OAO AK TRANSNEFT

IFRS CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2006

CONTENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES
To the Shareholders of OAO AK Transneft

1. We have prepared the interim consolidated financial statements for the three months ended 31 March 2006 which give a true and fair view of the financial position of the OAO AK Transneft and its subsidiaries (the "Group") at the end of the period and of the results of operations and cash flows for the period then ended. Management of the Group 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 Financial Reporting 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 interim consolidated financial statements set out on pages 5 to 27, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Financial Reporting Standards have been followed.

3. None of the directors held any shares in Group companies during the three months ended 31 March 2005.

4. The interim consolidated financial statements, which are based on the statutory consolidated accounting reports approved by management in May 2006, have been restated in accordance with International Financial Reporting Standards.

S.M. Vainshtock
President
30 June 2006

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of OAO AK Transneft

We have reviewed the accompanying consolidated balance sheet of OAO AK Transneft and its subsidiaries (the "Group") as at 31 March 2006 and the related consolidated statements of income, of cash flows and changes in equity for the three months then ended. These interim consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements referred to above do not present fairly, in all material respects, the financial position of the Group as at 31 March 2006 and the results of its operations and its cash flows for the three months ended 31 March 2006 in accordance with International Financial Reporting Standards.

ZAO KPMG

30 June 2006

(in millions of Russian roubles, unless otherwise stated)

Consolidated Balance Sheet

	Notes	31 March 2006 (unaudited)	31 December 2005
ASSETS			
Non-current assets			
Intangible assets		446	458
Property, plant and equipment	4	349,572	340,190
Financial assets at fair value through profit or loss	5	1,301	1,315
Total non-current assets		**351,319**	**341,963**
Current assets			
Inventories, net	6	6,823	7,144
Receivables and prepayments, net	7	10,676	8,969
VAT assets	7	26,171	29,887
Prepaid profit tax		129	587
Financial assets at fair value through profit or loss		516	638
Cash and cash equivalents	8	22,727	29,138
Total current assets		**67,042**	**76,363**
Total assets		**418,361**	**418,326**
EQUITY AND LIABILITIES			
Equity			
Share capital	9	307	307
Retained earnings		333,388	316,708
Attributable to the shareholders of OAO AK Transneft		333,695	317,015
Minority interests	10	16,640	14,650
Total equity		**350,335**	**331,665**
Non-current liabilities			
Borrowings and finance lease obligation	11	2,091	1,649
Deferred taxes	12	25,522	25,540
Provisions for liabilities and charges	13	9,782	9,483
Total non-current liabilities		**37,395**	**36,672**
Current liabilities			
Trade and other payables	14	26,612	31,746
Profit tax liabilities		2,028	1,953
Borrowings and finance lease obligation	11	1,991	16,290
Total current liabilities		**30,631**	**49,989**
Total liabilities		**68,026**	**86,661**
Total equity and liabilities		**418,361**	**418,326**

Approved on 30 June 2006 by:

S.M. Vainshtok — President

M. D. Mukhamedjanov — General Director of OOO "Transneft Finance", a specialized organization, which performs accounting function for OAO "AK Transneft"

The accompanying notes set out on pages 9 to 27 are an integral part of these financial statements

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Income

	Notes	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Sales	15	50,845	46,632
Operating expenses	16	(26,584)	(27,211)
Other operating income/(expenses)	16	1,299	(79)
Operating income		**25,560**	**19,342**
Financial items, net:			
Exchange gains/(losses)		79	(46)
Losses on financial assets at fair value through profit or loss	5	(24)	(6)
Interest expense, net	11	(88)	(363)
Total financial items		**(33)**	**(415)**
Income before profit tax		**25,527**	**18,927**
Profit tax expense	12	**(6,857)**	**(4,764)**
Net income		**18,670**	**14,163**
Attributable to:			
Shareholders of OAO AK Transneft		16,680	13,595
Minority interests	10	1,990	568
		18,670	**14,163**

The accompanying notes set out on pages 9 to 27 are an integral part of these financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Cash Flows

	31 March 2006 (unaudited)	31 March 2005 (unaudited)
Cash flows from operating activities		
Cash receipts from customers	54,738	53,025
Cash paid to suppliers and employees, and taxes other than profit tax	(30,140)	(29,941)
Interest paid	(167)	(326)
Profit tax paid	(6,336)	(5,034)
Other proceeds from operating activities	6,285	3,330
Net cash from operating activities	**24,380**	**21,054**
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,991)	(10,555)
Proceeds from sale of equipment	13	4
(Purchase)/proceeds of notes receivable and short-term investments	(20)	40
Interest received	94	15
Net cash used in investing activities	**(15,904)**	**(10,496)**
Cash flows used in financing activities		
Proceeds from long and short-term borrowings	51	72
Repayment of long and short-term borrowings	(14,262)	(74)
Payment of finance lease liabilities	(513)	-
Finance lease payments made in advance	(67)	-
Net cash used in financing activities	**(14,791)**	**(2)**
Effects of exchange rate changes on cash and cash equivalents	**(96)**	**(1)**
Net increase/(decrease) in cash and cash equivalents	**(6,411)**	**10,555**
Cash and cash equivalents at the beginning of the period	29,138	17,220
Cash and cash equivalents at the end of the period	**22,727**	**27,775**

The accompanying notes set out on pages 9 to 27 are an integral part of these financial statements.

