

**OAO AK TRANSNEFT
IFRS CONSOLIDATED
INTERIM CONDENSED
FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2011**

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Independent Auditors' Report on Review

Board of Directors

ОАО АК Транснефт

Introduction

We have reviewed the accompanying IFRS consolidated interim condensed statement of financial position of ОАО АК Транснефт (the "Company") and its subsidiaries (the "Group") as at 30 June 2011, and the related consolidated interim condensed statements of comprehensive income for the three- and six-month periods ended 30 June 2011 and the related changes in equity and cash flows for the six-month period then ended and other explanatory notes (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2011 and for the three- and six-month periods then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 were audited by other auditors whose report dated 31 May 2011 expressed an unmodified opinion on those statements.

ZAO KPMG

ZAO KPMG
15 September 2011

ОАО АК ТРАНСНЕФТ
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
(UNAUDITED) AS AT 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

	Notes	30 June 2011	31 December 2010
ASSETS			
Non-current assets			
Intangible assets		1,469	1,539
Property, plant and equipment	5	1,272,666	1,214,355
Available-for-sale financial assets		320	336
Investments in associates and jointly controlled entities	6	35,585	4,835
VAT assets	9	24,109	14,888
Receivables and prepayments	9	720	534
Other financial assets	7	5,881	-
Total non-current assets		1,340,750	1,236,487
Current assets			
Inventories	8	23,589	17,272
Receivables and prepayments	9	38,925	26,508
VAT assets	9	42,846	33,412
Prepaid income tax		3,259	3,242
Other financial assets	7	103,005	51,061
Cash and cash equivalents	10	176,531	283,653
Total current assets		388,155	415,148
Total assets		1,728,905	1,651,635
EQUITY AND LIABILITIES			
Equity			
Share capital		308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		861,864	732,864
Attributable to the shareholders of OAO AK Transneft		901,645	772,645
Non-controlling interests		34,519	33,792
Total equity		936,164	806,437
Non-current liabilities			
Borrowings	12	498,582	573,148
Deferred tax liabilities	13	33,985	37,303
Provisions for liabilities and charges	14	107,846	123,579
Total non-current liabilities		640,413	734,030
Current liabilities			
Trade and other payables	15	96,644	97,966
Current income tax payable		3,021	2,547
Borrowings	12	52,663	10,655
Total current liabilities		152,328	111,168
Total liabilities		792,741	845,198
Total equity and liabilities		1,728,905	1,651,635

Approved on 15 September 2011 by

M.S. Grishanin

Vice-president

M.V. Russkikh

General director of OOO Transneft Finance,
a specialized organization, which performs the
accounting function for OAO AK Transneft



The accompanying notes set out on pages 8 to 20 are an integral part of these financial statements

OAO AK TRANSNEFT
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED) FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 30 June 2011	Six months ended 30 June 2011	Three months ended 30 June 2010	Six months ended 30 June 2010
Sales	16	147,297	296,478	105,436	208,221
Operating expenses	17	(91,780)	(190,192)	(70,763)	(131,501)
Operating profit		55,517	106,286	34,673	76,720
Financial items:					
Exchange gains		17,171	46,348	11,986	29,720
Exchange loss		(14,528)	(23,008)	(19,032)	(30,003)
Interest income	18	3,456	7,211	2,697	3,317
Interest expense	18	(5,657)	(11,734)	(4,149)	(8,203)
Total financial items		442	18,817	(8,498)	(5,169)
Share of profit from associates and jointly controlled entities	6	822	31,260	354	714
Profit before income tax		56,781	156,363	26,529	72,265
Income tax expense	13	(11,727)	(25,851)	(6,050)	(16,949)
Profit for the period		45,054	130,512	20,479	55,316
Other comprehensive income after tax					
Currency translation differences		181	347	(12)	(37)
Fair value (losses) / gains on available-for-sale financial assets, net of tax		(52)	(60)	(10)	12
Total comprehensive income		45,183	130,799	20,457	55,291
Profit attributable to:					
Shareholders of OAO AK Transneft		45,078	129,936	18,204	51,898
Non-controlling interests		(24)	576	2,275	3,418
Total comprehensive income attributable to:					
Shareholders of OAO AK Transneft		45,207	130,223	18,182	51,873
Non-controlling interests		(24)	576	2,275	3,418

