

**OAO AK TRANSNEFT
IFRS CONSOLIDATED
INTERIM CONDENSED
FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

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Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors of OAO AK Transneft

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO AK Transneft (the "Company") and its subsidiaries (the "Group") as of 30 June 2010, and the related consolidated interim condensed statements of comprehensive income for the three and six months then ended, and related consolidated condensed interim statements of cash flows and changes in equity for the six months then ended, and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information set out on pages 4 to 21 in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim 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 accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
23 September 2010

ОАО АК ТРАНСНЕФТ
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
(UNAUDITED) AS OF 30 JUNE 2010
(in millions of Russian roubles, if not stated otherwise)

	Notes	30 June 2010	31 December 2009
ASSETS			
Non-current assets			
Intangible assets		1,607	1,275
Property, plant and equipment	5	1,108,432	997,400
Available-for-sale financial assets		378	419
Investment in associates		1,960	2,151
VAT assets	8	5,090	1,194
Receivables and prepayments	8	370	322
Total non-current assets		1,117,837	1,002,761
Current assets			
Inventories	7	15,862	12,900
Receivables and prepayments	8	19,373	17,612
VAT assets	8	28,337	61,812
Prepaid income tax		3,785	5,388
Other financial assets	6	58,995	35,616
Cash and cash equivalents	9	275,973	283,658
Total current assets		402,325	416,986
Total assets		1,520,162	1,419,747
EQUITY AND LIABILITIES			
Equity			
Share capital		308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		666,071	615,171
Attributable to the owners of OAO AK Transneft		705,852	654,952
Non-controlling interest		29,862	26,444
Total equity		735,714	681,396
Non-current liabilities			
Borrowings and finance lease obligations	11	550,145	541,952
Deferred income tax liabilities	12	38,278	30,505
Provisions for liabilities and charges	13	109,783	86,782
Total non-current liabilities		698,206	659,239
Current liabilities			
Trade and other payables	14	70,435	63,955
Current income tax payable		1,150	3,821
Borrowings and finance lease obligations	11	14,657	11,336
Total current liabilities		86,242	79,112
Total liabilities		784,448	738,351
Total equity and liabilities		1,520,162	1,419,747

Approved on 23 September 2010 by:

N.P. Tokarev

President

S.N. Suvorova

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 21 are an integral part of these financial statements

ОАО АК ТРАНСНЕФТ
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2010
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 30 June 2010	Six months ended 30 June 2010	Three months ended 30 June 2009	Six months ended 30 June 2009
Sales	15	105,436	208,221	81,548	166,738
Operating expenses	16	(69,392)	(130,444)	(45,197)	(85,598)
Net other operating (expense)/income	16	(1,371)	(1,057)	957	1,761
Operating profit		34,673	76,720	37,308	82,901
Financial items:					
Exchange gains		11,986	29,720	14,206	29,186
Exchange loss		(19,032)	(30,003)	(3,223)	(36,375)
Interest income		2,697	3,317	1,852	2,718
Interest expense		(4,149)	(8,203)	(4,503)	(8,707)
Total financial items		(8,498)	(5,169)	8,332	(13,178)
Share of gain from investments in associates		354	714	308	413
Profit before income tax		26,529	72,265	45,948	70,136
Income tax expense	12	(6,050)	(16,949)	(10,486)	(15,513)
Profit for the period		20,479	55,316	35,462	54,623
Other comprehensive income after tax					
Currency translation differences		(12)	(37)	(9)	27
Fair value (losses) /gains on available-for-sale financial assets, net of tax		(10)	12	7	18
Total comprehensive income		20,457	55,291	35,460	54,668
Profit attributable to:					
Shareholders of ОАО АК Транснефт		18,204	51,898	34,990	53,633
Non-controlling interest		2,275	3,418	472	990
Total comprehensive income attributable to:					
Shareholders of ОАО АК Транснефт		18,182	51,873	34,988	53,678
Non-controlling interest		2,275	3,418	472	990

Approved on 23 September 2010 by:

N.P. Tokarev

President

S.N. Suvorova

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



OAO AK TRANSNEFT
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2010
(in millions of Russian roubles, if not stated otherwise)

Notes	Six months ended 30 June 2010	Six months ended 30 June 2009
Cash flows from operating activities		
Cash receipts from customers	230,857	181,933
Cash paid to suppliers and employees, and taxes other than profit tax	(145,798)	(112,502)
Interest paid	(14,150)	(14,143)
Income tax paid	(11,972)	(9,746)
Tax refunds	57,431	25,214
Other cash used in operating activities	(3,843)	(1,636)
Net cash from operating activities	112,525	69,120
Cash flows used in investing activities		
Purchase of property, plant and equipment	(104,967)	(71,402)
Proceeds from sales of property, plant and equipment	648	172
Interest and dividends received	7,699	3,111
Purchase of promissory notes of other companies	(20,000)	-
Other cash (used in) / proceeded from/investing activities	(459)	1,420
Net cash used in investing activities	(117,079)	(66,699)
Cash flows from financing activities		
Proceeds from long and short-term borrowings	-	226,998
Repayment of long and short-term borrowings	(3)	(46,382)
Payment of finance lease obligations	(1,203)	(1,856)
Net cash (used in)/ proceeds from financing activities	(1,206)	178,760
Cash increase due to deviation of currency exchange rate	(1,925)	845
Net (decrease) / increase in cash and cash equivalents	(7,685)	182,026
Cash and cash equivalents at the beginning of the period	9 283,658	60,565
Cash and cash equivalents at the end of the period	9 275,973	242,591

Approved on 23 September 2010 by:

N.P. Tokarev

President

S.N. Suvorova

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 21 are an integral part of these financial statements

OAO AK TRANSNEFT
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2010
(in millions of Russian roubles, if not stated otherwise)

	Attributable to the owners of OAO AK Transneft					Non-controlling interest	Total equity
	Share capital	Share premium	Merger reserve	Retained earnings	Total		
Balance at 1 January 2009	308	52,553	(13,080)	495,081	534,862	25,035	559,897
Profit for the period	-	-	-	53,633	53,633	990	54,623
Fair value gain on available-for-sale financial assets, net of tax	-	-	-	18	18	-	18
Currency translation differences, net of tax	-	-	-	27	27	-	27
Total comprehensive income for the period	-	-	-	53,678	53,678	990	54,668
Dividends							
- preference shares	-	-	-	(368)	(368)	-	(368)
Balance at 30 June 2009	308	52,553	(13,080)	548,391	588,172	26,025	614,197
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

Approved on 23 September 2010 by:

N.P. Tokarev

S.N. Suvorov



President

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 21 are an integral part of these financial statements

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2010
(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 largest crude oil pipeline system in the world totalling 50,142 km at 30 June 2010. During the six months ended 30 June 2010, the Group transported 227.9 million tonnes of crude oil to domestic and export markets (six months ended 30 June 2009 – 226.4 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period.

OA O AK Transnefteproduct ("Transnefteproduct") became a wholly owned subsidiary of the Company. Transnefteproduct and its subsidiaries ("Group Transnefteproduct") operate a large oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 18,737 km as at 30 June 2010. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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 Group believes that the impact of the global 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

These consolidated interim condensed financial statements are 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 2009 prepared in accordance with International Financial Reporting Standards ("IFRS").

The official US dollar ("USD") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 31.1954 and 30.2442 as at 30 June 2010 and 31 December 2009, respectively. The official Euro ("EURO") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 38.1863 and 43.3883 as at 30 June 2010 and 31 December 2009, respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

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 2009.

The following significant accounting policies and the critical accounting estimates are used in applying accounting on **Capitalisation of borrowing costs**.

Accounting policy

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES (continued)

Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings.

The portion of the foreign exchange movements are estimated based on interest rates on similar borrowing in the Group's functional currency.