(in millions of Russian roubles, unless otherwise stated)

Consolidated Statement of Changes in Equity

	Attributable to the shareholders of OAO AK Transneft				
	Share capital	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2004	**307**	**265,912**	**266,219**	**12,382**	**278,601**
Net income (unaudited)	-	13,595	13,595	568	14,163
Balance at 31 March 2005 (unaudited)	**307**	**279,507**	**279,814**	**12,950**	**292,764**
Balance at 31 December 2005	307	316,708	317,015	14,650	331,665
Net income (unaudited)	-	16,680	16,680	1,990	18,670
Balance at 31 March 2006 (unaudited)	**307**	**333,388**	**333,695**	**16,640**	**350,335**

The accompanying notes set out on pages 9 to 27 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 NATURE OF OPERATIONS

OAO AK Transneft (the "Company") was established as an open joint stock company and incorporated on 14 August 1993 in the Russian Federation 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, enumerated in note 17, (the "Group") operate the largest crude oil pipeline system in the world totalling 47,978 km (31 December 2005 – 47,978 km) and were responsible for transportation to refineries and export markets of 111, 2 million tonnes of crude oil in the three months ended 31 March 2006 (three months ended 31 March 2005 – 109, 9 million tonnes), which represents substantially all the crude oil produced in the territory of the Russian Federation.

The Group is considered by management to have a single main activity and all its activities comprise one industry and geographic segment.

2 BASIS OF PRESENTATION

Those Group companies incorporated in Russia maintain their statutory accounting records and prepare statutory financial reports in accordance with the Regulations on Accounting and Reporting of the Russian Federation ("RAR") and their functional currency is the Russian rouble ("RR"). Group companies incorporated in other countries maintain their statutory accounting records in accordance with relevant legislation and in the appropriate functional currency. These consolidated financial statements are based on the statutory accounting records, which are maintained under the historical cost convention, with adjustments and reclassifications for the purpose of presentation in accordance with International Financial Reporting Standards ("IFRS").

The majority of Group companies were incorporated at approximately the same time and, since the assets had previously been under common ownership, the consolidated financial statements have been prepared on the basis that there was a uniting of interests at that date under IAS 22, "Business Combinations". Subsequent acquisitions have been accounted for in accordance with the purchase method of accounting under IAS 22 (before 31 March 2004) and IFRS 3(after 31 March 2004).

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments held for trading and available-for-sale are stated at fair value. The carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as of 1 January 2003.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. The most significant estimates relate to the estimated useful lives and dismantlement liabilities associated with property, plant and equipment, and deferred taxation.

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment. The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied by the Group in the preparation of the consolidated financial statements for the year ended 31 December 2005, except for changes resulting from the amendments to IFRSs.

Consolidation

Those business undertakings in which the Group, directly or indirectly, has an interest of more than one-half of the voting rights or otherwise has the power to exercise control over the operations are defined as subsidiary undertakings ("subsidiaries"). All subsidiaries whose assets, liabilities or operations are significant to the Group have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date when such control ceases.

All transactions, balances and unrealised surpluses and deficits on transactions within the Group have been eliminated on consolidation. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

For subsidiaries that are not wholly owned, the minority interest is measured as the proportion of the fair value of the assets and liabilities of the subsidiary at the acquisition date, amended for the minority's share of subsequent dividends, profits and losses.

Foreign currencies

The financial statements of foreign subsidiaries whose operations are integral to those of the Group are translated into the reporting currency as if the transactions had been undertaken directly by the Company.

Foreign currency transactions in Group companies are accounted for at the exchange rates prevailing at the dates of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at each balance sheet date.

Property, plant and equipment

Owned assets

All property, plant and equipment is initially recorded at historical cost, including, where appropriate, the net present value of the estimated dismantlement or removal cost of the asset at the end of its estimated useful life, less accumulated depreciation. Assets under construction are carried at historical cost and depreciated from the time the asset is brought into use. Depreciation is calculated on the straight-line basis to write down the cost of each asset to its estimated residual value over its estimated useful life as follows:

	Years
Buildings	50
Pipelines	33
Plant and equipment	10-20

Crude oil used for technical operation of the pipeline network ("linefill") owned by the Group is treated as a separate component of the pipeline class of asset, and is not depreciated as it is not physically consumed in the process of providing services to customers. Surpluses are reflected at market value, deficits – at the weighted average carrying value of linefill and are charged or credited to the consolidated statement of income.

Management approves specific plans for prospective dismantlement or decommissioning of sections of pipeline and related facilities on an annual basis and, at that time, the estimated useful life of the related asset is revised and the annual depreciation charge is amended if applicable. In the event that a decision is made to abandon a construction project in progress or to significantly postpone its planned completion date, or if there are other indications of potential impairment, the carrying value of the asset is reviewed.

