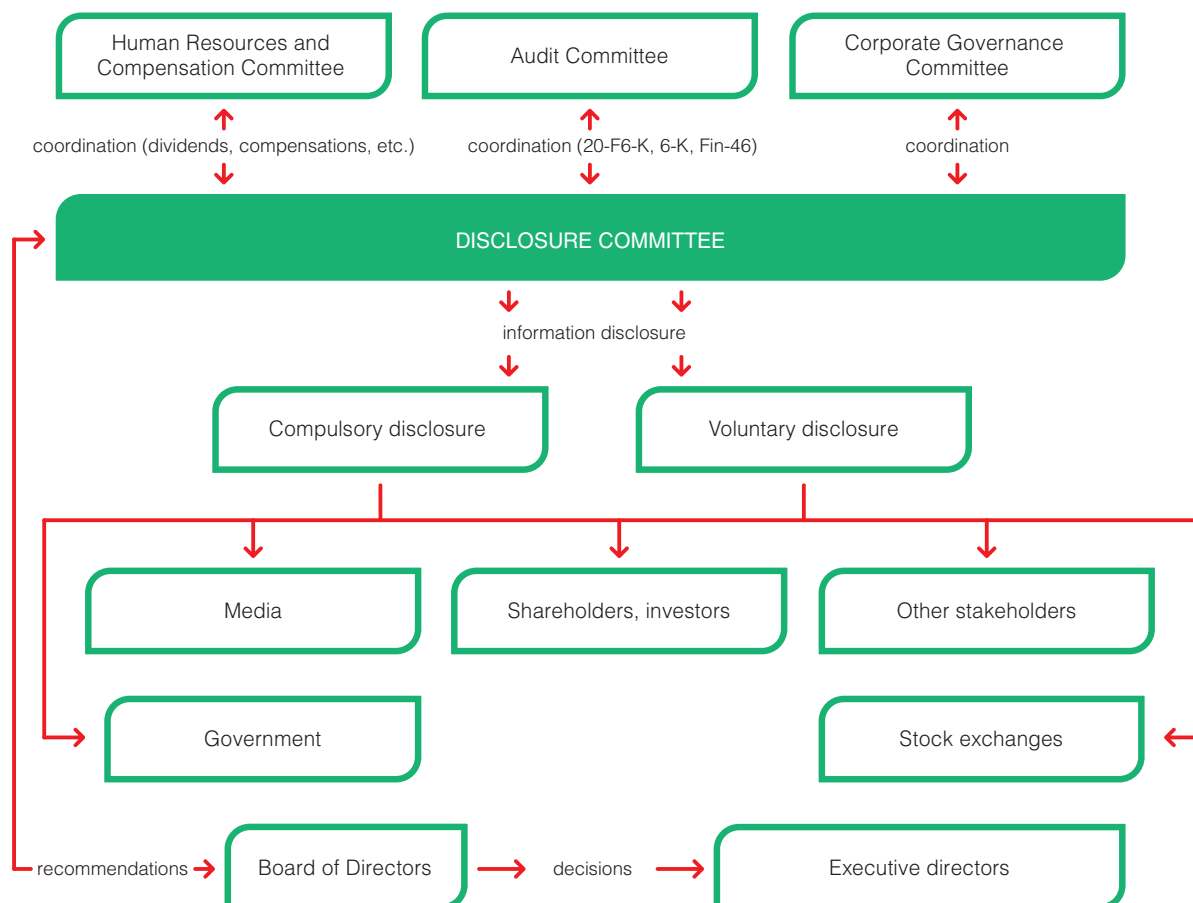
■ is not a party to any arrangements with the Company, which entitle that person to acquire the Company's property (receive money), the value of which is equivalent to ten or more percent of the person's annual income, except for the remuneration for serving on the Board of Directors

■ is not a major counterparty of OAO Tatneft (a counterparty whose total amount of transactions with OAO Tatneft in a year is equivalent to 10 and more percent of the Company's balance sheet assets)

DISCLOSURE COMMITTEE

The Disclosure Committee is a consulting and advisory body assisting the Board of Directors and the chief executive and financial officers in the development, implementation and periodic evaluation of the existing internal controls and procedures in connection with information disclosure.

▼ DISCLOSURE COMMITTEE INTERACTION CHART

COMMUNICATION OF INFORMATION
TO THE SHAREHOLDERS AND INVESTORS

The principles of the Company's information policy are:

- equal accessibility of information to all shareholders, investors and other stakeholders
- equal rights to information of all shareholders and their representatives
- regular and timely communication of information
- accuracy and completeness of information
- relevancy and accessibility of disclosed information
- maintaining the confidentiality of information representing state, official or trade secret; controlling the use of insider information.

OAO Tatneft has approved an information disclosure and communication procedure in compliance with the principles of its information policy.

All information disclosed by the Company is formally divided into two categories: information subject to compulsory disclosure and information provided on a voluntary basis. Information subject to compulsory disclosure

▼ DISCLOSURE COMMITTEE

Position	Name
Chairman	Vladimir Pavlovich Lavuschenko
Vice-Chairman	Viktor Isakovich Gorodny
Members	Evgeny Aleksandrovich Tikhturov Valery Dmitrievich Ershov Tamara Mikhailovna Vilkova Farit Nailevich Gaifutdinov Rafik Masgutovich Garifullin Rustam Asgatovich Rafikov Danil Vertolievich Volkov Alexander Trofimovich Yukhimets

▼ FROM THE REGISTER OF INFORMATION SUBJECT TO COMPULSORY DISCLOSURE

Content	Date of disclosure
According to Russian standards (in the form of announcement of a material fact or information which may materially affect the prices of securities of a joint stock company – pursuant to Order of the RF FFMS No. 05-5pz-n of March 16, 2005)	
Information on the issuer's record closing dates	25.02.2005
Information on the accrued and/or paid income on the issuer's securities. Information on the dates of performance of the company's obligations to the holders of its securities	01.03.2005
Information on facts leading to a one-time increase or decrease in the issuer's net profit or net loss by more than 10 percent	27.04.2005
Information on facts leading to a one-time increase or decrease in value of the issuer's assets by more than 10 percent	27.04.2005
Resolutions adopted by the Board of Directors	27.04.2005
Information on the accrued and/or paid income on the issuer's securities	04.06.2005
Information on resolutions adopted by general meetings	12.07.2005
Information on the accrued and/or paid income on the issuer's securities	30.07.2005
Information on facts leading to a one-time increase or decrease in the issuer's net profit or net loss by more than 10 percent	04.08.2005
On approval of an interested party transaction	13.10.2005
Information on facts leading to a one-time increase or decrease in the issuer's net profit or net loss by more than 10 percent	03.11.2005
Information on facts leading to a one-time increase or decrease in the value of the issuer's assets by more than 10 percent	03.11.2005
According to international standards (in the form of press releases reported on Form 6-K pursuant to the Securities Exchange Act of 1934)	
Concerning errors in financial statements prepared under US GAAP	09.03.2005
Information on the agenda of the annual shareholders' meeting and the amount of dividends	03.05.2005
Materials for the annual shareholders' meeting	31.05.2005
On the completion of investigation by Kennedy's and expected filing of annual report on Form 20-F	20.06.2005
Reserves Report by Miller&Lents	29.06.2005
Form 12b-25. Notification of late filing of annual report on Form 20-F	30.06.2005

▼ FROM THE REGISTER OF INFORMATION SUBJECT TO COMPULSORY DISCLOSURE (continued)

Content	Date of disclosure
Report on Form 20-F for 2003	14.07.2005
Financial statements under US GAAP for the first half of 2004	15.07.2005
Results of the annual shareholders' meeting	18.07.2005
On the amount of approved annual dividends	18.07.2005
On the construction of a refining and petrochemical complex	06.09.2005
On the participation in a tender in Libya	06.10.2005
On an interested party transaction	20.10.2005
On late filing of annual report on Form 20-F for 2004	10.11.2005

is communicated in a planned manner according to the significance of the facts and events and the requirement for their public disclosure on a timely basis.

The information subject to compulsory disclosure includes: annual reports on Form 20-F and press releases reported on Form 6-K (filed electronically via the EDGAR system); information subject to disclosure via the Regulatory News Service of the London Stock Exchange; information concerning material facts; the issuer's quarterly reports; annual reports to the shareholders; the list of the Company's affiliated persons (quarterly).

The information provided on a voluntary basis includes information on the corporate policy; business planning; investment projects; operating, financial and economic activities; completed and planned corporate and social projects; environmental activities; charity and sponsorship projects. The information disclosure channels include electronic and printed media; Russian and English-language information bulletins relating to the

Company's activities, which are distributed in the electronic and printed formats among analysts and interested parties; information booklets; publication of information on the Company's website; public appearances of Tatneft's management members: meetings, interviews, press conferences.

