

**OAO AK TRANSNEFT  
CONSOLIDATED  
INTERIM CONDENSED  
FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE THREE MONTHS ENDED 31 MARCH 2012**

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## **Independent Auditors' Report on Review**

### **Board of Directors**

### **ОАО АК Транснефт**

#### *Introduction*

We have reviewed the accompanying consolidated interim condensed statement of financial position of ОАО АК Транснефт (the "Company") and its subsidiaries (the "Group") as at 31 March 2012, and the related consolidated interim condensed statements of comprehensive income, changes in equity and cash flows for the three-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 31 March 2012 and for the three-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

*ZAO KPMG*

ZAO KPMG  
20 June 2012

OAO AK TRANSNEFT  
CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)  
AS AT 31 MARCH 2012  
(in millions of Russian roubles, if not stated otherwise)

	Notes	31 March 2012	31 December 2011
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		1,146	1,197
Property, plant and equipment	5	1,358,181	1,343,501
Available-for-sale financial assets		254	292
Investments in associates and jointly controlled entities	6	37,291	34,889
VAT assets	9	30,432	28,969
Receivables and prepayments	9	825	880
Other financial assets	7	5,088	5,586
<b>Total non-current assets</b>		<b>1,433,217</b>	<b>1,415,314</b>
<b>Current assets</b>			
Inventories	8	26,755	22,508
Receivables and prepayments	9	36,183	36,296
VAT assets	9	48,564	46,854
Prepaid income tax		16,280	9,939
Other financial assets, including derivatives	7	196,805	181,749
Cash and cash equivalents	10	135,159	145,546
<b>Total current assets</b>		<b>459,746</b>	<b>442,892</b>
<b>Total assets</b>		<b>1,892,963</b>	<b>1,858,206</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		978,313	919,690
<b>Attributable to the shareholders of OAO AK Transneft</b>		<b>1,018,094</b>	<b>959,471</b>
Non-controlling interests		38,186	37,056
<b>Total equity</b>		<b>1,056,280</b>	<b>996,527</b>
<b>Non-current liabilities</b>			
Borrowings	12	514,800	551,939
Deferred tax liabilities	13	36,169	37,093
Provisions for liabilities and charges	14	92,569	92,164
<b>Total non-current liabilities</b>		<b>643,538</b>	<b>681,196</b>
<b>Current liabilities</b>			
Trade and other payables	15	122,328	124,419
Current income tax payable		18,466	2,692
Borrowings	12	52,351	53,372
<b>Total current liabilities</b>		<b>193,145</b>	<b>180,483</b>
<b>Total liabilities</b>		<b>836,683</b>	<b>861,679</b>
<b>Total equity and liabilities</b>		<b>1,892,963</b>	<b>1,858,206</b>

Approved on 20 June 2012 by

M.S. Grishanin

First 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 19 are an integral part of these consolidated interim condensed financial statements

**ОАО АК ТРАНСНЕФТ**  
**CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2012**  
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 31 March 2012	Three months ended 31 March 2011
Sales	16	181,350	160,110
Operating expenses	17	(117,595)	(109,341)
<b>Operating profit</b>		<b>63,755</b>	<b>50,769</b>
Financial items:			
Exchange gains		50,124	29,177
Exchange loss		(32,819)	(8,480)
Interest income	18	1,630	3,755
Interest expenses	18	(6,607)	(6,077)
Net change in fair value of derivatives	7	584	-
<b>Total financial items</b>		<b>12,912</b>	<b>18,375</b>
Share of profit from associates and jointly controlled entities	6	1,950	30,438
<b>Profit before income tax</b>		<b>78,617</b>	<b>99,582</b>
Income tax expense	13	(18,775)	(14,124)
<b>Profit for the period</b>		<b>59,842</b>	<b>85,458</b>
<b>Other comprehensive income after tax</b>			
Currency translation differences		(69)	166
Fair value losses on available-for-sale financial assets, net of tax		(20)	(8)
<b>Total comprehensive income</b>		<b>59,753</b>	<b>85,616</b>
<b>Profit attributable to:</b>			
Shareholders of ОАО АК Transneft		58,712	84,858
Non-controlling interests		1,130	600
<b>Total comprehensive income attributable to:</b>			
Shareholders of ОАО АК Transneft		58,623	85,016
Non-controlling interests		1,130	600