At each balance sheet date an assessment is made as to whether there is any indication that the recoverable amount of the Group's property, plant and equipment is less than the carrying amount, or that an impairment provision previously made may no longer exist or may have changed. When there is such an indication, an impairment provision or reversal, as applicable, is included in the consolidated statement of income in the period in which the indication of impairment or reversal becomes apparent. The Group's pipeline network, associated buildings, linefill and plant and equipment are assessed by reference to the higher of their net selling price or their value in use, based on forecasts of future cash flows from continuing use of the assets discounted to net present value. The discount rate used is that considered appropriate to the Group in the economic environment in the Russian Federation at each balance sheet date.

Major renewals and improvements are capitalised and the assets replaced are retired. Maintenance and repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures which do not result in a technical enhancement of the asset beyond its original capability, or which represent the replacement of sections of pipeline which are less than ten kilometres in length and do not constitute phased replacements of a longer section of the pipeline. Gains and losses arising from the retirement or other disposal of property, plant and equipment are included in the consolidated statement of income.

Interest costs on borrowings to finance the construction of property, plant and equipment are expensed as incurred.

Social assets which were part of the assets transferred to the Group companies at the time of their privatisation have been excluded from these consolidated financial statements if the privatisation plan provided for them to be transferred to municipal authorities or other organisations without consideration.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses.

Financial assets at fair value through profit or loss

Marketable securities and other investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in their future prospects, are classified as financial assets at fair value through profit or loss.

Management classifies each investment as either current or non-current at the acquisition date, and re-evaluates the classification at each subsequent balance sheet date. Such investments are initially stated at cost and are re-measured to fair value at each balance sheet date, and both realised and unrealised changes in carrying amount are charged or credited to the consolidated statement of income.

The fair value of marketable securities and quoted investments is based on quoted market values at each balance sheet date. In assessing the fair value of securities and investments which are not publicly traded, the Group uses a variety of methods and assumptions based on market conditions and risk existing at each balance sheet date, including quoted market prices for similar investments, discounted value of estimated future cash flows, and replacement cost.

Financial assets and liabilities

Financial assets and liabilities carried on the consolidated balance sheet include cash and cash equivalents, investments, receivables, borrowings and trade and other payables. These items are initially recognised at cost, which is the fair value of the consideration given or received, on the date when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised only when the rights to the separable benefits under the relevant contract are settled, lost, surrendered, or have expired. Financial liabilities are partially or fully de-recognised only when the obligation specified in the relevant contract is discharged, cancelled or has expired.

Financial assets are re-measured to fair value at each subsequent balance sheet date, unless they are loans or receivables originated by the Group, in which case they are measured at amortised cost. Financial liabilities are carried at amortised cost.

Accounts receivable

Accounts receivable are carried at their original invoice amount less a provision made for impairment of these receivables. The provision for impairment of trade receivables is established if there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables or if collection is not anticipated for a long period of time. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowings at the date of origination of the receivable.

Inventories

Inventories are valued at the lower of weighted average cost and net realisable value.

Revenue recognition

Revenues are recognised when transportation services have been provided as evidenced by delivery of crude oil to the owner or customer in accordance with the contract.

Value added tax

In the consolidated balance sheet and the consolidated statement of cash flows, transactions and balances are presented inclusive of the associated Value Added Tax ("VAT") applicable under the legislation of the relevant jurisdiction in which the specific transactions occurred. These taxes are generally excluded from the consolidated statement of income since they are collected and paid on behalf of the Government and therefore have no effect on the results of operations.

Deferred taxes

Except as discussed below, deferred taxes are calculated at currently enacted or substantively enacted rates, using the liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax liabilities are recognised in respect of all taxable temporary differences relating to investments in subsidiaries, unless the Company is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets attributable to temporary differences and to unutilised tax losses and credits are recognised only to the extent that it is probable that future taxable profit or temporary differences will be available against which they can be utilised.

Borrowings

Borrowings are recognised initially at the fair value of the proceeds received which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

State pension fund

The Group makes contributions for the benefit of employees to a State pension fund. The contributions are expensed as incurred.

Retirement benefit plans and other employee benefits

The Group sponsors a defined contribution plan, covering all employees.

The Group's contributions to the defined contribution plan are based upon 12% of accrued annual payroll. The Group's contributions to this plan are expensed when incurred and are included within insurance expenses in operating expenses.

The Group also operates a defined benefit plan. Pension costs are recognised using the projected unit credit method. The cost of providing pension contributions is charged to operating expenses in the consolidated statement of income so as to spread the regular cost over the service lives of employees. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised in full as they arise in the income statement.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are reassessed at each balance sheet date, and are included in the consolidated financial statements at their expected net present values using the discount rate appropriate to the Group in the economic environment in the Russian Federation at each balance sheet date.

Changes in the provisions resulting from the passage of time or changes in the discount rate are reflected in the consolidated statement of income each period under Financial Items. Other changes in provisions, related to a change in the expected pattern or estimated cost of settlement of the obligation, are treated as a change in an accounting estimate in the period of the change by adjusting the corresponding asset or expense.
The Group recognises separately the estimated cost of crude oil spillages, including the cost of the obligations to restore the environment (air, land, water and other resources), and the estimated recoveries under applicable insurance policies, at the date of the spillage.