The Company provides the shareholders with all significant information on the preparation and the agenda of the shareholders' meetings, namely:

- the Company's annual report
- the balance sheet, the profit and loss statement
- recommendations of the Board of Directors concerning the distribution of the Company's profits, including payment of dividends, and the grounds of each such recommendation.
- findings of the Company's Internal Audit Commission
- independent auditors' report of on the results of an annual audit of the Company's financial and business activities
- information about the candidates to the Company's Board of Directors, Internal Audit Commission,

▼ FROM THE REGISTER OF INFORMATION PROVIDED ON A VOLUNTARY BASIS

Disclosed fact	Form of disclosure
Visit of a Kazakhstan delegation to OAO Tatneft	Press release, article
The signing of a joint venture agreement with Iran's Mostazafan Foundation	Press release, article
The signing of a memorandum of cooperation on an investment project with Italy's RAM S.R.L.	Press release, article
The signing of an agreement with OAO KAMAZ for manufacturing special-purpose equipment mounted on KamAZ chassis	Press release
The signing of a contract on exploration and development of a field in the Deir-ez-Zor Province in Syria	Press release
Completion of the 500th HFO by the Leninogorsk DIOR&WWO	Press releases, articles
The establishment of a joint venture in Oman	Press release
The award of Grand Prix to OAO Tatneft in the RT EcoLeader contest	Press release
Results of a shareholders' meeting of OAO Tatneft	Press releases, articles
Victory of the corporate magazine, newspaper OTEI RPO and press service of OAO Tatneft in the All-Russian competition among enterprises of Russia's fuel and energy sector PEGAS-2004	Press release
Drilling of an exploratory well at a new field in the Orenburg region	Press release, article
Implementation of the project for the construction of a refining and petrochemical complex	Press release, article
Celebration of the 60th anniversary of NGDU Leninogorskneft and the 50th anniversary of the city of Leninogorsk	Press release, article
Contract award to OAO Tatneft in the tender for the exploration and development of Block 82-4 in Libya	Press release, video clip
The top position of OAO Tatneft in the rating on 75 largest Russian companies in terms of the environmental costs reduction during 2000-2003. (According to Independent Environmental Rating Agency)	Press release, video clip
The signing of a contract with Libya's National Oil Corporation for the exploration and development of Block 82-4	Press release, video clip
Presentation of first books from Tatneft's Corporate Library Series	Press release, video clip
Opening of Ice Palace in Mamadysh constructed at the expense of OAO Tatneft	Press release, article, video clip
Opening of Ice Palaces in Aktanysh and Elabuga constructed at the expense of OAO Tatneft	Press release, article

Note: in total, 119 press releases and news on the Company's current activities were published in 2005.

Management Board and the position of the General Director

- information about the candidates to the Company's auditors.

To provide registration of information subject to compulsory disclosure and information provided on a voluntary basis, the Company maintains respective registers.

CORPORATE INTERNAL CONTROLS

Pursuant to the Charter of OAO Tatneft, the control over the Company's financial and business activities is exercised by the Internal Audit Commission, which is elected by and accountable to the Company's general shareholders' meeting.

The Company also has the Corporate Control Department providing internal control in OAO Tatneft.

The key functions of internal control are:

- overseeing the financial and business activities of the management, structural units, subsidiaries and dependent companies of OAO Tatneft
- reviewing accounting and operating data, preparing reports, examining specific accounting items, including detailed review of transactions and balances on accounts
- reviewing the compliance with the laws, regulations and internal documents of the Company
- reviewing activities of the management of different levels
- assessing the efficiency of internal control mechanisms, examining and evaluating control procedures in the branches, structural units, subsidiaries and dependent companies
- controlling the execution of the budgets for the management personnel, structural units, subsidiaries and dependent companies.

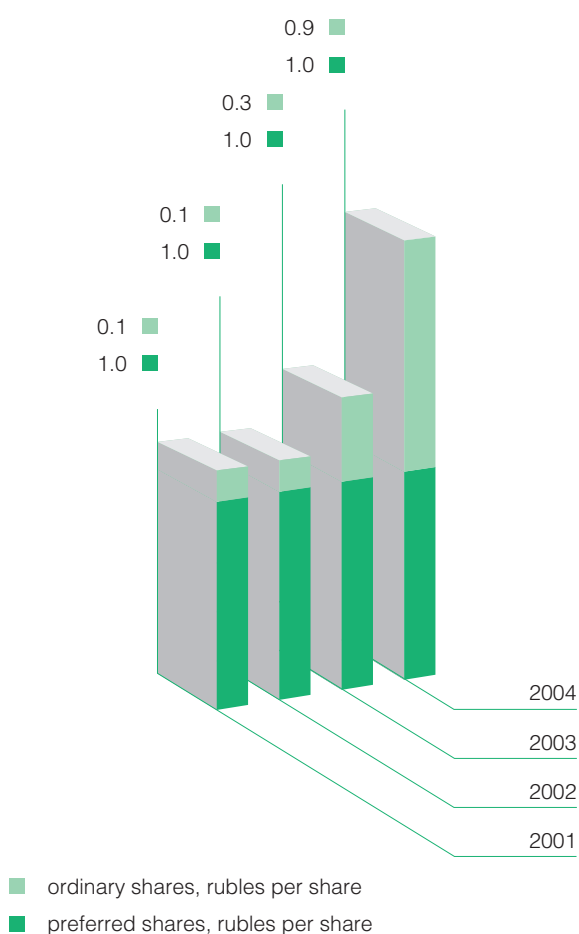
In accordance with the Sarbanes-Oxley Act, in 2005 the Company initiated improvement of the corporate control system in respect of its subsidiaries

In accordance with the Sarbanes-Oxley Act, in 2005 the Company initiated improvement of the corporate control system in respect of its subsidiaries, which includes:

- developing uniform tax accounting principles in the Tatneft Group
- developing procedures defining interaction between the Corporate Control Department, executive offices supervising the companies of the Group and the tax service of OAO Tatneft in the matters relating to the application of uniform accounting principles in the Group
- consulting the Tatneft Group companies on tax, accounting, customs, currency legislation and related civil law issues.

In addition, the Corporate Control Department oversees the schedules and amounts of proceeds from the sales of crude oil and petroleum products by Tatneft-Europe AG, repayment of foreign currency loans to foreign banks, and payment of charges and fees to the banks and legal consultants of the Company.

The Company currently works on establishing uniform corporate internal control and audit mechanisms.



▲ DIVIDENDS

▼ THE AMOUNT OF ACCRUED AND PAID DIVIDENDS BASED ON THE COMPANY'S RESULTS FOR 2004 (in RUB thousands) as at 01.03.2006

	Accrued	Paid
preferred shares	147,508	146,096
ordinary shares	1 960,821	1 957,709
The nominal value of the shares is 1 ruble each		

PAYMENT OF DIVIDENDS

The dividend policy of OAO Tatneft is governed by the Federal Law "On Joint Stock Companies" and the Company's Charter. According to the Charter, the holders of preferred shares are entitled to receive a fixed annual dividend equal to 100% of the nominal value of preferred shares, unless otherwise decided by a general shareholders' meeting. Decisions concerning the amount of dividends on ordinary shares are adopted by general shareholders' meetings on recommendations of the Board of Directors of OAO Tatneft.

The Company continues to pursue a positive dividend policy, increasing the level of dividend payments in the last few years.

For information: the difference between the amounts of accrued and paid dividends is attributable to the unavailability of information on changes in shareholders' addresses and bank details. In accordance with Chapter 6, Article 44 of the Federal Law "On Joint Stock Companies", the shareholders are required to inform the Company of any changes in their details in a timely manner.

AUDIT COMMITTEE

The Audit Committee is formed on an annual basis by the newly elected Board of Directors of OAO Tatneft and consists of at least three directors. Each member of the Audit Committee must be independent in relation to OAO Tatneft in accordance with the criteria established by the laws of Russia and the United States. At least one member of the Committee must be an "audit committee financial expert".

The Audit Committee holds its meetings as may be necessary, usually once a month. The quorum for conducting a meeting is at least half of the members of the Audit Committee.

If necessary, the Committee invites executive directors of OAO Tatneft, independent auditors or external consultants to its meetings to provide information on issues placed on agenda. The results of each meeting of the Audit Committee are reflected in the minutes, which are signed by the members of the Committee and transferred to the Secretariat of the Board of Directors for safe-keeping.

