OAO AK TRANSNEFT
IAS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001

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STATEMENT OF DIRECTORS' RESPONSIBILITIES
To the Shareholders of OAO AK Transneft (the "Company")

1. We have prepared consolidated financial statements for the year ended 31 December 2001 which give a true and fair view of the financial position of the Company 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 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 30, 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. The names of the directors during the year ended 31 December 2001, and their other positions in Group companies or government were as follows:

Name	**Position in Group companies or Government**
Current Board Members	
Danilov-Danialian A.V.	Chief of Department of the Russian Federation President's Administration
Golomolzin A.N.	Deputy Minister of Antimonopoly Policy and Enterpreneurship Support
Khristenko V.B.	Vice Prime Minister of the Government, Chairman of the Board of Directors of the Company
Mazepin D.A.	First Deputy Chairman of the Federal Property Fund
Medvedev Y.M.	First Deputy Minister of the Ministry of State Property
Morozov E.S.	Deputy Minister of Energy
Ovchenkov V.I.	First Deputy Chairman of the Federal Energy Commission
Rybak O.P.	Chief of Department of OAO NK Rosneft
Sharonov A.V.	Deputy Minister of Economic Development and Trade
Stanev V.S.	Deputy Minister of Energy
Vainstock S.M.	President of the Company
Vorobiev V.A.	First Vice-President of OAO AK Transnefteprodukt
Zagidullov M.F.	Chief of Department in the Ministry of State Property
Board Members retired in the current period	
Alexandrov V. N.	General Director of OJSC "Verkhnevolzhsknefteprovod"
Gref G. O.	Minister of Economic Development and Trade
Nabiev R.R.	General Director of OAO Uralsibnefteprovod
Kutovoy G.P.	Chairman of the Federal Energy Committee
Shamraev N.G.	Deputy Minister of Economy , Counsellor of the Concern "Rosenergoatom"
Toropov S.V.	Chairman of Department of the Ministry of State Property
Tsyganov A.G.	Deputy Minister of Antimonopoly Policy and Enterpreneurship Support

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

4. None of the directors held any shares in Group companies during the year ended 31 December 2001.

5. The consolidated financial statements, which are based on the statutory consolidated accounting reports approved by the Board of Directors on 16 May 2002, have been restated in accordance with International Accounting Standards.

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S.M. Vainstock
President
23 May 2002

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AUDITORS' REPORT
To the Shareholders and Board of Directors of OAO AK Transneft

1. We have audited the accompanying consolidated balance sheet of OAO AK Transneft (the "Company") and its subsidiaries (the "Group") as at 31 December 2001 and the related consolidated statements of income, of cash flows and of changes in shareholders' equity for the year then ended. These consolidated financial statements set out on pages 6 to 30 are the responsibility of the Group's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

2. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2001 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

Moscow, Russia
23 May 2002

(in millions of Russian roubles)

Consolidated Balance Sheet

	Notes	31 December 2001	31 December 2000
ASSETS			
Non-current assets			
Property, plant and equipment	4	185,531	160,361
Available-for-sale investments	5	1,040	713
Total non-current assets		**186,571**	**161,074**
Current assets			
Inventories	6	5,365	5,344
Receivables and prepayments	7	14,060	7,530
Profit tax assets		498	500
Cash and cash equivalents	8	5,382	6,530
Total current assets		**25,305**	**19,904**
Total assets		**211,876**	**180,978**
SHAREHOLDERS' EQUITY, MINORITY INTERESTS AND LIABILITIES			
Shareholders' equity			
Share capital	9	267	267
Retained earnings	9	152,639	127,829
Total shareholders' equity		**152,906**	**128,096**
Minority interests	10	**6,909**	**6,359**
Non-current liabilities			
Borrowings	11	9,353	104
Deferred taxes	12	24,904	34,143
Provisions for liabilities and charges	13	2,149	1,829
Total non-current liabilities		**36,406**	**36,076**
Current liabilities			
Trade and other payables	14	13,865	8,789
Profit tax liabilities		307	315
Borrowings	11	1,483	1,343
Total current liabilities		**15,655**	**10,447**
Total liabilities		**52,061**	**46,523**
Total shareholders' equity, minority Interests and liabilities		**211,876**	**180,978**

S.M. Vainstock President

E.P. Kolesova Chief Accountant

The accounting policies and the accompanying notes set out on pages 10 to 30 are an integral part of these financial statements. See Auditors' Report on page 5.