Approved on 15 September 2011 by

M.S. Grishanin

M.V. Russkikh



Vice-president

General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

ОАО АК ТРАНСНЕФТ
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

Notes	Six months ended 30 June 2011	Six months ended 30 June 2010
Cash flows from operating activities		
Cash receipts from customers	341,665	230,857
Cash paid to suppliers and employees, and taxes other than profit tax	(248,441)	(145,798)
Interest paid	(16,385)	(14,150)
Income tax paid	(28,605)	(11,972)
Tax refunds	21,295	57,431
Other cash used in operating activities	(490)	(3,843)
Net cash from operating activities	69,039	112,525
Cash flows used in investing activities		
Purchase of property, plant and equipment	(117,068)	(104,967)
Proceeds from sales of property, plant and equipment	274	648
Interest and dividends received	6,282	7,699
Loans issued	(5,404)	-
Purchase of notes	(76,262)	(20,000)
Sales notes	24,168	-
Other cash used in investing activities	(2,272)	(459)
Net cash used in investing activities	(170,282)	(117,079)
Cash flows used in financing activities		
Receipt (repayment) of long and short-term borrowings	208	(3)
Payment of finance lease obligations	(17)	(1,203)
Other cash proceeded in financing activities	121	-
Net cash proceeded (used) in financing activities	312	(1,206)
Cash decrease due to deviation of currency exchange rate	(6,191)	(1,925)
Net decrease in cash and cash equivalents	(107,122)	(7,685)
Cash and cash equivalents at the beginning of the period	10 283,653	283,658
Cash and cash equivalents at the end of the period	10 176,531	275,973

Approved on 15 September 2011 by

M.S. Grishanin

 Vice-president

M.V. Russkikh

General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft



OAO AK TRANSNEFT
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

	Attributable to the shareholders of OAO AK Transneft					Non-controlling interests	Total equity
	Share capital	Share premium reserve	Merger reserve	Retained earnings	Total		
Balance at 1 January 2010	308	52,553	(13,080)	615,171	654,952	26,444	681,396
Profit for the period	-	-	-	51,898	51,898	3,418	55,316
Fair value gain on available-for sale financial assets, net of tax	-	-	-	12	12	-	12
Currency translation differences, net of tax	-	-	-	(37)	(37)	-	(37)
Total comprehensive income for the period	-	-	-	51,873	51,873	3,418	55,291
Dividends							
- ordinary shares	-	-	-	(584)	(584)	-	(584)
- preference shares	-	-	-	(389)	(389)	-	(389)
Balance at 30 June 2010	308	52,553	(13,080)	666,071	705,852	29,862	735,714
Balance at 1 January 2011	308	52,553	(13,080)	732,864	772,645	33,792	806,437
Profit for the period	-	-	-	129,936	129,936	576	130,512
Fair value loss on available-for-sale financial assets, net of tax	-	-	-	(60)	(60)	-	(60)
Currency translation differences, net of tax	-	-	-	347	347	-	347
Total comprehensive income for the period	-	-	-	130,223	130,223	576	130,799
Additional emission of shares by a subsidiary	-	-	-	-	-	151	151
Dividends							
- ordinary shares	-	-	-	(734)	(734)	-	(734)
- preference shares	-	-	-	(489)	(489)	-	(489)
Balance at 30 June 2011	308	52,553	(13,080)	861,864	901,645	34,519	936,164

Approved on 15 September 2011 by

M.S. Grishanin

M.V. Russkikh



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Vice-president

General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

1 NATURE OF OPERATIONS

OA O AK Transneft (the "Company") was established as an open joint stock company and incorporated on 14 August 1993 by the Russian Government Resolution No. 810 under Presidential Decree No. 1403 dated 17 November 1992. The Company's registered office is at 119180 Moscow, ul. Bolshaya Polyanka 57, Russian Federation.

The Company and its subsidiaries (the "Group") operate the oil pipeline system in the Russian Federation totalling 49,990 km at 30 June 2011 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 18,948 km as at 30 June 2011. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the six months ended 30 June 2011, the Group transported 232.7 million tonnes of crude oil to domestic and export markets (six months ended 30 June 2010 – 227.9 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 15.4 million tonnes of oil products (14.6 million tonnes for six months ended 30 June 2010).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. There can be different developments in the economic environment which can have a varying impact on the Group's operations and management is unable to predict their potential effect on the financial position of the Group. The impact of recent economic crisis on the Group's operations is limited due to the fact that prices for its services are regulated by the Government. Furthermore, the Group's monopoly position on the Russian oil and oil product pipeline transportation market ensures sustainable demand for the Group's services. Group management believes that cash flows from ongoing operations are sufficient to finance the Group's current operations and to service its debt obligations.