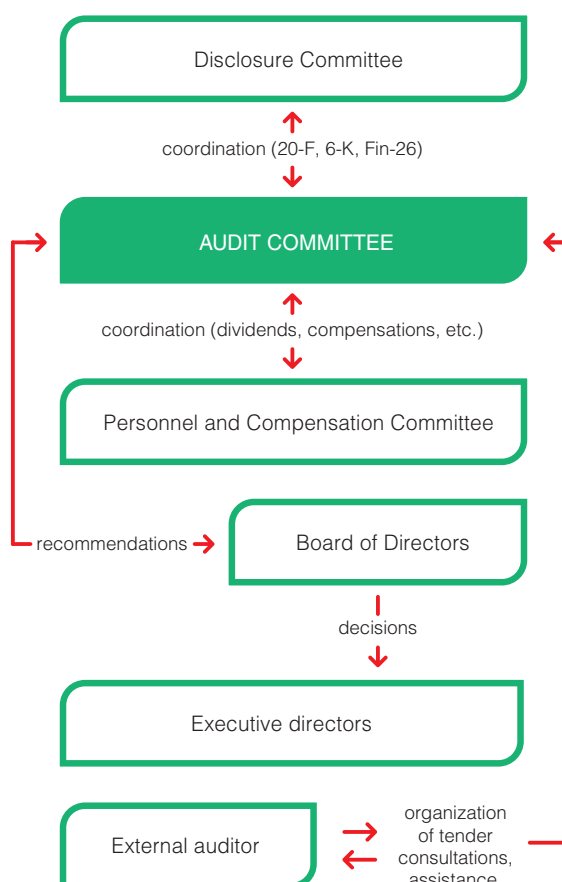
The Audit Committee of OAO Tatneft performs the following functions:

- annually selects the Company's external auditor on a tender basis and recommends the auditor to the Board of Directors
- ensures that the external auditor submits an application containing a description of all related services provided (expected to be provided) to the Company; assesses the extent to which the related services are consistent with the auditor's independence; takes or recommends the Board of Directors to take measures for the purposes of maintaining the auditor's independence
- reviews material terms and conditions of the agreement (contract) with the external auditor
- reviews, together with the external auditor, the results of annual and interim audits, including response from the management in connection with audit findings; takes part in reviews of any significant disagreements between the external auditor and Tatneft's management concerning the Company's financial statements;
- analyzes the external auditor's reports on the status of the Company's internal control system and holds meetings with management of OAO Tatneft to review significant control-related risks and problems and the management's plans on eliminating these risks
- provides the Board of Directors with reports on its activities containing information on the performance of its functions and the results of its activities in the previous year
- performs other duties within its terms of reference on request of the Board of Directors.

▼ AUDIT COMMITTEE

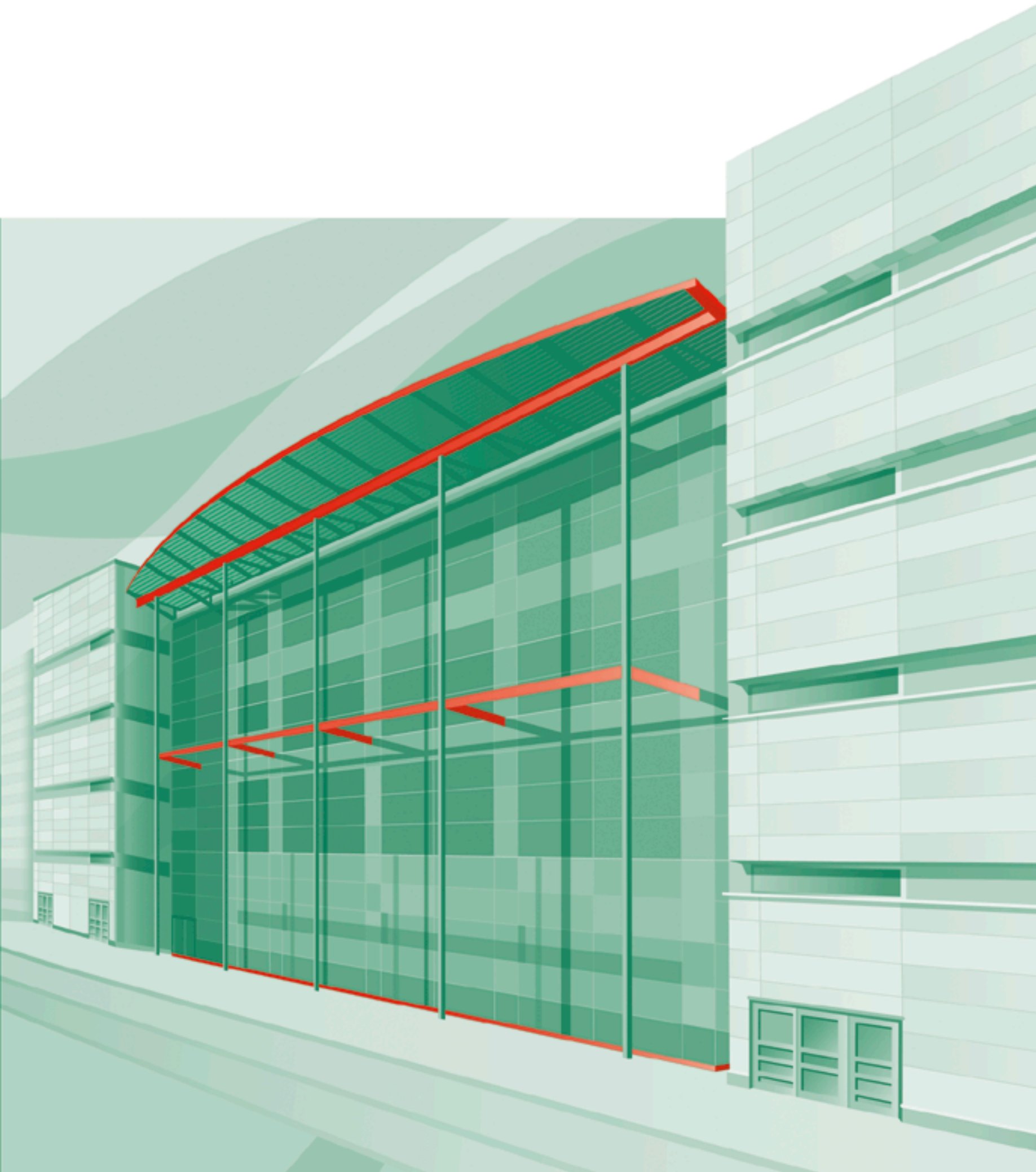
Position	Name
Chairman	Sushovan Ghosh
Members	Maria Leonidovna Voskresenskaya David William Waygood Radik Raufovich Gaizatullin

▼ AUDIT COMMITTEE INTERACTION CHART



SOCIAL POLICY

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- 95 ACTIVITIES OF YOUTH
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SOCIAL POLICY

Collective Bargaining Agreement of OAO Tatneft for 2005

In 2005 the administration and the trade union committee of OAO Tatneft met all the obligations fixed in the Collective Bargaining Agreement, including:

Labor remuneration and standards

The average monthly wages in OAO Tatneft in 2005 were

15,337 rubles

representing a 27% increase over the previous year.

OAO Tatneft gives special attention to supporting the earnings of lower-grade workers, foremen and specialists through differential pay rises with a higher percentage of pay increases for this category of employees and payment of wage increments for qualification to foremen.

Labor safety and protection

In 2005, the Company provided financing of occupational safety activities amounting to RUB200 million.

Social benefits and guarantees

Social payments under the Collective Bargaining Agreement of OAO Tatneft with its subsidiaries in 2005

totaled RUB285 million, representing an increase of 6.7% from RUB267.4 million in 2004.

Non-Governmental Pension Fund

From 1997, Tatneft, in cooperation with the National Non-Governmental Pension Fund created on the initiative of OAO Tatneft and Zenit Bank, has been fulfilling one of the most important social tasks – providing financial support to the retiring oil industry workers, who devoted many years and efforts to work for the Company.

The non-governmental pension plan covers virtually all employees of OAO Tatneft. The Company has developed and successfully introduced a most optimal scheme for generating funds for non-governmental pension payments, which involves contributions both by the Company and by its employees who make payments to the plan from their salaries and wages.

In 2005, OAO Tatneft paid RUB89.25 million of pension contributions for its employees. Discretionary pension contributions paid by employees from their salaries and wages to their personal pension accounts amounted to RUB62.06 million.

At present non-governmental pensions paid by the National Non-Governmental Pension Fund are received by 6,840 former employees of OAO Tatneft.

Voluntary medical insurance

The number of employees insured under the voluntary medical insurance contract between OAO Tatneft and Chulpan Insurance Company totaled 51,151 persons. The insurer arranged the delivery and payment of medical and other services under three programs: Outpatient Care (RUB90.1 million), Inpatient Care (RUB23.2 million), and Comprehensive Medical Care (RUB163.4 million). Total payments amounted to RUB276.7 million.

Promotion of sports

OAO Tatneft carries out extensive work to organize leisure-time activities and improve the health of its employees through physical training and sports. Every year, more than 10,000 employees of the Company participate in the Corporate Olympics. Competitions are held during the year at the Company's sport facilities. OAO Tatneft allocated RUB7.4 million for its XVIII Corporate Olympics in 15 sports.