(in millions of Russian roubles except amounts per share)

Consolidated Statement of Income

	Notes	Year ended 31 December 2001	Year ended 31 December 2000
Sales	15	74,955	64,042
Operating expenses	16	(43,649)	(42,236)
Net other operating expenses	16	(1,451)	(269)
Reversal of impairment provisions	4	3,529	-
Operating income		**33,384**	**21,537**
Financial items (net):			
Exchange gains		25	334
Monetary loss		(1,108)	(2,585)
Gains on available-for-sale assets	5	224	28
Interest expense	11	(1,946)	(448)
Total financial items		**(2,805)**	**(2,671)**
Income before profit tax		**30,579**	**18,866**
Effect of change in tax rates	12	11,414	(4,878)
Profit tax expense	12	(14,469)	(8,767)
Profit tax expense	**12**	**(3,055)**	**(13,645)**
Income after profit tax and before minority interests		**27,524**	**5,221**
Minority interests	10	(550)	149
Net income		**26,974**	**5,370**
Basic and diluted earnings per participating share	9	4,337	863

The accounting policies and the accompanying notes set out on pages 10 to 30 are an integral part of these financial statements. See Auditors' Report on page 5.

(in millions of Russian roubles)

Consolidated Statement of Cash Flows

	Notes	Year ended 31 December 2001	Year ended 31 December 2000
Cash flows from operating activities			
Cash receipts from customers		84,063	73,225
Cash paid to suppliers and employees, and taxes other than profit tax		(46,974)	(46,125)
Interest paid		(1,852)	(690)
Profit tax paid		(11,882)	(6,667)
Net cash from operating activities		**23,355**	**19,743**
Cash flows from investing activities			
Purchase of property, plant and equipment		(31,461)	(15,990)
Sale of notes receivable		220	-
Interest received		177	54
Net cash used in investing activities		**(31,064)**	**(15,936)**
Cash flows from financing activities			
Proceeds from long and short-term borrowings		21,055	7,462
Repayment of long and short-term borrowings		(11,428)	(6,929)
Dividends paid		(2,164)	(156)
Net cash from financing activities		**7,463**	**377**
Effects of exchange rate changes on cash and cash equivalents		**122**	**203**
Effect of inflation on holding cash		**(1,024)**	**(914)**
Net increase / (decrease) in cash and cash equivalents		**(1,148)**	**3,473**
Cash and cash equivalents at the beginning of the year	8	6,530	3,057
Cash and cash equivalents at the end of the year	**8**	**5,382**	**6,530**

The accounting policies and the accompanying notes set out on pages 10 to 30 are an integral part of these financial statements. See Auditors' Report on page 5.

(in millions of Russian roubles)

Consolidated Statement of Changes in Shareholders' Equity

	Notes	Share capital	Retained earnings	Total shareholders' equity
Balance at 31 December 1999		**267**	**122,459**	**122,726**
Net income for the year			5,370	5,370
Dividends - preferred	9		-	-
- ordinary	9		-	-
Balance at 31 December 2000		**267**	**127,829**	**128,096**
Net income for the year			26,974	26,974
Dividends for 1999				
- preferred	9		(340)	(340)
- ordinary	9		(140)	(140)
Dividends for 2000				
- preferred	9		(1,158)	(1,158)
- ordinary	9		(526)	(526)
Balance at 31 December 2001		**267**	**152,639**	**152,906**

The accounting policies and the accompanying notes set out on pages 10 to 30 are an integral part of these financial statements. See Auditors' Report on page 5.

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 109180 Moscow, ul. Bolshaya Polyanka 57, Russian Federation.

The Company and its subsidiaries (the "Group") operate the largest crude oil pipeline system in the world totalling approximately 48,600 km (31 December 2000 – 47,900 km) and are responsible for transportation to refineries and export markets of substantially all the crude oil produced in the territory of the Russian Federation, which amounted to 341.6 million tonnes in the year ended 31 December 2001 (year ended 31 December 2000 – 312.5 million tonnes).

The Group, which had an average of 60,074 employees during the year ended 31 December 2001 (year ended 31 December 2000 – 56,832 employees), is considered by management to have a single main activity and all its activities comprise one industry and geographic segment. Other sales and cost of sales are shown separately in the relevant footnotes, but these activities do not result in significant assets and liabilities and do not constitute a reportable segment as defined by IAS 14 "Segment Reporting".

