



**TATNEFT**

# Presentation to Investors

Inaugural Investment Summit of  
Tatarstan Republic, London

October 2006

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# Welcome



## ОАО Tatneft

**75 Lenin Street  
Almetyevsk  
Republic of Tatarstan  
Russian Federation**

### *Investor relations*

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## 2

# Review of Tatneft Activities

### Company's Market Position

- **6<sup>th</sup> largest Russian oil producer**
- **32<sup>nd</sup> oil producer globally**
- **21<sup>st</sup> in the world based on proved oil reserves (5,872 million barrels as of 1<sup>st</sup> January, 2006)**

### Main Activities

- **Oil & gas production**
- **Sales of crude oil and petroleum products**
- **Refining**
- **Geological, drilling and oilfield services**
- **Petrochemicals**



# 3

## Tatneft is an International Oil Company

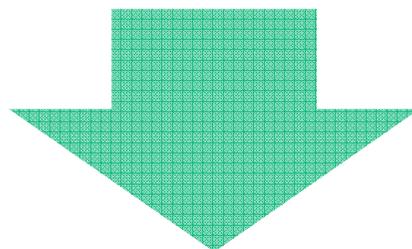
- Tatneft operates in several countries
- Main oil production assets are located in Tatarstan
- E&P operations are conducted in Russia and abroad
- Network of Petrol Stations in Russia and Ukraine



# 4

## Main Strategic Initiatives and Goals

- Stabilization and optimization of oil & gas production in Company's Licensed Fields
- Expansion of reserve base, including outside Tatarstan Republic
- Further development of Company's own oil & gas refining and petrochemical capabilities
- Continued improvement of corporate governance
- Development and implementation of Research & Development policies (R&D)



Increase Company Capitalization

# 5

# Chain Drive for Rod Pump

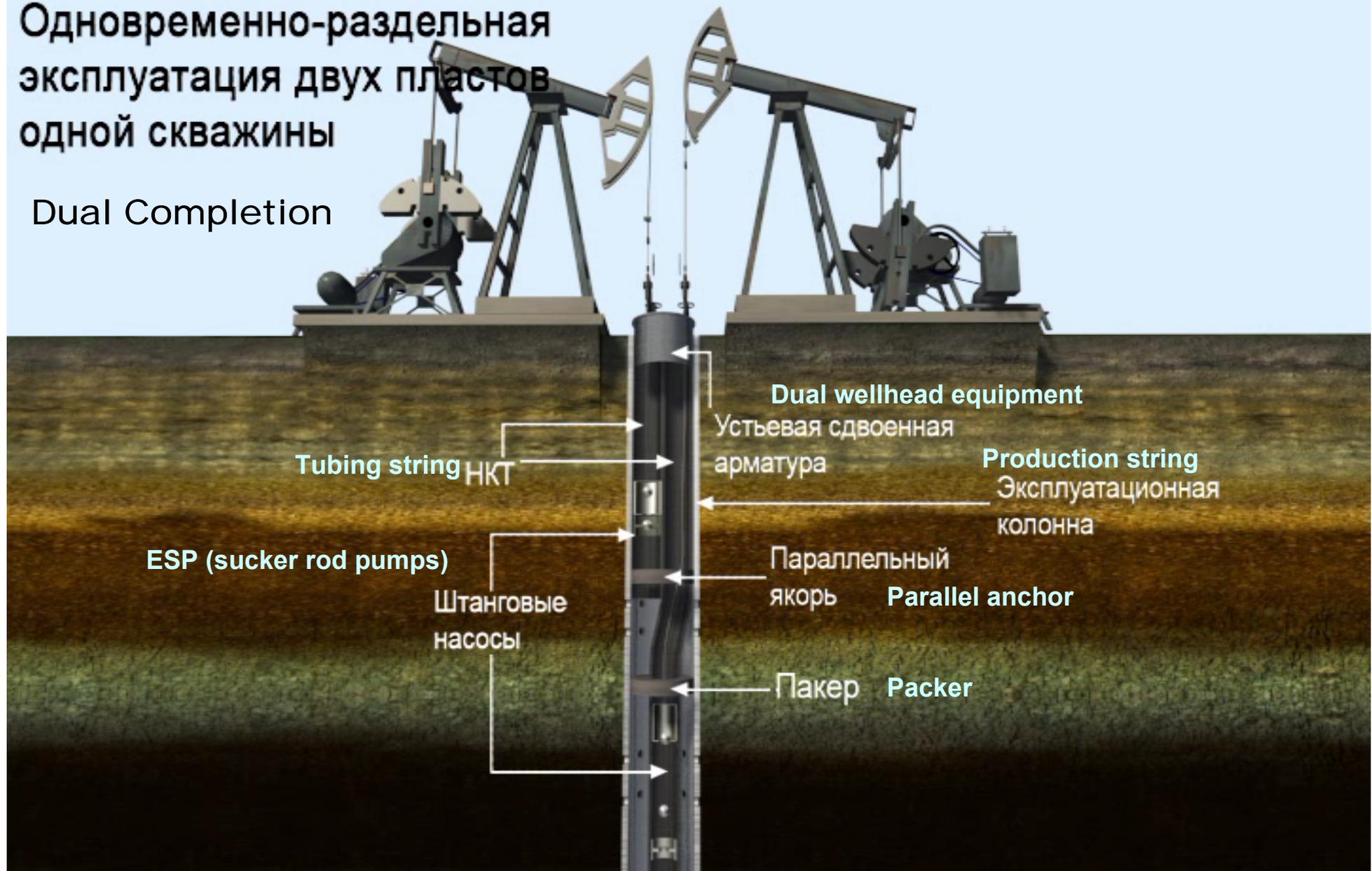


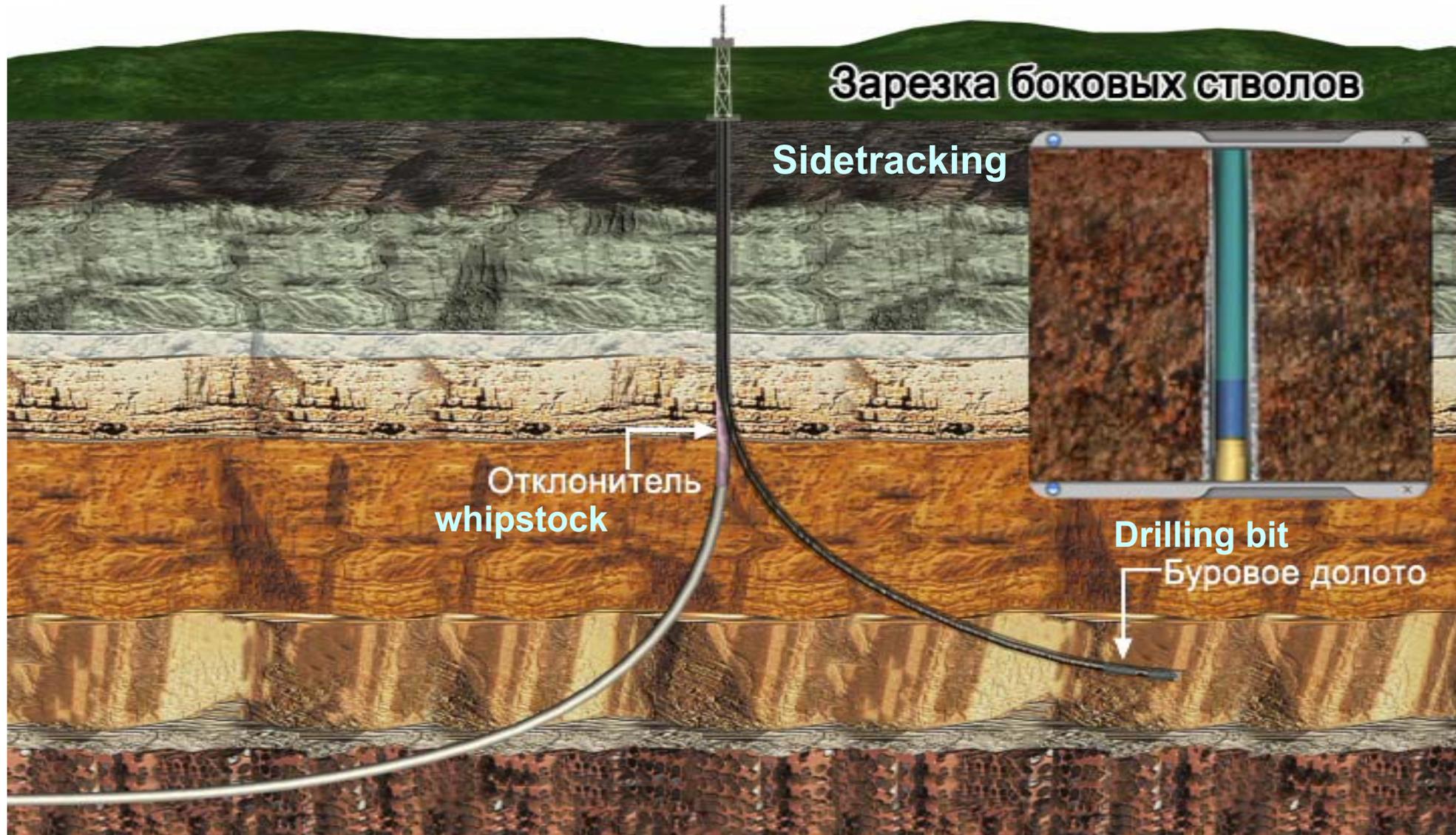
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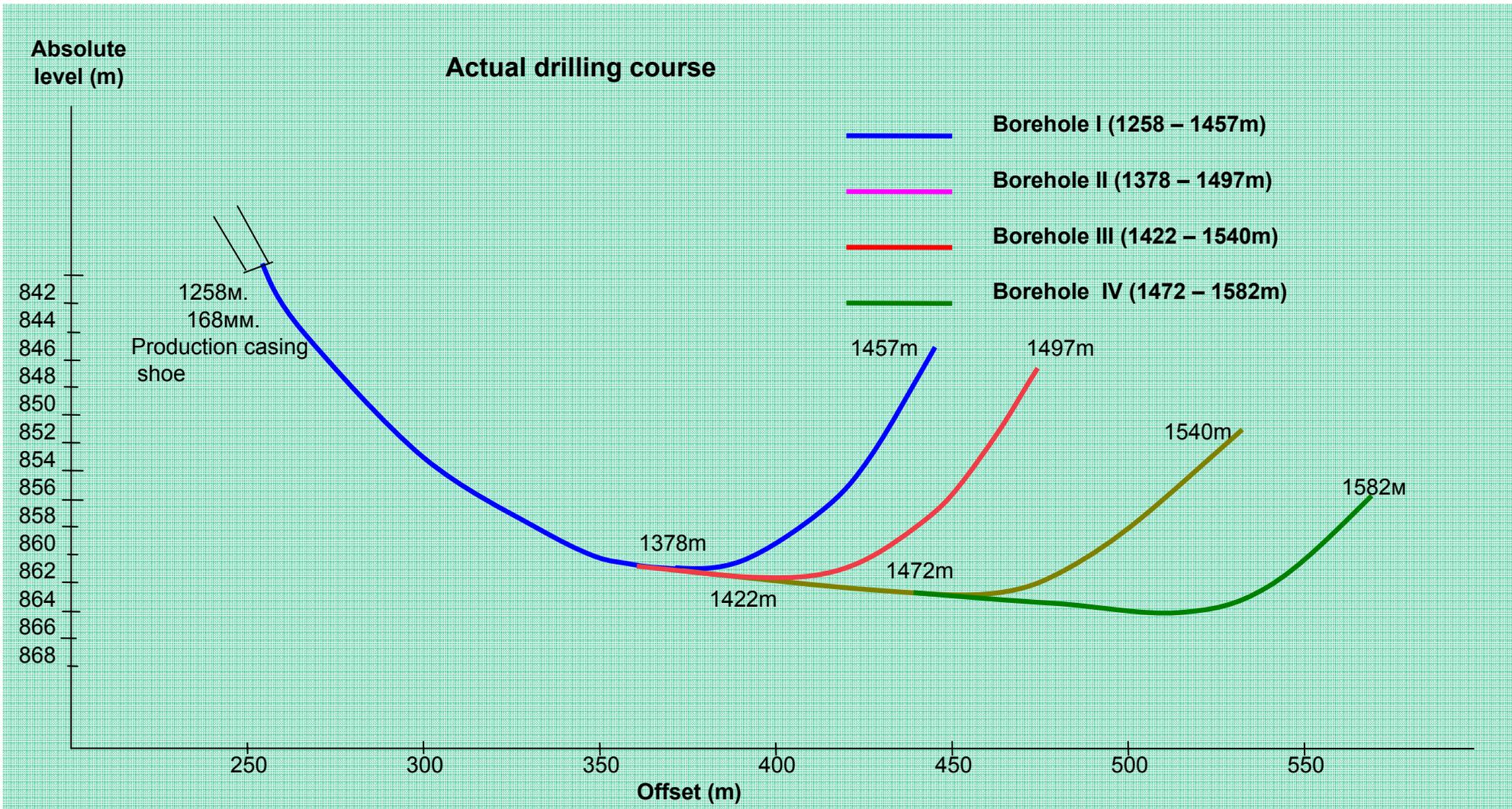
## Dual Completion