The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised as expenses immediately unless they extend the life of the related property or mitigate or prevent future environmental contamination, in which case they are capitalised.

Cash and cash equivalents

Cash and cash equivalents consist of cash, bank balances and highly liquid investments which are readily convertible to known amounts of cash, subject to an insignificant risk of changes in value, and which have maturities of three months or less at the date of acquisition.

Share capital and dividends

Ordinary shares and non-redeemable preferred shares with variable dividend rights are both classified as equity.

Dividends are recognised as a liability and deducted from shareholders' equity at the balance sheet date only if they have been declared before or on the balance sheet date. Dividends proposed or declared between the balance sheet date and the date of issuing the consolidated financial statements are disclosed.

New Standards and Interpretations not yet adopted

The following new Standards and Interpretations are not yet effective and have not been applied in preparing these IFRS financial statements:

- IFRS 7 Financial Instruments: Disclosures, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's financial instruments.

- Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Company's capital.

The Company has not yet determined the effect of adoption of these new Standards and Interpretations.

(in millions of Russian roubles, unless otherwise stated)

4 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Pipelines	Plant and equipment	Linefill	Assets under construction including prepayments	Total
At 31 December 2005						
Cost	53,355	274,715	165,973	54,378	38,914	587,335
Accumulated depreciation	(16,742)	(145,286)	(85,117)	-	-	(247,145)
Net book value at 31 December 2005	**36,613**	**129,429**	**80,856**	**54,378**	**38,914**	**340,190**
Depreciation	(442)	(1,826)	(3,550)	-	-	(5,818)
Additions	-	-	1,226	605	14,637	16,468
Transfers from assets under construction to fixed assets	968	303	1,281	-	(2,552)	-
Disposals (at cost) and changes in provisions	(198)	32	(439)	(1,041)		(1,646)
Accumulated depreciation on disposals	49	31	298	-	-	378
Net book value at 31 March 2006 (unaudited)	**36,990**	**127,969**	**79,672**	**53,942**	**50,999**	**349,572**
At 31 March 2006						
Cost	54,125	275,050	168,041	53,942	50,999	602,157
Accumulated depreciation	(17,135)	(147,081)	(88,369)	-		(252,585)
Net book value at 31 March 2006 (unaudited)	**36,990**	**127,969**	**79,672**	**53,942**	**50,999**	**349,572**

(in millions of Russian roubles, unless otherwise stated)

	Buildings	Pipelines	Plant and equipment	Linefill	Assets under construction including prepayments	Total
At 31 December 2004						
Cost	47,583	249,233	143,088	53,170	33,062	526,136
Accumulated depreciation	(15,598)	(138,154)	(76,480)	-	-	(230,232)
Net book value at 31 December 2004	**31,985**	**111,079**	**66,608**	**53,170**	**33,062**	**295,904**
Depreciation	(420)	(1,878)	(2,290)	-	-	(4,588)
Additions	-	-	-	231	7,743	7,974
Transfers from assets under construction to fixed assets	1,954	5,836	2,470	-	(10,260)	-
Disposals (at cost) and changes in provisions	(63)	63	(323)	(601)	(91)	(1,015)
Accumulated depreciation on disposals	32	1	247	-	-	280
Net book value at 31 March 2005 (unaudited)	**33,488**	**115,101**	**66,712**	**52,800**	**30,454**	**298,555**
At 31 March 2005						
Cost	49,474	255,132	145,235	52,800	30,454	533,095
Accumulated depreciation	(15,986)	(140,031)	(78,523)	-	-	(234,540)
Net book value at 31 March 2005 (unaudited)	**33,488**	**115,101**	**66,712**	**52,800**	**30,454**	**298,555**

Linefill represents 27,241 thousand tonnes of crude oil (31 December 2005 – 27,571 thousand tonnes).

Property, plant and equipment at 31 March 2006 and 31 December 2005 is presented net of impairment provisions of RR 4,704 million at each date against specific pipeline assets and machinery held for disposal or liquidation.

Leased plant and machinery

In 2005 the Group leased production plant and equipment under a number of finance lease agreement. At the end of each of the leases the Group has the option to purchase the production plant and equipment at a beneficial price. At 31 March 2006 the net book value of leased plant and machinery was RR 4,527 million. The leased equipment secures lease obligations.

5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 March 2006 (unaudited)	31 December 2005
Marketable securities	786	814
Investments in other Russian companies and banks	515	501
	1,301	1,315

Financial assets at fair value through profit or loss represented by investments in other Russian companies and banks have been reduced to fair value by making cumulative fair-value adjustments of RR 520 million

(in millions of Russian roubles, unless otherwise stated)

(31 December 2005 – RR 1,286 million).

Gains on financial assets at fair value through profit or loss include:

	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Fair value adjustments, net	(24)	(6)

6 INVENTORIES, NET

	31 March 2006 (unaudited)	31 December 2005
Materials and supplies	6,133	6,488
Sundry goods for resale	417	381
Other items	273	275
	6,823	7,144

The above inventory balances are presented net of provision for obsolescence of RR 342 million (31 December 2005 – RR 374 million). Materials and supplies mostly represent pipes that will be expensed in maintenance costs.