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 measurement 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 measurement 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 Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC").

The Group companies were all 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.

The adjustments and reclassifications made to the statutory accounts for IAS presentation include the restatement for changes in the general purchasing power of the Russian rouble based on IAS 29, "Financial Reporting in Hyperinflationary Economies". IAS 29 requires that financial statements in the currency of a hyperinflationary economy are stated in terms of the measuring unit current at the latest balance sheet date. The restatement was calculated from the conversion factors derived from the Russian Federation Consumer Price Index, published by the Russian State Committee on Statistics, and from indices obtained from other sources for years prior to 1992, which management believes represent the most appropriate measure of inflation in the economy. The rates of inflation for the years ended 31 December 2001 and 2000 were approximately 19% and 20%, respectively.

The indices and the respective conversion factors used to restate the consolidated financial statements, based on 1988 prices (1988=100), for the five years ended 31 December 2001 are:

(in millions of Russian roubles except amounts per share)

Year	Index	Conversion Factors
1997	659,403	3.6
1998	1,216,400	2.0
1999	1,661,481	1.4
2000	1,995,937	1.2
2001	2,371,572	1.0

The significant guidelines followed in restating the consolidated financial statements are:

- All amounts including corresponding figures are stated in terms of the purchasing power of the Russian rouble at the latest balance sheet date;

- Monetary assets and liabilities at the latest balance sheet date are not restated because they are already expressed in terms of the monetary unit current at that date;

- Non-monetary assets and liabilities (items which are not expressed in the monetary unit current at the balance sheet date) and components of shareholders' equity are restated by applying a conversion factor based on the origination date of the underlying asset, liability or component of shareholders' equity;

- Most items in the consolidated statements of income and cash flows are restated by applying the conversion factors for the period between the date of the transaction and the balance sheet date. Depreciation, amortisation, and loss on disposal of property, plant and equipment are restated based on the restated balances of property, plant and equipment at each balance sheet date. The cash flow statement contains an adjustment to reflect the effect of inflation on holding cash; and

- The effect of inflation on the Group's net monetary position is included in the consolidated statement of income as a net monetary gain or loss.

The Group has adopted IAS 39, "Financial Instruments – Recognition and Measurement", which is effective for accounting periods beginning on or after 1 January 2001, in the preparation of these consolidated financial statements, as well as in those published for interim periods of 2001. The main impact of adopting IAS 39 was as follows:

- In accordance with the requirements of IAS 39, the Group classified all of its investments as being available-for-sale. Since the new standard requires such investments to be measured at fair value, no adjustment resulted to retained earnings at 1 January 2001 as there was no change from the previous measurement principle.

- The Group has no contracts to be accounted for as derivative contracts, and no contracts containing embedded derivatives that are material.

The Group adopts all the interpretations approved by the Standing Interpretations Committee of the IASC up to each balance sheet date in its consolidated financial statements.

The preparation of consolidated financial statements in conformity with IAS 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, deferred taxation, the outcome of legal disputes, and the recovery of receivables and investments.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group are set out below:

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 power to exercise control over the operations are defined as subsidiary undertakings ("subsidiaries") and 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's 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.

Goodwill and intangible assets

Goodwill represents the difference between the fair value of the purchase consideration and the fair value of the proportion of the net assets acquired at the date of acquisition of the subsidiary.

Goodwill is amortised on the straight-line basis over its remaining useful life, which is a maximum period of twenty years.

The carrying amount of goodwill is reviewed at each balance sheet date and written down for permanent impairment where necessary.

Intangible assets are amortised on the straight-line basis over their estimated useful life, which is principally ten years.

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 date 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

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 held in storage and in 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.

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 appropriate. 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 decreased. 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 became 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 future cash flow forecasts 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 kilometers in length and do not constitute phased replacements of a longer section of 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.

Available-for-sale investments

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 available-for-sale. 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.

Fair value estimation and impairment

The fair value of marketable securities and 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 risks existing at each balance sheet date, including quoted market prices for similar investments, discounted value of estimated future cash flows, and replacement cost.

Accounts receivable

Accounts receivable are carried at their original invoiced amount less an estimate made for doubtful receivables based on analysis of expected future cash flows at each balance sheet date, and the movement in the estimate is charged or credited to the consolidated statement of income. Bad debts are written off in the period in which they are identified.

