



OIL TRANSPORTING  
JOINT STOCK COMPANY  
"TRANSNEFT"

**CONSOLIDATED INTERIM CONDENSED  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED 31 MARCH 2014**



**WE TRANSPORT OIL,  
SO IT SETS THE WORLD IN MOTION**

## CONTENT

page

Auditors' Report on Review of Consolidated Interim Condensed Financial Information	3
Consolidated Interim Condensed Statement of Financial Position	5
Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Interim Condensed Statement of Cash Flows	7
Consolidated Interim Condensed Statement of Changes in Equity	8
Notes to the Consolidated Interim Condensed Financial Statements:	9
1. Nature of operations	9
2. Economic environment in the Russian Federation	
3. Basis of presentation	
4. Summary of significant accounting policies	10
5. Property, plant and equipment	
6. Other financial assets, including derivatives	12
7. Inventories	
8. Receivables and prepayments	13
9. Cash and cash equivalents	
10. Loans and borrowings	
11. Deferred tax liabilities and income tax expense	14
12. Provisions for liabilities and charges	
13. Trade and other payables, including derivatives	15
14. Revenue	
15. Operating expenses	16
16. Interest income and interest expenses	
17. Contingent liabilities and other risks	17
18. Related parties and key management personnel compensation	
19. Segment information	18





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## **Auditors' Report on Review of Consolidated Interim Condensed Financial Information**

To the Shareholders and Board of Directors 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 at 31 March 2014, and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three - month period then ended, and notes to the consolidated interim condensed financial information (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 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.

Audited entity: OAO AK Transneft

Registered by Moscow Registration Chamber on 26 August 1993,  
Registration No. 026.800

Registered in the Unified State Register of Legal Entities/Entered in  
the Unified State Register of Legal Entities on 24 July 2002 by  
Department of Ministry of Taxes and Duties, Registration No.  
1027700049486, Certificate series 77 No. 007893052.

119180, Moscow, ul. Bolshaya Polyanka, 57

Independent auditor: ZAO KPMG, a company incorporated under the  
Laws of the Russian Federation, a part of the KPMG Europe LLP group,  
and a member firm of the KPMG network of independent member  
firms affiliated with KPMG International Cooperative ("KPMG  
International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992,  
Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August  
2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the  
Ministry for Taxes and Duties of the Russian Federation, Registration  
No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of  
Russia". The Principal Registration Number of the Entry in the State  
Register of Auditors and Audit Organisations: No.10301000804.

*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 2014 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*.

  
Kim A.A., Director  
(power of attorney dated 01 October 2013 No. 72/13)  
ZAO KPMG  
29 May 2014  
Moscow, Russian Federation







**OAO AK TRANSNEFT**  
**CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
**AS AT 31 MARCH 2014**  
(in millions of Russian roubles, if not stated otherwise)

	Notes	31 March 2014	31 December 2013
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		3,452	3,624
Property, plant and equipment	5	1,559,614	1,527,720
Available-for-sale financial assets		217	217
Investments in associates and jointly controlled entities		31,288	31,583
Receivables and prepayments	8	2,271	2,136
Other financial assets	6	21,034	19,297
<b>Total non-current assets</b>		<b>1,617,876</b>	<b>1,584,577</b>
<b>Current assets</b>			
Inventories	7	30,601	27,883
Receivables and prepayments	8	42,881	44,634
VAT assets	8	36,268	52,170
Current income tax prepayments		886	1,587
Other financial assets, including derivatives	6	325,522	301,001
Cash and cash equivalents	9	108,910	104,742
<b>Total current assets</b>		<b>545,068</b>	<b>532,017</b>
<b>Total assets</b>		<b>2,162,944</b>	<b>2,116,594</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		1,290,668	1,249,863
Attributable to the shareholders of OAO AK Transneft		1,330,449	1,289,644
Non-controlling interests		25,833	25,395
<b>Total equity</b>		<b>1,356,282</b>	<b>1,315,039</b>
<b>Non-current liabilities</b>			
Loans and borrowings	10	510,242	484,593
Deferred income tax liabilities	11	42,627	45,304
Provisions for liabilities and charges	12	36,118	43,737
<b>Total non-current liabilities</b>		<b>588,987</b>	<b>573,634</b>
<b>Current liabilities</b>			
Trade and other payables, including derivatives	13	148,029	128,358
Current income tax payable		6,771	3,598
Loans and borrowings	10	62,875	95,965
<b>Total current liabilities</b>		<b>217,675</b>	<b>227,921</b>
<b>Total liabilities</b>		<b>806,662</b>	<b>801,555</b>
<b>Total equity and liabilities</b>		<b>2,162,944</b>	<b>2,116,594</b>