The Company's enterprises renovated, constructed and assumed maintenance of 73 hockey courts in southeastern Tatarstan. The Company annually allocates funds for purchasing hockey uniform for youth clubs and maintenance of coaches and service personnel of these courts. The youth clubs and hockey sections are attended by more than 4,000 teenagers. The Company has established OOO Tatneft-AkBars, a company coordinating the training of the AkBars hockey team, which won the Russian Cup in the 2005/2006 season and in total twice came as the winner of national championships in the latest history of Russian hockey.

In 2005, Ice Palaces in Elabuga and Aktanysh and an indoor hockey rink with artificial ice in Mamadysh, constructed at the expense of OAO Tatneft, were commissioned, funds for the construction of children's Ice Palace Ak Bure in Kazan were allocated.

Activities of the youth organization in 2005

In 2000, on the initiative of its management, the Company created one of the first corporate youth organizations in the country and the region. This organization is built upon the principles of observing the economic and social interests of the Company and its younger employees, which currently number 17,500. The concept of youth policy for 2000-2005 supported by the program of its implementation has been developed and adopted.

OAO Tatneft carries out extensive work to improve the health of its employees through physical training and sports. Every year, more than 100,000 employees of the Company participate in the Corporate Olympics

The key points of the youth policy concept are:

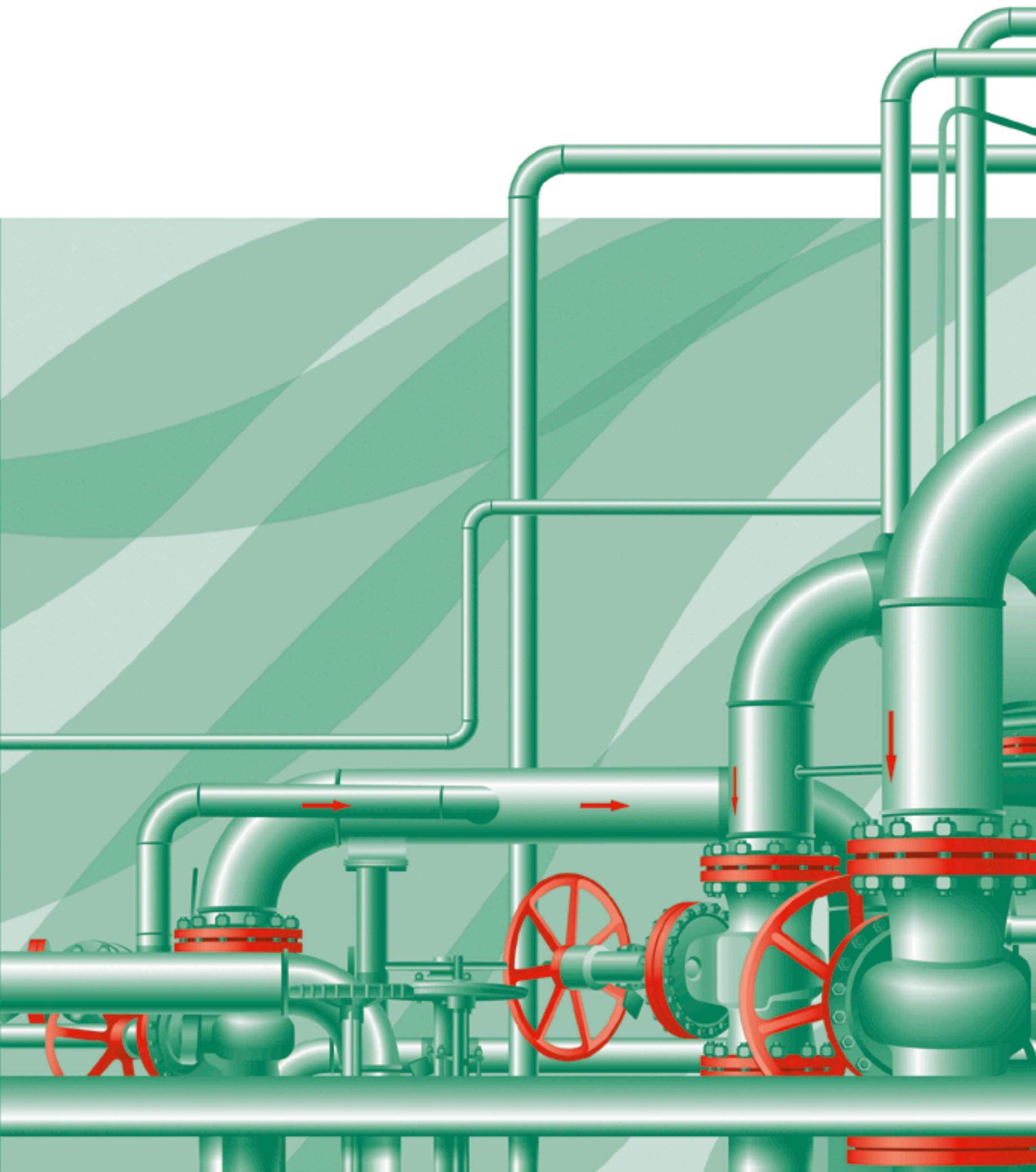
- creating a highly qualified staff reserve from young employees
- providing training and professional development of young workers, which is the focus of the Central Council of Young Professionals of OAO Tatneft;
- resolving social problems of young employees, improving their living conditions
- identifying and supporting talented young people, determining their creative potential.

Each year, based on the training results, the structural units and subsidiaries of OAO Tatneft form a staff reserve from younger employees. In 2005 the staff reserve was formed from students of the Production Management School under the Company's Management Executive Board.

Tatneft annually holds a scientific and practical conference of young employees. In 2005, 238 works were presented to the conference in the form of oral presentations and poster sessions within 10 sections. These conferences, together with practical seminars and competitions for the best innovation held by the enterprises, help to uncover the potential of young specialists and simultaneously address important production issues.

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PAYMENTS OF OAO TATNEFT
IN 2004-2005
- 100 ACCOUNTING POLICY OF
OAO TATNEFT
- 102 FINANCIAL STATEMENTS OF
OAO TATNEFT FOR 2005



FINANCIAL RESULTS

BRIEF ANALYSIS OF FINANCIAL AND ECONOMIC RESULTS OF OAO TATNEFT IN 2005

Sales revenue of OAO Tatneft in the period under review totaled RUB169.9 billion, representing a 12.7% increase over 2004. Cost of goods sold in 2005 was RUB105.9 billion. Financial and business activities generated RUB50.1 billion of balance sheet profit, an increase of 38.4% compared to 2004.

In accordance with the approved investment program, the parent company used more than RUR10 billion, and the Tatneft Group as a whole RUB18.7 billion of capital investments. A major part of investments went towards drilling, industrial construction and acquisition of equipment. The main source of capital investment financing is depreciation (68%).

The Company's accounts receivable increased by RUB9.3 billion from the year-beginning, predominantly due to the growth in export duties by RUB8.3 billion, and at the year-end totaled RUB36.7 billion.

Accounts payable decreased by RUB2.2 billion to RUB9.5 billion at the end of the reporting period.

All financial stability indicators of OAO Tatneft are in line with the required ratios:

■ current ratio at 31.12.2005 was 5.701 as compared to the required minimum ratio of 2.0

■ equity ratio was 0.742 vs. the required minimum ratio of 0.1.

Net working capital in the period under review nearly doubled to RUB58.2 billion.

▼ STANDARD & POOR'S CREDIT RATING

Rating on the international scale	Assigned rating
Foreign currency credit rating	B-
Outlook	Stable
Short-term	--
National currency credit rating	B-
Outlook	Stable
Short-term	--
Rating on the national scale	--
Latest revision date	22-12-2004

CHANGES IN TAXES AND PAYMENTS OF OAO TATNEFT IN 2004-2005

The total amount of accrued taxes and payments of OAO Tatneft to all budget levels in 2005 increased 1.7-fold over the previous year to RUB133.9 billion.

The increase in tax payments was mainly due to the growth in export duties by RUB33.1 billion and the increase in natural resources production taxes (NRPT) by RUB21 billion (nearly by 80%). The increase in these taxes is primarily attributable to higher world prices of Urals blend. Furthermore, the NRPT growth was a result of the increase in the base tax rate from RUB347 per tonne to RUB419 per tonne.

Among other taxes, the highest growth occurred in profit taxes (by RUB2.4 billion or 22.4%) and VAT (by RUB1.5 billion or more than 2-fold). The tax burden per tonne of produced crude oil increased 1.7-fold to RUB5,300/tonne. The weight of taxes in gross revenues grew from 39% to 55%.