The foreign exchange gains and losses eligible for capitalisation in interim and annual periods are assessed on a cumulative basis.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

Critical accounting estimates

The portion of the forex exchange movements on the USD loan with China Development Bank Corporation eligible for capitalisation are estimated based on the interest rates of the coupon yield for the first period on RR nonconvertible interest bearing documentary bonds placed by the Company in June – October 2009.

In management's assessment, the foreign exchange gain on these borrowing is not attributable to the interest rate differentials and therefore is not capitalised.

Should the interest rate RR bonds be less for 3%, the amount of forex loss capitalised and profit for the 6 month ended 30 June 2010 would not differ and should the interest rate RR bonds be less for 5%, the amount of forex loss capitalised and profit for the 6 month ended 30 June 2010 would be RR 1,683 less.

Implementation of the new standards and interpretations that are mandatory for the Group's accounting periods beginning on 1 January 2010 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 2010 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 2009.

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2010
(in millions of Russian roubles, if not stated otherwise)

5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	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

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2010
(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	Linefill	Assets under construction including prepayments	Total
At 1 January 2009						
Cost	91,434	503,016	273,675	65,533	225,467	1,159,125
Accumulated depreciation and impairment	(26,427)	(191,886)	(131,682)	-	-	(349,995)
Net book value at 1 January 2009	65,007	311,130	141,993	65,533	225,467	809,130
Depreciation	(1,511)	(8,640)	(11,883)	-	-	(22,034)
Additions (including prepayments)	-	-	78	2,052	93,380	95,510
Transfers from assets under construction	1,831	1,284	15,522	-	(18,637)	-
Net change in dismantlement provision	-	(2,888)	-	-	266	(2,622)
Disposals/retirements at cost	(98)	(4)	(838)	(155)	-	(1,095)
Accumulated depreciation and impairment on disposals/retirements	17	2	682	-	-	701
Net book value at 30 June 2009	65,246	300,884	145,554	67,430	300,476	879,590
At 30 June 2009						
Cost	93,167	501,408	288,437	67,430	300,476	1,250,918
Accumulated depreciation and impairment	(27,921)	(200,524)	(142,883)	-	-	(371,328)
Net book value at 30 June 2009	65,246	300,884	145,554	67,430	300,476	879,590

Linefill represents 29,411 thousand tonnes of crude oil and 1,147 thousand tonnes of oil products as at 30 June 2010 (as at 31 December 2009 – 29,400 thousand tonnes of crude oil and 1,159 thousand tonnes of oil products).

During the six months ended 30 June 2010, borrowing costs in the amount of RR 15,771 were capitalised as part of cost of assets under construction (for the six months ended 30 June 2009 – RR 10,269).

6 OTHER FINANCIAL ASSETS

As at 30 June 2010 other financial assets generally include:

- non-interest-bearing notes which are subject to repayment in the fourth quarter of 2010. They were purchased by the Group in the third quarter of 2009 for a consideration of USD 1,136 million (RR 36,079 at the CBR exchange rate effective at the purchase date), nominal value of USD 1,224 million, carrying value RR 37,380 at the CBR exchange rate as at 30 June 2010 and RR 35,186 at the CBR exchange rate as at 31 December 2009.
- non-interest-bearing notes which are subject to repayment in the third quarter of 2010 – first quarter of 2011. They were purchased by the Group in the first quarter of 2010 for a consideration of RR 19,389, nominal value of RR 21,260, carrying value RR 19,747.

These notes were classified as loans and receivables and the Group does not intend to dispose of these notes prior to the maturity date.

OAO AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2010
(in millions of Russian roubles, if not stated otherwise)

7 INVENTORIES

	30 June 2010	31 December 2009
Materials and supplies	10,420	7,803
Sundry goods for resale	5,279	5,035
Other items	163	62
	15,862	12,900

Materials and supplies are presented net of impairment provision of RR 518 as at 30 June 2010 (as at 31 December 2009 – RR 489).

Sundry goods for resale, including oil and oil products, are presented net of impairment provision of RR 0 as at 30 June 2010 (as at 31 December 2009 – RR 42).