Furthermore, the tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

3 BASIS OF PRESENTATION

The consolidated interim condensed financial statements is prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") and should be read together with the consolidated financial statements for the year ended 31 December 2010 prepared in accordance with International Financial Reporting Standards ("IFRS").

The official US dollar ("USD") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation was 28.0758 and 30.4769 as at 30 June 2011 and 31 December 2010, respectively. The official Euro ("EURO") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation was 40.3870 and 40.3331 as at 30 June 2011 and 31 December 2010, respectively.

New standards and interpretations

Implementation of the new standards and interpretations that are mandatory for the Group's accounting periods beginning on 1 January 2011 has not significantly impacted the Group's consolidated interim condensed financial statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning after 1 January 2011 and which the Group has not early adopted. Information concerning the most significant standards and interpretations is disclosed in the consolidated financial statements for the year ended 31 December 2010.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2010.

OAO AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Line fill	Assets under construction including prepayments	Total
At 1 January 2011						
Cost	121,198	748,012	451,762	77,131	277,001	1,675,104
Accumulated depreciation and impairment	(32,307)	(244,510)	(183,932)	-	-	(460,749)
Net book value at 1 January 2011	88,891	503,502	267,830	77,131	277,001	1,214,355
Depreciation	(2,010)	(17,053)	(20,848)	-	-	(39,911)
Additions (including prepayments)	-	-	-	239	118,871	119,110
Transfers from assets under construction	1,331	6,647	7,747	-	(15,725)	-
Net change in dismantlement provision	-	(20,412)	-	-	300	(20,112)
Disposals/retirements at cost	(274)	(651)	(1,738)	(202)	-	(2,865)
Accumulated depreciation and impairment on disposals/retirements	129	558	1,402	-	-	2,089
Net book value at 30 June 2011	88,067	472,591	254,393	77,168	380,447	1,272,666
At 30 June 2011						
Cost	122,255	733,596	457,771	77,168	380,447	1,771,237
Accumulated depreciation and impairment	(34,188)	(261,005)	(203,378)	-	-	(498,571)
Net book value at 30 June 2011	88,067	472,591	254,393	77,168	380,447	1,272,666

OAo AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Line fill	Assets under construction including prepayments	Total
At 1 January 2010						
Cost	109,575	691,560	397,385	76,372	115,261	1,390,153
Accumulated depreciation and impairment	(28,891)	(215,519)	(148,343)	-	-	(392,753)
Net book value at 1 January 2010	80,684	476,041	249,042	76,372	115,261	997,400
Depreciation	(1,614)	(13,527)	(18,255)	-	-	(33,396)
Additions (including prepayments)	-	-	577	552	124,938	126,067
Transfers from assets under construction	2,153	3,448	21,228	-	(26,829)	-
Net change in dismantlement provision	-	17,706	-	-	1,062	18,768
Disposals/retirements at cost	(113)	(113)	(2,500)	(268)	-	(2,994)
Accumulated depreciation and impairment on disposals/retirements	44	83	2,460	-	-	2,587
Net book value at 30 June 2010	81,154	483,638	252,552	76,656	214,432	1,108,432
At 30 June 2010						
Cost	111,615	712,601	416,690	76,656	214,432	1,531,994
Accumulated depreciation and impairment	(30,461)	(228,963)	(164,138)	-	-	(423,562)
Net book value at 30 June 2010	81,154	483,638	252,552	76,656	214,432	1,108,432

Line fill represents RUB 70,184 of crude oil and RUB 6,984 of oil products as at 30 June 2011 (as at 31 December 2010 – RUB 70,050 of crude oil and RUB 7,081 of oil products).

During the six months ended 30 June 2011, borrowing costs net of interest income on temporary investment of borrowings in the amount of RUB 6,631 were capitalised as part of cost of assets under construction (for the six months ended 30 June 2010 – RUB 7,713) including finance costs to be capitalised in the amount of RUB 8,975 less interest income on the temporary investment of borrowings in the amount of RUB 2,344 as disclosed in Note 18.