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 excluded from the consolidated statement of income since they are collected and paid on behalf of the Government and therefore generally have no effect on the results of operations.

Deferred taxes

Deferred taxes are calculated at currently enacted or substantially 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. The principal temporary differences arise from the inflation of, and depreciation on, property, plant and equipment and income, provisions and expenses which are included in the consolidated statement of income before they become taxable or deductible for tax 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.

Retirement benefit obligations and other employee benefits

The Group makes statutory Unified Social Tax contributions, which are calculated as a percentage of current gross salary payments, in respect of its employees to the State Pension Scheme of the Russian Federation and other non-budget social funds and such expense is charged to the consolidated statement of income.

Short-term employee benefits, provided under the conditions of legal agreements with employees' organisations and expected to be paid within one year of the balance sheet date, are included in expenses on the accruals basis.

Other expenditures for the benefit of employees, former employees and their dependants are expensed following management approval in the period to which they relate.

The Group's contractual liability for long-term employee benefits, such as lump sum payments at the point of retirement, is estimated at each balance sheet date and included in the consolidated financial statements at its expected net present value using the discount rate appropriate to the Group in the economic environment in the Russian Federation at each balance sheet date.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and when 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 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.

Financial assets and liabilities

Financial assets and liabilities carried in the consolidated balance sheet include cash and cash equivalents, investments, receivables, borrowings, and trade and other payables, and 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 partially or fully de-recognised only when the rights to the separable benefits under the relevant contract are settled, lost, surrendered, or have expired. Financial liabilities are 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 if they have a fixed maturity date, or otherwise at cost.

Financial liabilities with fixed maturity dates are re-measured at each subsequent balance sheet date to amortised cost.

The fair values of financial assets and liabilities with a maturity date less than three months from the balance sheet date, including trade and other receivables and payables, are assumed to approximate their nominal amounts unless there is an indication of impairment at the balance sheet date. The re-measurement of all other financial assets and liabilities to fair value, amortised cost, or cost is based on the amount receivable or payable at the expected settlement date, discounted to net present value using the rate considered appropriate for the asset or liability in the economic environment in the Russian Federation.

Cash and cash equivalents

Cash and cash equivalents consist of cash, bank balances and highly liquid investments with maturities of three months or less at the date of acquisition.

(in millions of Russian roubles except amounts per share)

Earnings per share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of participating shares in issue during the year, excluding those held by entities within the Group.

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 on the date on which they are approved. Dividends proposed or approved between the balance sheet date and the date of issuing the consolidated financial statements are disclosed.

4 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Pipelines	Plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2001						
Cost	30,559	149,963	83,590	43,243	11,909	319,264
Accumulated depreciation	(11,445)	(101,626)	(45,832)	-	-	(158,903)
Net book value at 1 January 2001	19,114	48,337	37,758	43,243	11,909	160,361
Depreciation	(613)	(4,194)	(6,453)	-	-	(11,260)
Additions	488	1,973	1,373	906	33,652	38,392
Transfers from assets under construction to fixed assets	5,745	19,616	10,824	-	(36,185)	-
Disposals at cost	(1,643)	(833)	(1,974)	(499)	-	(4,949)
Accumulated depreciation on disposals	463	814	1,710	-	-	2,987
Net book value at 31 December 2001	23,554	65,713	43,238	43,650	9,376	185,531
At 31 December 2001						
Cost	35,149	170,719	93,813	43,650	9,376	352,707
Accumulated depreciation	(11,595)	(105,006)	(50,575)	-	-	(167,176)
Net book value at 31 December 2001	23,554	65,713	43,238	43,650	9,376	185,531

In accordance with IAS 36, "Impairment of Assets", management made an assessment at the balance sheet date of the indications that the impairment loss recognised in the consolidated financial statements for the year ended 31 December 1998 might no longer exist or might have decreased. The key indicators considered by management in deciding that the recoverable amount of the pipeline assets should be reassessed were as follows:

1. Volumes of oil transported have increased each year since 1998, from 295 million tonnes in 1998 to 342 million tonnes in 2001;
2. Operating cash flows from oil transportation services have increased significantly in real terms comparing 2001 with 1998;
3. The net present value of the future cash inflows from the use of the pipeline assets have improved as a result of a decrease in the applicable discount rate from 17.5% to 14.7%;

(in millions of Russian roubles except amounts per share)

4. The Group has invested significantly in new pipeline assets from 1998 to 2001 as a result of the increase in volumes transported, discoveries of new fields or additional reserves and improved economic prospects in the oil industry; and
5. Its previous ten-year plan for decommissioning significant lengths of the pipeline network has been cancelled and a new plan is now prepared for each year.