Одновременно-раздельная эксплуатация двух пластов одной скважины

Dual Completion

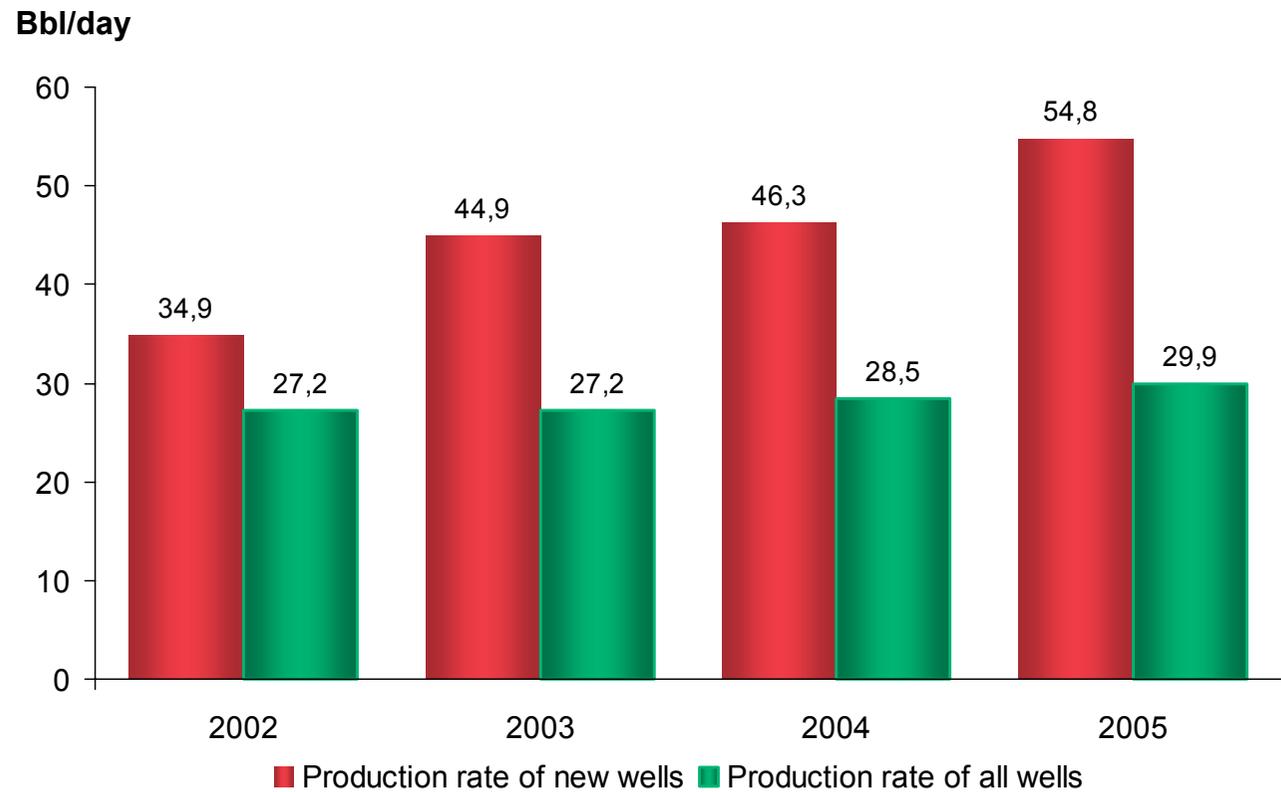






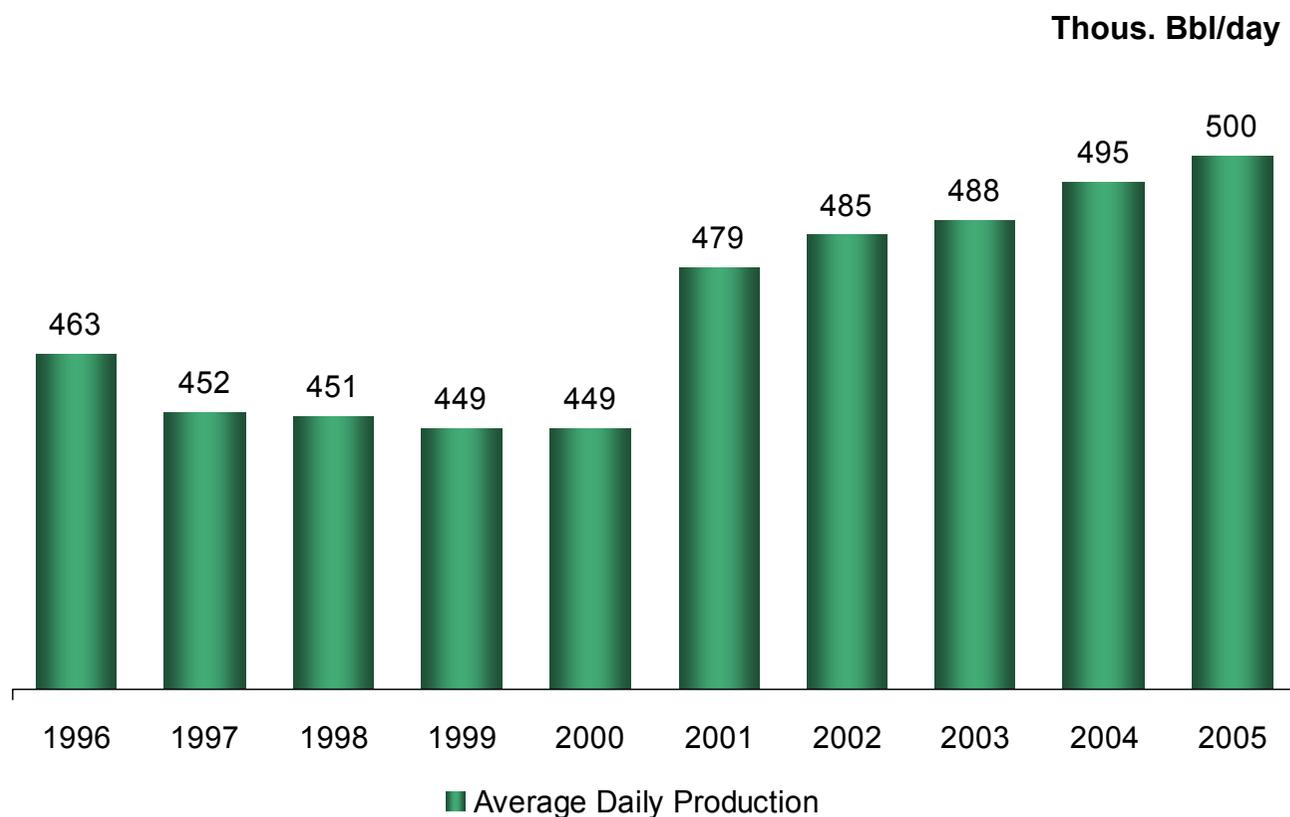
## Well Production Rates

- Since 2002, weighted average production flow rate increased by 10%



## Production trend in the last ten years

- Production volumes have been growing over the last several years
- Growth achieved due to application of modern technologies and expansion of reserve base
- Production growth expected to continue in the future