8 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	30 June 2010	31 December 2009
Non-financial assets		
Other long-term receivables	370	322
Total long-term receivables	370	322

	30 June 2010	31 December 2009
Short-term receivables		
Financial assets		
Trade receivables	2,224	1,905
Other receivables	7,757	8,024
Less: provision for doubtful debts	(3,255)	(3,255)
Total financial assets	6,726	6,674

Non-financial assets		
Prepayments and advances and other nonfinancial assets	12,647	10,938
Total receivables	19,373	17,612

VAT assets

	30 June 2010	31 December 2009
Recoverable VAT related to construction projects	9,634	44,425
Recoverable VAT related to ordinary activity	23,793	18,581
	33,427	63,006
Less: short-term VAT	(28,337)	(61,812)
Long-term VAT	5,090	1,194

9 CASH AND CASH EQUIVALENTS

	30 June 2010	31 December 2009
Balances denominated in Russian roubles	195,157	96,137
Balances denominated in US dollars	62,946	165,576
Balances denominated in Euro	17,764	21,929
Balances denominated in other currency	106	16
	275,973	283,658

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2010
(in millions of Russian roubles, if not stated otherwise)

10 DIVIDENDS

In June 2010, the shareholders of the Company approved the payment of dividends for 2009 in the amount of RR 973 (preferred shares – RR 389, ordinary shares – RR 584) at the annual general meeting of shareholders. The whole amount of dividends should be paid till the end of 2010.

11 BORROWINGS AND FINANCE LEASE OBLIGATIONS

	30 June 2010	31 December 2009
Borrowings and loans	564,599	552,940
Finance lease obligations	203	348
Total borrowings and loans	564,802	553,288
Less: current borrowings and loans and current portion of non-current borrowings and loans and finance lease obligations	(14,657)	(11,336)
	550,145	541,952
Maturity of non-current borrowings and loans and finance lease obligations		
Between one and five years	101,631	102,997
After five years	448,514	438,955
	550,145	541,952

In February 2009, the Group signed a facility agreement with China Development Bank Corporation for USD 10 billion, at a floating LIBOR-based rate, due in 20 years and repayable by equal instalments, starting from the fifth year after the date of the first drawdown. Interest on the credit agreement is payable once every six months until 1 January 2011 and on a monthly basis after 1 January 2011. In 2009, the Group received USD 9.0 billion. The proceeds will be used for the construction of crude oil pipeline infrastructure, including construction of the crude oil pipeline from Skovorodino, Russia to the border of the People's Republic of China and general corporate purposes.

In February 2009 as collateral for the above agreement the Company signed a contract for the term of 20 years for the annual supply of 6 million tons of crude oil to the People's Republic of China starting from 1 January 2011. For the fulfillment of the obligations, a contract was signed with OAO NK Rosneft in April 2009 for the supply of corresponding volumes of crude oil to the Company.

In June – October 2009, the Company placed nonconvertible interest bearing documentary bonds payable to bearer (series 01-03) in totaling RR 135,000 with a nominal value of one thousand roubles each, due in 10 years. There is an option to redeem the bonds earlier at the request of the bearer and at the discretion of the issuer, but not earlier than 6 years after the placement. The proceeds are used for financing investment programs and can be also used for other general corporate purposes. The bonds have 10 coupon periods of 364 days each. The coupon yield as at 30 June 2010 is 9.75% per annum for series 01 (second coupon), 11.75% per annum for series 02 (first coupon) and 12.15% per annum for series 03 (first coupon). The coupon yield for the second - sixth coupon periods will be determined as a fixed direct REPO rate of the Central Bank of Russian Federation for the term of one year and effective as at the third day before the beginning of the respective coupon period plus 2% - 2.4% per annum. The coupon yield for the seventh - tenth periods will be determined by the issuer in accordance with the prospectus.