The reassessment of the net present value of the future cash flows to be received from use of the pipeline assets compared with their carrying value resulted in a surplus, and therefore the impairment provision recognised in 1998 has been reversed, and a credit of RR 1,637 million has been included in the results for the year ended 31 December 2001, together with reversals of provisions against specific pipeline assets previously held for disposal of RR 1,892 million. Neither of these reversals were recognised in the interim consolidated financial statements for the 9 months ended 30 September 2001.

The following items are included in reversal of impairment provisions:

	Year ended 31 December 2001	**Year ended 31 December 2000**
Reversal of impairment provision created in 1998	1,637	-
Reversal of provision against specific pipeline assets previously held for disposal	1,892	-
	3,529	-

Linefill represents 26,289 thousand tonnes of crude oil (31 December 2000 – 26,285 thousand tonnes).

Assets under construction at 31 December 2001 and 31 December 2000 are presented net of provisions of RR 171 million and RR 171 million, respectively, for projects which are unlikely to be completed.

Included in property, plant and equipment above are fully depreciated assets still in service whose cost is RR 35,863 million (31 December 2000 – RR 41,689 million).

5 AVAILABLE-FOR-SALE INVESTMENTS AND GAINS ON AVAILABLE-FOR-SALE ASSETS

Available-for-sale investments:		
Marketable securities	727	478
Investments in other Russian companies and banks	313	235
	1,040	713

Available-for-sale investments in other Russian companies and banks have been reduced to fair value by making cumulative fair-value adjustments of RR 1,830 million (31 December 2000 – RR 2,054 million).

Gains/(losses) on available-for-sale assets include:

	Year ended 31 December 2001	**Year ended 31 December 2000**
Available-for-sale investments:		
Fair value adjustments, net	224	28

(in millions of Russian roubles except amounts per share)

6 INVENTORIES

	31 December 2001	31 December 2000
Materials and supplies	4,749	4,755
Sundry goods for resale	372	353
Other items	244	236
	5,365	5,344

Inventories are presented net of provisions of RR 912 million (31 December 2000 – RR 948 million) for obsolescence and to reduce cost to net realisable value. Materials and supplies represents pipes that will eventually either become part of property, plant and equipment, or be expensed in maintenance costs.

7 RECEIVABLES AND PREPAYMENTS

	31 December 2001	31 December 2000
Trade receivables (net of a provision for doubtful accounts of RR 214 million at 31 December 2001 (31 December 2000 – RR 181 million))	657	2,954
VAT input tax recoverable (net of a provision of RR 224 million at 31 December 2001 (31 December 2000 – RR nil))	11,628	2,677
Other taxes recoverable	33	263
Prepayments and advances (net of a provision for doubtful accounts of RR 50 million at 31 December 2001 (31 December 2000 – RR 119 million))	1,085	969
Other receivables (net of a provision for doubtful accounts of RR 759 million at 31 December 2001 (31 December 2000 – RR 788 million))	657	667
	14,060	7,530

VAT input tax related to construction projects is only recoverable after their completion. Furthermore, as a result of a change in VAT regulations effective from 1 January 2001, recoverable VAT input tax and temporary imputed VAT on advances received related to transportation services for oil destined for export increased to RR 4,657 million at 31 December 2001 (31 December 2000 – RR nil).

RR 84 million of receivables and prepayments (31 December 2000 – RR 758 million) are denominated in US dollars.

(in millions of Russian roubles except amounts per share)

8 CASH AND CASH EQUIVALENTS

	31 December 2001	31 December 2000
State Savings Bank (Sberbank Russia)	354	558
Alef Bank (Russia)	7	731
Mezhprombank (Russia)	263	366
Barclays Bank (UK)	501	501
Alfa Bank (Russia)	2,281	1,740
MDM Bank (Russia)	2	1,077
Stroicredit Bank (Russia)	1,113	751
Vneshtorgbank (Russia)	18	24
SDM Bank (Russia)	66	112
Bank Vozrozhdenie (Russia)	285	347
Raffeisenbank (Austria)	249	-
Other Russian banks	243	323
	5,382	6,530

RR 1,559 million of cash and cash equivalents (31 December 2000 – RR 1,783 million) is denominated in US dollars.