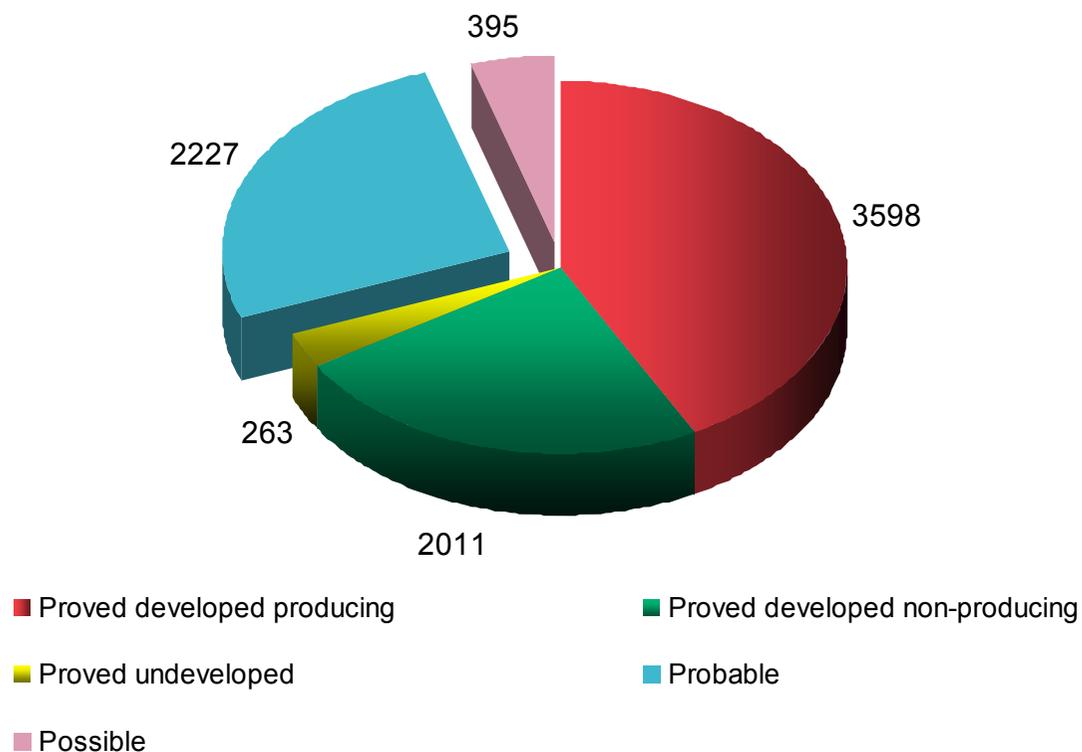




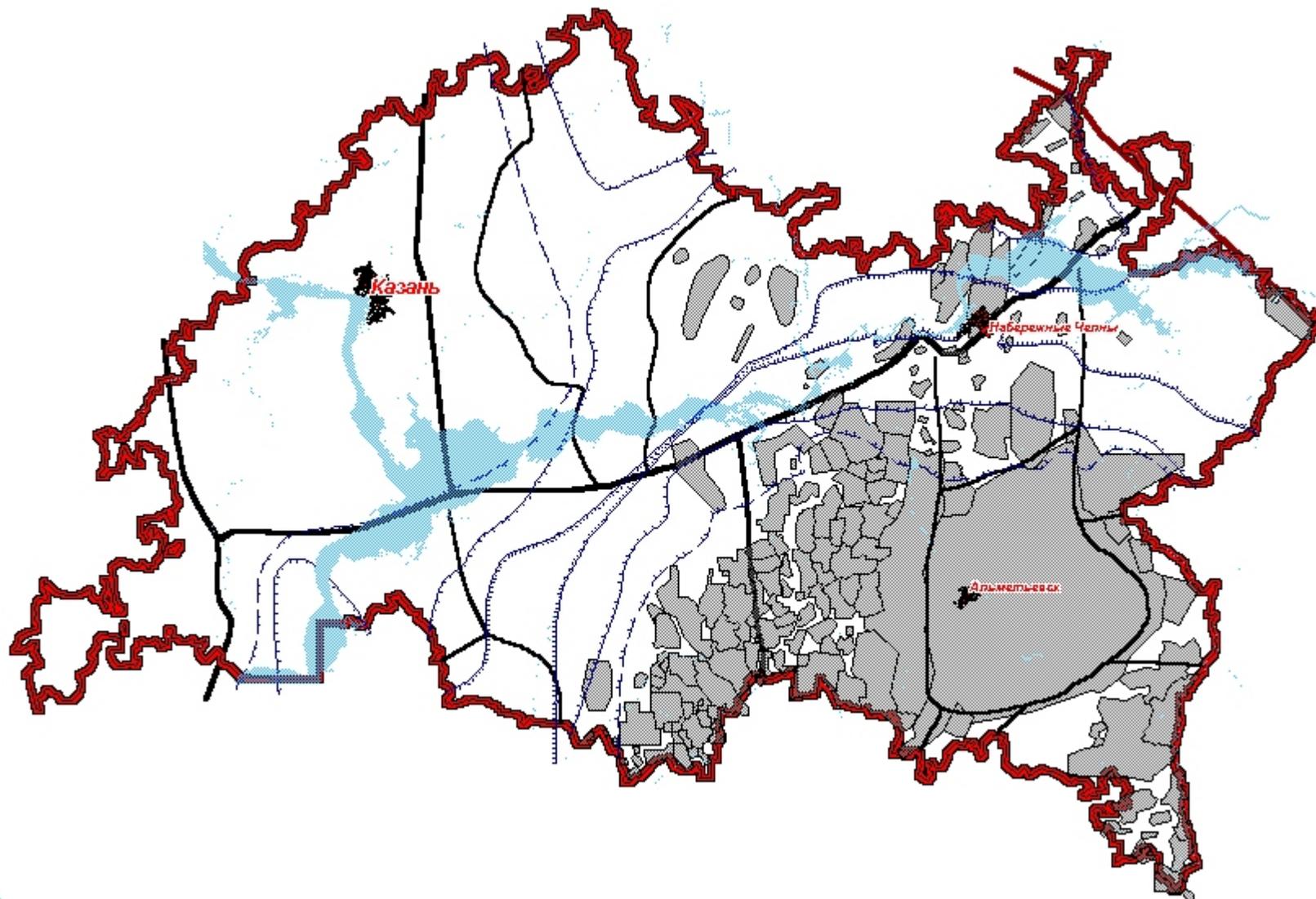


## Oil and condensate reserves, Million Bbl

- Total proved reserves of oil and condensate – 5,872 mln. bbl
- Total proved, probable, and possible reserves – 8,494 mln. bbl
- Useful life of Tatneft's reserves is 32 years



Source: OJSC Tatneft press-release dated 13 September 2006



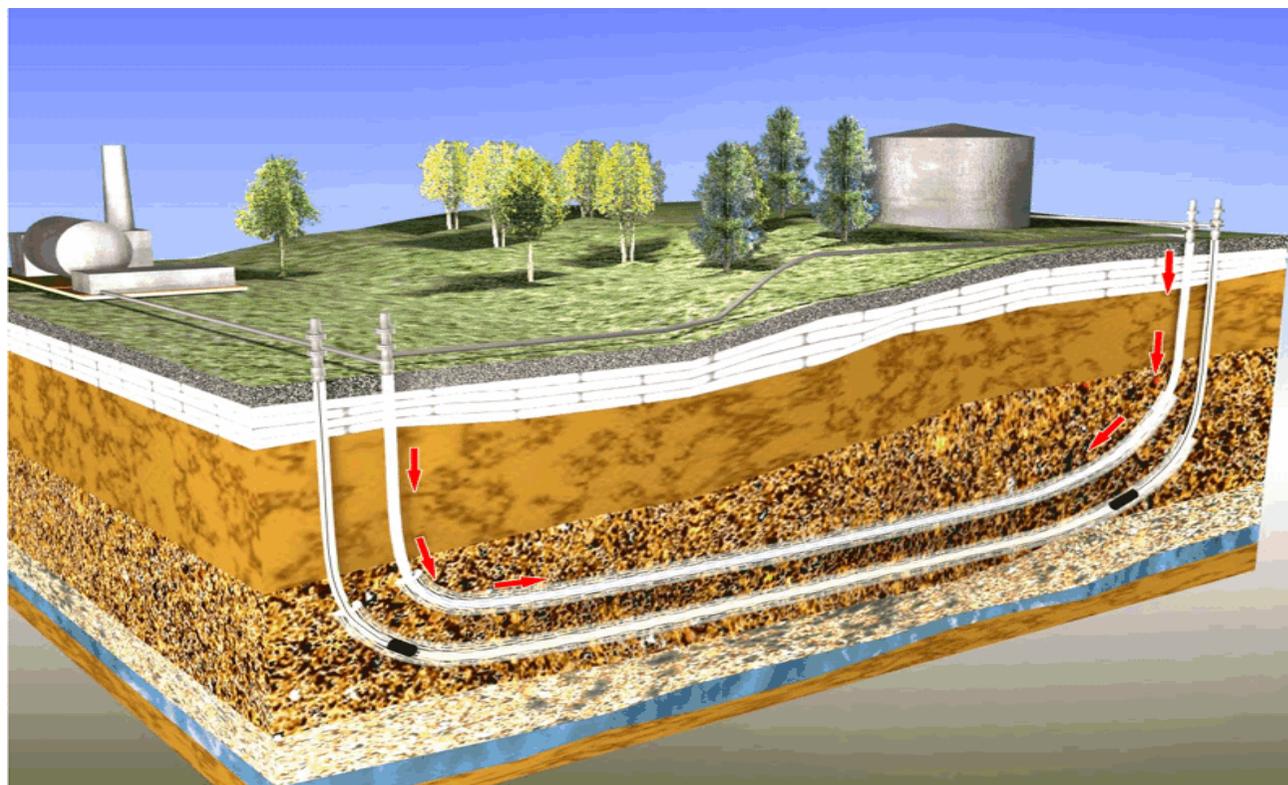


### Differentiated Unified Natural Resources Production Tax

- **1 January 2007 new taxation of natural resources production**
- **Differentiated taxation based on depletion of reserves**
- **Tatneft will benefit from the new tax regime**
- **Estimated 180 mln US\$ annual tax savings at current crude prices**
- **Zero tax rate on bitumen production**

## Diagram of pilot project for natural bitumen production

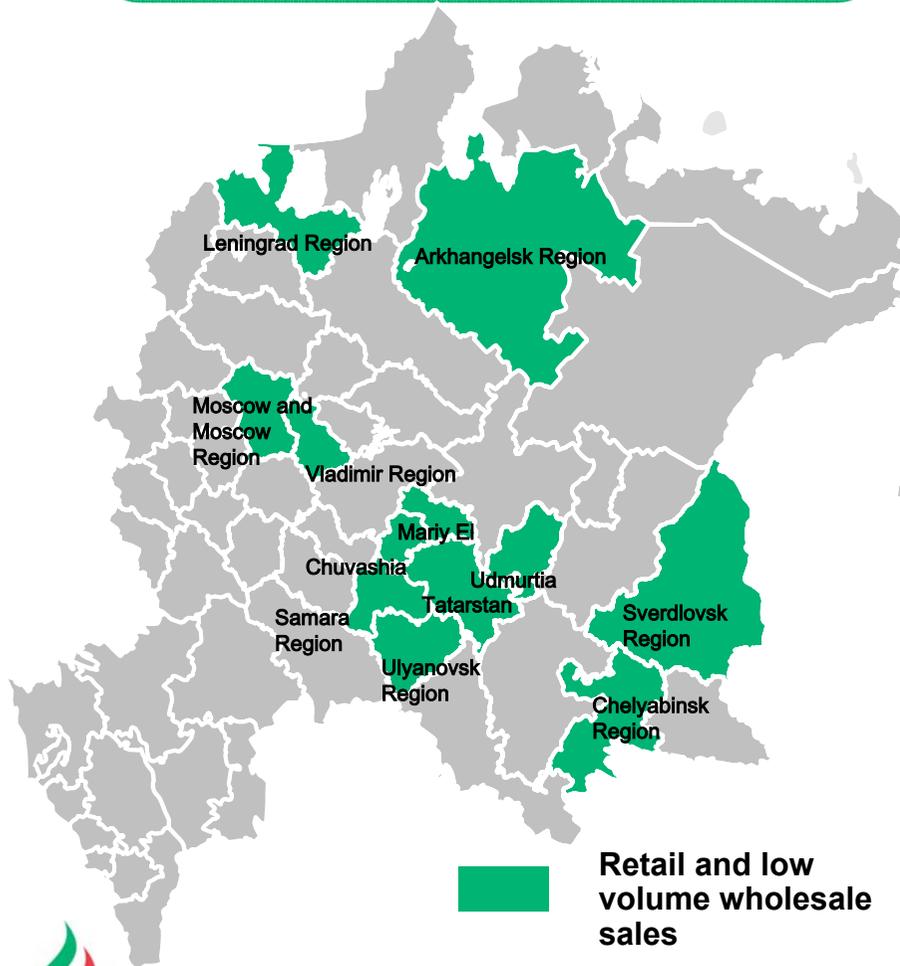
- Currently, natural bitumen resources in Tatarstan are estimated in the amount of up to 50 Billion Barrels
- Tatneft employs innovative technologies in pilot project of natural bitumen development