6 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In January 2011 the Group's jointly controlled entity Omirico Ltd sold 100% of OOO Primorsk Trade Port ("PTP") to OAO Novorossiysk Commercial Sea Port ("NCSP") for US Dollars 2,153 million (RUB 64,406 at the CBR exchange rate at the date of transaction). As a result of this transaction Group recognized a gain on disposal of PTP in the amount of RUB 29,034 which is presented in the statement of comprehensive income as Share of profit from investments in associates and jointly controlled entities.

At the same time Omirico Ltd indirectly acquired a controlling interest (50.1%) in NCSP. As a result of this transaction Group obtained the effective interest of 25.05% in NCSP. As of 30 June 2011 the carrying value of Group's investment in NCSP is 33,531 million. The principal activities of NCSP and its subsidiaries are stevedoring and additional port services, and tug and towing services and bunkering.

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

6 INVESTMENT IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

Summarised financial information of associates and jointly controlled entities was as follows:

	30 June 2011	31 December 2010
Assets	241,964	27,647
Liabilities	(97,203)	(16,463)
	Six months ended	Six months ended
	30 June 2011	30 June 2010
Revenue	98,541	22,385
Profit for the period	67,280	3,799

7 OTHER FINANCIAL ASSETS

During the six months ended 30 June 2011 following other long-term financial assets were purchased:

- zero-coupon note which are subject to repayment on demand but not earlier than October 2012. The note was purchased for a consideration of RUB 1,000, has a nominal value and carrying value of RUB 1,095 and RUB 1,010 as at 30 June 2011 respectively;
- loan to Omirico Ltd was issued. Loan amounts to USD 173.5 million (RUB 5,221 at the CBR exchange rate effective at the issuance date), carrying value of RUB 4,871 (at the CBR exchange rate as at 30 June 2011). Interest rate is 5.27% per annum. The loan is due in 5 years. The loan and interest accrued should be paid at the date of repayment.

During the six months ended 30 June 2011 following short-term financial assets were purchased:

- zero-coupon notes which are subject to repayment on demand but not earlier than July – November 2011. The notes were purchased for a consideration of RUB 15,552, have a nominal value and carrying value of RUB 16,228 and RUB 15,683 as at 30 June 2011 respectively;
- zero-coupon notes which are subject to repayment on demand but not earlier than July 2011 – June 2012. The notes were purchased for a consideration of USD 2,040 millions (RUB 57,859 at the CBR exchange rate effective at the purchase date), have a nominal value of USD 2,141 million and carrying value of RUB 57,276 (at the CBR exchange rate effective as at 30 June 2011).

According to IAS 39 *Financial Instruments: Recognition and Measurement* these notes and loans were classified as loans and receivables and the Group does not intend to dispose these notes prior to the maturity date.

8 INVENTORIES

	30 June 2011	31 December 2010
Materials and supplies	14,493	10,012
Sundry goods for resale	9,079	7,042
Other items	17	218
	23,589	17,272

Materials and supplies are presented net of provisions for obsolescence of RUB 339 as at 30 June 2011 (as at 31 December 2010 – RUB 364).

Sundry goods for resale, including oil and oil products, are presented net of impairment provision of RUB 2 as at 30 June 2011 (as at 31 December 2010 – RUB 1).

9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	30 June 2011	31 December 2010
Non-financial assets		
Other long-term receivables	720	534
Total long-term receivables	720	534

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS (continued)

	30 June 2011	31 December 2010
Short-term receivables		
Financial assets		
Trade receivables	13,973	1,811
Other receivables	11,952	11,210
less: provision for doubtful debts	(3,100)	(3,265)
Total financial assets	22,825	9,756
Non-financial assets		
Prepayments and advances and other non-financial assets	16,100	16,752
Total receivables	38,925	26,508
VAT assets		
	30 June 2011	31 December 2010
Recoverable VAT related to construction projects	27,316	17,893
Recoverable VAT related to ordinary activity	39,639	30,407
Total VAT assets	66,955	48,300
Less: short-term VAT	(42,846)	(33,412)
Long-term VAT	24,109	14,888

10 CASH AND CASH EQUIVALENTS

	30 June 2011	31 December 2010
Balances denominated in Russian roubles	94,152	199,701
Balances denominated in US dollars	70,481	75,700
Balances denominated in Euro	11,805	8,157
Balances denominated in other currency	93	95
	176,531	283,653

11 DIVIDENDS

In June 2011 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2010 in the amount of RUB 1,223 (preferred shares – RUB 489, ordinary shares – RUB 734) at the annual general meeting of shareholders. The whole amount of dividends should be paid within 60 days from the date of approval.