Approved on 20 June 2012 by:

M.S. Grishanin

First vice-president

M.V. Russkikh

General director of ООО Transneft Finance, a specialized organization, which performs the accounting function for ОАО АК Transneft



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**OAO AK TRANSNEFT**  
**CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED) FOR**  
**THE THREE MONTHS ENDED 31 MARCH 2012**  
(in millions of Russian roubles, if not stated otherwise)

Notes	Three months ended 31 March 2012	Three months ended 31 March 2011
<b>Cash flows from operating activities</b>		
Cash receipts from customers	184,830	157,208
Cash paid to suppliers and employees, and taxes other than profit tax	(125,463)	(102,806)
Interest paid	(5,975)	(8,223)
Income tax paid	(10,258)	(12,723)
Tax refunds	15,579	8,539
Other cash used in operating activities	(681)	(791)
<b>Net cash from operating activities</b>	<b>58,032</b>	<b>41,204</b>
<b>Cash flows used in investing activities</b>		
Purchase of property, plant and equipment	(33,772)	(49,214)
Proceeds from sales of property, plant and equipment	255	38
Interest and dividends received	2,084	1,906
Loans issued	(200)	(5,221)
Purchase of notes	(30,612)	(37,901)
Sales notes	4,262	22,166
Other cash used in investing activities	(2,901)	(1,120)
<b>Net cash used in investing activities</b>	<b>(60,884)</b>	<b>(69,346)</b>
<b>Cash flows used in financing activities</b>		
Repayment of long and short-term borrowings	-	(27)
Payment of finance lease obligations	-	(21)
Other cash proceeded in financing activities	(11)	-
<b>Net cash used in financing activities</b>	<b>(11)</b>	<b>(48)</b>
<b>Cash decrease due to deviation of currency exchange rate</b>	<b>(7,524)</b>	<b>(5,441)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(10,387)</b>	<b>(33,631)</b>
Cash and cash equivalents at the beginning of the period	10	145,546
<b>Cash and cash equivalents at the end of the period</b>	<b>10</b>	<b>283,864</b>

Approved on 20 June 2012 by

M.S. Grishanin

First vice-president

M.V. Russkikh

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



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**ОАО АК ТРАНСНЕФТ**  
**CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2012**  
(in millions of Russian roubles, if not stated otherwise)

	Attributable to the shareholders of ОАО АК Transneft					Non-controlling interests	Total equity
	Share capital	Share premium reserve	Merger reserve	Retained earnings	Total		
<b>Balance at 1 January 2011</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>732,864</b>	<b>772,645</b>	<b>33,792</b>	<b>806,437</b>
Profit for the period	-	-	-	84,858	84,858	600	85,458
Fair value loss on available-for sale financial assets, net of tax	-	-	-	(8)	(8)	-	(8)
Currency translation differences, net of tax	-	-	-	166	166	-	166
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85,016</b>	<b>85,016</b>	<b>600</b>	<b>85,616</b>
Additional emission of shares by a subsidiary	-	-	-	-	-	131	131
<b>Balance at 31 March 2011</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>817,880</b>	<b>857,661</b>	<b>34,523</b>	<b>892,184</b>
<b>Balance at 1 January 2012</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>919,690</b>	<b>959,471</b>	<b>37,056</b>	<b>996,527</b>
Profit for the period	-	-	-	58,712	58,712	1,130	59,842
Fair value loss on available-for-sale financial assets, net of tax	-	-	-	(20)	(20)	-	(20)
Currency translation differences, net of tax	-	-	-	(69)	(69)	-	(69)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>58,623</b>	<b>58,623</b>	<b>1,130</b>	<b>59,753</b>
<b>Balance at 31 March 2012</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>978,313</b>	<b>1,018,094</b>	<b>38,186</b>	<b>1,056,280</b>