9 SHARE CAPITAL, RETAINED EARNINGS AND EARNINGS PER SHARE

		31 December 2001 and 31 December 2000
Authorised, issued and fully paid shares of par value RR 1 each		
Ordinary: 4,664,627 shares	5	201
Preferred: 1,554,875 shares	1	66
Total: 6,219,502 shares	6	267

The Company's largest shareholders are:

Ministry of State Property	100% of ordinary shares
OAO AKB "ROSBANK" (nominee shareholder)	79.78% of preferred shares

Earnings per share

	Year ended 31 December 2001	Year ended 31 December 2000
Net income available for participating shareholders	26,974	5,370
Basic and diluted earnings per participating share	4,337	863

(in millions of Russian roubles except amounts per share)

Rights attributable to preferred shares

Preferred shareholders may only vote at meetings on the following issues:

- the amendment of their rights to income;
- the issue of additional shares with rights greater than or equal to their rights in terms of income or assets on liquidation; and
- the liquidation or reorganisation of the Company.

Holders of preferred shares acquire the same voting rights as holders of ordinary shares in the event that dividends are either not declared, or are declared but not paid.

In accordance with the Company's charter documents, preferred shares earn dividends amounting to 10% of the net income of the Company according to RAR for the year, if any, and the dividend on each preferred share is not permitted to be less than that paid on each ordinary share. Consequently, the preferred shares participate in earnings together with ordinary shares in accounting periods in which profits are earned according to RAR, but not in periods when losses are incurred. On liquidation, the preferred shareholders are entitled to receive distribution of net assets equal to the par value of the shares, prior to any distribution to ordinary shareholders.

Dividends

The Annual General Meeting of the shareholders on 29 June 2001 approved the following dividends per share in respect of the year ended 31 December 1999 (paid by 31 December 2001):

	Roubles per share (historical)	Total RR million (historical)	Total RR million
Preferred shares	207.50	323	340
Ordinary shares	55.74	260	274
Total		583	614
Less: interim dividend on ordinary shares paid in November 1999		(127)	(134)
		456	480

The Extraordinary General Meeting of the shareholders on 4 September 2001 approved the following dividends per share in respect of the year ended 31 December 2000 (paid by 31 December 2001):

	Roubles per share (historical)	Total RR million (historical)	Total RR million
Preferred shares	707.32	1,100	1,158
Ordinary shares	107.19	500	526
Total		1,600	1,684
Less: interim dividend on ordinary shares paid in January 2001		(131)	(137)
		1,469	1,547

Distributable retained earnings

The statutory accounting reports of the parent Company and each subsidiary are the basis for their respective profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2001, the statutory profits of the Company as reported in the statutory reporting forms were RR 13,957 million. However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount as "distributable retained earnings" in these consolidated financial statements.

(in millions of Russian roubles except amounts per share)

10 MINORITY INTERESTS

	Year ended 31 December 2001	Year ended 31 December 2000
At 1 January	6,359	6,508
Share of net income for the year	550	(149)
At 31 December	6,909	6,359

Minority interests represent the shares in consolidated subsidiaries held by the Regional State Property Committees of the Republics of Tatarstan (36% of OAO Severo-Zapadny MN) and Bashkortostan through OAO Bashneft (24.5% of OAO Uralsibnefteprovod).

11 BORROWINGS AND INTEREST EXPENSE

	31 December 2001	31 December 2000
Secured borrowings	9,419	510
Unsecured borrowings	1,417	937
Total borrowings	10,836	1,447
Less: current portion of borrowings	(1,483)	(1,343)
	9,353	104
Maturity of non-current borrowings		
Due for repayment:		
Between one and two years	4,693	5
Between three and five years	4,510	56
After five years	150	43
	9,353	104

RR 4,521 million of borrowings (31 December 2000 – RR nil) are denominated in US dollars.

	Year ended 31 December 2001	Year ended 31 December 2000
Interest income / (expense):		
Commission expense	(621)	(135)
Interest expense	(1,262)	(532)
Effect of change in discount rate (Note 13)	(287)	-
Interest income	224	219
Net interest expense	(1,946)	(448)

Borrowings due for repayment within one year includes RR 234 million (31 December 2000 – RR 72 million) advanced by a Russian bank under a factoring agreement for intra-group trade receivables, which have been eliminated during consolidation. The advances incur fixed commissions irrespective of the date of repayment of the outstanding invoice by the customer, but the bank has the right of recourse at an agreed date. The commission rate, which ranges from 8% to 18%, and the expected repayment date are agreed for each invoice under separate contractual terms.