7 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS, NET

Receivables and prepayments

	31 March 2006 (unaudited)	31 December 2005
Trade receivables	3,565	2,420
Prepayments and advances	5,450	5,068
Other receivables (net of a provision for doubtful accounts of RR 51 million at 31 March 2006; 31 December 2005 - RR 47 million)	1,661	1,481
	10,676	8,969

VAT assets

	31 March 2006 (unaudited)	31 December 2005
Recoverable on completion of construction projects	9,356	9,368
Input tax on costs incurred, and temporarily imputed VAT on advances received, for transportation of oil destined for export	13,297	20,064
Other VAT receivable	3,518	455
	26,171	29,887

8 CASH AND CASH EQUIVALENTS

	31 March 2006 (unaudited)	31 December 2005
Balances denominated in Russian roubles	20,893	26,633
Balances denominated in US dollars	1,834	2,505
Total	22,727	29,138

(in millions of Russian roubles, unless otherwise stated)

9 SHARE CAPITAL

Share capital

		Total RR million (historical)	31March 2006 and 31 December 2005
Authorised, issued and fully paid shares of par value RR 1 each			
Ordinary:	4,664,627 shares	4.7	230
Preferred:	1,554,875 shares	1.5	77
Total:	6,219,502 shares	6.2	307

The Company's largest shareholders are:

Federal Agency for the Management of Federal Property	100% of ordinary shares
ZAO Depozitarno – Clearing Company (nominee shareholder)	26.03% of preferred shares
ZAO ING Bank (Eurasia) (nominee shareholder)	13.82% of preferred shares
ZAO UBS Nominees (nominee shareholder)	15.63% of preferred shares
ZAO KB CITIBANK (nominee shareholder)	18.50% of preferred shares
Non-profit partnership Nazionalniy Depozitarniy center (nominee shareholder)	8.13% of preferred shares

Rights attributable to preferred shares

Pursuant to the Charter, shareholders that hold preferred shares shall have the right to receive annual fixed dividends. The total amount of dividends to be paid on each preferred share is established as 10 percent of the profits of the Company according to the results of the last financial year, divided by the number of preferred shares based on information from the shareholders register of the Company at the reporting date.

Shareholders that hold preferred shares in the Company shall be entitled to participate in the general meeting of shareholders with the right to vote on the following issues:

- on the reorganization and liquidation of the Company;
- on the introduction of amendments and addenda to the Charter of the Company which limit the rights of shareholders that hold preferred shares, including the determination or increase in the amount of dividends and/or determination or liquidation cost to paid on preferred shares of the previous level of priority;
- on all issues within the competence of the general meeting of shareholders, beginning with the general meeting of shareholders following an annual general meeting of shareholders at which for whatever reason either no decision on payment of dividends was adopted or a decision was adopted on partial payment of dividends on preferred shares. The right of shareholders that hold preferred shares to participate in the general meeting of shareholders with voting rights shall be terminated from the time of the first full payment of dividends on the indicated shares.

Dividends

In accordance with the Instructions of Russian Federation Federal Property Management Agency "About the Decisions taken at the Annual General Shareholders' Meeting of OAO AK Transneft" from 30 November 2005, the following dividends were approved in respect of the year ended 31 December 2004:

	Russian roubles per share	Total
Ordinary shares	53.64	250
Preferred shares	321.81	500
		750

The amount was fully settled by the end of 2005 by making cash payments.

(in millions of Russian roubles, unless otherwise stated)

In accordance with the Instructions of Russian Federation Federal Property Management Agency "About the Decisions taken at the Annual General Shareholders' Meeting of OAO AK Transneft" from 29 June 2006, the following dividends were approved in respect of the year ended 31 December 2005:

	Russian roubles per share	**Total (unaudited)**
Ordinary shares	184.52	861
Preferred shares	296.36	461
		1 322

According to the Statute of OAO AK Transneft, the dividends are to be paid in cash prior to the year end 2006.

Distributable profits

The statutory accounting reports of the parent Company and each subsidiary are the basis for their respective profit distribution and other appropriations. For the three months ended 31 March 2006, the statutory profit of the Company was RR 1,541 million. The Company's Chapter identifies the basis of distribution as the net profit.

10 MINORITY INTERESTS

	Three months ended 31 March 2006 (unaudited)	**Three months ended 31 March 2005 (unaudited)**
At 1 January	14,650	12,382
Share of net income for the year	1,990	568
At 31 March	16,640	12,950

Minority interests primarily represents the shares in consolidated subsidiaries held by OAO Svyazinvestneftekhim (36% of OAO SZMN) and OAO Bashkirskaya Oil Company (24.5% of OAO Uralsibnefteprovod).