Approved on 29 April 2012

M.S. Grishanin

M.V. Russkikh



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First vice-president

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

The accompanying notes set out on pages 8 to 19 are an integral part of these consolidated interim condensed financial statements

**OAo AK TRANSNEFT**  
**NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2012**  
(in millions of Russian roubles, if not stated otherwise)

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**1 NATURE OF OPERATIONS**

OAo 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 51.396 km at 31 March 2012 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 19.067 km as at 31 March 2012. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the three months ended 31 March 2012, the Group transported 118.8 million tonnes of crude oil to domestic and export markets (three months ended 31 March 2011 – 115.0 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 6.8 million tonnes of oil products (7.7 million tonnes for three months ended 31 March 2011).

**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 2011 prepared in accordance with International Financial Reporting Standards ("IFRS").

The official US dollar ("USD") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 29.3282 and 32.1961 as at 31 March 2012 and 31 December 2011, respectively. The official Euro ("EURO") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 39.1707 and 41.6714 as at 31 March 2012 and 31 December 2011, 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 2012 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 2013 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 2011.

**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 2011.

**OA O AK TRANSNEFT**  
**NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2012**  
(in millions of Russian roubles, if not stated otherwise)

**5 PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings and facilities</b>	<b>Pipelines and tanks</b>	<b>Other plant and equipment</b>	<b>Line fill</b>	<b>Assets under construction including prepayments</b>	<b>Total</b>
<b>At 1 January 2012</b>						
Cost	130,793	807,460	499,225	84,502	358,831	1,880,811
Accumulated depreciation and impairment	(36,019)	(278,766)	(222,525)	-	-	(537,310)
<b>Net book value at 1 January 2012</b>	<b>94,774</b>	<b>528,694</b>	<b>276,700</b>	<b>84,502</b>	<b>358,831</b>	<b>1,343,501</b>
Depreciation	(1,050)	(9,313)	(10,823)	-	-	(21,186)
Additions (including prepayments)	-	-	-	484	37,186	37,670
Transfers from assets under construction	584	29,873	9,921	-	(40,378)	-
Net change in dismantlement provision	-	(2,005)	-	-	383	(1,622)
Disposals/retirements at cost	(163)	(148)	(257)	(54)	-	(622)
Accumulated depreciation and impairment on disposals/retirements	128	101	211	-	-	440
<b>Net book value at 31 March 2012</b>	<b>94,273</b>	<b>547,202</b>	<b>275,752</b>	<b>84,932</b>	<b>356,022</b>	<b>1,358,181</b>
<b>At 31 March 2012</b>						
Cost	131,214	835,180	508,889	84,932	356,022	1,916,237
Accumulated depreciation and impairment	(36,941)	(287,978)	(233,137)	-	-	(558,056)
<b>Net book value at 31 March 2012</b>	<b>94,273</b>	<b>547,202</b>	<b>275,752</b>	<b>84,932</b>	<b>356,022</b>	<b>1,358,181</b>

**OA O AK TRANSNEFT**  
**NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2012**  
(in millions of Russian roubles, if not stated otherwise)

**5 PROPERTY, PLANT AND EQUIPMENT (continued)**

	<b>Buildings and facilities</b>	<b>Pipelines and tanks</b>	<b>Other plant and equipment</b>	<b>Line fill</b>	<b>Assets under construction including prepayments</b>	<b>Total</b>
<b>At 1 January 2011</b>						
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)
<b>Net book value at 1 January 2011</b>	<b>88,891</b>	<b>503,502</b>	<b>267,830</b>	<b>77,131</b>	<b>277,001</b>	<b>1,214,355</b>
Depreciation	(979)	(8,597)	(10,364)	-	-	(19,940)
Additions (including prepayments)	-	-	-	81	60,468	60,549
Transfers from assets under construction	689	2,516	4,427	-	(7,632)	-
Net change in dismantlement provision	-	(9,561)	-	-	549	(9,012)
Disposals/retirements at cost	(29)	(329)	(424)	(88)	-	(870)
Accumulated depreciation and impairment on disposals/retirements	15	249	258	-	-	522
<b>Net book value at 31 March 2011</b>	<b>88,587</b>	<b>487,780</b>	<b>261,727</b>	<b>77,124</b>	<b>330,386</b>	<b>1,245,604</b>
<b>At 31 March 2011</b>						
Cost	121,858	740,638	455,765	77,124	330,386	1,725,771
Accumulated depreciation and impairment	(33,271)	(252,858)	(194,038)	-	-	(480,167)
<b>Net book value at 31 March 2011</b>	<b>88,587</b>	<b>487,780</b>	<b>261,727</b>	<b>77,124</b>	<b>330,386</b>	<b>1,245,604</b>