(in millions of Russian roubles except amounts per share)

During the year ended 31 December 2001, the Group signed the following additional borrowing agreements:

A facility provided by a consortium of European banks for the construction of the Baltic Pipeline System for a total sum of US$ 150 million, which was fully drawn down during the month of September 2001. The loan is repayable in six equal monthly instalments beginning eighteen months from the date of draw-down. Interest is payable monthly in US dollars and calculated at LIBOR plus 4.5%. Principal and interest are payable from the proceeds of certain crude oil transportation contracts, which are deposited into a special account held at Raffeisenbank (Note 8).

A credit line of RR 5,500 million from a Russian bank to a Group company for the construction of the Sukhodolnaya – Rodionovskaya pipeline section, of which RR 4,626 million had been drawn down at the balance sheet date. The loan is secured on marketable securities with a carrying value of RR 531 million, supplemented by guarantees from the Company. The loan is repayable in five equal quarterly instalments commencing in July 2003, and interest is payable at 20% to 25% per year.

The total carrying value of property, plant and equipment pledged as security, other than under these two specific borrowings, was RR 175 million (31 December 2000 – RR 22.6 million).

The majority of other borrowings in Russian roubles also bear variable market rates of interest, which range from 19% to 26% annually.

12 PROFIT TAX AND DEFERRED TAXES

	Year ended 31 December 2001	Year ended 31 December 2000
Profit tax expense consists of:		
Current tax expense	12,295	7,898
Deferred tax expense	2,174	869
Profit tax expense	14,469	8,767
Effect of change in tax rate on deferred tax liabilities and assets	(11,414)	4,878
Profit tax expense	3,055	13,645

Deferred tax liabilities and assets consist of the following:

	31 December 2001	31 December 2000
Deferred tax liabilities:		
Revenue recognition	(329)	(154)
Carrying value of property, plant and equipment in excess of tax base	(25,635)	(34,947)
	(25,964)	(35,101)
Deferred tax assets:		
Provisions against inventories and receivables	514	253
Provisions for dismantlement and other expenses	546	705
	1,060	958
Net deferred tax liability	(24,904)	(34,143)

The statutory rate of profit tax payable by companies in the Russian Federation was 30% for the year ended 31 December 2000. With effect from 1 January 2001, profit tax payable by companies in the Russian Federation can range from 30% to 35%, depending on the decision each year of regional and local tax authorities which can agree jointly on a supplementary amount of up to 5% above that set by the federal tax authorities.

(in millions of Russian roubles except amounts per share)

According to legislation which became substantively enacted in the year ended 31 December 2001, profit tax payable by companies in the Russian Federation with effect from 1 January 2002 will range from 20% to 24%, depending on the decision each year of regional and local tax authorities which can agree jointly on a supplementary amount of up to 4% above that set by the federal tax authorities. The rate used to compute the deferred tax assets and liabilities of the Group at 31 December 2001 was 24% (year ended 31 December 2000 – 35%), which reflects the fact that, based on their decisions in respect of tax rates for 2001, substantially all regional and local tax authorities in the regions in which the Group operates are expected to assess the maximum supplementary amount in respect of the year 2002.

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

	Year ended 31 December 2001	**Year ended 31 December 2000**
Income before profit tax	30,579	18,866
Theoretical profit tax expense at 35% (2000: 30%)	10,703	5,660
Increase (reduction) due to:		
Allowance for capital expenditure	(2,559)	(1,214)
Expenses not deductible for profit tax purposes	1,529	484
Non-temporary elements of net monetary loss	10,176	8,549
Tax penalties and interest	28	45
Effect of changes in tax rates	(11,414)	4,878
Inflation effect on deferred tax balance at the beginning of the year	(5,408)	(4,757)
Actual profit tax expense	3,055	13,645

Deferred tax liabilities have not been established for the withholding taxes that would be payable if the reserves of subsidiaries totalling RR 59,310 million (31 December 2000 – RR 49,884 million) were distributed.