In June 2010 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2009 in the amount of RUB 973 (preferred shares – RUB 389, ordinary shares – RUB 584). The whole amount of dividends was paid in December 2010.

12 BORROWINGS

	30 June 2011	31 December 2010
Borrowings and loans	551,245	583,803
Less: current borrowings and loans	(52,663)	(10,655)
	498,582	573,148
Maturity of non-current borrowings and loans		
Due for repayment:		
Between one and five years	188,344	236,378
After five years	310,238	336,770
	498,582	573,148

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2011
(in millions of Russian roubles, if not stated otherwise)

13 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Income tax expense in the consolidated interim condensed financial statements is accrued based on full-year effective rate applied to the pre-tax income of the interim period.

14 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2011	31 December 2010
Dismantlement provision	100,462	116,202
Pension provision	7,384	7,377
	107,846	123,579

Dismantlement provision

The provision is established for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometre of removal according to an estimated plan of replacement over the long term. The provision calculation is based on the assumption that dismantlement activities are expected to cover the same number of kilometres each year over the useful life of the network. The cost of dismantlement is added to the cost of property, plant and equipment and depreciated over the useful economic life of the pipeline network. Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 7.93% per annum (31 December 2010 – 7.52% per annum).

Should the nominal average rate increase/ (decrease) by 1%, dismantlement provision would (decrease)/ increase by RUB (12,581)/15,491 as at 30 June 2011 accordingly (RUB (14,794)/18,230 as at 31 December 2010 accordingly).

Pension provision

Under collective agreements with Group's employees, an amount ranging from one to five months final salary is payable upon retirement to those who have worked for the Group for more than three years. Also under collective agreements with the employees the Group provides regular payments to those retired employees who have not entered in an agreement with the Non-state pension fund of the Group, and an amount ranging from one to five months minimal salary is payable to retired employees for anniversary milestones and to cover funeral costs. Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19 *Employee Benefits*. For the calculation of obligations the projected unit method was applied.

Service cost, past service cost and actuarial (profit) / loss amounting to RUB 77 and RUB 840 for the Six months ended 30 June 2011 and 2010, respectively, are included in staff costs in the consolidated interim condensed statement of comprehensive income.

15 TRADE AND OTHER PAYABLES

	30 June 2011	31 December 2010
Trade payables	35,099	32,447
Other payables	8,663	6,085
Dividends payable	1,223	-
Total financial payables	44,985	38,532
Advances received for oil and oil product transportation services	24,327	28,948
Accruals	13,986	19,814
VAT output tax payable	11,635	9,049
Other taxes payable	1,711	1,623
Total payables	96,644	97,966

OAO AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
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16 SALES

	Three months ended 30 June 2011	Six months ended 30 June 2011	Three months ended 30 June 2010	Six months ended 30 June 2010
Revenues from crude oil transportation services				
Domestic tariff	48,871	96,291	37,866	75,769
Export tariff	62,442	124,222	54,441	106,973
Total revenues from crude oil transportation services	111,313	220,513	92,307	182,742
Revenues from crude oil sales	20,520	45,612	1,872	3,708
Revenues from oil products transportation services	8,321	16,438	7,275	14,813
Other revenues	7,143	13,915	3,982	6,958
	147,297	296,478	105,436	208,221

Revenues from crude oil sales for the Six months ended 30 June 2011 includes, in general, revenues from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement the oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases the oil under the contract signed in April 2009 with OAO Rosneft (see Note 20).