Approved on 29 May 2014 by

N.P. Tokarev

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 9 to 20 are an integral part of these consolidated interim condensed financial statements



**OAO AK TRANSNEFT**  
**CONSOLIDATED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER**  
**COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2014**  
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 31 March 2014	Three months ended 31 March 2013
Revenue	14	188,114	183,871
Operating expenses	15	(123,297)	(118,119)
<b>Operating profit</b>		<b>64,817</b>	<b>65,752</b>
<b>Financial items:</b>			
Exchange gains		41,180	14,360
Exchange loss		(44,840)	(16,630)
Interest income	16	4,355	2,926
Interest expense	16	(8,433)	(9,422)
Net change in fair value of derivatives		(5,118)	203
<b>Total financial items</b>		<b>(12,856)</b>	<b>(8,563)</b>
Share of (loss)/ profit from associates and jointly controlled entities		(408)	538
<b>Profit before income tax</b>		<b>51,553</b>	<b>57,727</b>
Income tax expense	11	(10,916)	(11,203)
<b>Profit for the period</b>		<b>40,637</b>	<b>46,524</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit and loss</i>			
Currency translation differences, net of tax		(50)	-
<i>Total items that may be reclassified to profit and loss, net of tax</i>		<i>(50)</i>	<i>-</i>
<i>Items that will not be reclassified to profit and loss</i>			
Remeasurement of net defined benefit plan obligation		656	285
<i>Total items that will not be reclassified to profit and loss, net of tax</i>		<i>656</i>	<i>285</i>
<b>Total other comprehensive income, net of tax</b>		<b>606</b>	<b>285</b>
<b>Total comprehensive income</b>		<b>41,243</b>	<b>46,809</b>
<b>Profit attributable to:</b>			
Shareholders of OAO AK Transneft		40,212	45,198
Non-controlling interests		425	1,326
<b>Total comprehensive income attributable to:</b>			
Shareholders of OAO AK Transneft		40,805	45,483
Non-controlling interests		438	1,326

Approved on 29 May 2014 by:

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OAO AK TRANSNEFT  
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE THREE MONTHS ENDED 31 MARCH 2014  
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 31 March 2014	Three months ended 31 March 2013
<b>Cash flows from operating activities</b>			
Cash receipts from customers		195,163	185,344
Cash paid to suppliers and employees, and taxes other than income tax		(118,946)	(111,454)
Interest paid		(6,195)	(6,126)
Income tax paid		(10,168)	(4,722)
Income tax refund		410	283
VAT and taxes other than income tax refunds		40,054	20,888
Other cash from / (used in) operating activities		7	(308)
<b>Net cash from operating activities</b>		<b>100,325</b>	<b>83,905</b>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment		(60,153)	(45,600)
Proceeds from sales of property, plant and equipment		78	42
Interest and dividends received		1,870	1,874
Purchase of notes and placement of funds on deposit accounts		(103,372)	(60,215)
Sale of notes and close of deposit accounts		105,750	33,652
Other cash from investing activities		-	46
<b>Net cash used in investing activities</b>		<b>(55,827)</b>	<b>(70,201)</b>
<b>Cash flows from financing activities</b>			
Repayment of short-term loans and borrowings		(46,948)	-
<b>Net cash used in financing activities</b>		<b>(46,948)</b>	<b>-</b>
Effects of exchange rate changes on cash and cash equivalents		6,618	876
<b>Net increase in cash and cash equivalents</b>		<b>4,168</b>	<b>14,580</b>
Cash and cash equivalents at the beginning of the year	9	104,742	84,517
Cash and cash equivalents at the end of the year	9	108,910	99,097

Approved on 29 May 2014 by:

N.P. Tokarev

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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**OAO AK TRANSNEFT**  
**CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2014**  
(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		
<b>Balance at 1 January 2013</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>1,096,088</b>	<b>1,135,869</b>	<b>37,186</b>	<b>1,173,055</b>
Profit for the period	-	-	-	45,198	45,198	1,326	46,524
Defined benefit plan actuarial losses	-	-	-	285	285	-	285
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,483</b>	<b>45,483</b>	<b>1,326</b>	<b>46,809</b>
<b>Balance at 31 March 2013</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>1,141,571</b>	<b>1,181,352</b>	<b>38,512</b>	<b>1,219,864</b>
<b>Balance at 1 January 2014</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>1,249,863</b>	<b>1,289,644</b>	<b>25,395</b>	<b>1,315,039</b>
Profit for the year	-	-	-	40,212	40,212	425	40,637
Defined benefit plan actuarial gains	-	-	-	643	643	13	656
Currency translation differences, net of tax	-	-	-	(50)	(50)	-	(50)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,805</b>	<b>40,805</b>	<b>438</b>	<b>41,243</b>
<b>Balance at 31 March 2014</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>1,290,668</b>	<b>1,330,449</b>	<b>25,833</b>	<b>1,356,282</b>

Approved on *29* May 2014 by:

N.P. Tokarev

President

M.V. Russkikh

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







## **1 NATURE OF OPERATIONS**

OAO AK Transneft (hereinafter OAO AK Transneft or 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 53,650 km at 31 March 2014 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 19,071 km as at 31 March 2014. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the three months ended 31 March 2014, the Group transported 118.4 million tonnes of crude oil to domestic and export markets (three months ended 31 March 2013 – 118.0 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 7.7 million tonnes of oil products (8.0 million tonnes for three months ended 31 March 2013).

## **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 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 2013 prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain comparative amounts have been corrected to conform with the current period presentation.

The official US dollar ("USD") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 35.6871 and 32.7292 as at 31 March 2014 and 31 December 2013, respectively. The official Euro ("EURO") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 49.0519 and 44.9699 as at 31 March 2014 and 31 December 2013, respectively.



#### 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 2013 except for amendments relating to implementation of new standards and interpretations which have become effective after 1 January 2014.

The Group has not earlier adopted new standards and interpretations which have been published but have not yet become effective.

The adoption of these standards did not influence the consolidated financial position as well as results of the Group.

#### 5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
<b>At 1 January 2014</b>						
Cost	148,479	1,038,640	725,591	102,262	230,474	2,245,446
Accumulated depreciation and impairment	(38,966)	(353,232)	(325,528)	-	-	(717,726)
<b>Net book value at 1 January 2014</b>	<b>109,513</b>	<b>685,408</b>	<b>400,063</b>	<b>102,262</b>	<b>230,474</b>	<b>1,527,720</b>
Depreciation	(1,207)	(11,210)	(16,075)	-	-	(28,492)
Additions (including prepayments)	-	305	-	2,034	65,189	67,528
Transfers from assets under construction	253	911	3,957	-	(5,121)	-
Change in impairment provision	-	(5)	-	-	-	(5)
Net change in dismantlement provision	-	(7,036)	-	-	29	(7,007)
Disposals/retirements at cost	(68)	(155)	(430)	(79)	-	(732)
Accumulated depreciation on disposals/retirements and impairment	49	152	401	-	-	602
<b>Net book value at 31 March 2014</b>	<b>108,540</b>	<b>668,370</b>	<b>387,916</b>	<b>104,217</b>	<b>290,571</b>	<b>1,559,614</b>
<b>At 31 March 2014</b>						
Cost	148,664	1,032,660	729,118	104,217	290,571	2,305,230
Accumulated depreciation and impairment	(40,124)	(364,290)	(341,202)	-	-	(745,616)
<b>Net book value at 31 March 2014</b>	<b>108,540</b>	<b>668,370</b>	<b>387,916</b>	<b>104,217</b>	<b>290,571</b>	<b>1,559,614</b>