In March 2007, the Group issued Eurobonds in the amount of USD 1.3 billion (RR 40,554 at CBR exchange rate at 30 June 2010, RR 39,317 at CBR exchange rate at 31 December 2009) at an interest rate of 5.67% per annum due in 7 years.

In June 2007, the Group issued Eurobonds in the amount of USD 0.5 billion (RR 15,598 at CBR exchange rate at 30 June 2010, RR 15,122 at CBR exchange rate at 31 December 2009) at an interest rate of 6.103% per annum due in 5 years.

Also in June 2007, the Group issued Eurobonds in the amount of EUR 0.7 billion (RR 26,730 at CBR exchange rate 30 June 2010, RR 30,372 at CBR exchange rate 31 December 2009) at an interest rate of 5.381% per annum due in 5 years.

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2010
(in millions of Russian roubles, if not stated otherwise)

11 BORROWINGS AND FINANCE LEASE OBLIGATIONS (continued)

In August 2008, the Group issued Eurobonds in the amount of USD 0.6 billion (RR 18,717 at CBR exchange rate as 30 June 2010, RR 18,147 at CBR exchange rate as 31 December 2009) at an interest rate of 7.70% per annum due in 5 years.

Also in August 2008, the Group issued Eurobonds in the amount of USD 1.05 billion (RR 32,755 at CBR exchange rate as 30 June 2010, RR 31,756 at CBR exchange rate as 31 December 2009) at an interest rate of 8.70% per annum due in 10 years.

The proceeds from all Eurobonds issues are used to finance the construction of the Eastern Siberia – Pacific Ocean pipeline or for the refinancing of current borrowings, obtained for the same purpose.

All borrowings and loans of the Group except for the loan received from China Development Bank Corporation are unsecured as at 30 June 2010 and 31 December 2009.

12 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.

13 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2010	31 December 2009
Dismantlement provision	102,723	80,535
Pension provision	7,060	6,247
	109,783	86,782

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 7.01% per year (31 December 2009 – 8.49% per year).

Should the nominal average rate increase/ (decrease) by 1%, dismantlement provision would (decrease)/ increase by RR 13,448 as at 30 June 2010 (RR 9,565 as at 31 December 2009).

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 RR 840 and RR 821 for the six months ended 30 June 2010 and 2009, respectively, are included in staff costs in the interim condensed consolidated statement of comprehensive income.

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14 TRADE AND OTHER PAYABLES

	30 June 2010	31 December 2009
Trade payables	26,102	17,690
Other payables	5,366	3,542
Dividends payable	973	-
Total financial payables	32,441	21,232
Advances received for oil and oil product transportation services	18,679	24,295
Accruals	9,320	12,977
VAT output tax payable	6,618	4,087
Other taxes payable	3,377	1,364
Total payables	70,435	63,955

15 SALES

	Three months ended 30 June 2010	Six months ended 30 June 2010	Three months ended 30 June 2009	Six months ended 30 June 2009
Revenues from crude oil transportation services				
Domestic tariff	37,866	75,769	30,858	62,281
Export tariff	54,441	106,973	43,123	85,008
Total revenues from crude oil transportation services	92,307	182,742	73,981	147,289
Revenues from oil products transportation services	7,275	14,813	5,002	11,759
Other revenues	5,854	10,666	2,565	7,690
	105,436	208,221	81,548	166,738

16 OPERATING EXPENSES AND NET OTHER OPERATING (EXPENSE)/INCOME

	Three months ended 30 June 2010	Six months ended 30 June 2010	Three months ended 30 June 2009	Six months ended 30 June 2009
Depreciation	16,871	32,920	9,861	20,418
Staff costs:				
Salaries and pension expense	17,281	33,647	14,896	25,441
Unified Social Fund contributions	2,419	5,255	2,094	4,166
Social expenses	871	1,415	751	1,226
Energy	7,464	15,562	6,859	13,639
Materials	3,744	7,266	2,957	5,724
Repairs services and maintenance of relevant technical condition of pipeline	3,441	5,816	2,217	3,693
Transportation of oil using railways	10,579	14,268	-	-
Other	6,722	14,295	5,562	11,291
	69,392	130,444	45,197	85,598