17 OPERATING EXPENSES

	Three months ended 30 June 2011	Six months ended 30 June 2011	Three months ended 30 June 2010	Six months ended 30 June 2010
Cost of oil sold	20,555	45,048	1,922	3,707
Depreciation	19,273	39,076	16,871	32,920
Staff costs:				
Salaries and pension expense	17,513	35,183	17,281	33,647
Social Funds contributions	3,539	7,671	2,419	5,255
Social expenses	730	1,234	871	1,415
Energy	8,279	18,049	7,464	15,562
Materials	2,498	8,140	3,744	7,266
Repairs services and maintenance of relevant technical condition of pipeline	3,056	4,864	3,441	5,816
Transportation of oil using railways and related services	7,043	14,081	10,579	14,268
Other	9,294	16,846	6,171	11,645
	91,780	190,192	70,763	131,501

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18 INTEREST INCOME AND INTEREST EXPENSE

Interest income	Three months ended 30 June 2011	Six months ended 30 June 2011	Three months ended 30 June 2010	Six months ended 30 June 2010
Interest income on cash and cash equivalents	4,123	7,822	3,718	7,372
Interest income from other investments	409	1,623	783	1,427
Other interest income	47	110	104	114
Total interest income	4,579	9,555	4,605	8,913
less interest income on the temporary investment of borrowings	(1,123)	(2,344)	(1,908)	(5,596)
Total interest income recognised in profit or loss	3,456	7,211	2,697	3,317

Interest expense	Three months ended 30 June 2011	Six months ended 30 June 2011	Three months ended 30 June 2010	Six months ended 30 June 2010
Interest expense on borrowing cost	7,921	16,047	8,935	17,896
Provisions for asset retirement obligations: unwinding of the present value discount	2,185	4,370	1,648	3,296
Leasing unwinding of the present value discount	-	-	39	78
Other interest expenses	145	292	122	242
Total interest expenses	10,251	20,709	10,744	21,512
Less finance costs to be capitalised	(4,594)	(8,975)	(6,595)	(13,309)
Total interest expenses recognised in profit or loss	5,657	11,734	4,149	8,203

19 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER RISKS

Legal proceedings

Some of companies of the Group were involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group's management, there are no current legal proceedings or claims outstanding at 30 June 2011, which could have a material adverse effect on the results of operations or financial position of the Group.

In October 2010 the arbitrary court of Nijnii Novgorod region made a decision to reimburse to OOO Rybhoz Borok its losses in the amount of RUB 1,187 which were a result of severe damage to the oil product pipeline which took place in March 2007. In March 2011 the First arbitrary court changed the above decision of the arbitrary court of Nijnii Novgorod region and made a decision to fine the company of the Group and reimburse to OOO Rybhoz Borok its losses in the amount of RUB 992. In July 2011 the Federal arbitrary court of Volgo-Vyatskiy federal district made a decision to remain the above decisions without changes. The company of the Group submitted a request to change the above decisions to the Supreme Arbitration court of Russian Federation. As the Management of the Group is unable to estimate reliably the ending date of the proceeding and its influence on the consolidated financial statements of the Group, it has not provided for a possible reimbursement of losses to OOO Rybhoz Borok in these consolidated financial statements.

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20 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

The Russian Federation, through the Federal Agency for the Management of Federal Property, owns 100% of the ordinary shares of the Company and controls its operations through Board of directors represented by the Federal bodies (professional agents) and independent directors as at 30 June 2011. The Government also appoints the members of the Federal Tariff Agency which sets the tariff rates.

As at 30 June 2011 and 31 December 2010 the Company holds in trust on behalf of the Russian Government 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company (holds 7% of the shares of the CPC-R and 7% of the shares of CPC-K), 24% of the shares of the CPC-R and 24% of the shares of CPC-K. These interests are not recognised in these consolidated interim condensed financial statements as the Company is acting as a trustee over the shares of the above entities.

The Group's transactions with other state-controlled entities occur in the normal course of business and include, but are not limited to the following: purchases of electric energy, transportation of oil and oil products and transactions with banks.

The Group had the following significant transactions with state-controlled entities:

	Three months ended 30 June 2011	Six months ended 30 June 2011	Three months ended 30 June 2010	Six months ended 30 June 2010
Revenue from oil transportation services	39,672	78,083	29,545	57,760
OAO Rosneft and its subsidiaries	33,691	66,165	24,099	47,137
OAO Gazprom and its subsidiaries	5,824	11,616	5,218	10,177
Others	157	302	228	446
Revenue from oil products	2,458	5,467	1,925	4,212
OAO Rosneft and its subsidiaries	296	1,093	590	1,143
OAO Gazprom and its subsidiaries	2,162	4,374	1,335	3,069
Purchases of oil (OAO Rosneft)	17,524	39,827	-	-
Transportation of oil using railways and related services (OAO RZD and its	6,632	12,647	6,735	11,840
Electricity expenses	107	194	65	153
Interest income from other financial	448	1,629	783	1,427

Transactions with the state include taxes which are detailed in the consolidated interim condensed statement of financial position, and in profit and loss in the consolidated interim condensed statement of comprehensive income.