11 BORROWINGS, FINANCIAL LEASE OBLIGATIONS AND INTEREST EXPENSE

	31 March 2006 (unaudited)	**31 December 2005**
Secured borrowings	8	480
Unsecured borrowings	20	13,938
Finance lease obligation	4,054	3,521
Total borrowings	4,082	17,939
Less: current portion of borrowings and finance lease obligation	(1,991)	(16,290)
	2,091	1,649

Maturity of non-current borrowings and finance lease obligation		
Due for repayment:		
Between one and five years	2,080	1,647
After five years	11	2
	2,091	1,649

(in millions of Russian roubles, unless otherwise stated)

Interest expense, net

	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Interest expense	197	421
Interest income	(109)	(58)
Interest expense, net	88	363

Borrowings include the following major credit facilities:

A credit line of RR 10,000 million (RR 5,000 million and US$ 163 million) was made available to a Group company by a Russian bank for the construction of the Baltic Pipeline System, of which the full amounts had been drawn down. The credit line is repayable as follows: RR 5,000 million in February 2006, US$ 163 million in eight equal quarterly instalments commencing in August 2006. The loan of US$ 163 million was repaid in advance in May 2005 in one installment. Interest on the RR 5,000 million was payable at fixed rates and could be revised if there were any changes in established refinancing and other rates of the Central Bank of the Russian Federation. Interest on the US$163 million accrued at a variable interest rate. The loan of RR 5,000 million was repaid in February 2006.

A credit line of RR 10,000 million was made available to a Group company by a Russian bank for the construction of the Baltic Pipeline System, of which 7,390 million had been drawn down by 31 December 2005. The credit line was repayable in four unequal instalments commencing in July 2005 to February 2006. Partial repayments of this credit line were made in April 2005 of RR 3,333 million and May 2005 of RR 2,500 million. Interest was payable at fixed rates and could be revised if there were changes in established refinancing and other rates of the Central Bank of the Russian Federation. The remaining balance of RR 1,557 million was repaid in February 2006.

A credit line of US$ 250 million was made available to a Group company by international consortium of banks for the construction of the third stage of the Baltic Pipeline System, partial refinancing of existing liabilities and general corporate purposes. In May 2005 US$ 250 million of the credit line had been drawn down. The credit line was repayable in three unequal instalments commencing in April 2007 to April 2008. The loan was repaid in advance in February 2006. Interest was payable monthly at the rate of Libor plus 1.15%.

The rates on the above RR loans ranged from 8% to 12%.

Finance lease obligation

Finance lease liabilities are payable as follows:

	31 March 2006		
	Payments	Interest	Principal
Less than one year	2,150	170	1,980
Between one and five years	2,211	146	2,065
After five years	9	-	9
	4,370	316	4,054

(in millions of Russian roubles, unless otherwise stated)

12 PROFIT TAX AND DEFERRED TAXES

	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Profit tax expense consists of:		
Current tax expense	6,876	5,140
Deferred tax benefit	(19)	(376)
Profit tax expense	6,857	4,764

No offset of profit tax against other taxes was performed during the three months ended 31 March 2006. RR 13 million of current tax expense was settled during the three months ended 31 March 2005 through an offset against VAT receivable and property tax.

Deferred tax liabilities and assets consist of the following:

	31 March 2006 (unaudited)	31 December 2005
Deferred tax liabilities:		
Carrying value of property, plant and equipment in excess of tax base	(28,508)	(28,376)
Other	(344)	(288)
	(28,852)	(28,664)
Deferred tax assets:		
Provisions against inventories, receivables and accruals	704	654
Provisions for dismantlement and other expenses	2,626	2,470
	3,330	3,124
Net deferred tax liability	(25,522)	(25,540)

Profit tax payable by companies in the Russian Federation with effect from 1 January 2002 ranges from 20% to 24%, depending on the decision of regional and local tax authorities which can agree jointly on a supplementary amount of up to 4% above the minimum set by the federal tax authorities. The rate used to compute the deferred tax assets and liabilities of the Group at 31 March 2005 was 24% (31 December 2005 – 24%), which reflects the fact that substantially all regional and local tax authorities in the regions in which the Group operates have again assessed the maximum supplementary rate.

The following is a reconciliation of theoretical profit tax expense computed at the statutory tax rate to the actual profit tax expense:

	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Income before profit tax	25,511	18,927
Theoretical profit tax expense at 24%	6,122	4,542
Increase due to:		
Items non deductible for profit tax purposes	735	222
Actual profit tax expense	6,857	4,764

(in millions of Russian roubles, unless otherwise stated)

13 PROVISIONS FOR LIABILITIES AND CHARGES

	Dismantlement	Other liabilities	Employment benefits	Total
At 31 December 2005	6,774	135	2,574	9,483
Additional provisions created (unaudited)	184	2	194	380
Provisions used (unaudited)	(71)	-	(10)	(81)
At 31 March 2006 (unaudited)	6,887	137	2,758	9,782

Dismantlement

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 dismantlement provision calculation is based on assumption, that it is 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 therefore 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.

Other liabilities

Certain subsidiaries entered into contracts with the original holders of the preferred shares of the Company. In return for the holders selling their shares, those subsidiaries made commitments to pay annual amounts indefinitely based on a percentage of the profits of the subsidiary calculated in accordance with RAR. Payments are made in May and November each year based on the results of operations of the relevant subsidiaries for the six months ended on 31 December and 30 June of the previous period, respectively. These payments however, must not be less than the value of the shares sold multiplied by the current deposit rate of the Savings Bank of Russia (10% as of 31 December 2005). A provision is made for the net present value of the estimated minimum future payments under such contracts.