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16 OPERATING EXPENSES AND NET OTHER OPERATING (EXPENSE)/INCOME (continued)

The following amounts are included in the net other operating (expense)/income:

	Three months ended 30 June 2010	Six months ended 30 June 2010	Three months ended 30 June 2009	Six months ended 30 June 2009
Oil surplus	2,029	3,781	2,454	3,524
Charitable contribution	(2,942)	(3,123)	(1,560)	(1,697)
Other (expenses) / income	(458)	(1,715)	63	(66)
	(1,371)	(1,057)	957	1,761

17 CONTINGENT LIABILITIES

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 30 June 2010, which could have a material adverse effect on the results of operations or financial position of the Group.

As at 30 June 2010, input VAT includes RR 696 of VAT charged to the Company by its subsidiaries for August 2007, recovery of which was rejected by the resolution of the Federal Arbitration Court of the Moscow region ("FAC MR") dated 12 May 2009 No. KA-A40/459-09. As the period for revision of the FAC MR's resolution under the supervision procedure has expired, the Company is currently considering filing an application to the Russian Supreme Arbitration Court for retrial under newly revealed circumstances.

18 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 Ministry of Energy, other Federal bodies (professional agents), and independent directors. The Government also appoints the members of the Federal Tariff Agency which sets the tariff rates.

As at 30 June 2010 and 31 December 2009 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, 31% of the shares of the Caspian Pipeline Consortium-R and 31% of the shares of Caspian Pipeline Consortium-K. These interests are not recognised in these consolidated interim condensed financial statements as the Company is acting as an agent on behalf of the Russian Government.

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 and balances with state-controlled entities:

	Three months ended 30 June 2010	Six months ended 30 June 2010	Three months ended 30 June 2009	Six months ended 30 June 2009
Revenue from oil transportation services	29,545	57,760	21,136	41,635
Revenue from oil products transportation services	1,925	4,212	1,584	3,745
Electricity expenses	65	153	67	157
Interest expenses	-	-	4,857	8,294
Interest income from other financial assets	783	1,427	-	-

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18 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

	30 June 2010	31 December 2009
Receivables and prepayments	1,480	510
Cash	178,286	202,692
Advances received for oil transportation services	4,521	7,111
Advances received for oil product transportation services	950	1,303
Non-current and current borrowings	1	1
Other financial assets	57,127	35,186

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

During the period ended 30 June 2010 the Group acquired electric energy from associated company Rusenergoresurs on amount RR 15,239. Accounts receivables (incl. advances paid) as at 30 June 2010 amounted RR 210 (as at 31 December 2009 – RR 1,065), accounts payable as at 30 June 2010 amounted RR 183 (as at 31 December 2009 – RR 164).

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.

19 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 analyzed 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.

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19 SEGMENT INFORMATION (continued)

Adjusting entries also relate to intersegment transactions, those which are material, are as follows: US Dollar denominated loan granted in RR which amounted to RR 11,917 as at 30 June 2010, the loan interest payable of RR 235 and related exchange difference of RR 312 (as at 31 December 2009 US Dollar denominated loan granted in RR which amounted to RR 14,215, loan interest payable of RR 848 and related exchange difference of RR 1,267), and RR denominated loan with outstanding balance of RR 220 (as at 31 December 2009 – RR 0).

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

Six months ended 30 June 2010	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
External revenue	180,064	15,556	12,601	208,221
Operating expenses	(114,539)	(9,347)	(6,558)	(130,444)
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 year	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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Six months ended 30 June 2009	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
External revenue	147,902	11,751	7,085	166,738
Operating expenses	(76,234)	(6,657)	(2,707)	(85,598)
Depreciation and amortisation	(20,486)	(1,420)	1,488	(20,418)
Interest income	2,470	183	65	2,718
Interest expenses	(2,892)	(1,267)	(4,548)	(8,707)
Share of profit from associates	460	15	(62)	413
Profit before income tax	66,635	2,708	793	70,136
Income tax expense	(16,201)	(611)	1,299	(15,513)
Profit for the year	50,434	2,097	2,092	54,623