During the period ended 30 June 2011 and 30 June 2010, Group had following transactions with associates and jointly controlled entities:

	Three months ended 30 June 2011	Six months ended 30 June 2011	Three months ended 30 June 2010	Six months ended 30 June 2010
Revenue	673	935	261	377
Purchases of goods and services	11,533	18,318	7,699	15,239

At the 30 June, 2011 and 31 December 2010, Group had following accounts with related parties and associates:

	30 June 2011	31 December 2010
Trade and other receivables	546	1,456
Trade and other payable	304	465
Loan issued	5,051	-

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20 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

Key management personnel compensation

Key management personnel (the members of the Board of directors and Management Committee of the Company and general directors of subsidiaries) receive short-term compensations, including salary, bonuses, other payments and long-term and short-term interest-free loans. Short-term compensations payable to the key management personnel of the Company and subsidiaries consists of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Boards of Directors of Company are subject to approval by the General Meeting of Shareholders. According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Transneft, and one-time payments at the retirement date.

21 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities. These legal entities are further aggregated into two reportable segments: Oil transportation and Oil product transportation. Cost elements presented to Management of the Group are determined in accordance with the Russian Accounting Rules (RAR). Tables below present consolidated amounts analysed by Management of the Group. These amounts are calculated under RAR.

Adjusting entries to reconcile this information with information in the consolidated interim condensed financial statements primarily include adjustments and reclassifications resulting from differences between RAR and IFRS.

Segment information for the six months ended 30 June 2011 and at 30 June 2010 is as follows:

Six months ended 30 June 2011	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Sales				
Sales to third parties	278,472	18,072	(66)	296,478
Inter-segment sales	836	2,103	(2,939)	-
Total sales	279,308	20,175	(3,005)	296,478
Operating expenses	(177,923)	(10,917)	(1,352)	(190,192)
Including depreciation and amortisation	(37,128)	(1,479)	(469)	(39,076)
Interest income	7,844	78	(711)	7,211
Interest expenses	(9,912)	(271)	(1,551)	(11,734)
Share of profit from associates and jointly controlled entities	-	-	31,260	31,260
Profit before income tax	153,039	7,711	(4,387)	156,363
Income tax expense	(27,931)	(1,689)	3,769	(25,851)
Profit for the period	125,108	6,022	(618)	130,512
Other segment disclosures				
Additions to non-current assets (other than financial instruments and deferred tax assets)	100,662	987	17,461	119,110

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21 SEGMENT INFORMATION (continued)

Six months ended 30 June 2010	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Sales				
Sales to third parties	179,366	15,169	13,686	208,221
Inter-segment sales	698	387	(1,085)	
Total sales	180,064	15,556	12,601	208,221
Operating expenses	(118,963)	(9,442)	(3,096)	(131,501)
Including depreciation and amortisation	(33,037)	(1,314)	1,431	(32,920)
Interest income	8,767	145	(5,595)	3,317
Interest expenses	(13,978)	(610)	6,385	(8,203)
Share of profit from associates	1,286	49	(621)	714
Profit before income tax	53,896	5,315	13,054	72,265
Income tax expense	(13,165)	(1,205)	(2,579)	(16,949)
Profit for the period	40,731	4,110	10,475	55,316

Other segment disclosures

Additions to non-current assets (other than financial instruments and deferred tax assets)	107,331	848	17,888	126,067
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Adjusting entries also relate to intersegment transactions, those which are material, are as follows: US Dollar denominated loan and interests granted in RUB which amounted to RUB 8,526 as at 30 June 2011, the loan interest payable of RUB - 271 and related exchange difference of RUB - 753 (as at 31 December 2010 US Dollar denominated loan granted in RUB including interest receivable which amounted to RUB 9,628, loan interest payable of RUB -1 113 and related exchange difference of RUB -21).