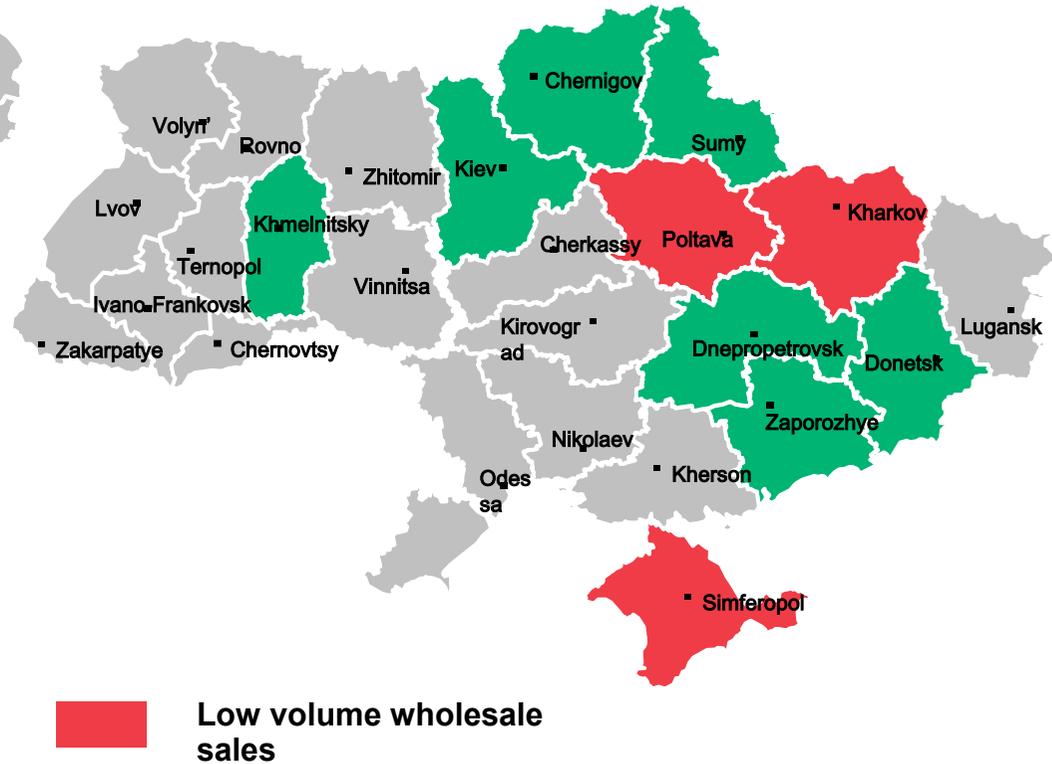


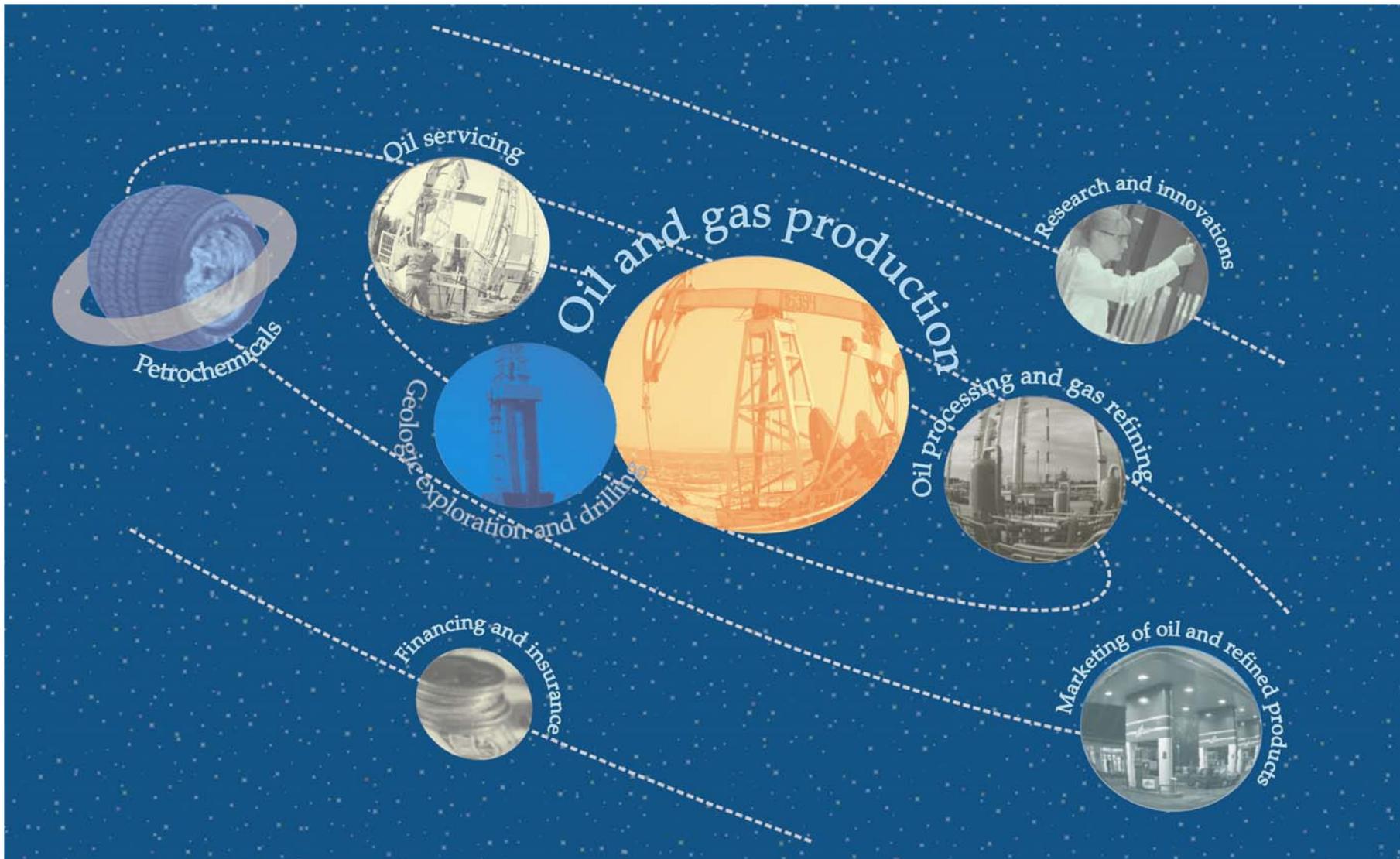


Tatneft retail distribution network in Russia



Tatneft retail distribution network in Ukraine

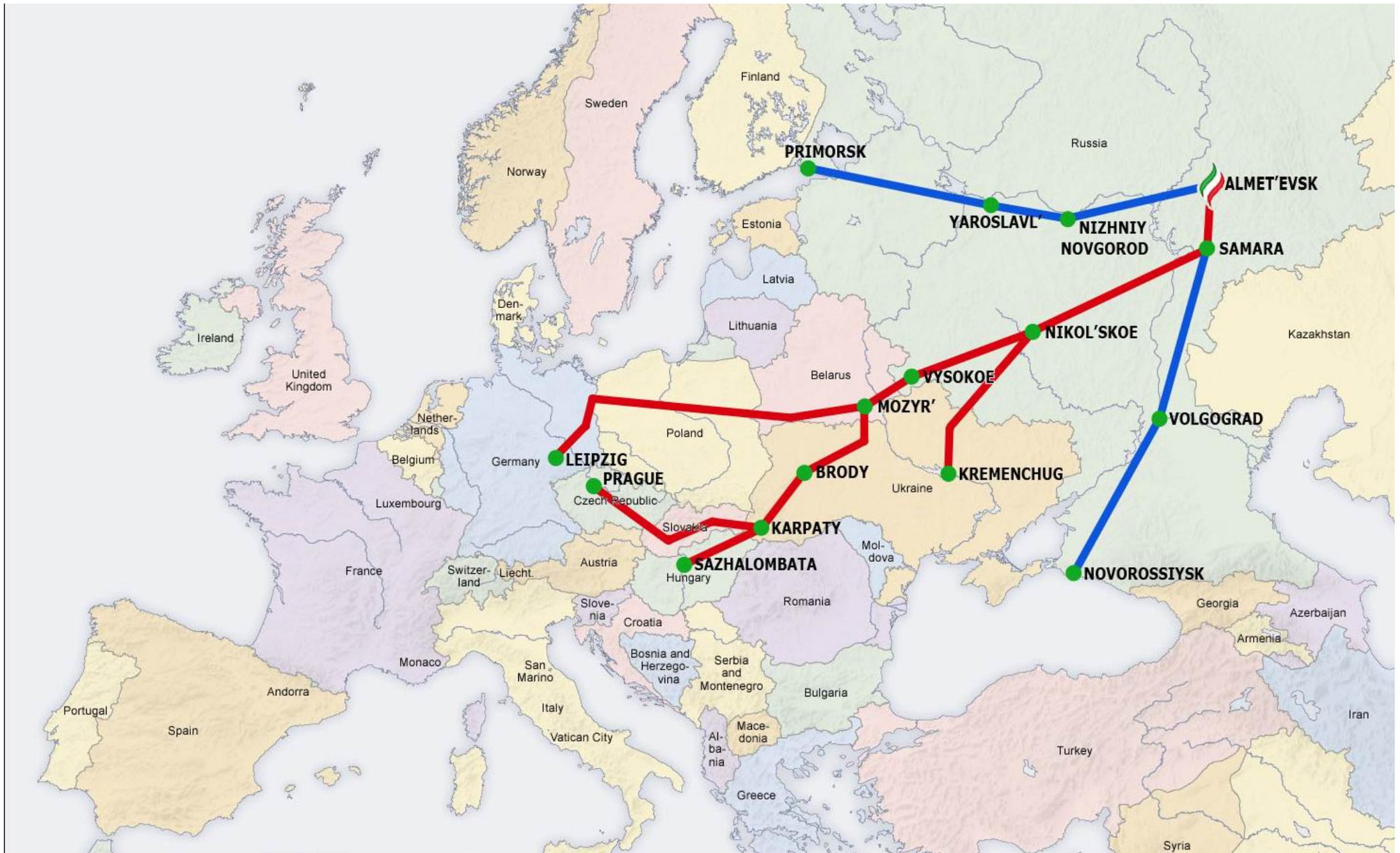


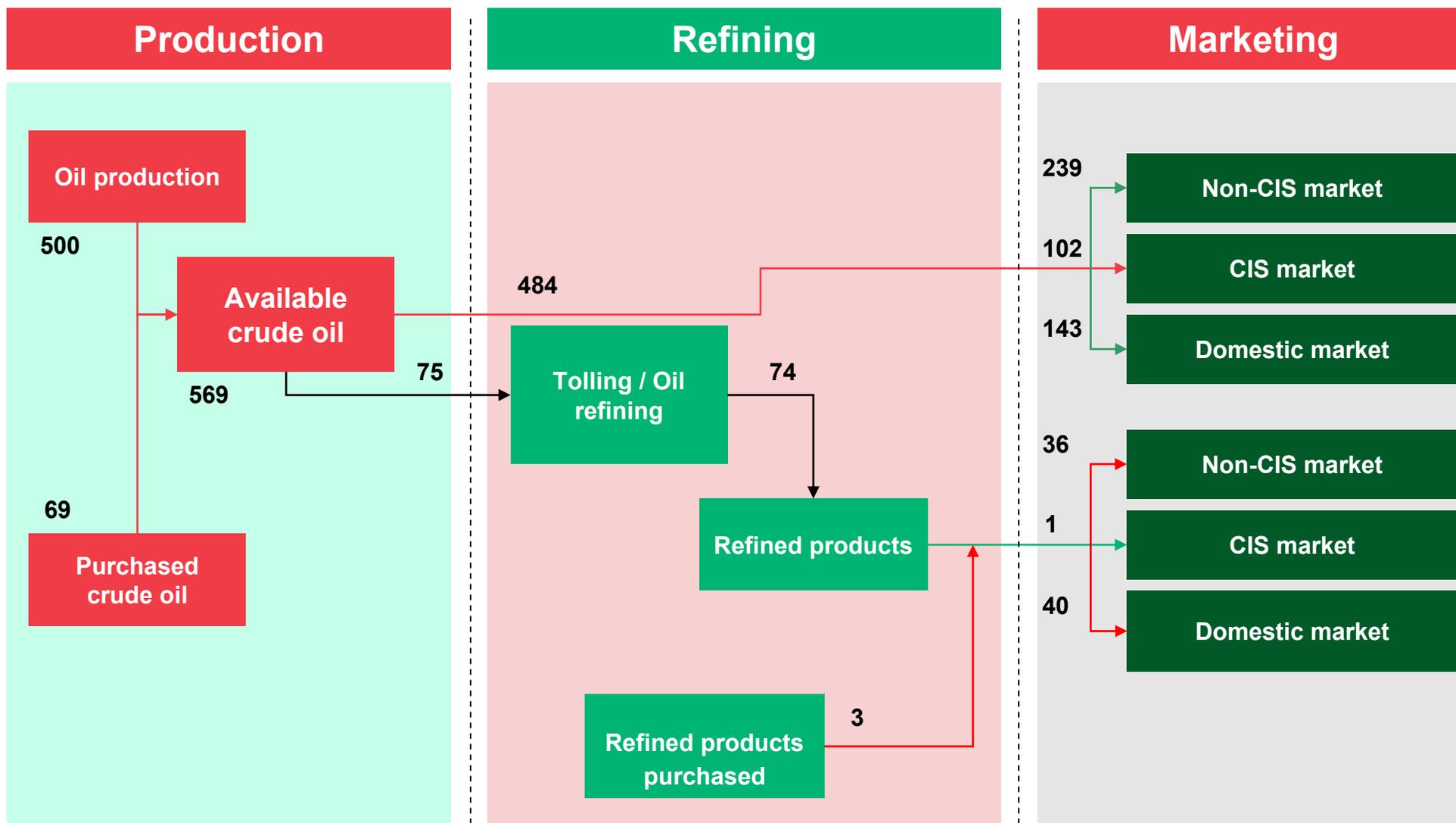




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# Distribution and Marketing