5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
<b>At 1 January 2013</b>						
Cost	157,566	1,037,518	654,543	100,647	124,206	2,074,480
Accumulated depreciation and impairment	(40,355)	(313,166)	(266,812)	-	-	(620,333)
<b>Net book value at 1 January 2013</b>	<b>117,211</b>	<b>724,352</b>	<b>387,731</b>	<b>100,647</b>	<b>124,206</b>	<b>1,454,147</b>
Depreciation	(1,318)	(10,934)	(14,311)	-	-	(26,563)
Additions (including prepayments)	-	-	-	464	44,536	45,000
Transfers from assets under construction	661	1,244	1,679	-	(3,584)	-
Net change in dismantlement provision	-	(4,162)	-	-	68	(4,094)
Disposals/retirements at cost	(115)	(501)	(538)	(214)	-	(1,368)
Accumulated depreciation on disposals/retirements and impairment	69	367	439	-	-	875
<b>Net book value at 31 March 2013</b>	<b>116,508</b>	<b>710,366</b>	<b>375,000</b>	<b>100,897</b>	<b>165,226</b>	<b>1,467,997</b>
<b>At 31 March 2013</b>						
Cost	158,112	1,034,099	655,684	100,897	165,226	2,114,018
Accumulated depreciation and impairment	(41,604)	(323,733)	(280,684)	-	-	(646,021)
<b>Net book value at 31 March 2013</b>	<b>116,508</b>	<b>710,366</b>	<b>375,000</b>	<b>100,897</b>	<b>165,226</b>	<b>1,467,997</b>

Linefill represents RUB 94,768 of crude oil and RUB 9,449 of oil products as at 31 March 2014 (as at 31 December 2013 – RUB 94,765 of crude oil and RUB 7,497 of oil products).

During the three months ended 31 March 2014, borrowing costs in the amount of RUB 1,530 were capitalised as part of cost of assets under construction (for the three months ended 31 March 2013 – RUB 449) including interests to be capitalised in the amount of RUB 728 less amount to be excluded from capitalised borrowing costs in the amount of RUB 284 as disclosed in Note 16.



## 6 OTHER FINANCIAL ASSETS, INCLUDING DERIVATIVES

As at 31 March 2014:

Type of asset	Maturity	Currency	Amount at the purchase date	Carrying amount
<b>Long-term financial assets</b>				
Loan to Omirico*	January 2016	USD	5,221	6,193
Discounted promissory notes (on demand)	June 2015	USD	13,257	14,278
Other financial assets, including derivatives	-	-	-	563
			<b>18,478</b>	<b>21,034</b>
<b>Short-term financial assets</b>				
Discounted promissory notes (on demand)	April 2014 – February 2015	USD	185,309	200,157
	December 2014	RUR	34,000	36,855
Interest-bearing notes	May – October 2014	USD	11,144	12,909
	May 2014	RUR	2,500	2,710
	During the year after the reporting date	USD	-	64,249
Deposits	During the year after the reporting date	RUR	-	8,223
	During the year after the reporting date	Other	-	419
			<b>232,953</b>	<b>325,522</b>

As at 31 December 2013:

Type of asset	Maturity	Currency	Amount at the purchase date	Carrying amount
<b>Long-term financial assets</b>				
Loan to Omirico*	January 2016	USD	5,221	5,679
Discounted promissory notes (on demand)	June 2015	USD	13,257	13,055
Other financial assets, including derivatives	-	-	-	563
			<b>18,478</b>	<b>19,297</b>
<b>Short-term financial assets</b>				
Discounted promissory notes (on demand)	January – November 2014	USD	184,020	192,455
	December 2014	RUR	34,000	36,298
Interest-bearing notes	January – October 2014	USD	19,892	20,737
	May 2014	RUR	2,500	2,500
	During 2014	RUR	-	126
Deposits	During 2014	USD	-	48,770
	During 2014	Other	-	25
Other financial assets, including derivatives	-	-	-	90
			<b>240,412</b>	<b>301,001</b>

\*Loan with an 5.27% interest rate is repayable in 5 years. The amount of the loan and interest are repayable at the repayment date.

The afore-mentioned notes in significant part were purchased from organisations under control or significant influence of the Government.