Segment information as at 30 June 2011 and at 31 December 2010 is as follows:

30 June 2011	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Investments in associates and jointly controlled entities	-	-	35,585	35,585
Total segment assets	1,721,176	64,109	(56,380)	1,728,905
Trade payables and advances received	64,491	2,036	(7,101)	59,426
Non-current borrowings	498,582	6,631	(6,631)	498,582
Current borrowings	53,598	1,995	(2,930)	52,663
Total segment liabilities	695,686	13,264	83,791	792,741

31 December 2010	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Investments in associates	-	-	4,835	4,835
Total segment assets	1,620,060	62,123	(30,548)	1,651,635
Trade payables and advances received	57,369	3,027	999	61,395
Non-current borrowings	573,466	8,227	(8,545)	573,148
Current borrowings	11,269	1,450	(2,064)	10,655
Total segment liabilities	719,504	15,755	109,939	845,198

Adjustments to income and expenses that form profit before tax are mainly represented by IFRS adjustments to record non-controlling interest, to recognise fixed assets revaluation results required under IAS 29 *Financial reporting in hyper-inflationary economies* and elimination of fixed assets revaluation results performed under RAR, to accrue provision for dismantling and removing of fixed assets and to accrue deferred taxes for IFRS purposes.

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21 SEGMENT INFORMATION (continued)

Adjusting items for segment's expenses in the amount of RUB 1,352 for the six months ended 30 June 2011 and RUB 3,096 for the six months ended 30 June 2010 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Dismantlement provision	1,795	1,318
Adjustment to Property, plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(3,407)	(6,259)
Financial leasing	978	1,588
Pension liabilities	(285)	539
Accruals	971	-
Intersegment operations	(639)	(698)
Reserves for contingent liabilities	696	-
Others	1,243	416
Total reconciliation adjustments of segment expenses	1,352	(3,096)

Adjusting items for segment's assets in the amount of RUB 56,380 as at 30 June 2011 and RUB 30,548 as at 31 December 2010 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	30 June 2011	31 December 2010
Property, plant and equipment dismantlement provision recognized in cost	61,854	83,760
Adjustment to Property, plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(90,238)	(93,639)
Revaluation of linefill oil and oil products required under IAS 29 "Financial reporting in hyper-inflationary economies and other	51,000	50,716
Business combination with Transneftproduct	(52,554)	(52,554)
Deferred tax assets	(11,002)	(9,000)
Intersegment assets	(16,370)	(9,677)
Electricity liabilities	(836)	-
VAT not refund from budget	(696)	-
Others	2,462	(154)
Total reconciliation adjustments of segment assets	(56,380)	(30,548)

Adjusting items for segment's liabilities in the amount of RUB 83,791 as at 30 June 2011 and RUB 109,939 as at 31 December 2010 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	30 June 2011	31 December 2010
Dismantlement provision	100,462	116,202
Pension liabilities	7,383	7,377
Deferred tax liabilities	(9,234)	(1,037)
Intersegment liabilities	(16,370)	(9,677)
Electricity liabilities	(135)	-
Others	1,685	(2,926)
Total reconciliation adjustments of segment liabilities	83,791	109,939

Geographical information. The Group's two segments primary operate on the territory of the Russian Federation. Revenue from external customers is presented based on the customers domicile (registered office) although the majority of revenues are generated by assets located in the Russian Federation. The oil product transportation segment has certain assets located on the territory of Latvia, Ukraine and Belarus.

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21 SEGMENT INFORMATION (continued)

Information on the geographical location of the Group's revenue is set out below:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Russian Federation	243,894	197,079
China	39,468	-
Other countries	13,116	11,142
	296,478	208,221

Revenue from external customers in other countries mainly includes revenue from services provided to customers in Kazakhstan, Belorussia, Ukraine.

Major customers. The Group's major customers are oil production companies which produce oil and transport it for export, domestic sale or refining.

Revenues from customers which individually constitute 10 per cent or more of the Group's revenue are as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010
Companies under control of the Government of the		
Russian Federation	83,550	61,972
China National United Oil Corporation	39,468	-
OA O Surgutneftegaz	35,904	29,622
OA O Lukoil	32,203	28,957
OA O TNK-BP Holding	30,038	25,799
	221,163	146,350

Sales to the major customers are included in the results of the crude oil transportation and oil product transportation segments.

22 SUBSEQUENT EVENTS

The dividends for the year ended 31 December 2010 in the amount of RUB 1,223 (preferred shares – RUB 489, ordinary shares – RUB 734) was paid in full in August 2011.