

OAO AK TRANSNEFT
IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OAO AK Transneft

1. We have prepared consolidated financial statements for the year ended 31 December 2004 which give a true and fair view of the financial position of the Group at the end of the period and of the results of operations and cash flows for the period then ended. Management is responsible for ensuring that the Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Accounting Standards and that their statutory accounting reports comply with Russian laws and regulations. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.
2. Management considers that, in preparing the consolidated financial statements set out on pages 6 to 24, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Accounting Standards have been followed.
3. None of the directors held any shares in Group companies during the year ended 31 December 2004.
4. The consolidated financial statements, which are based on the statutory consolidated accounting reports approved by management in May 2005, have been restated in accordance with International Financial Reporting Standards.

S.M. Vainshtock
President
25 May 2005

OAO AK Transneft
ul. Bolshaya Polyanka, 57
119180 Moscow
Russian Federation

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of OAO AK Transneft

We have audited the accompanying consolidated balance sheet of OAO AK Transneft and its subsidiaries (the "Group") as of 31 December 2004, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements, as set out on the pages 6 to 24 are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004 and the results of its operations, cash flows and changes in equity for the year then ended.

Without qualifying our opinion, we draw your attention to the fact that, whilst there have been improvements in the economic situation in the Russian Federation in recent years, the country continues to display some of the characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments

KPMG Limited
Moscow, Russian Federation
25 May 2005

Consolidated Balance Sheet			
	Notes	31 December 2004	31 December 2003
ASSETS			
Non-current assets			
Intangible assets		458	535
Property, plant and equipment, net	4	295,904	261,185
Available-for-sale investments	5	1,302	1,198
Total non-current assets		297,664	262,918
Current assets			
Inventories, net	6	8,187	7,515
Receivables and prepayments, net	7	10,739	6,842
VAT assets	7	23,589	19,501
Prepaid profit tax		1,281	3,234
Available-for-sale short-term investments		77	890
Cash and cash equivalents	8	17,220	17,219
Total current assets		61,093	55,201
Total assets		358,757	318,119
SHAREHOLDERS' EQUITY, MINORITY INTERESTS AND LIABILITIES			
Shareholders' equity			
Share capital	9	307	307
Retained earnings		265,912	228,719
Total shareholders' equity		266,219	229,026
Minority interests	10	12,382	10,014
Non-current liabilities			
Borrowings	11	14,969	15,952
Deferred taxes	12	27,491	28,694
Provisions for liabilities and charges	13	7,366	5,195
Total non-current liabilities		49,826	49,841
Current liabilities			
Trade and other payables	14	26,448	26,236
Profit tax liabilities		1,337	570
Borrowings	11	2,545	2,432
Total current liabilities		30,330	29,238
Total liabilities		80,156	79,079
Total shareholders' equity, minority interests and liabilities		358,757	318,119

Approved on 25 May 2005 by:

S.M. Vainshtok

President

E.P. Kolesova

Chief Accountant

ОАО АК ТРАНСНЕФТ**IFRS Consolidated Financial Statements – Year ended 31 December 2004**

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Income	Notes	Year ended	Year ended
		31 December 2004	31 December 2003
Sales	15	150,441	114,161
Operating expenses	16	(87,873)	(68,491)
Net other operating expenses	16	(2,736)	(1,377)
Reversal of impairment provisions	4	972	2,051
Operating income		60,804	46,344
Financial items, net:			
Exchange gains		222	155
Gains/(losses) on available-for-sale investments	5	553	(95)
Interest expense, net	11	(2,286)	(3,387)
Total financial items		(1,511)	(3,327)
Income before profit tax		59,293	43,017
Profit tax expense	12	(15,770)	(11,015)
Income after profit tax and before minority interests		43,523	32,002
Minority interests	10	(2,368)	(1,441)
Net income		41,155	30,561

Consolidated Statement of Cash Flows	Year ended 31 December 2004	Year ended 31 December 2003
Cash flows from operating activities		
Cash receipts from customers	177,346	134,678
Cash paid to suppliers and employees, and taxes other than profit tax	(111,056)	(97,081)
Interest paid	(1,349)	(1,786)
Profit tax paid	(15,123)	(10,057)
Other proceeds from operating activities	10,817	5,685
Net cash from operating activities	60,635	31,439
Cash flows from investing activities		
Purchase of property, plant and equipment	(56,970)	(31,101)
Proceeds from sale of equipment	50	70
Purchase/(proceeds) of notes receivable and short-term investments	677	(788)
Proceeds from sale of long-term investments	-	285
Interest received	67	217
Net cash used in investing activities	(56,176)	(31,317)
Cash flows from/(used in) financing activities		
Proceeds from long and short-term borrowings	2,397	22,257
Repayment of long and short-term borrowings	(2,871)	(15,966)
Dividends paid*	(3,783)	(2,447)
Net cash from/(used in) financing activities	(4,257)	3,844
Effects of exchange rate changes on cash and cash equivalents	(201)	(219)
Net increase in cash and cash equivalents	1	3,747
Cash and cash equivalents at the beginning of the year	17,219	13,472
Cash and cash equivalents at the end of the year	17,220	17,219

*- excluding the withholding tax

Consolidated Statement of Changes in Shareholders' Equity

	Notes	Share capital	Retained earnings	Total shareholders' equity
Balance at 31 December 2002		307	200,803	201,110
Net income		-	30,561	30,561
Dividends				
- ordinary		-	(1,300)	(1,300)
- preferred		-	(1,345)	(1,345)
Balance at 31 December 2003		307	228,719	229,026
Net income		-	41,155	41,155
Dividends				
- ordinary	9	-	(2,377)	(2,377)
- preferred	9	-	(1,585)	(1,585)
Balance at 31 December 2004		307	265,912	266,219