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





## 7 INVENTORIES

	31 March 2014	31 December 2013
Materials and supplies	20,601	18,618
Sundry goods for resale	10,000	9,265
	<b>30,601</b>	<b>27,883</b>

Materials and supplies are presented net of provisions for obsolescence of RUB 142 as at 31 March 2014 (as at 31 December 2013 – RUB 143). Materials are primarily used for reparation and maintenance of pipeline equipment.

## 8 RECEIVABLES AND PREPAYMENTS

### Receivables and prepayments

	31 March 2014	31 December 2013
<b>Financial assets</b>		
Other long-term receivables	2,219	2,084
<b>Non-financial assets</b>		
Long-term VAT	52	52
<b>Total long-term receivables</b>	<b>2,271</b>	<b>2,136</b>

	31 March 2014	31 December 2013
<b>Short-term receivables</b>		
<b>Financial assets</b>		
Trade receivables	21,038	20,233
Other receivables	15,214	15,077
less: provision for doubtful debts	(3,792)	(3,335)
<b>Total financial assets in short-term receivables</b>	<b>32,460</b>	<b>31,975</b>

<b>Non-financial assets</b>		
Prepayments and advances and other non-financial receivables	10,421	12,659
<b>Total receivables</b>	<b>42,881</b>	<b>44,634</b>

### VAT assets

	31 March 2014	31 December 2013
Recoverable VAT related to construction projects	7,695	4,689
Recoverable VAT related to ordinary activity	28,625	47,533
<b>Total VAT assets</b>	<b>36,320</b>	<b>52,222</b>
Less: short-term VAT	(36,268)	(52,170)
<b>Long-term VAT</b>	<b>52</b>	<b>52</b>

## 9 CASH AND CASH EQUIVALENTS

	31 March 2014	31 December 2013
Balances in Russian roubles	45,038	36,129
Balances in US dollars	63,489	67,655
Balances in Euro	302	809
Balances in other currencies	81	149
	<b>108,910</b>	<b>104,742</b>



## 10 LOANS AND BORROWINGS

	31 March 2014	31 December 2013
Total loans and borrowings	573,117	580,558
Less: current loans and borrowings and current portion of non-current loans and borrowings	(62,875)	(95,965)
	<b>510,242</b>	<b>484,593</b>
Maturity of non-current loans and borrowings		
Between one and five years	268,363	257,307
After five years	241,879	227,286
	<b>510,242</b>	<b>484,593</b>

The amount of long-term loans and borrowings contains RUB 135,000 non-convertible interest-bearing documentary bonds which maturing in 2019 but with an option for earlier redemption at the request of bond-holders or at the discretion of the issuer in 2015.

Fair values of current loans and borrowings did not differ significantly from their carrying amounts as at 31 March 2014 and 31 December 2013. Fair values of loans and borrowings with floating interest rate did not differ materially from their carrying amounts as at 31 March 2014 and 31 December 2013.

The fair value of long-term loans and borrowings is presented in the table below:

Type of bonds	Interest rate	Currency	Carrying amounts		Fair value	
			31 March 2014	31 December 2013	31 March 2014	31 December 2013
Non-convertible interest-bearing documentary	Floating	RUB	135,000	135,000	140,786	141,266
Eurobonds	Fixed	USD	37,471	76,914	44,062	84,959

Fair value of financial liabilities in the above table was measured by referring to market quotations and in accordance with the fair value hierarchy the Group classified them as Level 1.

## 11 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. In the consolidated interim condensed financial statements income tax expense is recognised based on the best estimation of the average annual income tax rate expected for the financial year. 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.

## 12 PROVISIONS FOR LIABILITIES AND CHARGES

	31 March 2014	31 December 2013
Dismantlement provision	22,714	29,234
Pension provision	8,331	8,939
Other provisions	5,073	5,564
	<b>36,118</b>	<b>43,737</b>

### Dismantlement provision

The calculation of oil pipeline provision is based on the assumption that dismantlement activities are expected to cover all length of the pipelines at the end of their useful lives. 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 8.51% per year (31 December 2013 – 7.90% per year).

Should the discount rate applied in calculation of dismantlement provision increase/(decrease) by 1%, dismantlement provision would (decrease)/increase by (RUB 5,401) / RUB 7,351 as at 31 March 2014 ((RUB 7,215) / RUB 9,820 as at 31 December 2013).