Other segment disclosures

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

	91,365	1,057	3,053	95,475
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Segment information as at 30 June 2010 and at 30 June 2010 is as follows:

30 June 2010	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Investments in associates	4,137	145	(2,322)	1,960
Total segment assets	1,496,917	61,329	(38,084)	1,520,162
Trade payables and advances received	40,758	4,435	(412)	44,781
Non-current borrowings	550,114	10,593	(10,593)	550,114
Current borrowings	14,485	1,779	(1,779)	14,485
Total segment liabilities	664,639	19,549	100,260	784,448

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19 SEGMENT INFORMATION (continued)

31 December 2009	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Investments in associates	4,060	36	(1,945)	2,151
Total segment assets	1,431,407	57,839	(69,499)	1,419,747
Trade payables and advances received	38,173	3,433	379	41,985
Non-current borrowings	541,914	14,215	(14,215)	541,914
Current borrowings	11,026	374	(374)	11,026
Total segment liabilities	638,797	20,201	79,353	738,351

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 and process oil 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 decapitalise interest costs capitalised earlier under RAR and for IFRS purposes.

Adjusting items for segment's revenues in the amount of RR 12,601 for the six months ended 30 June 2010 and RR 7,085 for the six months ended 30 June 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Recovery of non-controlling interest in accordance with RAR	13,152	5,719
Other adjustments and intersegment operations	(551)	1,366
Total unallocated reconciliation adjustments of segment revenues	12,601	7,085

Adjusting items for segment's expenses in the amount of RR 6,558 for the six months ended 30 June 2010 and RR 2,707 for the six months ended 30 June 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Recovery of non-controlling interest in accordance with RAR	9,654	5,144
Dismantlement provision	1,318	1,232
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"	(6,259)	(3,381)
Recovery of inventories impairment provision	-	(667)
Pension liabilities	539	(1,029)
Intersegment operations	(698)	(252)
Others	2,004	1,660
Total unallocated reconciliation adjustments of segment expenses	6,558	2,707

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19 SEGMENT INFORMATION (continued)

Adjusting items for segment's assets in the amount of RR 38,084 as at 30 June 2010 and RR 69,499 as at 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	30 June 2010	31 December 2009
Property, plant and equipment dismantlement provision recognized in cost	70,682	54,527
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"	(95,924)	(101,880)
Revaluation of linefill required under IAS 29 "Financial reporting in hyper-inflationary economies and other	52,813	50,744
Assets received under finance lease	2,583	4,363
Business combination with Transneftproduct	(52,553)	(52,553)
Deferred tax assets	(10,244)	(6,150)
Intersegment loans and interest	(12,372)	(14,215)
Others	6,931	(4,334)
Total unallocated reconciliation adjustments of segment assets	(38,084)	(69,499)

Adjusting items for segment's liabilities in the amount of RR 100,260 as at 30 June 2010 and RR 79,353 as at 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	30 June 2010	31 December 2009
Dismantlement provision	102,723	80,535
Pension liabilities	7,060	6,247
Deferred tax liabilities	2,517	4,215
Lease liabilities	203	348
Intersegment loans and interest	(12,372)	(14,215)
Others	129	2,223
Total unallocated reconciliation adjustments of segment liabilities	100,260	79,353

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. The carrying value of these assets is not significant.

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

	Six months ended 30 June 2010	Six months ended 30 June 2009
Russian Federation	197,079	156,574
Other countries	11,142	10,164
	208,221	166,738

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

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19 SEGMENT INFORMATION (continued)

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 2010	Six months ended 30 June 2009
Companies under control of the Government of the Russian Federation	61,972	45,380
ОАО Surgutneftegaz	29,622	24,735
ОАО Lukoil	28,957	25,396
ОАО TNK-BP Holding	25,799	22,397
	146,350	117,908

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