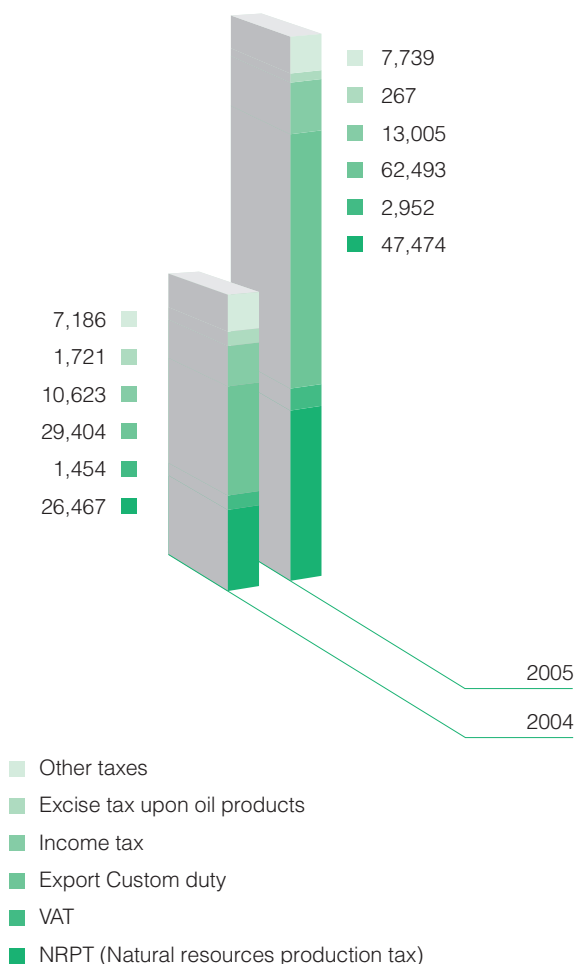
Natural resources production tax

The unified natural resources production tax, which replaced three taxes that were previously in effect: excise taxes on the production of oil and gas condensate, mineral resources rehabilitation payments, and payments for subsoil use (royalties), was introduced in 2002 in connection with the entry into force of Chapter 26 of the Russian Tax Code.

The previous taxes were differentiated depending on the mining and geological conditions at the fields under development and the company's average selling price of crude oil. The rate of the new natural resources production tax is the same for all oil companies and, furthermore, is linked to the selling price of crude oil in foreign markets, disregarding all other markets.

As a result of the introduction of the unified non-differentiated tax, the companies that have new fields and a substantial oil potential received a significant reduction of tax burden. For OAO Tatneft, in contrast, the introduction of this tax led to a significant growth in taxes. For example, in 2005 alone the NRPT exceeded the effective resource taxes applicable in comparable conditions approximately by RUB25 billion.

To offset this increase in the tax burden, the Company had to cut funding of investment programs and shut



▲ OAO TATNEFT PAYMENTS AND TAXES DYNAMICS 2004-2005, (RUB mln)

down loss-making wells; a large complex of technical, technological, organizational and economic measures, including measures in relation to non-profitable wells, was developed and is currently implemented.

Beginning from 2001, OAO Tatneft has actively put forward initiatives on improving tax legislation in the area of subsoil use and defending its position. The Company has prepared calculations, which convincingly show that the introduction of a differentiated NRPT rate would, on the one hand, permit oil companies to extract remaining oil reserves at old marginally profitable fields and carry out additional prospecting for new oil fields, and on the other hand would increase tax revenue as a result of growth in oil production.

As a result of joint efforts of Tatneft and all interested ministries and departments, a draft law on the NRPT differentiation has been approved and adopted. The law will become effective from January 1, 2007.

Unfortunately, the amendments providing for tax holidays until a certain oil production volume is achieved will not apply to the new fields developed by the Company either within or outside the Republic of Tatarstan. The tax rates applicable to old fields with a depletion rate of more than 80% will be adjusted downward using established coefficients. The calculations show that the introduction of a differentiated NRPT rate could reduce the tax burden on Tatneft by 3.0%-3.5%.

ACCOUNTING POLICY OF OAO TATNEFT

The financial statements were prepared in conformity with the accounting and reporting regulations in force in the Russian Federation, including Federal Law "On Accounting" No. 129-FZ of 21.11.96, Regulations on Accounting and Reporting in the Russian Federation approved by Order of the Russian Ministry of Finance No. 34n of 29.07.98, and other regulatory acts being part of the system regulating business accounting and reporting procedures in the Russian Federation.

Foreign currency denominated assets and liabilities

Exchange differences are reflected in the accounting records and financial statements in the period in which the underlying payment obligation was settled or for which the financial statements are prepared. Exchange differences are posted to financial results upon recognition as non-operating income or non-operating expenses.

Fixed assets

Fixed assets include land, buildings, structures, machines, equipment, transportation facilities and other related items with a service life exceeding 12 months.

Pursuant to paragraphs 7 and 8 of PBU 6/01 "Accounting of Fixed Assets", fixed assets are initially recorded at cost. The historical cost of purchased fixed assets is treated as the

actual amount of acquisition, construction or manufacturing expenses incurred by the organization, net of the VAT and other refundable taxes (except in the circumstances contemplated by the legislation of the Russian Federation).

Depreciation is charged on a straight-line basis. Fixed asset items having a service life exceeding 12 months and a unit value of no more than RUB10,000 are charged to production expenses as used in production.

Repair expenses for fixed assets are stated according to their actual amount and are reflected in the accounting period in which they were incurred.

Construction in progress

Construction in progress includes the expenses associated with building and assembly works, acquisition of buildings, structures and other durable assets and other capital works and expenditures. This line reflects the value of capital construction items until their commissioning, upon which they are included in fixed assets.

Intangible assets

Pursuant to PBU 14/200 "Accounting of Intangible Assets", intangible assets are initially recorded at cost. The historical cost of intangible assets is amortized on a straight-line basis using the rates determined on the basis of their useful lives.

Financial investments

Financial investments are initially recorded at cost. Financial investments for which the current market value has been determined are reflected in the financial statements as of the end of the accounting period at the current market value determined by adjusting their valuation as of the previous reporting date. These adjustments are made on a quarterly basis. Financial investments for which the current market value has not been determined are reflected in accounting records and financial statements as of the reporting date at the original cost.

Inventories

Inventories are reflected at their actual acquisition or production cost. Inventory movements are valued using the average cost method.

Work in progress, finished products, goods, and selling expenses

Finished goods are reported in the balance sheet at their actual full production cost (including management expenses).

Deferred expenses

Expenses incurred in the accounting year but relating to future accounting periods (prepaid rent and insurance payments) are reflected as deferred expenses. These expenses are evenly charged to the production cost, general business expenses, etc. during the periods to which they relate.

Provision for doubtful debts

Provision for doubtful debts is formed in respect of overdue trade receivables, which are not secured by appropriate guarantees.

Authorized and additional capital

The authorized capital is reflected as the aggregate nominal value of ordinary and preferred shares purchased by the shareholders.

Provision for future expenses and payments

Provision for payment of bonuses based on the results of operations for the year is established for the purposes of even allocation of future expenses to production costs incurred in the accounting period.

Recognition of sales revenue

Revenue from sales of goods, products, services and works is recognized as the products are shipped (services are provided) and settlement documents are submitted to customers.

The proceeds recognized as sales revenue were increased or decreased by the exchange differences arising in the situations when the prices in agreements with customers were denominated in foreign currency (conventional money units), while payments were made in rubles.

Expenses

All management expenses are charged to core production expenses on a monthly basis. Management expenses are allocated in proportion to the actual direct labor costs.

Loans and credits

The principal amount of a loan (credit) received from a creditor is reflected in accordance with the terms of the respective loan (credit facility) contract as the amount of actual proceeds or the appraised value of other things contemplated by the contract.

▼ FINANCIAL STATEMENTS OF OAO TATNEFT FOR 2005. BALANCE SHEET

Item	At year beginning	At year end
Assets, RUB thousands		
Intangible assets	24,424	23,235
Fixed assets and construction in progress	57 399,715	54 573,119
Long-term financial investments	17 467,177	25 799,389
Inventories and expenses	13 187,021	12 824,875
Accounts receivable	27 333,588	36 658,615
Short-term financial investments	20 035,935	14 672,103
Cash	3 810,907	14 310,913
Other assets	223,728	410,484
Total assets	139 482,495	159 272,733
Liabilities, RUB thousands		
Shareholders' equity	104 986,879	139 016,014
including retained profit	62 445,634	115 474,882
Loans and credits	20 238,405	7 788,526
Accounts payable	11 689,082	9 528,221
Other liabilities	2 568,129	2 939,972
Total liabilities	139 482,495	159 272,733

▼ FINANCIAL STATEMENTS OF OAO TATNEFT FOR 2005. PROFIT AND LOSS STATEMENT (in RUB thousands)

Net revenue from sales of goods, products, works, services (net of value added tax, excise taxes and similar compulsory payments)	169 943,907
Cost of goods, products, works, services sold	(105 928,359)
Gross profit	64 015,548
Commercial expenses	(9 489,966)
Operating income/expenses	(77,539)
Non-operating income/expenses	(4 316,540)
Profit before taxes	50 131,503
Deferred tax liabilities	(562,693)
Current profit tax	(13 005,363)
Net profit for the period	36 563,447
For referential use: Permanent tax liabilities	(1 563,343)

APPENDIXES

▼ THE BOARD OF DIRECTORS OF OAO TATNEFT*

Chairman of the Board of Directors

Rustam Nurgalievich Minnikhanov

Year of birth: 1957

Graduated from the Kazan Agricultural Institute with a specialization in mechanical engineering in 1978 and from the Distance-Learning Institute of Soviet Trade in 1986. Doctor of Economics.