## 12 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 amounting to RUB 89 and RUB 90 for the three months ended 31 March 2014 and 2013, respectively, are included in staff costs in the consolidated interim condensed statement of profit and loss and other comprehensive income, interest expense in the amount of RUB 180 and RUB 177 for the three months ended 31 March 2014 and 2013, respectively, are included in interest expenses.

Actuarial gains amounting to RUB 656 for the three months ended 31 March 2014 (RUB 285 for the three months ended 31 March 2013) are included in other comprehensive income and total actuarial gain amounted to RUB 610 as at 31 March 2014 (total actuarial loss amounted to RUB 46 as at 31 December 2013).

## 13 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	31 March 2014	31 December 2013
Trade payables	42,961	38,756
Other payables	16,822	9,999
<b>Total financial payables</b>	<b>59,783</b>	<b>48,755</b>
Advances received for oil and oil product transportation services	38,913	42,013
Accrued expenses	30,051	26,026
VAT payable	14,962	8,808
Other taxes payable	4,320	2,756
<b>Total payables</b>	<b>148,029</b>	<b>128,358</b>

### Derivatives

In December 2013 the Group had simultaneously purchased barrier put options with a delayed condition and sold barrier call options with a delayed condition for the total amount of USD 1,999 with the exercise date in September 2015 to reduce costs of servicing corporate bonds.

The Group classified this contract as a derivative recognised 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 except for assumed volatility measure and the Group classified them to Level 3 in accordance with the fair value hierarchy.

At the contract date the excess of fair value of the liability of these derivatives over fair value of the premium receivable under the contract amounting to RUB 563 was recognised as other financial asset (Note 6).

As at 31 March 2014 the carrying value of the liability amounted to RUB 6,094 (RUB 1,836 as at 31 December 2013).

In February 2014 in order to minimise unfavourable consequences from weakening of the USD exchange rate the Group simultaneously purchased in addition put-options and sold call-options for the amount of USD 434 million with exercise date in August-December 2014.

As at 31 March 2014 the carrying value of financial liability from derivatives amounted to RUB 770 (RUB 90 – as at 31 December 2013 (Note 6)). The Group classified this contract as a derivative recognised 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 fair value hierarchy.



OAO AK TRANSNEFT  
NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED 31 MARCH 2014  
(in millions of Russian roubles, if not stated otherwise)

#### 14 REVENUE

	Three months ended 31 March 2014	Three months ended 31 March 2013
Revenues from crude oil transportation services		
Domestic tariff	55,115	52,134
Export tariff	68,238	71,840
<b>Total revenues from crude oil transportation services</b>	<b>123,353</b>	<b>123,974</b>
Revenues from crude oil sales	46,299	40,814
Revenues from oil products transportation services	12,391	11,247
Other revenues	6,071	7,836
	<b>188,114</b>	<b>183,871</b>

Revenues from crude oil sales for the three months ended 31 March 2014 include, 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 18).

#### 15 OPERATING EXPENSES

	Three months ended 31 March 2014	Three months ended 31 March 2013
Amortisation and depreciation	27,229	25,992
Staff costs:		
Salaries and pension expense	21,728	20,811
Social Funds contributions	5,607	5,553
Social expenses	516	515
Cost of crude oil sold	24,947	21,940
Export custom duties	19,812	18,748
Energy	8,230	8,363
Materials	4,835	4,063
Repairs and maintenance services	1,911	2,101
Transportation of oil using railways	485	1,575
Other expenses	7,997	8,458
	<b>123,297</b>	<b>118,119</b>

#### 16 INTEREST INCOME AND INTEREST EXPENSE

Interest income	Three months ended 31 March 2014	Three months ended 31 March 2013
Interest income on cash and cash equivalents	1,133	1,565
Interest income from other financial assets	3,425	2,070
Other interest income	81	-
<b>Total interest income</b>	<b>4,639</b>	<b>3,635</b>
less interest income on the temporary investment of borrowings	(284)	(709)
<b>Total interest income recognised in statement of other comprehensive income</b>	<b>4,355</b>	<b>2,926</b>