Thous. Bbl/day

### Construction of new Oil Refining and Petrochemical Facility in Nizhnekamsk

#### Project overview

- Construction start 2005
- Total planned investment in construction (incl. VAT) 130 bln RR
- Incl. Government financing for infrastructure construction 16.5 bln RR <sup>(1)</sup>

#### Phase 1: Oil Refinery construction

- Capacity 140 Thous. Bbl/day
- Planned completion date:
  - 1<sup>st</sup> production stage of Oil Refinery 09.2008
  - 2<sup>nd</sup> production stage of Oil Refinery 07.2009

#### Phase 2: Construction of facilities for deeper petroleum conversion

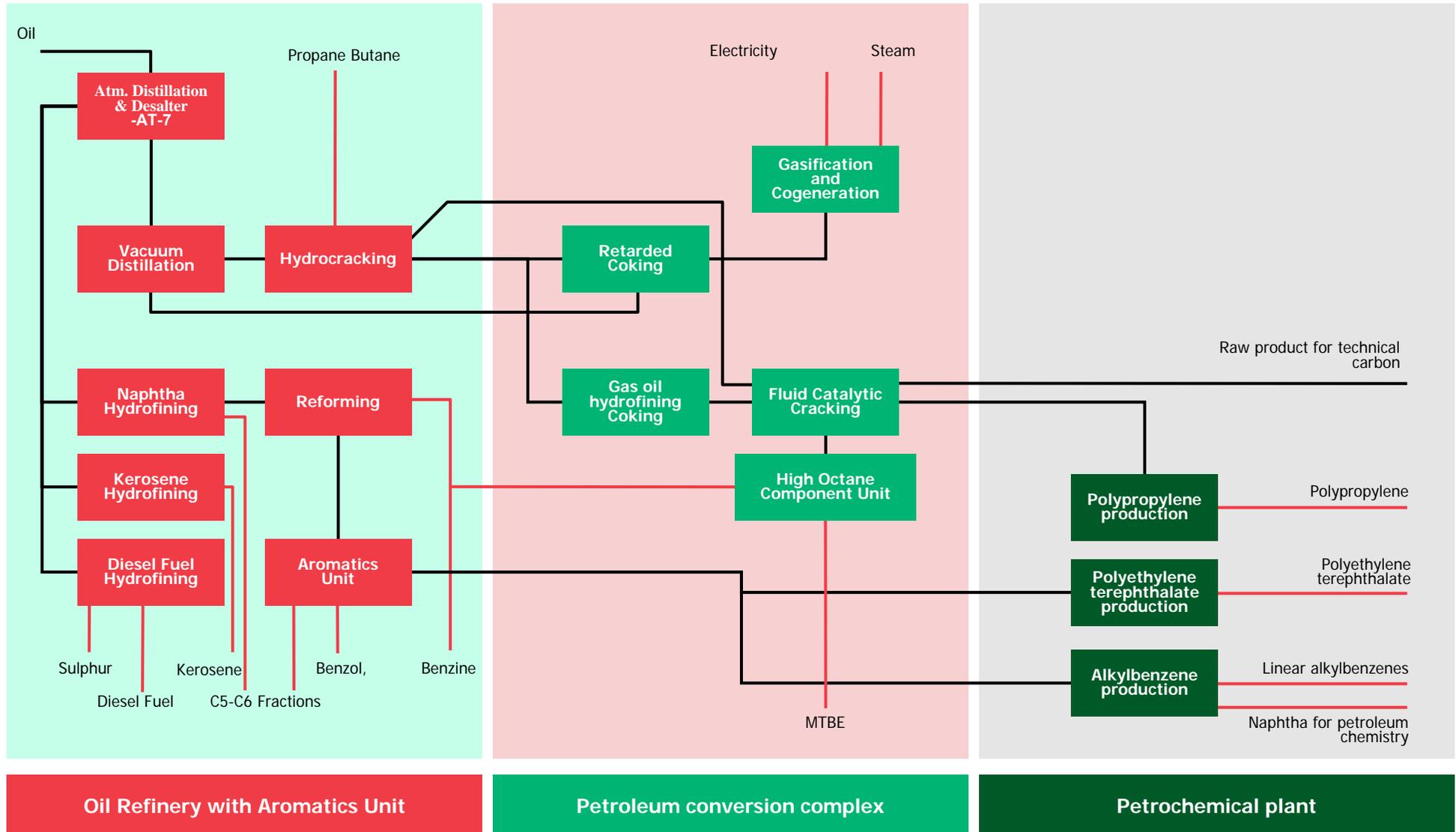
- Capacity of refining heavy residuals 44 Thous. Bbl/day
- Planned completion date 12.2009

#### Phase 3: Petrochemical plant

- Planned completion date 11.2010

(1) To be approved by RF Government





## Overview of Sales via Petrol Stations

### Key markets:

- Moscow region: 124 stations\*
- Tatarstan: 140 stations\*
- Other regions of Russia: 144 stations\*
- Ukraine: 145 stations\*

### Sales Increase

- 2004: 33 new gas stations built

### Development strategy until 2010 approved recently

- Increase presence in target markets
- Enter new markets

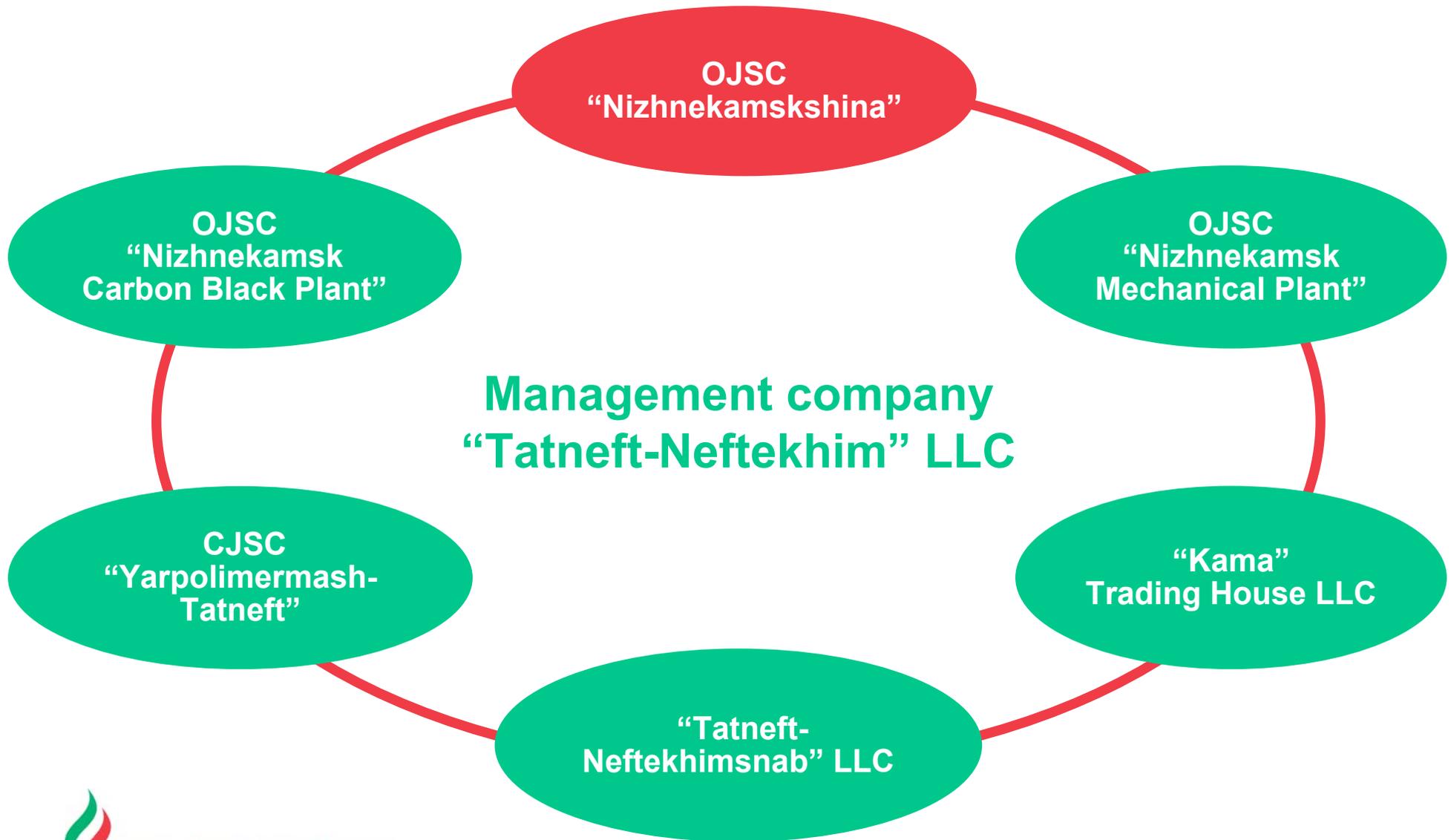
\* As of 1 January 2006

## Number of Petrol Stations

Region	1 Jan 2005	1 Jan 2006	1 Sep 2006
Russia	402	408	410
Ukraine	145	145	146
Russia & Ukraine	547	553	556











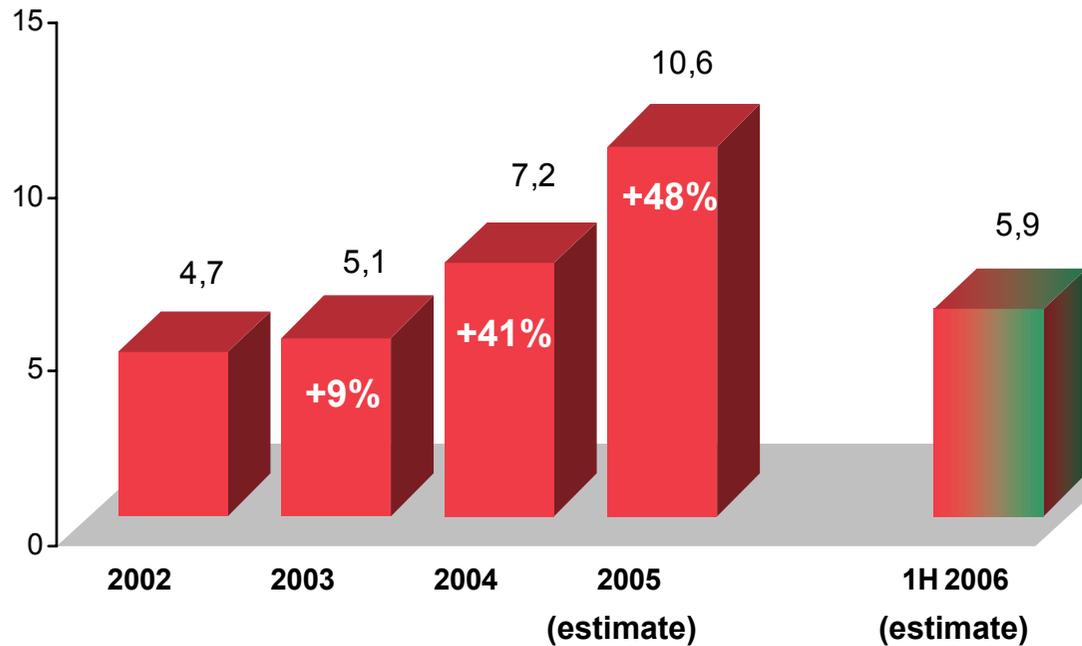


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# Financial Overview

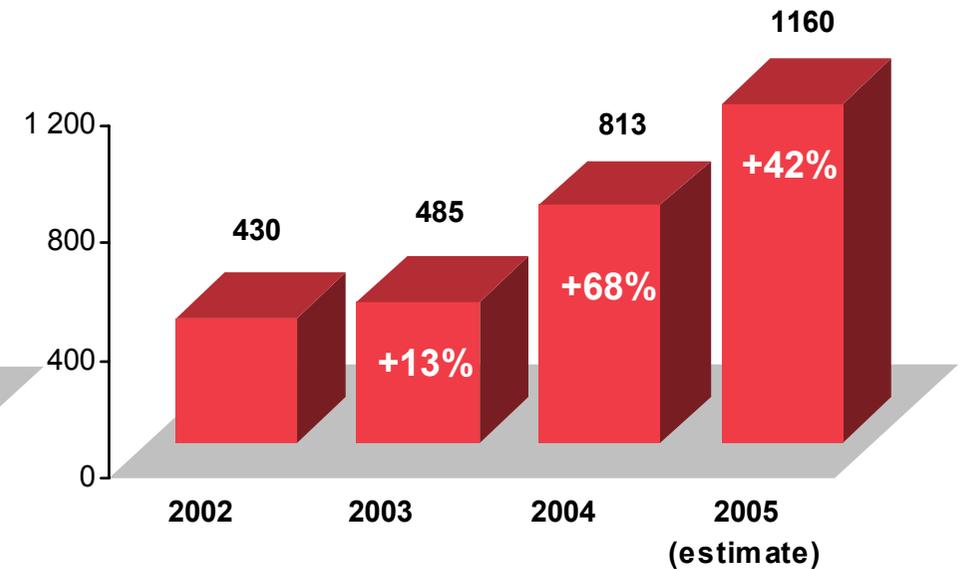
## Revenue

\$bln.