Positions held in the last 5 years: July 1998–present: Prime Minister of the Republic of Tatarstan. From June 1998 – Chairman of the Board of Directors of OAO Tatneft.

Equity interest: 0

Members of the Board of Directors

Rishat Fazlutdinovich Abubakirov

Year of birth: 1959

Graduated from the Kazan Institute of Construction Engineering in 1981. Candidate of economic sciences.

Positions held in the last 5 years: July 2001 – present – Head of the Almetyevsk Municipal District Administration.

Equity interest: 0.058383%

Valery Pavlovich Vasiliev

Year of birth: 1947

Graduated from the Kazan Agricultural Institute in 1970 with a specialization in mechanical engineering.

Positions held in the last 5 years: 2001–present – Minister for Land and Property Relations of the Republic of Tatarstan.

Equity interest: 0

William David Waygood

Year of birth: 1950. A citizen of the United Kingdom.

Has a certificate of education of the United Kingdom of Great Britain and Northern Ireland and completed a course in banking business at the Institute of Bankers.

Positions held in the last 5 years: 2000-2001 – Director of LTPTrade.net.plc, London, a trade finance company.

August 2001–present – Director of Waygood Limited.

Equity interest: 0

Maria Leonidovna Voskresenskaya

Year of birth: 1955

Graduated from the Moscow Financial Academy in 1977. Has a U.S. CPA Certificate and is a certified Russian Auditor.

Positions held in the last 5 years: 1994-2004 – work at Ernst & Young

2004–present – director of Brentcross Ltd.

Equity interest: 0

Radik Raufovich Gaizatullin

Year of birth: 1964

Graduated from the Kazan Agricultural Institute with a specialization in accounting and economic analysis of agriculture in 1985.

Positions held in the last 5 years: June 2000-2001 – Deputy Minister of Finance of the Republic of Tatarstan.

2001–June 2002 – First Deputy Minister of Finance of the Republic of Tatarstan.

June 2002–present – Minister of Finance of the Republic of Tatarstan.

Equity interest: 0

Sushovan Ghosh

Year of birth: 1957. A citizen of the United Kingdom.

Graduated from the Queen Mary College, London Electric and Electronic elaborations University and the Institute of Chartered Accountants in England and Wales.

Positions held in the last 5 years: 2001-2002 – Deputy Head of the International Investments Department and Director of Finance of Renaissance Capital Bank.

2002–present – Managing Director of SGI Enterprises Ltd.

Equity interest: 0

Nail Gabdulbarievich Ibragimov

Year of birth: 1955

Graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow in 1977. Doctor of Technical Sciences.

Positions held in the last 5 years: 2000–present – First Deputy General Director for Production and Chief Engineer of OAO Tatneft.

Equity interest: 0.019586%

Vladimir Pavlovich Lavushchenko

Year of birth: 1949

In 1972 graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow and completed post-graduate studies at All-Russian Oil Industry Organization, Management and Economics Research Institute (VNIIOENG). Doctor of Economics.

Positions held in the last 5 years: 1997 present – Deputy General Director for Economics of OAO Tatneft.

Equity interest: 0.045465%

Nail Ulfatovich Maganov

Year of birth: 1958

Graduated from the Gubkin Petrochemical and Gas Industry Institute of Moscow in 1983.

Positions held in the last 5 years: July 2000–present – First Deputy General Director and Head of the Oil and Refined Products Sales Department of OAO Tatneft.

Equity interest: 0.000176%

Renat Khaliullovich Muslimov

Year of birth: 1934

Graduated from the Kazan State University with a specialization in geology and exploration of oil and natural gas fields in 1957. Doctor of Geology and Mineralogy, Professor.

Positions held in the last 5 years: 1998–present – State Counsel to the President of the Republic of Tatarstan.

Equity interest: 0.074332%

Valery Yurievich Sorokin

Year of birth: 1964

Graduated from the Kazan State University in 1986.

Positions held in the last 5 years: 1996–2002– Director of the Agency for State Debt Management of the Republic of Tatarstan under the Ministry of Finance of the Republic of Tatarstan. 2003–present – General Director of OAO Svyazinvestneftekhim

Equity interest: 0

Mirgaziyan Zakievich Taziev

Year of birth: 1947

In 1972 graduated from the Oktyabrsk Oil Technical College with a specialization in mechanics and from the Gubkin Petrochemical and Gas Industry Institute of Moscow. Candidate of technical sciences.

Positions held in the last 5 years: 2001–2005 – Head of the Dzhaliineft NGDU. January 2005–present – Head of the Almeteyevneft NGDU

Equity interest: 0.010111%

Shafagat Fakhrazovich Takhautdinov

Year of birth: 1946

Graduated from the Gubkin Institute of Petrochemical and Gas Industry of Moscow in 1971. Doctor of Economics.

Positions held in the last 5 years: 1999–present – General Director of OAO Tatneft

Equity interest: 0.116503%

Rais Salikhovich Khisamov

Year of birth: 1950

Graduated from the Gubkin Institute of Petrochemical and Gas Industry of Moscow in 1978. Doctor of Geology and Mineralogy.

Positions held in the last 5 years: October 1997–present –

Deputy General Director and Chief Geologist of OAO Tatneft.

Equity interest: 0.018760%

▼ THE MANAGEMENT BOARD OF OAO TATNEFT

Chairman of the Management Board**Shafagat Fakhrazovich Takhautdinov**

Year of birth: 1946

Doctor of Economics

Positions held in the last 5 years: 2000–present – General Director of OAO Tatneft

Equity interest: 0.116503%

Members of the Management Board**Vladlen Aleksandrovich Voskoboinikov**

Year of birth: 1965

Positions held in the last 5 years: 2001–2005 – Chief Financial Officer of the Siberian Service Company. 2005–present – Head of the Consolidated Financial Reporting Department of OAO Tatneft

Equity interest: 0

Iskandar Gatinovich Garifullin

Year of birth: 1960

Positions held in the last 5 years: 2000–present – Chief Accountant and Head of the Accounting and Financial Reporting Department of OAO Tatneft.

Equity interest: 0.009806%

Viktor Isakovich Gorodny

Year of birth: 1952

Doctor of Economics.

Positions held in the last 5 years: 2000–present – Deputy General Director and Head of the Property Management Department of OAO Tatneft.

Equity interest: 0.000254%

Valery Dmitrievich Ershov

Year of birth: 1949

Positions held in the last 5 years: 2000–present – Head of the Legal Department of OAO Tatneft.

Equity interest: 0

Vladimir Nikolaevich Zinoviev

Year of birth: 1951

Positions held in the last 5 years: 2000–2004 – Deputy Chief for Capital Construction of the Yamashneft NGDU of OAO Tatneft. 2004–present – Deputy General Director for Capital Construction of OAO Tatneft.

Equity interest: 0.000052%

Nail Gabdulbarievich Ibragimov

Year of birth: 1955

Doctor of Technical Sciences. Positions held in the last 5 years: 2000–present – First Deputy General Director for Production and Chief Engineer of OAO Tatneft.

Equity interest: 0.019586%

Khamit Zagirovich Kaveyev

Year of birth: 1955

Positions held in the last 5 years: 2000–2005 – Deputy General Director and Head of the External Economic Company.

2005–present – Deputy General Director and Director of OOO Tatneft-Regions.

Equity interest: 0.002953%

Vladimir Pavlovich Lavushchenko

Year of birth: 1949

Doctor of Economics. Positions held in the last 5 years: 2000–present – Deputy General Director for Economics of OAO Tatneft.

Equity interest: 0.045465%

Nail Ulfatovich Maganov

Year of birth: 1958

Positions held in the last 5 years: 2000–present – First Deputy General Director and Head of the Oil and Refined Products Sales Department of OAO Tatneft.

Equity interest: 0.000176%

Rustam Nabiullovich Mukhamadeev

Year of birth: 1952

Positions held in the last 5 years: 2000–2001 – Head of the Almet'yevsk Repair and Construction Department of OAO Tatneft. 2001–present - Deputy General Director for Personnel and Social Development of OAO Tatneft.