Employment benefits

Under collective agreements with the employees, an amount of two or three months' final salary is payable upon retirement to those who have worked for the Group for more than three years. Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19, "Employee Benefits". Under this method an assessment has been made of an employee's service period with the Group, and the expected salary having regard to staff turnover statistics, retirement age, and salaries at retirement. The expected liabilities at the date of retirement have been discounted to net present value using a rate of 6.89% per year (31 December 2005 – 6.89% per year).

14 TRADE AND OTHER PAYABLES

	31 March 2006 (unaudited)	31 December 2005
Trade payables	8,848	9,361
Advances received for oil transportation services	8,254	10,604
Deferred VAT	1,711	5,808
Accruals and deferred income	2,456	1,875
VAT output tax payable	1,906	758
Other taxes payable	1,005	551

(in millions of Russian roubles, unless otherwise stated)

Other payables	2,432	2,789
	26,612	31,746

VAT input and output taxes can only be offset under tax regulations to the extent that they relate to the same company; deferred VAT output tax liabilities become payable when the value of the underlying invoice has been received.

15 SALES

	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Revenues from oil transportation services		
Domestic tariff	18,347	13,338
Export tariff	27,594	24,234
Total revenues from oil transportation services	45,941	37,572
Revenues from oil sales		
Domestic sales	2,518	996
Export sales	-	4,858
Total revenues from oil sales	2,518	5,854
Other revenues	2,386	3,206
	50,845	46,632

The Group revenues for oil transportation services on the domestic pipeline network comprise:

- revenues for transportation of crude oil to destinations in Russia and the CIS countries, based on distance-related tariffs denominated and payable in RR and revised periodically after approval by the Federal Tariff Agency (“domestic tariff”);
- revenues for transportation of crude oil which is destined for export, based on distance-related tariffs denominated in US$ and in RR but payable in RR and revised periodically after approval by the Federal Tariff Agency (“export tariff”);

The above tariffs are based on expected total operating costs calculated in accordance with RAR (with certain exclusions), normal levels of activity and a monetary profit margin.

Other amounts included in export tariffs are:

- a fixed tariff denominated and payable in US$, under intergovernmental agreements for the transportation of crude oil from Azerbaijan over the territory of Russian Federation, for export at Novorossiysk and other outlets;
- a distance-related tariff denominated and payable in US$, set by the Federal Tariff Agency for transit of Kazakhstan crude oil over the territory of the Russian Federation, and
- a fixed tariff denominated and payable in US$, for transit of Kazakhstan crude oil through the Makhachkala – Novorossiysk pipeline.

The following significant changes in tariffs occurred in recent periods:

The tariffs on pumping, reloading, pouring, execution of an order and dispatch of oil shipments to oil refineries of the Russian Federation and the member states of the Customs Union that are located outside the customs territory of the Russian Federation and the member states of the Customs Union were increased from 1 January 2005. As a result, the weighted average tariff increased of 11.2%.

The tariffs on execution of an order and dispatch of oil shipments to oil refineries of the Russian Federation and the member states of the Customs Union that are located outside the customs territory of the Russian Federation and the member states of the Customs Union were increased from 1 June 2005. As a result, the weighted average tariff increased of 8.3%.

The tariffs on execution of an order and dispatch of oil shipments to oil refineries of the Russian Federation and the member states of the Customs Union that are located outside the customs territory of the Russian Federation and the member states of the Customs Union were increased from 1 June 2006. As a result, the weighted average tariff increased of 9.3%.

(in millions of Russian roubles, unless otherwise stated)

The revenue from the oil sale shows proceeds from the sale of oil for export, received in repayment of the accounts receivable of one of the oil production companies on oil transportation services, and proceeds from the sale on the domestic market of surpluses of linefill.

16 OPERATING EXPENSES AND NET OTHER OPERATING EXPENSES

	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Operating expenses		
Depreciation	5,713	4,578
Salaries	4,136	4,159
Unified Social Fund contributions	1,147	1,051
Key management personnel compensation (Note 19)	27	31
Social expenses	428	400
Electricity	4,300	3,960
Maintenance and repairs and minor renewals	1,639	1,200
Materials	2,105	2,071
Taxes other than profit tax:		
Property tax	299	275
Other taxes	51	44
Cost of goods for resale	2,211	3,427
Insurance expense	1,945	1,677
Communications expense	111	96
Transport expense	422	474
Administrative expense	741	527
Customs duties on oil sales	-	1,841
Other, net	1,309	1,400
	26,584	27,211

Property tax is assessed at a maximum of 2.2% on the average annual net book value of property, plant and equipment. Specific legislation provides for the exclusion of trunk pipelines and constructions, which are their integral technological parts, from the taxable base.

Insurance expenses include Group expenses in relation to the defined contribution plan for the three months ended 31 March 2005 in amount of RR 383 million (for the 3 months ended 31 March 2005 – RR 468 million).