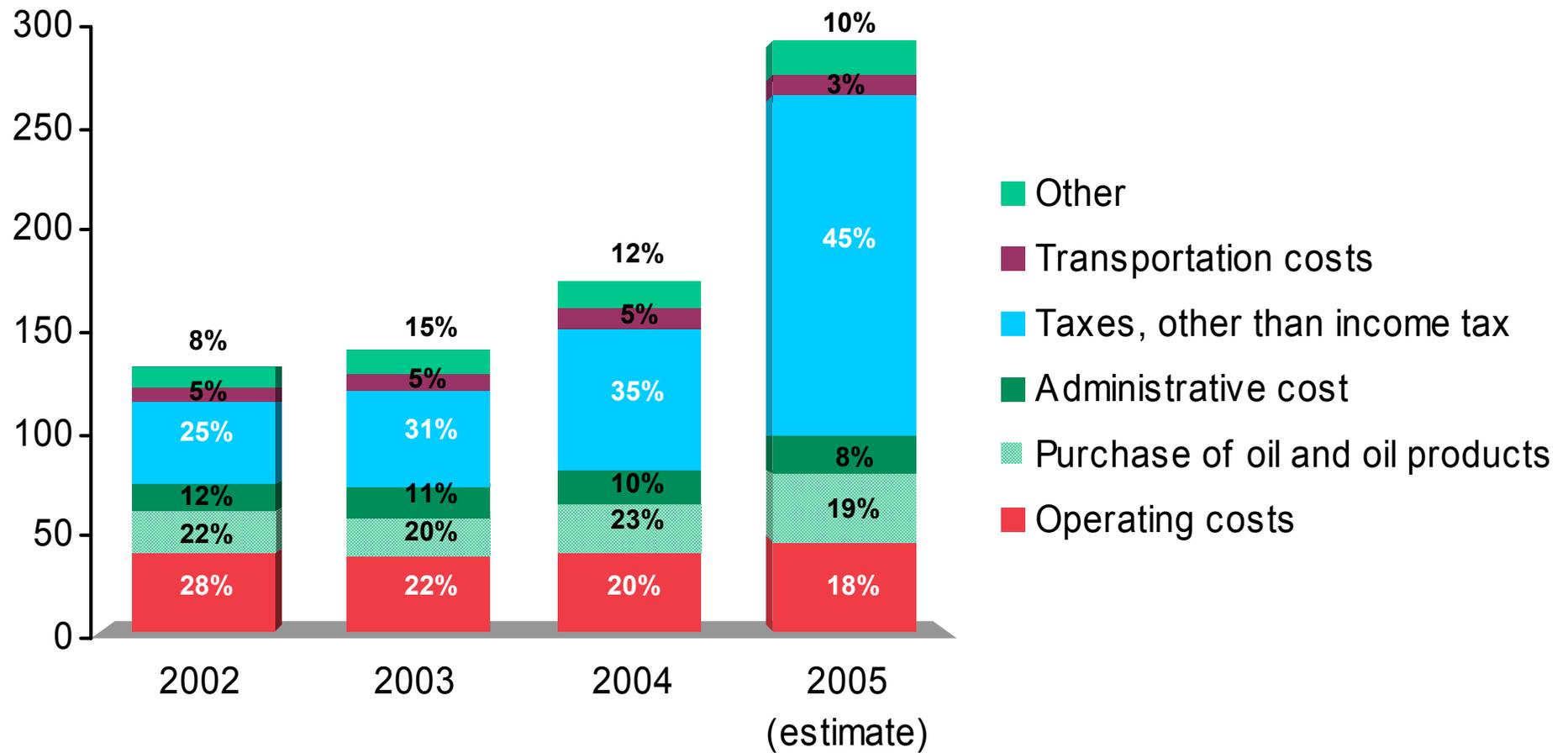
## Net Income

\$mln.

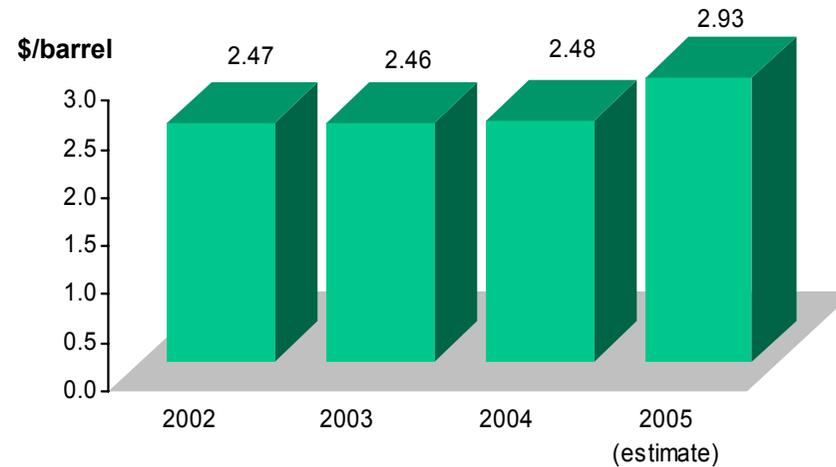


(1) Conversion of rubles into dollars is done by the average yearly exchange rate