Equity interest: 0.004204%

Rafael Saitovich Nurmukhametov

Year of birth: 1949

Positions held in the last 5 years: 2000–present – Head of the Leninogorskneft NGDU of OAO Tatneft.

Equity interest: 0.010465%

Rafkat Mazitovich Rakhmanov

Year of birth: 1948

Positions held in the last 5 years: 2000–2001 – Head of Almet'yevsk Central Base for the Maintenance of Oil Production Equipment of OAO Tatneft. 2001–present – Deputy General Director for Well Repair and Improved Oil Recovery of OAO Tatneft.

Equity interest: 0.020604%

Mikhail Nikolaevich Studensky

Year of birth: 1945

Positions held in the last 5 years: 2000–2002 – Deputy General Director for Drilling of OAO Tatneft. 2002–present – Deputy General Director and Head of the management company OOO Tatneft-Bureniye.

Equity interest: 0.001143%

Semyon Afroimovich Feldman

Year of birth: 1936

Positions held in the last 5 years: 2000–2004 – Deputy General Director of OAO Tatneft. 2004–present – Advisor to the General Director of OAO Tatneft.

Equity interest: 0.038372%

Zagit Foatovich Sharafiev

Year of birth: 1956

Positions held in the last 5 years: 21.06 – 12.11.2000 – General Director of OOO Tatneft-Neftekhim. 2000-2002 – First Deputy General Director of OAO Nizhnenskamskshina. 2002–2004 – First Deputy Director of OAO Tatneft-Neftekhim. 2004–present – Deputy General Director for Petrochemical Production of OAO Tatneft and Director of OOO Tatneft-Neftekhim.

Equity interest: 0

Fyodor Lazarevich Shchelkov

Year of birth: 1948

Positions held in the last 5 years: 2000–present – Deputy General Director for General Issues of OAO Tatneft.

Equity interest: 0.029929%

Evgeny Aleksandrovich Tikhturov

Year of birth: 1960

Positions held in the last 5 years: 2000–present – Head the Finance Department of OAO Tatneft.

Equity interest: 0.001939%

Alexander Trofimovich Yukhimets

Year of birth: 1949

Positions held in the last 5 years: 2000–present – Secretary of the Board of Directors of OAO Tatneft.

Equity interest: 0.004583%

Criteria for determining the amount of remuneration payable to the members of the Board of Directors and the Management Board and the actual amount paid on the basis on the results for the accounting year*

The criteria used for determining the amount of remuneration payable to the members of the Board of Directors are: the profitability level; the change in the Company's capitalization level in the past (accounting) year; the change in the ratio between the dividend expenses and the Company's net profit in the accounting year.

The total amount of remuneration paid to the members of the Board of Directors in 2005 was approximately RUB49 million.

The members of the Management Board of OAO Tatneft receive basic salary as officials of OAO Tatneft, taking into consideration the criteria set for the Company's management. Remuneration paid to the members of the Management Board is based on the time worked at the primary place of employment in the accounting year. Total remuneration paid to the members of the Management Board (excluding the remuneration paid to the members of the Board of Directors) was approximately RUB101 million.

▼ INFORMATION ON COMPLIANCE WITH THE CODE OF CORPORATE CONDUCT

List of rules of corporate conduct	Compliance (full, partial)/ Non-compliance	Note
The issuer shall form a Board of Directors.	Full compliance	1) Charter, Article 8, paragraph 1 2) Regulations on the Board of Directors, Part 3, paragraph 7
The issuer's Board of Directors shall include at least 3 directors satisfying the established requirements	Full compliance	1) Regulations on the Board of Directors, Part 4, paragraph 2 2) Code of Corporate Governance, Part 4, paragraph 3
<p>■ The issuer's Board of Directors shall form a committee, whose exclusive functions shall be to evaluate the candidates for the auditors of the joint stock company, to review the auditors' reports, to evaluate the efficiency of the issuer's internal control procedures and to prepare proposals for their improvement (Audit Committee), headed by Director satisfying the requirements listed in the FFMS Order No. 04-1245/pz-n of 15.12.2005 ("the Order")</p> <p>■ The Audit Committee shall only consist of members of the Board of Directors satisfying the requirements of the Order, and should this be impossible due to objective reasons, of members of the Board of Directors satisfying the requirements of the Order and members of the Board of Directors who are not the sole executive body and/or members of the issuer's collective executive body</p> <p>■ A review of the auditors' report by the Audit Committee shall be submitted as part of materials for issuer's annual general shareholders' meeting</p>	Full compliance	<p>Regulations on the Audit Committee (resolution of the Board of Directors No. 6 of 29.10.2004)</p> <p>The composition of the Audit Committee (as approved by resolution of the Board of Directors of 29.12.2005) Chairman of the Audit Committee: Sushovan Ghosh</p>
<p>■ The issuer's Board of Directors shall form a Personnel and Compensation Committee</p> <p>■ The Personnel and Compensation Committee shall only consist of members of the Board of Directors satisfying the requirements specified in paragraph 2 of this Appendix, and should this be impossible due to objective reasons, of members of the Board of Directors satisfying the requirements of the Order and members of the Board of Directors who are not the sole executive body and/or members of the issuer's collective executive body</p>	Full compliance	<p>Regulations on the Personnel and Compensation Committee (resolution of the Board of Directors No. 7 of 28.09.2004) Chairman of the Personnel and Compensation Committee: D.W. Waygood</p>
The issuer shall form a collective executive body	Full compliance	Regulations on the Management Board (as approved by the general shareholders' meeting of OAO Tatneft on 28.06.2002)
The issuer's internal documents shall establish the duty of the members of the Board of Directors, the members of the collective executive body, the person performing the functions of the sole executing body, including the managing organization and its officials, to disclose information on the ownership of the issuer's securities, as well as on any sale and/or purchase of the issuer's securities.	Full compliance	Code of Corporate Conduct (Part 4, paragraph 3) as approved by the Board of Directors on 28.09.2004 and by internal regulations

▼ INFORMATION ON COMPLIANCE WITH THE CODE OF CORPORATE CONDUCT (continued)не)

List of rules of corporate conduct	Compliance (full, partial)/ Non-compliance	Note
The issuer's Board of Directors shall approve a document determining the rules of and the approaches to disclosing information concerning the issuer	Full compliance	1) Regulations on the Information Policy (resolution of the Board of Directors of 29.04.2004) 2) Regulations on the Disclosure Committee (resolution of the Board of Directors No. 3 of 26.09.2003)
The Board of Directors shall approve a document concerning the use of information on the issuer's activities and on the issuer's securities and transactions therewith, which is not public and the disclosure of which may materially affect the market value of the issuer's securities	Full compliance	Regulations of the Information Policy of OAO Tatneft as approved by resolution of the Board of Directors of 29.04.2004, Part 4 "Insider Information", Part 5 "Confidential Information"
The Board of Directors shall approve a document determining the internal control procedures in respect of the issuer's financial and business activities. The compliance with these procedures shall be monitored by the issuer's separate structural unit, which shall report any identified violations to the Audit Committee.	Full compliance	Regulations on the Internal Audit Service of OAO Tatneft (resolution of the Board of Directors No. 28.03.2006)
The issuer's charter shall provide that the notice of a general shareholders' meeting shall be given at least 30 days prior to the meeting, unless the legislation provides for a longer period.	Partial compliance	The Charter contains a requirement consistent with the Federal Law "On Joint Stock Companies". Actually the Company gives a notice of a general meeting to the shareholders more than 30 days in advance (in 2005, 60 days, and in 2006, 30 days in advance). A notice is published in the supplement to the FFSM Bulletin pursuant to the effective legislation; in the newspapers Neftyanе Vesti and Respublika Tatarstan; on the Company's official website at www.tatneft.ru ; in the Interfax and AK&M news lines at www.disclosure.ru
The issuer's Charter shall not relieve the acquirer of 30 or more percent of the Company's ordinary shares of the obligation to invite the shareholders to sell ordinary shares (issued securities convertible into ordinary shares) held by the shareholders.	Full compliance	Charter, Article 5, paragraph 12