Line fill represents RUB 77,966 of crude oil and RUB 6,966 of oil products as at 31 March 2012 (as at 31 December 2011 – RUB 77,740 of crude oil and RUB 6,762 of oil products).

During the three months ended 31 March 2012, borrowing costs in the amount of RUB 2,011 were capitalised as part of cost of assets under construction (for the three months ended 31 March 2011 – RUB 3,160) including interests to be capitalised in the amount of RUB 3,313 less interest income on the temporary investment of borrowings in the amount of RUB 1,302 as disclosed in Note 18.

**6 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES**

In March 2012 the Group acquired a significant share (26%) in OOO «Nevskaya truboprovodnaya kompaniya» for US Dollars 19 million (RUB 554 at the CBR exchange rate at the date of transaction). The company is the owner of oil-loading infrastructure in the Ust-Luga seaport.

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

	<b>31 March 2012</b>	<b>31 December 2011</b>
Assets	251,897	259,114
Liabilities	(96,932)	(102,892)

  

	<b>Three months ended 31 March 2012</b>	<b>Three months ended 31 March 2011</b>
Revenue	18,303	82,115
Profit for the period	8,560	64,282

**OAO AK TRANSNEFT**  
**NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2012**

(in millions of Russian roubles, if not stated otherwise)

**7 OTHER FINANCIAL ASSETS**

During the three months ended 31 March 2012 following short-term financial assets were purchased:

- zero-coupon notes which are subject to repayment on demand but not earlier than January – February 2013. The notes were purchased for a consideration of USD 880 million (RUB 26,548 at the CBR exchange rate effective at the purchase date), have a nominal value of USD 916 million and carrying value of RUB 25,953 (at the CBR exchange rate effective as at 31 March 2012);
- interest notes which are subject to repayment on demand but not earlier than January 2013. The notes were purchased for a consideration of USD 140 million (RUB 4,064 at the CBR exchange rate effective at the purchase date), have a carrying value of RUB 4,117 (at the CBR exchange rate effective as at 31 March 2012).

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

In January and February 2012 in order to reduce the adverse effects associated with decreasing of exchange rate of the US dollar the Group the Group has simultaneously purchased put options and written call options for the total amount of 1300 million US dollars with the exercise dates during June-October 2012 period and the carrying amount of RUB 584 as at 31 March 2012.. The Group qualifies these contracts as financial instruments at fair value through profit and loss.

Fair value measurement is based on Black-Scholes model, the inputs for which are observable in the market and the Group classified them to Level 2 in accordance with the hierarchy of fair value.

**8 INVENTORIES**

	<b>31 March 2012</b>	<b>31 December 2011</b>
Materials and supplies	16,077	14,090
Sundry goods for resale	10,658	8,392
Other items	20	26
	<b>26,755</b>	<b>22,508</b>

Materials and supplies are presented net of provisions for obsolescence of RUB 208 as at 31 March 2012 (as at 31 December 2011 – RUB 168).