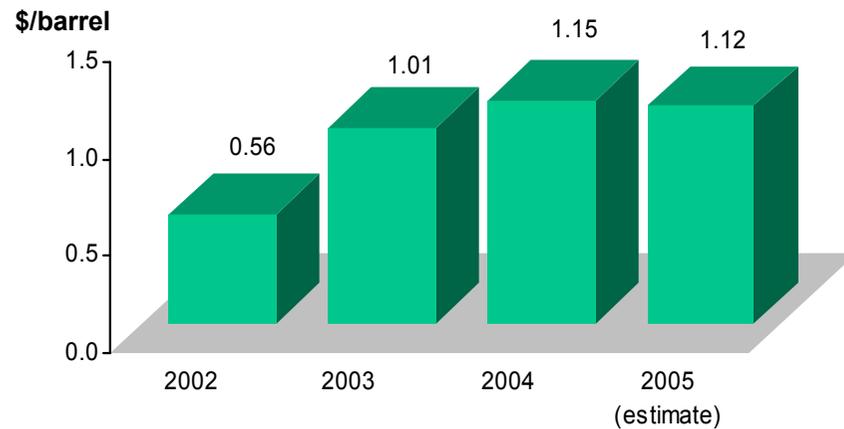
Bln. Rub



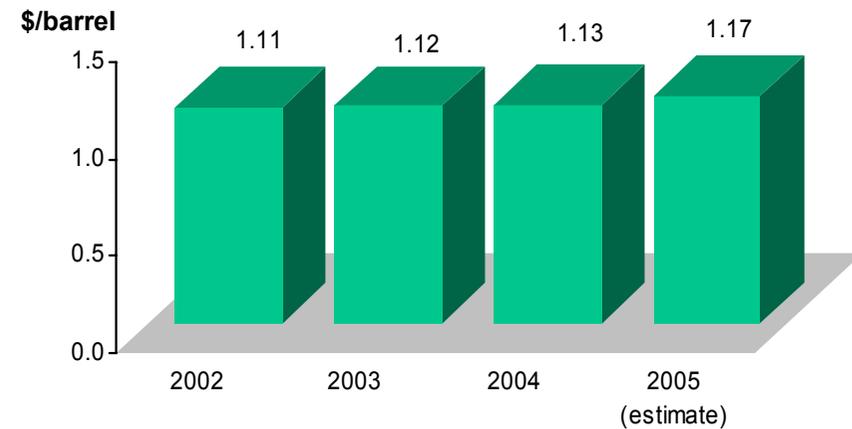
## Lifting costs



## Transportation costs



## Selling, general and administrative expenses

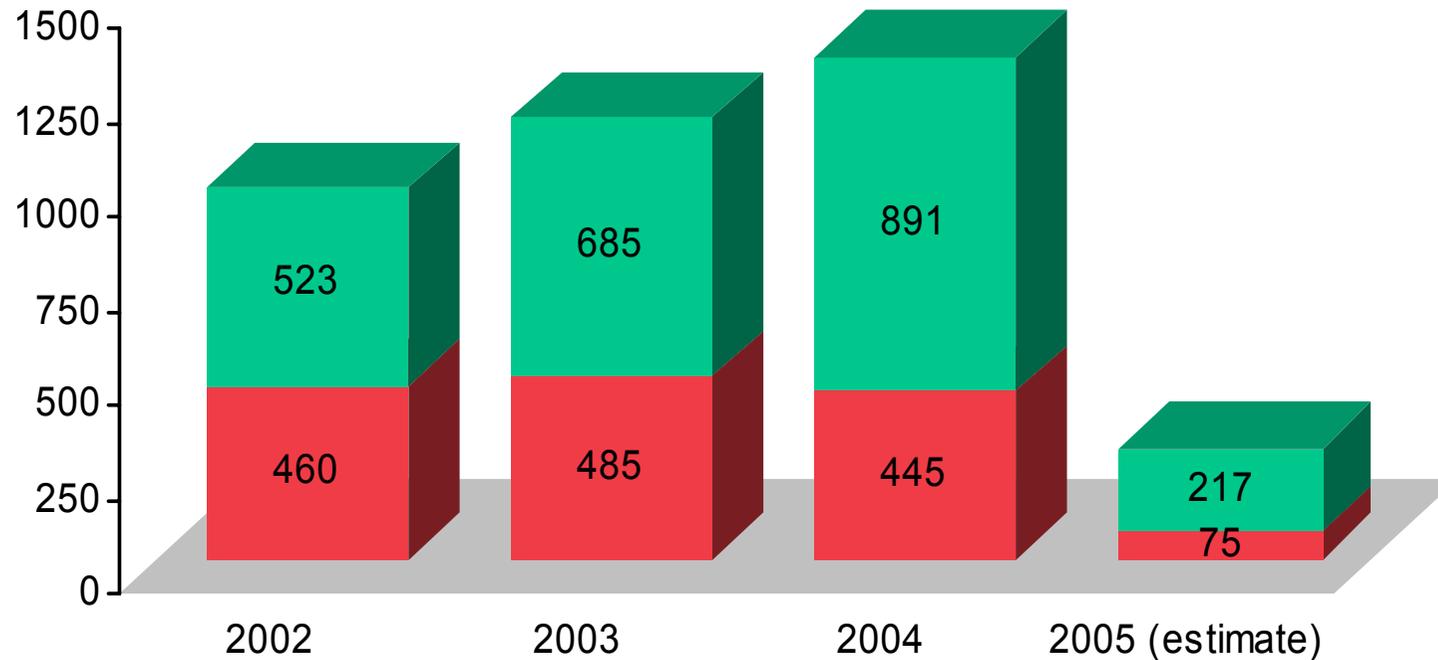


Source: Annual report on form 20-F for 2004

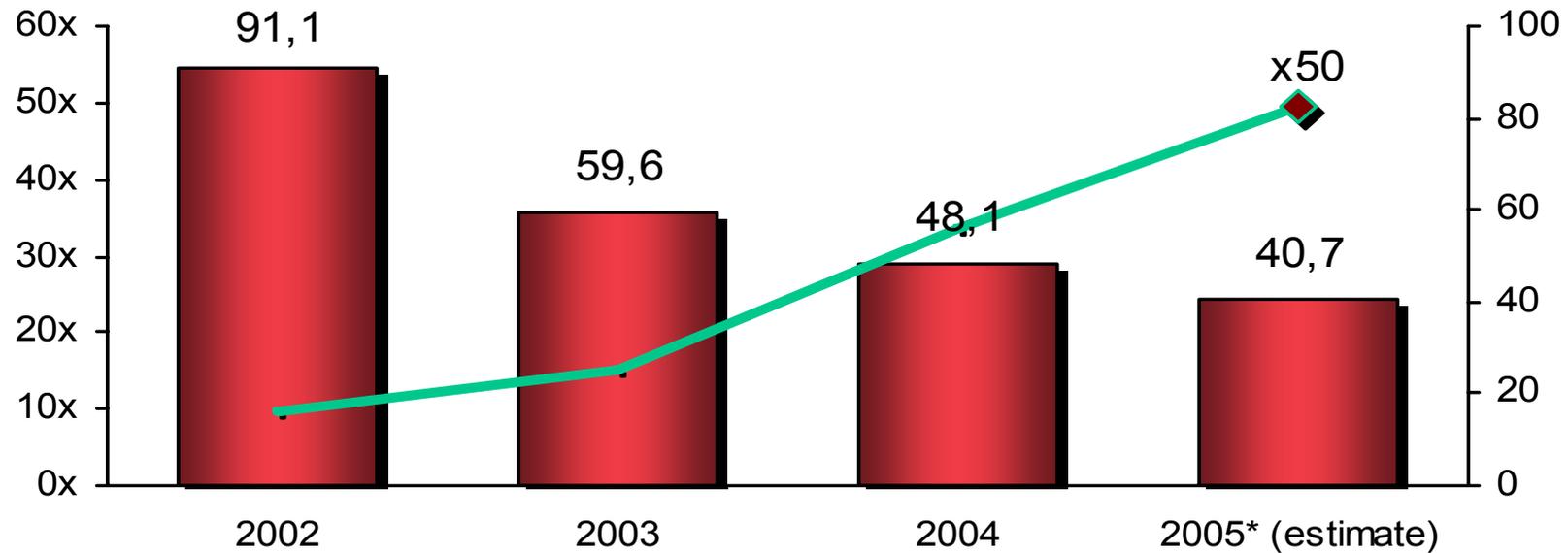


## Long-term and Short-term Loans

\$ mln.



■ Long-term loans ■ Short-term loans

EBITDA / Interest expenses<sup>(1)</sup>EBITDA/interest expenses  
(times)Interest expenses  
(\$ mln.)

Interest expenses

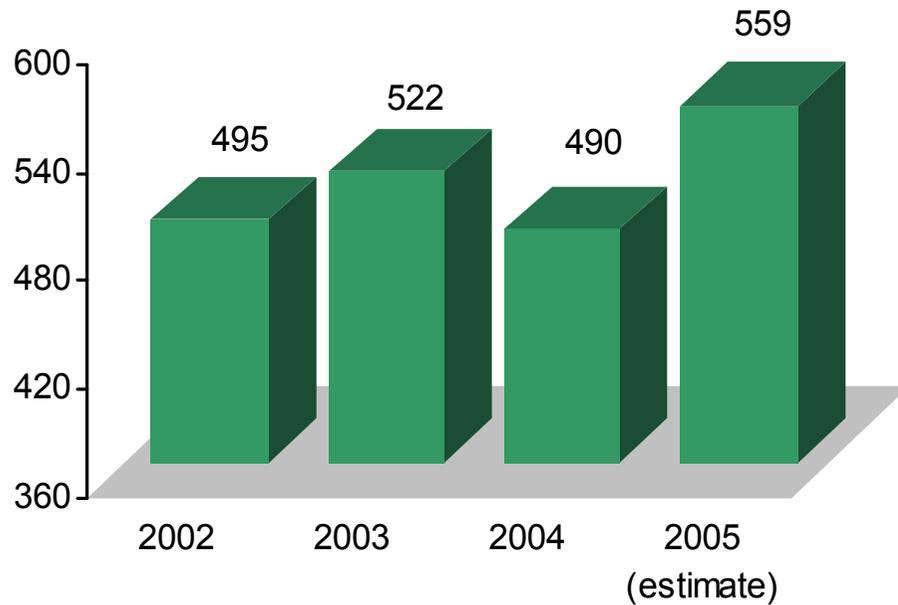
EBITDA/interest expenses

(1) Conversion of rubles into dollars is done by the average yearly exchange rate  
 \* For reconciliation of adjusted EBITDA to net profit see slide A1 of this presentation

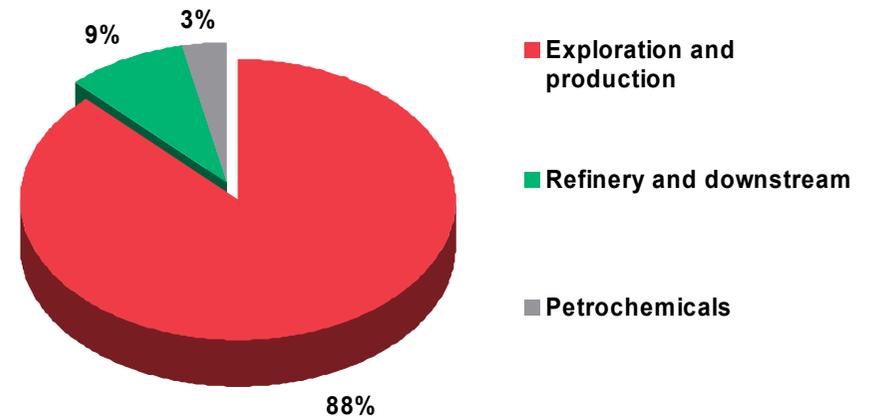
## Net debt, \$ mln.

	2002	2003	2004	2005 (estimate)
Debt	(983)	(1,170)	(1,336)	(292)
Cash funds	222	287	652	627
Net debt	(761)	(883)	(684)	335

CAPEX trend\* (\$ mln.)



CAPEX estimation by segments in 2005 (\$ mln.)\*



Source: Annual report on form 20-F for 2004; Miller & Lents report  
 Note: Conversion of rubles into dollars is done by the historical exchange rates, indicated in the form 20-F

\* Except non-cash items, due to changes in the leasing accounting and capitalization policy

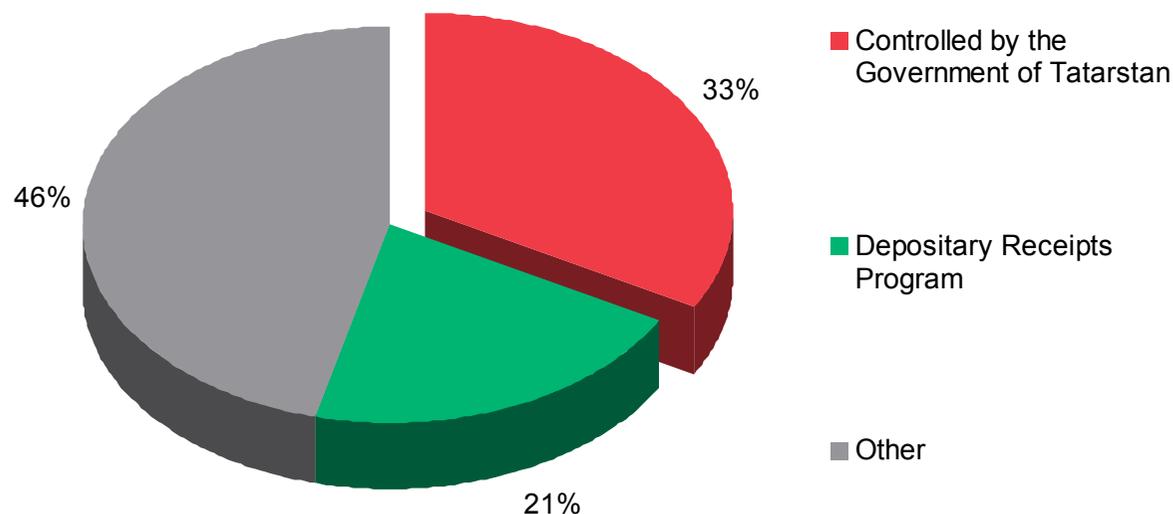


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# Corporate Governance

## Tatneft Shareholders

- Company's shares are traded on Russian and foreign stock exchanges (MICEX, RTS, LSE)
- OJSC "SINH" (100% of its shares are owned by the Republic of Tatarstan) – major shareholder
- Wide range of shareholders



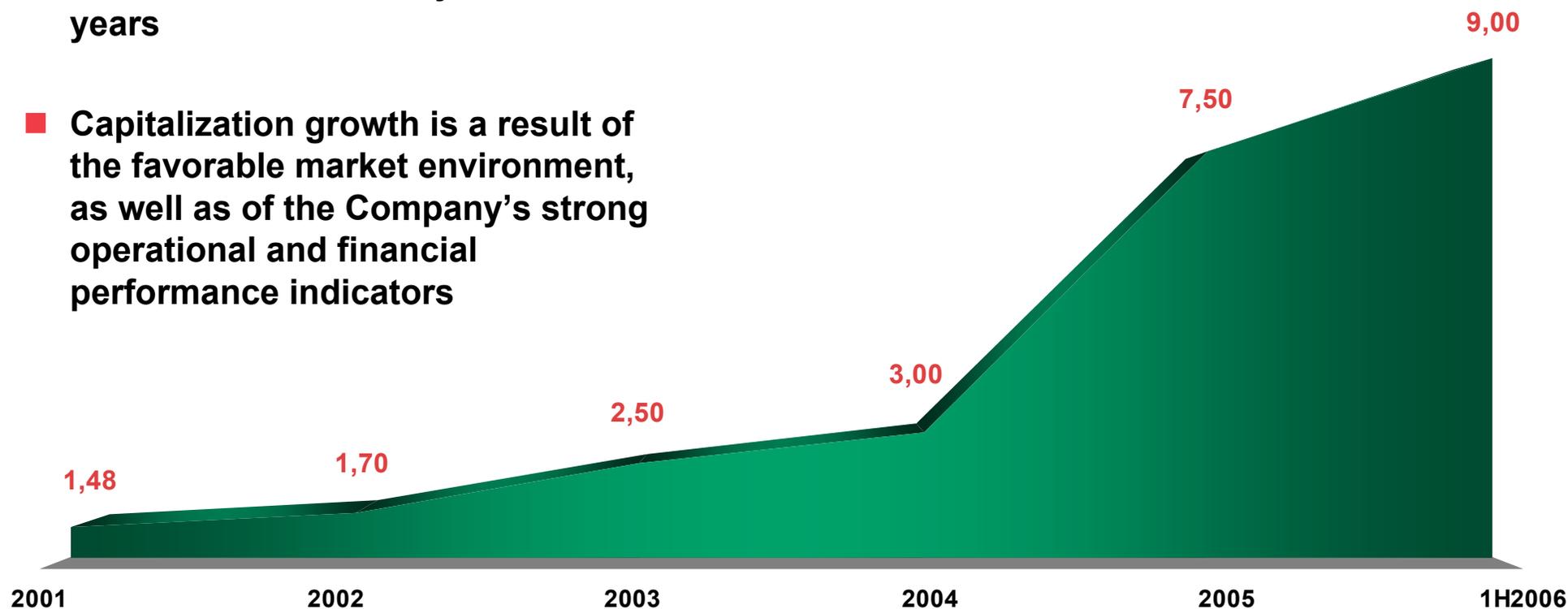
As of May 15, 2006



## Market capitalization: 2001-2006

- Company's market capitalization has increased considerably for the last years
- Capitalization growth is a result of the favorable market environment, as well as of the Company's strong operational and financial performance indicators