## 16 INTEREST INCOME AND INTEREST EXPENSE (continued)

Interest expense	Three months ended 31 March 2014	Three months ended 31 March 2013
Interest expense on loans and borrowings	8,317	8,495
Provisions for asset retirement obligations: unwinding of the present value discount	580	1,441
Other interest expenses	264	372
<b>Total interest expenses</b>	<b>9,161</b>	<b>10,308</b>
Less capitalised finance costs	(728)	(886)
<b>Total interest expenses recognised in the statement of other comprehensive income</b>	<b>8,433</b>	<b>9,422</b>

## 17 CONTINGENT LIABILITIES, COMMITMENTS 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 2014, which could have a material adverse effect on the results of operations or financial position of the Group.

## 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 members represented by the Ministry of Energy, other Federal bodies, and independent companies. The Government also appoints the members of the Federal Tariff Agency which sets the tariff rates.

As at 31 March 2014 and 31 December 2013 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, 7% of the shares of the Caspian Pipeline Consortium-R and 7% of the shares of Caspian Pipeline Consortium-K and also 24% of the shares of the Caspian Pipeline Consortium-R and 24% of the shares of Caspian Pipeline Consortium-K. These interests are not recognised in these consolidated 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: purchase of electricity for production needs, transportation of oil produced by state-owned entities, and transactions with banks, which are under common control or significant influence of the state.

The Group had the following significant transactions with entities, which are under common control or significant influence of the state:

	Three months ended 31 March 2014	Three months ended 31 March 2013
Revenue from oil transportation services	60,407	43,169
OAO NK Rosneft and its subsidiaries	53,477	36,591
OAO Gazprom and its subsidiaries	6,823	6,444
Others	107	134
Revenue from oil products transportation services	6,114	3,907
OAO NK Rosneft and its subsidiaries	2,403	1,282
OAO Gazprom and its subsidiaries	3,711	2,625
Purchases of oil (OAO NK Rosneft)	21,877	19,230
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	686	1,775
Electricity expenses	86	119
Interest income from other financial assets	1,457	1,895
Transportation expenses	241	204

Operations with state-controlled entities include taxes which are shown in the consolidated interim condensed statement of financial position and consolidated interim condensed statement of profit and loss and other comprehensive income.



## 18 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

During the three months ended 31 March 2014 and 31 March 2013, Group had following transactions with associates and jointly controlled entities:

	Three months ended 31 March 2014	Three months ended 31 March 2013
Revenue	558	570
Purchases of goods and services	7,650	7,887

At the 31 March 2014 and 31 December 2013, Group had following accounts with related parties and associates:

	31 March 2014	31 December 2013
Trade and other receivables	412	1,443
Trade and other payables	723	472
Loan issued	6,193	5,679
Loan received	726	663

### 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 three reportable segments: Oil transportation, Oil product transportation and Sales oil to the People's Republic of China (China).

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

Segment information for the three months ended 31 March 2014 and 31 March 2013 was as follows:

Three months ended 31 March 2014	Oil transporta- tion services	Oil products transporta- tion services	Oil sales to China	Other segments and unallocated items	Adjust- ments	Total IFRS
<b>Revenue</b>						
Revenue from sales to third parties	123,198	12,391	42,739	9,786	-	188,114
Operating expenses	(59,718)	(4,925)	(41,493)	(25,654)	8,493	(123,297)
including depreciation	(30,681)	(1,186)	-	(308)	4,946	(27,229)
<b>Operating profit</b>	<b>63,480</b>	<b>7,466</b>	<b>1,246</b>	<b>(15,868)</b>	<b>8,493</b>	<b>64,817</b>
Interest income	-	-	-	-	-	4,355
Interest expenses	-	-	-	-	-	(8,433)
Exchange losses, net	-	-	-	-	-	(3,660)
Net change in the fair value of derivatives	-	-	-	-	-	(5,118)
Share of loss from associates and jointly controlled entities	-	-	-	-	-	(408)
<b>Profit before income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,553</b>
Income tax expense	-	-	-	-	-	(10,916)
<b>Profit for the reporting period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,637</b>



**OAO AK TRANSNEFT**  
**NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2014**  
(in millions of Russian roubles, if not stated otherwise)