**9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS**

**Receivables and prepayments**

	<b>31 March 2012</b>	<b>31 December 2011</b>
<b>Financial assets</b>		
Other long-term receivables	825	880
<b>Total long-term receivables</b>	<b>825</b>	<b>880</b>

	<b>31 March 2012</b>	<b>31 December 2011</b>
<b>Short-term receivables</b>		
<b>Financial assets</b>		
Trade receivables	17,518	16,511
Other receivables	10,558	10,914
<i>less: provision for doubtful debts</i>	(3,484)	(3,640)
<b>Total financial assets</b>	<b>24,592</b>	<b>23,785</b>

<b>Non-financial assets</b>		
Prepayments and advances and other non-financial assets	11,591	12,511
<b>Total receivables</b>	<b>36,183</b>	<b>36,296</b>

**VAT assets**

	<b>31 March 2012</b>	<b>31 December 2011</b>
Recoverable VAT related to construction projects	37,577	36,190
Recoverable VAT related to ordinary activity	41,419	39,633
<b>Total VAT assets</b>	<b>78,996</b>	<b>75,823</b>
Less: short-term VAT	(48,564)	(46,854)
<b>Long-term VAT</b>	<b>30,432</b>	<b>28,969</b>

**OA O AK TRANSNEFT**  
**NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2012**  
(in millions of Russian roubles, if not stated otherwise)

**10 CASH AND CASH EQUIVALENTS**

	<b>31 March 2012</b>	<b>31 December 2011</b>
Balances denominated in Russian roubles	48,998	54,440
Balances denominated in US dollars	60,339	63,637
Balances denominated in Euro	25,768	27,367
Balances denominated in other currency	54	102
	<b>135,159</b>	<b>145,546</b>

**11 DIVIDENDS**

In June 2011 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2011 in the amount of RUB 1,223 (preferred shares – RUB 489, ordinary shares – RUB 734). The whole amount of dividends was paid in August 2011.

**12 BORROWINGS**

	<b>31 March 2012</b>	<b>31 December 2011</b>
Borrowings and loans	567,151	605,311
Less: current borrowings and loans	(52,351)	(53,372)
	<b>514,800</b>	<b>551,939</b>
Maturity of non-current borrowings and loans		
Due for repayment:		
Between one and five years	246,121	196,172
After five years	268,679	355,767
	<b>514,800</b>	<b>551,939</b>

**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**

	<b>31 March 2012</b>	<b>31 December 2011</b>
Dismantlement provision	85,069	84,900
Pension provision	7,500	7,264
	<b>92,569</b>	<b>92,164</b>

**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 8.26 % per annum (31 December 2011 – 8.51 % per annum).

Should the nominal average rate increase/(decrease) by 1%, dismantlement provision would (decrease)/increase by RUB (6,378)/14,364 as at 31 March 2012 accordingly (RUB (9,564)/11,616 as at 31 December 2011 accordingly).

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**14 PROVISIONS FOR LIABILITIES AND CHARGES (continued)**

**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 287 and RUB 88 for the Three months ended 31 March 2012 and 2011, respectively, are included in staff costs in the consolidated interim condensed statement of comprehensive income.

**15 TRADE AND OTHER PAYABLES**

	<b>31 March 2012</b>	<b>31 December 2011</b>
Trade payables	33,934	36,105
Other payables	10,965	8,496
<b>Total financial payables</b>	<b>44,899</b>	<b>44,601</b>
Advances received for oil and oil product transportation services	25,887	33,966
Accruals	35,830	31,411
VAT output tax payable	13,725	12,989
Other taxes payable	1,987	1,452
<b>Total payables</b>	<b>122,328</b>	<b>124,419</b>

**16 SALES**

	<b>Three months ended 31 March 2012</b>	<b>Three months ended 31 March 2011</b>
Revenues from crude oil transportation services		
Domestic tariff	43,760	47,420
Export tariff	77,807	61,780
<b>Total revenues from crude oil transportation services</b>	<b>121,567</b>	<b>109,200</b>
Revenues from crude oil sales	42,800	36,021
Revenues from oil products transportation services	8,202	8,457
Other revenues	8,781	6,432
	<b>181,350</b>	<b>160,110</b>

Revenues from crude oil sales for the three months ended 31 March 2012 includes, mostly, 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 NK Rosneft (see Note 20).