▼ HISTORY OF CORPORATE GOVERNANCE IMPROVEMENT IN TATNEFT

Месяц	Событие
February 2003	The Board of Directors approved the Code of Corporate Governance of OAO Tatneft
April-May 2003	Tatneft held a public tender to select the auditor for auditing the financial statements of OAO Tatneft prepared under RAS and the consolidated financial statements of the Group under US GAAP for 2003
September 2003	The Disclosure Committee of the Board of Directors of OAO Tatneft was established
December 2003	The Audit Committee of the Board of Directors of OAO Tatneft was established
April 2004	The Corporate Governance Committee of the Board of Directors of OAO Tatneft was established
April 2004	The Board of Directors approved Regulations on the Information Policy of OAO Tatneft, aimed at ensuring the lawful right of the shareholders, investors to receive information on the Company's activities
June 2004	The Charter of OAO Tatneft was amended in order to improve corporate governance and protect the interests of minority shareholders
June 2004	Representatives of the Company's foreign shareholders were elected to the Board of Directors of OAO Tatneft
September 2004	The Personnel and Compensation Committee of the Board of Directors of OAO Tatneft was established
February 2005	The Company initiated work on improving the corporate control system of OAO Tatneft in compliance with the Sarbanes-Oxley Act and the requirements for listing on foreign exchanges. Coordinating Committee for the Establishment of Internal Control System headed by Chairman of the Audit Committee, an independent director, was created
June 2005	Three independent directors were elected to the Board of Directors of OAO Tatneft
June - December 2005	The committees of the Board of Directors were expanded in accordance with corporate governance practices
December 2005	Work on forming the Register of Corporate Standards (draft of the Regulations on the Tatneft Group) was commenced
May 2006	Regulations on the Tatneft Group were prepared and approved by the Board of Directors

▼ FROM THE LIST OF ISSUES REVIEWED BY THE MEETINGS OF THE MANAGEMENT BOARD IN 2005

Approval of the expenses under the Collective Bargaining Agreement for 2005

Regulations on the Formation and Use of the Cost Savings Fund

Spin off of non-core freight and passenger transportation operations from structural units of OAO Tatneft

Spin off of non-core construction operations from structural units of OAO Tatneft

Implementation of the investment program for oil production for 2004

Implementation of the investment program for gas filling stations for 2004.

Approval of the standard "On the procedure and principles of the structural reform and reorganization of the subsidiaries of OAO Tatneft"

New principles of and the progress in the preparation of the investment program of OAO Tatneft for oil production for 2006

Preparation of the investment program for 2005 and implementation of the investment program for subsidiaries and joint activities for 2004

Equity participation of OAO Tatneft in the companies established under the program for reforming the Company's service units

Organization of surface pumping units service in OAO Tatneft

Achievement of the guideline, normative and targeted financial performance indicators of structural units and subsidiaries for 2004 in accordance with the Corporate Code

Regulations on: corporate financial relations; procurement; transport services to OAO Tatneft and its subsidiaries, dependent companies and the companies established under the program for restructuring of service units of OAO Tatneft

Accounts receivables due from agricultural producers to structural units and subsidiaries of OAO Tatneft

Creation of a photobank of OAO Tatneft

Differentiation of the price per square meter of housing depending on the number of storeys under the social and mortgage lending programs

Preparation of the investment program for 2006

Training of employees of OAO Tatneft at commercial non-profile institutions of higher education and expenses associated with educational leaves granted to such employees

Fulfillment of the targets for the first half of 2005 laid down by Order No.3

The system of targeted financial assistance to retired employees of OAO Tatneft

Monitoring of non-profitable well stock in NGDUs

The optimal distribution mechanism for financial funds allocated for environmental activities in 2006

Non-governmental pension benefits

Regulation on the management of consolidated financial statements by the Management Executive Board of OAO Tatneft

▼ LIST OF ABBREVIATIONS

Abbreviation	Meaning
ACPSB	Almetyevsk Central Production Servicing Base
ADIOR&WWO	Almetyevsk Department for Improved Oil Recovery and Well Workover Operations
ADWD	Almetyevsk Drilling Works Department
AktDWC&PM	Aktyubinsk Department for Wireline/Container and Packer Methods
APC	alkali-polymer composition
ASK	Joint Stock Insurance Company
AzDIOR&WWO	Aznakaevo Department for Improved Oil Recovery and Well Workover Operations
AzDWD	Aznakaevo Drilling Works Department
BH, HBH	branch holes, horizontal branch holes
BMP	Bugulma Mechanical Plant
CAL	Chemical Analytical Laboratory
COTU	Complex Oil Treatment Unit
CWP	technology based on cross-linked cellulose esters
DPPFMRP	Department for Preparation of Processing Fluid for Maintaining Reservoir Pressure (a structural unit of OAO Tatneft)
DWR	downhole well repair
ELI	electric loading installations
ENICE	equipment not included in construction estimates
EOR	enhanced oil recovery
ESP	electric submersible pump
HT	horizontal tank

Abbreviation	Meaning
IOR	improved oil recovery
MC	Management Company
MICEX	Moscow Interbank Currency Exchange
NDWD	Nurlat Drilling Works Department
NGDU	Oil and Gas Production Department (a structural unit of OAO Tatneft)
NGL	natural gas liquids
NRPR	natural resources production tax
NYSE	New York Stock Exchange
OAO Tatneft	Open Joint Stock Company Tatneft named after V.D. Shashin
OOO	Limited Liability Company
OPER	oil-producing equipment repair
PTC	Personnel Training Center
R&D	Research and Development
RD	Rigging Department
RETO	repair of electric equipment
RON	repair and operational needs
RPM	reservoir pressure maintenance
RT SII	Society of Inventors and Innovators of the Republic of Tatarstan
RTS	Russian Trading System Stock Exchange
SRP	sucker rod pump

Abbreviation	Meaning
SRS	Standards Research Station (a structural unit of OAO Tatneft)
TBO	time between overhauls
TGPD	Tatar Geological Prospecting Department
TNG	Tatneftegeofizika
UTT	Utility Vehicles Department
VSST	vertical stainless steel tank
WWO	well workover operations
ZAO	Closed Joint Stock Company

Concept of the annual report:

V.P. Lavuschenko
V.I. Gorodny
V.A. Voskoboinikov
N.E. Dorpeko

Workgroup for the preparation of the annual report:

I.G. Garifullin
E.A. Tikhturov
A.F. Rakhmanova
D.V. Kurochkin
M.M. Sharafutdinov
A.T. Yukhimets

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Direct Design Visual Branding

In order to provide the shareholders, investors and other stakeholders with complete information on the progress in achieving the Company's goals towards economic stability, social well-being and environmental safety laid down in its development strategy, the Company has prepared the Report on Social, Economic, Environmental and Innovation Activities of OAO Tatneft for 2005.

The Report presents comprehensive information on the implementation of corporate programs and economic, social and environmental projects. The Report also reflects the Company's innovation activities and implementation of its small and medium-sized business support program.

The Report was prepared on the basis of recommendations contained in the Global Reporting Initiative (GRI) – an international standard for reporting on social and environmental activities. The Report includes an index in the table format, reflecting the extent to which the GRI indicators have been used.

Bureau Veritas Rus has performed an independent verification of the Report on Social, Economic, Environmental and Innovation Activities of OAO Tatneft for 2005 and issued an auditors' report based on its findings. After the publication of the Report, the Company expects to broaden the dialogue on corporate social responsibility issues with all interested parties. The Report will be submitted to the shareholders, investors, employees, government authorities, administrations of the cities, towns and regions where the Company conducts its activities, business partners, and non-profit organizations.

The Report on Social, Economic, Environmental and Innovation Activities and the Annual Report complement each other and represent a complete package of information for analysis of the Company's operations, taking into account the long-range prospects.

From the independent auditors' report on the verification of the Report on Social, Economic, Environmental and Innovation Activities of OAO Tatneft for 2005, prepared by Bureau Veritas Rus:

- The Report in general adequately reflects the performance of Tatneft in terms of corporate social reporting.
- The Report is presented in a clear and understandable manner and is accurate, objective and informative.
- Tatneft has efficient management systems, which permit it to identify significant social, economic, environmental and innovational aspects of its activities, to manage related processes, and to determine and respond to the expectations of interested parties in their respect.
- The systems for control over social reporting on the part of the Company's management are adequately supported by the organizational policy and resources.

▼ CONTACT INFORMATION**ОАО «Татнефть»**

ОАО Tatneft
Ul. Lenina 75, Almeteyevsk,
423450 Tatarstan, Russia
Tel.: (+7-8553) 25 58 56
Fax: (+7-8553) 25 68 65

Moscow Representative Office
Tverskoy boulevard 17,
Moscow 123104, Russia
Tel.: (+7-495) 937 55 33
Fax: (+7-495) 937 55 32

Information for shareholders
Ul. Gagarina 10, Almeteyevsk,
423450, Tatarstan, Russia
Tel.: (+7-8553) 31 97 48
Fax: (+7-8553) 25 07 00

ОАО Акционерный Капитал
(the Company's registrar)
Ul. Mira 10, Almeteyevsk,
423450 Tatarstan, Russia
Tel.: (+7-8553) 23 97 13
Fax: (+7-8553) 31 16 54

ООО Ernst & Young
(Company's auditor)
Sadovnicheskaya nab. 77, build. 1,
Moscow 115035, Russia
Tel.: (+7-495) 705 97 00
Fax: (+7-495) 755 97 01