**19 SEGMENT INFORMATION (continued)**

Three months ended 31 March 2013	Oil transporta- tion services	Oil products transporta- tion services	Oil sales to China	Other segments and unallocated items	Adjust- ments	Total IFRS
<b>Revenue</b>						
Revenue from sales to third parties	123,985	11,247	38,090	10,549	-	183,871
Operating expenses	(58,123)	(4,364)	(37,302)	(25,200)	6,870	(118,119)
Including depreciation	(29,303)	(915)	-	(214)	4,440	(25,992)
<b>Operating profit</b>	<b>65,862</b>	<b>6,883</b>	<b>788</b>	<b>(14,651)</b>	<b>6,870</b>	<b>65,752</b>
Interest income	-	-	-	-	-	2,926
Interest expenses	-	-	-	-	-	(9,422)
Exchange gains, net	-	-	-	-	-	(2,270)
Net change in the fair value of derivatives						203
Share of profit from associates and jointly controlled entities	-	-	-	-	-	538
<b>Profit before income tax</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,727</b>
Income tax expense	-	-	-	-	-	(11,203)
<b>Profit for the reporting period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46,524</b>

Adjusting items for segment's expenses in the amount of -RUB 8,493 for the three months ended 31 March 2014 and -RUB 6,870 for the three months ended 31 March 2013 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Three months ended 31 March 2014	Three months ended 31 March 2013
Dismantlement provision	(263)	255
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"	(5,321)	(5,168)
Pension liabilities	165	(180)
Other operating expenses, net	(2,046)	(3,767)
Others	(1,028)	1,990
<b>Total adjusting items for segment's expenses</b>	<b>(8,493)</b>	<b>(6,870)</b>

*Geographical information.* The Group's most part of assets attributable to reporting segments is primary located in the territory of the Russian Federation which results in the operating activity by each segment being carried out in the territory of the Russian Federation. Geographical information on revenue from external customers is presented based on the customers' country of incorporation; 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 revenue allocation by customers' country of incorporation is set out below:

	Three months ended 31 March 2014	Three months ended 31 March 2013
Russian Federation	138,319	138,301
China	42,739	38,090
Other countries	7,056	7,480
<b>Total</b>	<b>188,114</b>	<b>183,871</b>

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





**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.

The information about largest customers of the Group is presented below:

	<b>Three months ended 31 March 2014</b>	<b>Three months ended 31 March 2013</b>
Companies under control of the state	66,522	47,076
China National United Oil Corporation	42,739	38,090
OAO Surgutneftegaz	21,386	21,837
OAO Lukoil	17,573	17,778
OAO TNK-BP Holding*	-	13,347
<b>Total</b>	<b>148,220</b>	<b>138,128</b>

\* Revenue from OAO TNK-BP Holding is considered as revenue from the companies under control of the Russian Federation starting from the date when OAO TNK-BP Holding was acquired by OAO NK Rosneft.

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

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО  
**КПМГ**  
 Москва

Дата	Сумма	Сумма
12.03.2012	100 000	100 000
13.03.2012	100 000	100 000
14.03.2012	100 000	100 000
15.03.2012	100 000	100 000
16.03.2012	100 000	100 000
17.03.2012	100 000	100 000
18.03.2012	100 000	100 000
19.03.2012	100 000	100 000
20.03.2012	100 000	100 000
21.03.2012	100 000	100 000
22.03.2012	100 000	100 000
23.03.2012	100 000	100 000
24.03.2012	100 000	100 000
25.03.2012	100 000	100 000
26.03.2012	100 000	100 000
27.03.2012	100 000	100 000
28.03.2012	100 000	100 000
29.03.2012	100 000	100 000
30.03.2012	100 000	100 000
31.03.2012	100 000	100 000
Итого	3 000 000	3 000 000

В соответствии с условиями договора от 12.03.2012 № 123/2012, заключенного между ООО «КПМГ» и ООО «ТНСБ Холдинг», компания «ТНСБ Холдинг» обязана перечислить на расчетный счет ООО «КПМГ» денежные средства в размере 3 000 000 (три миллиона) рублей в течение 30 календарных дней с даты подписания настоящего документа.



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