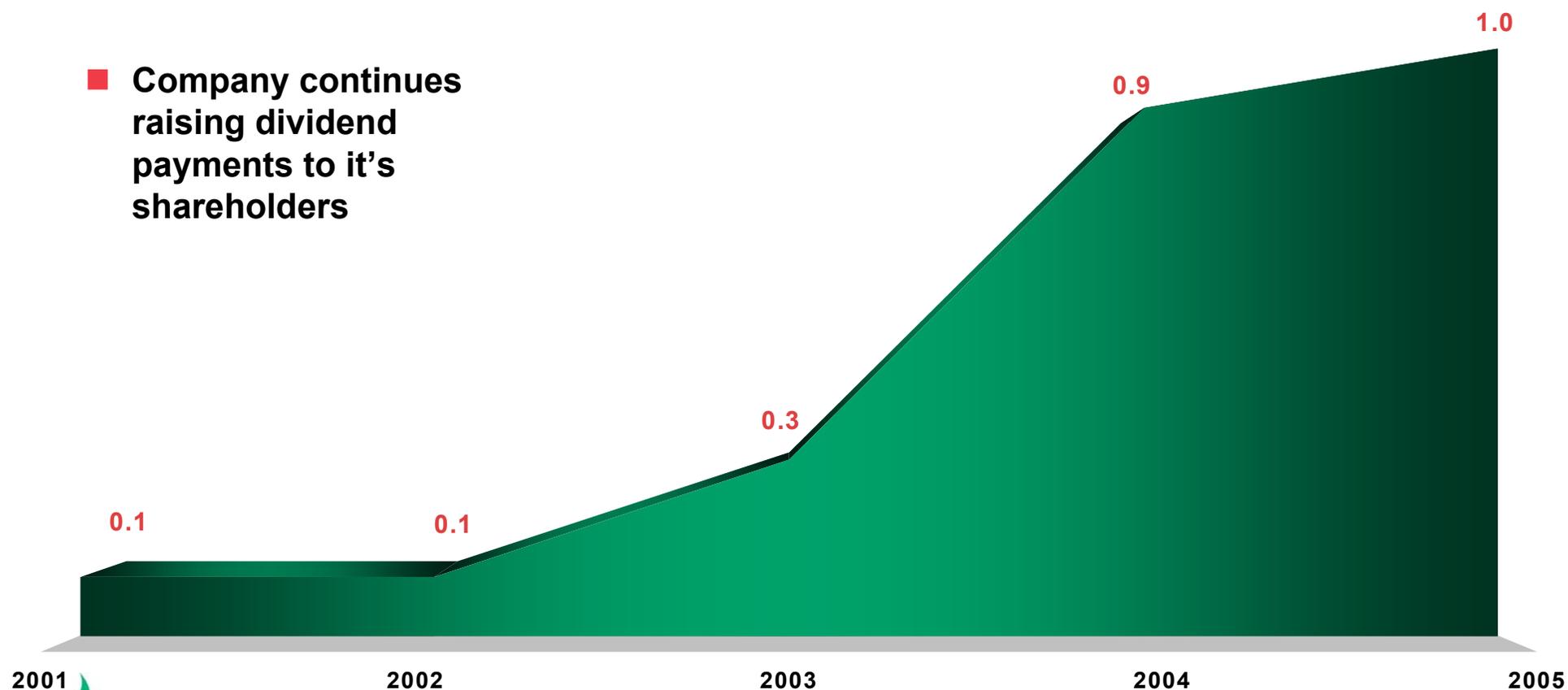
Market capitalization  
(\$ bln.)



## Declared Dividends for Ordinary Shares: 2001-2005

Dividends per 1 ordinary share  
(Rub)

- Company continues raising dividend payments to its shareholders



2001

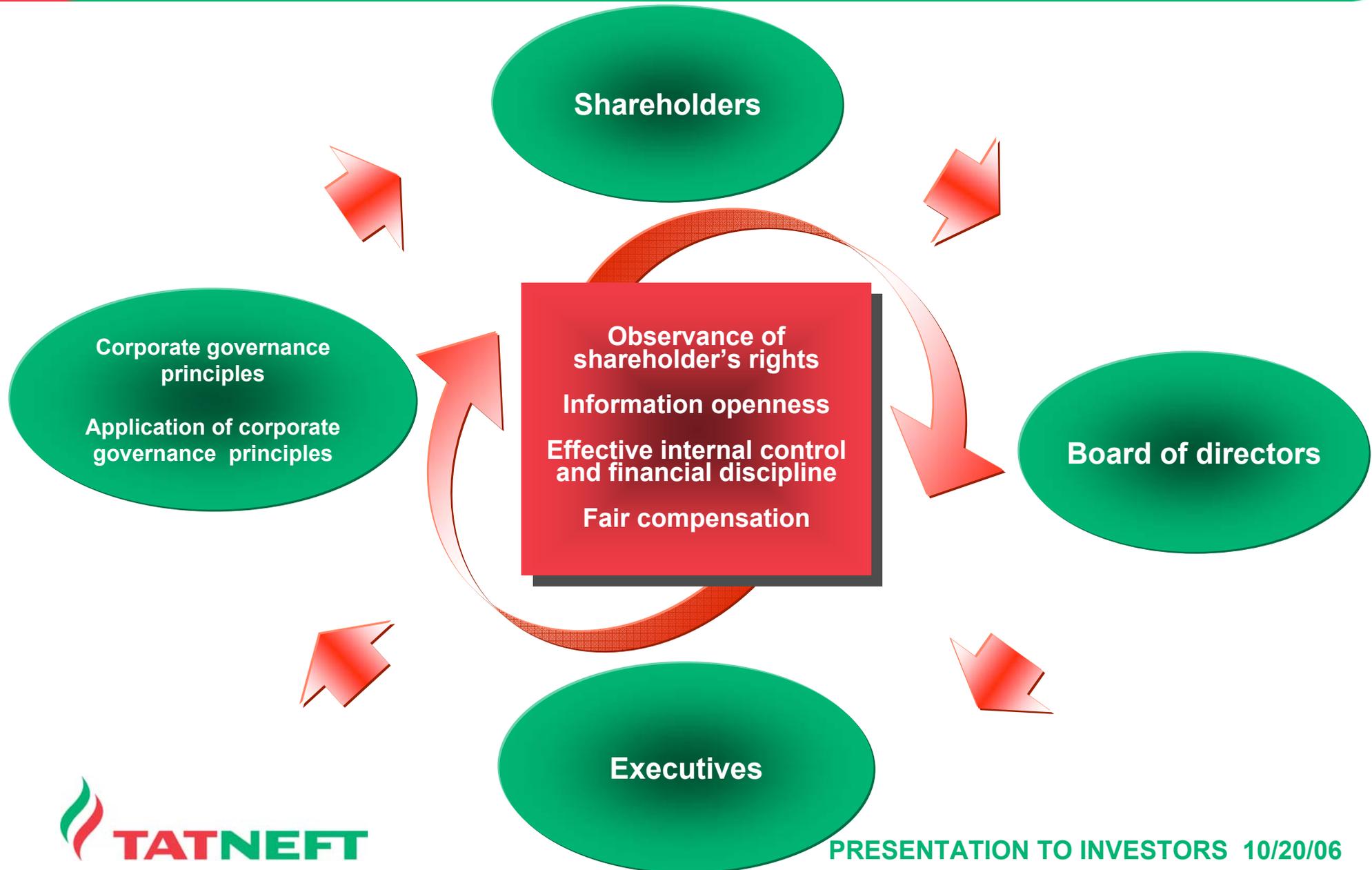
2002

2003

2004

2005





## Corporate governance principles

- Compliance with shareholders' rights
- Transparency
- Efficient internal control and financial discipline
- Remuneration

## Corporate governance principles implementation

- Independent members of the Board of Directors
- Committees on
  - Audit
  - Corporate governance
  - Information disclosure
  - Personnel and compensation
- Procedures of reporting according to US GAAP and internal audit procedures
- Review of the broad range of issues by the Board of Directors
- Internal control procedures





## Company Reporting

Actions	Frequency
<ul style="list-style-type: none"> <li>Communication with shareholders, potential investors, analysts. Publishing press releases about significant events. Tatneft's web site (<a href="http://www.tatneft.ru/">http://www.tatneft.ru/</a>)</li> </ul>	Real-time
<ul style="list-style-type: none"> <li>Distribution of the information for foreign and Russian investors. Participation in seminars and conferences. Presentations and roadshows in world financial centers. Holding teleconferences. Organizing meetings of the Company Management with analysts and journalists.</li> </ul>	Monthly / Quarterly
<ul style="list-style-type: none"> <li>Preparation of the annual report and social responsibility report, environmental and innovation reports</li> </ul>	Annually
<ul style="list-style-type: none"> <li>Regular dispatch of information materials to shareholders and potential investors. Preparing quarterly financial statements together with Management Discussion and Analysis (MD&amp;A).</li> </ul>	Planned

# Reconciliation of adjusted EBITDA to net profit

	2001	2002 (recalculation)	2003	2004	2005 (estimate)
<b>Net profit</b>	<b>24 144</b>	<b>13 470</b>	<b>14 880</b>	<b>23 410</b>	<b>30 107</b>
Overall effect of changes in principles	-	-	(4 742)	-	-
Minority interest	1 698	471	(63)	1 025	654
Income tax expenses	1 244	5 363	4 582	10 861	13 890
Other profit (cost)*	(567)	(1 525)	(313)	1 668	(763)
Transfer of social assets	593	1 293	2 162	455	352
Loss on disposal of fixed assets and investments devaluation	2 502	851	2 325	726	5 961
Net allowance and write-off for bad debts	(1 027)	(261)	(262)	(714)	422
Depreciation and amortization	6 139	7 541	8 850	9 237	11 013
<b>EBITDA</b>	<b>34 726</b>	<b>27 203</b>	<b>27 419</b>	<b>46 688</b>	<b>61 635</b>

In this presentation we have shown the adjusted profit before interest, taxes, depreciation, and amortization (or adjusted EBITDA). We define adjusted EBITDA as (i) net profit before income tax, minority interest and overall effect of changes in accounting principles plus (ii) (a) other profit (cost), (b) transfer of social assets, (c) loss on disposal of fixed assets and investments devaluation, (d) net allowance and write-off for bad debts and (e) amortization and depreciation, according to our consolidated financial statement.

In the table above the adjusted EBITDA is reconciled to the net profit for all indicated time periods. For extra information refer to the Consolidated Statement on Operating Activity and Total Profit on the page F-4 of the Company's Annual report on form 20-F for the year ended December 31, 2004, and to the unaudited Interim Consolidated Statement on Operating Activity and Total Profit on the page F-3 in the Company's Report on form 6-K, sent to Securities and Exchange Commission on June 26, 2006.

The adjusted EBITDA should not be considered separately as an alternative metric to the net profit, calculated by U.S. GAAP. Other companies may otherwise define EBITDA or adjusted EBITDA, and our adjusted EBITDA shown in this presentation may not be directly collated with the other companies' data containing similar terminology.

\* Includes net profit on investment in shares, profit/loss arising from exchange rate differences, interest profit or loss, and any other profit.



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