The following gains (losses) are included in net other operating expenses:

	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Changes in linefill and in provisions against clients' oil balances	1,578	400
Losses on disposal of property, plant and equipment and social assets	(117)	(35)
Other operating expenses	(162)	(444)

(in millions of Russian roubles, unless otherwise stated)

	1,299	(79)

17 CONSOLIDATED SUBSIDIARIES AND ACQUISITIONS

	Proportion (%) of ownership interest at 31 March 2006
Regional pipeline operators	
OAO Sibnefteprovod	100
OAO Chernomortransneft	100
OAO MN Druzhba	100
OAO Privolzhsknefteprovod	100
OAO Transsibneft	100
OAO Verkhnevolzhsknefteprovod	100
OAO Tsentrsibnefteprovod	100
OAO SMN	100
OOO Baltnefteprovod	100
OAO Uralsibnefteprovod	75.5
OAO SZMN	64
OOO Vostoknefteprovod	100
Other services	
OAO Giprotruboprovod	100
OAO Svyaztransneft	100
OAO CTD Diascan	100
OAO Volzhsky Podvodnik	100
ZAO Centre MO	100
Transneft UK Limited	100
OOO Trade House Transneft	100
OAO TsUP Stroineft	100
OOO Spetsmornefteport Primorsk	100
OOO Transneftleasing	100
OOO TransPress	100
OOO TsUP VSTO	100
OOO Transneft Finance	100

All of the consolidated subsidiaries are incorporated in the Russian Federation, with the exception of Transneft UK Limited, which is incorporated in the United Kingdom. There were no material changes in the structure of the Group during the three months ended 31 March 2006 and the year ended 31 December 2005.

18 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER RISKS

CONTINGENT LIABILITIES

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business.

In the opinion of management of the Group, there are no current legal proceedings outstanding which could have a material adverse effect on the results of operations or financial position of the Group.

(in millions of Russian roubles, unless otherwise stated)

Taxation

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these IFRS financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

CAPITAL EXPENDITURES

In the normal course of business, the Group prepares a programme for capital repair, reconstruction and development of the pipeline network on an annual basis, and revises it periodically during the year. As at 31 March 2006, current plans and commitments provided for a further RR 62,952 million to be spent by 31 December 2006, including 3,293 million RUR of the Company's costs (as at 31 March 2005 - RR 39,230 million to be spent by 31 December 2005 , including 5,227 million RUR of the Company's costs).

OTHER RISKS

Government and tariffs

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, owns 100% of the ordinary shares of the Company and controls most of its operations through Board members representing Ministries and other Federal bodies with executive authority. The Government also appoints the members of the Federal Tariff Agency, which sets the tariff rates.

Also, the Group is subject to various environmental laws regarding handling, storage, and disposal of certain products and is subject to regulation by various governmental authorities.

19 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

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, transactions with state-controlled banks, etc.

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

	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Revenue from oil transportation services	8,545	6,247
Electricity expenses	293	1,019
Interest expenses	78	321
Customs duties on oil sales	-	1,841
	8,916	9,428

(in millions of Russian roubles, unless otherwise stated)

	31 March 2006 (unaudited)	31 December 2005
Receivables and prepayments	508	519
Cash	2,760	12,487
Trade and other payables	1,331	1,564
Non-current and current borrowings	-	6,925

Tax balances are disclosed in the balance sheet and Notes 7 and 14. Tax transactions are disclosed in the statement of income.

Key management personnel compensation

Compensation payable to management of OAO AK Transneft and its subsidiaries includes contractual remuneration for their services in full time executive positions.

Management of OAO AK Transneft and its subsidiaries received the following remuneration:

	Three months ended 31 March 2006 (unaudited)	Three months ended 31 March 2005 (unaudited)
Salaries and bonuses	24	29
Termination benefits	1	-
Other	2	2
	27	31

20 FINANCIAL INSTRUMENTS AND COMMODITY PRICE RISKS

Foreign exchange risk

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble or the US dollar, and it does not use foreign exchange or forward contracts. The official rates of exchange at 31 March 2006 and 31 December 2005 were RR 27.88 and RR 28.78 to US$ 1.00, respectively.

Interest rate risk

The Group obtains borrowings from banks at current fixed market interest rates, and does not use any hedging instruments to manage its exposure to changes in interest rates.

Commodity price risk

The Group's main activity requires it to maintain and replace the existing pipeline network, and to construct new pipelines which need to be filled with crude oil as linefill. This necessitates the purchase of significant amounts of steel pipe each year for new and replacement pipelines, and of crude oil as linefill. The Group has no long-term contracts with the manufacturers of pipe or the producers of crude oil, and does not use derivative contracts to manage its exposure to fluctuations in the price of steel or crude oil.

Credit risk and contract performance

The Group policy is to place cash and cash equivalents with banks in a manner which reduces the risk of loss due to default. At 31 March 2006 cash of RR 8,711 million (31 December 2005 – RR 12,487 million) was placed by the Group with one bank.

The Group does not hold or issue financial instruments for trading purposes and its trade accounts receivable are unsecured. The largest single credit exposure (based on combined figures of accounts receivable due from, and advances to, the same group of entities) at 31 March 2006 was RR 1 179 million (31 December 2005 – RR 731 million).

Fair value of financial instruments

The fair value of Group's financial instruments approximates their carrying values.