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**17 OPERATING EXPENSES**

	Three months ended 31 March 2012	Three months ended 31 March 2011
Amortisation and depreciation	20,611	19,807
Staff costs:		
Salaries and pension expense	20,472	17,804
Social Funds contributions	4,453	4,171
Social expenses	589	504
Cost of crude oil sold	24,680	24,493
Customs duties	18,915	10,929
Energy	8,654	9,770
Materials	3,804	3,445
Repairs services and maintenance of relevant technical condition of pipeline	1,821	1,742
Transportation of oil using railways and related services	8,570	7,104
Other	5,026	9,572
	<b>117,595</b>	<b>109,341</b>

**18 INTEREST INCOME AND INTEREST EXPENSES**

Interest income	Three months ended 31 March 2012	Three months ended 31 March 2011
Interest income on cash and cash equivalents	1,754	3,699
Interest income from other financial assets	1,094	1,214
Other interest income	84	63
<b>Total interest income</b>	<b>2,932</b>	<b>4,976</b>
less interest income on the temporary investment of borrowings	(1,302)	(1,221)
<b>Total interest income recognised in profit or loss</b>	<b>1,630</b>	<b>3,755</b>

Interest expenses	Three months ended 31 March 2012	Three months ended 31 March 2011
Interest expense on borrowing cost	7,959	8,126
Provisions for asset retirement obligations: unwinding of the present value discount	1,807	2,185
Other interest expenses	154	147
<b>Total interest expenses</b>	<b>9,920</b>	<b>10,458</b>
Less interest to be capitalised	(3,313)	(4,381)
<b>Total interest expenses recognised in profit or loss</b>	<b>6,607</b>	<b>6,077</b>

**19 CONTINGENT LIABILITIES AND OTHER RISKS**

**Legal proceedings**

The Group is 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 31 March 2012, which could have a material adverse effect on the results of operations or financial position of the Group.

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**19 CONTINGENT LIABILITIES AND OTHER RISKS (continued)**

**Taxation contingencies**

During 2011 tax authority conducted on-site inspection of OAO AK Transneft for the period 2008-2009. Management believes that the Company followed the requirements of the tax legislation during these periods. The Company submitted its objections to the preliminary findings of the tax inspection in relation to withholding of tax on income of a foreign legal entity. As of the current date the final decision of the tax inspection is not issued.

**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 31 March 2012. The Government also appoints the members of the Federal Tariff Agency which sets the tariff rates.

As at 31 March 2012 and 31 December 2011 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:

	<b>Three months ended 31 March 2012</b>	<b>Three months ended 31 March 2011</b>
Revenue from oil transportation services	41,993	38,411
OAO NK Rosneft and its subsidiaries	35,689	32,474
OAO Gazprom and its subsidiaries	6,139	5,792
Others	165	145
Revenue from oil products transportation services	2,810	3,009
OAO NK Rosneft and its subsidiaries	689	797
OAO Gazprom and its subsidiaries	2,121	2,212
Purchases of oil (OAO NK Rosneft)	22,555	22,303
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	7,006	6,757
Electricity expenses	82	328
Interest income from other financial assets	1,088	1,181

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 31 March 2012 and 31 March 2011, Group had following transactions with associates and jointly controlled entities:

	<b>Three months ended 31 March 2012</b>	<b>Three months ended 31 March 2011</b>
Revenue	522	262
Purchases of goods and services	8,405	6,785

At the 31 March 2012 and 31 December 2011, Group had following accounts with related parties and associates:

	<b>31 March 2012</b>	<b>31 December 2011</b>
Trade and other receivables	3,044	1,800
Trade and other payable	102	136
Loan issued	5,594	6,141

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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 three reportable segments: Oil transportation and Oil product transportation and Sales oil to the People's Republic of China (China). 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 three months ended 31 March 2012 and at 31 March 2011 is as follows:

<b>Three months ended 31 March 2012</b>	<b>Oil transportation services</b>	<b>Oil products transportation services</b>	<b>Oil sales to China</b>	<b>Adjustments</b>	<b>Total IFRS</b>
<b>Sales</b>					
Sales to third parties	131,737	9,217	40,377	19	181,350
Inter-segment sales	816	14	-	(830)	-
<b>Total sales</b>	<b>132,553</b>	<b>9,231</b>	<b>40,377</b>	<b>(811)</b>	<b>181,350</b>
Operating expenses	(74,386)	(5,545)	(41,462)	3,798	(117,595)
Including amortisation and depreciation	(23,464)	(791)	-	3,644	(20,611)
Interest income	2,880	25	-	(1,275)	1,630
Interest expenses	(6,024)	(99)	-	(484)	(6,607)
Exchange gains/(loss)	16,639	622	183	(139)	17,305
Net change in fair value of derivatives	-	-	-	584	584
Other expenses	4,459	(50)	-	(4,409)	-
Share of profit from associates and jointly controlled entities	-	-	-	1,950	1,950
<b>Profit/(loss) before income tax</b>	<b>76,121</b>	<b>4,184</b>	<b>(902)</b>	<b>(786)</b>	<b>78,617</b>
Income tax expense	-	-	-	-	(18,775)
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,842</b>
<b>Other segment disclosures</b>					
Additions to non-current assets (other than financial instruments and deferred tax assets)	33,150	1,448	-	3,072	37,670

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**21 SEGMENT INFORMATION (continued)**

<b>Three months ended 31 March 2011</b>	<b>Oil transportation services</b>	<b>Oil products transportation services</b>	<b>Oil sales to China</b>	<b>Adjustments</b>	<b>Total IFRS</b>
<b>Sales</b>					
Sales to third parties	117,457	9,406	33,296	(49)	160,110
Inter-segment sales	324	992	-	(1,316)	-
<b>Total sales</b>	<b>117,781</b>	<b>10,398</b>	<b>33,296</b>	<b>(1,365)</b>	<b>160,110</b>
Operating expenses	(66,002)	(4,965)	(33,236)	(5,138)	(109,341)
Including depreciation and amortisation	(18,785)	(726)	-	(296)	(19,807)
Interest income	3,305	45	-	405	3,755
Interest expenses	(5,171)	(147)	-	(759)	(6,077)
Exchange gains/(loss)	20,058	613	66	(40)	20,697
Other expenses	(1,412)	4	-	1,408	
Share of profit from associates	-	-	-	30,438	30,438
<b>Profit before income tax</b>	<b>68,559</b>	<b>5 948</b>	<b>126</b>	<b>24,949</b>	<b>99,582</b>
Income tax expense	-	-	-	-	(14,124)
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85,458</b>

**Other segment disclosures**

Additions to non-current  
assets (other than financial  
instruments and deferred tax  
assets)

67,783	580	-	(7,814)	60,549
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Adjusting entries also relate to intersegment transactions (non-current borrowings), those which are material, related with transfer in 2009 year third party US Dollar debt to the intersegment borrowing, are as follows: US dollar denominated loan and interests granted in RUB which amounted to RUB 6,745 as at 31 March 2012, the loan interest payable of RUB - 99 accrued for the year ended 31 December 2011 and related exchange difference of RUB - 661 (as at 31 December 2011 US Dollar denominated loan granted in RUB including interest receivable which amounted to RUB 7,958, loan interest payable of RUB - 512 accrued for the year ended 31 December 2010 and related exchange difference of RUB - 369).

Segment information for the three months ended 31 March 2012 and at 31 December 2011 is as follows:

<b>31 March 2012</b>	<b>Oil transportation services</b>	<b>Oil products transportation services</b>	<b>Oil sales to China</b>	<b>Adjustments</b>	<b>Total IFRS</b>
Investments in associates and jointly controlled entities	-	-	-	37,291	37,291
<b>Total segment assets</b>	<b>1,982,482</b>	<b>68,854</b>	<b>14,430</b>	<b>(172,803)</b>	<b>1,892,963</b>
Trade payables and advances received	68,665	2,908	-	(11,752)	59,821
Non-current borrowings	514,800	4,688	-	(4,688)	514,800
Current borrowings	53,286	2,057	-	(2,992)	52,351
<b>Total segment liabilities</b>	<b>754,870</b>	<b>15,147</b>	<b>9,884</b>	<b>56,782</b>	<b>836,683</b>

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**21 SEGMENT INFORMATION (continued)**

<b>31 December 2011</b>	<b>Oil transportation services</b>	<b>Oil products transportation services</b>	<b>Oil sales to China</b>	<b>Adjustments</b>	<b>Total IFRS</b>
Investments in associates	-	-	-	34,889	34,889
<b>Total segment assets</b>	<b>1,948,071</b>	<b>65,868</b>	<b>14,327</b>	<b>(170,060)</b>	<b>1,858,206</b>
Trade payables and advances received	74,812	3,239	-	(7,980)	70,071
Non-current borrowings	551,939	5,690	-	(5,690)	551,939
Current borrowings	54,307	2,268	-	(3,203)	53,372
<b>Total segment liabilities</b>	<b>781,323</b>	<b>15,508</b>	<b>9,187</b>	<b>55,661</b>	<b>861,679</b>

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.

Adjusting items for segment's expenses in the amount of RUB 3,798 for the three months ended 31 March 2012 and RUB 5,138 for the three months ended 31 March 2011 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	<b>Three months ended 31 March 2012</b>	<b>Three months ended 31 March 2011</b>
Dismantlement provision	718	904
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"	(4,799)	(1,731)
Financial leasing	(57)	604
Pension liabilities	82	(107)
Other expenses, net	(4,459)	1,408
Electricity expenses	5,043	2,439
Intersegment operations	(479)	(160)
Others	153	1,781
<b>Total adjusting items for segment's expenses</b>	<b>(3,798)</b>	<b>5,138</b>

Adjusting items for segment's assets in the amount of RUB 172,803 as at 31 March 2012 and RUB 170,060 as at 31 December 2011 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	<b>31 March 2012</b>	<b>31 December 2011</b>
Increase in property plant and equipment for dismantlement provision	38,259	40,431
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"	(181,927)	(186,725)
Revaluation of linefill oil and oil products required under IAS 29 "Financial reporting in hyper-inflationary economies" and other	50,764	50,566
Business combination with Transnefteproduct	(52,554)	(52,554)
Deferred tax assets	(22,129)	(24,066)
Intersegment assets	(18,208)	(16,540)
Forex and interest expenses recognized in FA and CIP	13,935	13,905
Others	(943)	4,923
<b>Total adjusting items for segment's assets</b>	<b>(172,803)</b>	<b>(170,060)</b>

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**21 SEGMENT INFORMATION (continued)**

Adjusting items for segment's liabilities in the amount of RUB 56,782 as at 31 March 2012 and RUB 55,661 as at 31 December 2011 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	<b>31 March 2012</b>	<b>31 December 2011</b>
Dismantlement provision	85,254	84,900
Pension liabilities	7,499	7,264
Deferred tax liabilities	(18,962)	(22,634)
Intersegment liabilities	(18,208)	(16,540)
Others	1,199	2,671
<b>Total adjusting items for segment's liabilities</b>	<b>56,782</b>	<b>55,661</b>

*Geographical information.* Most of the assets of the Group included in reportable segments, located on the territory of the Russian Federation, resulting in economic activity for each segment are primary operated 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.

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

	<b>Three months ended 31 March 2012</b>	<b>Three months ended 31 March 2011</b>
Russian Federation	133,824	120,168
China	40,377	33,296
Other countries	7,149	6,646
	<b>181,350</b>	<b>160,110</b>

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:

	<b>Three months ended 31 March 2012</b>	<b>Three months ended 31 March 2011</b>
Companies under control of the Government of the		
Russian Federation	44,803	41,420
China National United Oil Corporation	40,377	33,296
OA O Surgutneftegaz	20,049	17,706
OA O NK Lukoil	18,341	15,860
OA O TNK-BP Holding	15,678	15,658
	<b>139,248</b>	<b>123,940</b>

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