13 PROVISIONS FOR LIABILITIES AND CHARGES

	Dismantle-ment (1)	**Rental liability (2)**	**Employment benefits (3)**	**Total**
At 1 January 2001	1,496	116	217	1,829
Additional provisions made/(released)	79	(36)	158	201
Effect of change in discount rate (Note 11)	266	13	8	287
Amounts used	(119)	(7)	(42)	(168)
At 31 December 2001	1,722	86	341	2,149

As a result of a change in the appropriate discount rate to be used in evaluating these provisions, the results for the year reflect additional interest expense of RR 287 million, none of which was reflected in the interim consolidated financial statements for the 9 months ended 30 September 2001.

(in millions of Russian roubles except amounts per share)

(1) Dismantlement

A provision is established for the expected cost of dismantling the existing pipeline network based on the estimated average current cost per kilometre of removal according to an estimated plan of replacement over the long term and discounted to net present value using a rate of 14.7% per year (2000 - 17.5% per year). The replacement program is expected to cover the same number of kilometres each year over the useful life of the network, and this plan could change over the course of time. 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.

(2) Rental liability

Certain subsidiaries entered into contracts with the original holders of the preferred shares of the Company under which, 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 the previous 31 December and 30 June, respectively. A provision is made for the net present value of the estimated future payments under such contracts assuming that the relevant subsidiaries continue to make profits of the same average amount as in the last three most recently completed financial years. The net present value is calculated using a discount rate of 14.7% per year (2000 - 17.5% per year).

(3) Employment benefits

Under collective agreements with the employees, an amount ranging from one to ten months' final salary is payable upon retirement to those who have worked for the Group for more than five years. Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19, "Employee Benefits", to assess the net present value of these obligations. Under this method an assessment has been made of an employee's service period with the Group, and the expected salary and number of months' salary payable under these agreements 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 14.7% per year (2000 – 17.5% per year). In view of the relative insignificance of the overall liability, and of the expense recognised in the consolidated statement of income for the year, the additional disclosures required by IAS 19 have not been made.

14 TRADE AND OTHER PAYABLES

	31 December 2001	31 December 2000
Trade payables	6,376	5,071
Notes payable	33	107
Accruals and deferred income	736	328
VAT output tax payable (including deferred amounts of RR 559 million (31 December 2000 – RR 416 million))	776	617
Advances received for oil transportation services	3,671	1,047
Other taxes payable	753	750
Other payables	1,520	869
	13,865	8,789

Notes payable are generally unsecured, non-interest bearing and are due within six months of the date of issuance.

(in millions of Russian roubles except amounts per share)

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

RR 253 million of trade and other payables (31 December 2000 – RR 855 million) are denominated in US dollars.

15 SALES

	Year ended 31 December 2001	Year ended 31 December 2000
Revenues from oil transportation services		
Domestic tariff	14,845	12,587
Export tariff	52,135	35,258
Investment tariff	-	3,387
Total revenues from oil transportation services	66,980	51,232
Other revenues	7,975	12,810
	74,955	64,042

Tariff structure:

The revenues of the Group for oil transportation services comprise:

- distance-related tariffs, denominated and payable in RR and revised periodically after approval by the Federal Energy Commission ("domestic tariff"), for transportation on the domestic pipeline network of crude oil to destinations in Russia and the CIS countries;

- distance-related tariffs, denominated in US$ and in RR but payable in RR, and revised periodically after approval by the Federal Energy Commission ("export tariff"), for transportation on the domestic pipeline network of crude oil which is destined for export.

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

Other amounts included in export tariffs include:

- a fixed tariff, denominated and payable in US$ under intergovernmental agreements for the transportation of crude oil from Azerbaijan, for export at Novorossiysk and other outlets;

- a distance-related tariff, denominated in US$ but payable in RR, set by the Federal Energy Commission for transit of Kazakhstan crude oil over the territory of the Russian Federation, and

- a fixed tariff of US$ 8.06 per tonne, payable in RR, for crude oil transported through the Chechnya bypass.

As a result of a change in the settlement system with effect from January 2001, revenues from oil transportation services for the year ended 31 December 2000 has been reclassified to make their presentation consistent with that of the current year.

In February 2002, one of the components of both domestic and export tariffs was increased by approximately 13%, and the other component was increased significantly for domestic transportation so that the total tariff for both categories of oil transportation service became approximately equivalent.

(in millions of Russian roubles except amounts per share)

16 OPERATING EXPENSES AND NET OTHER OPERATING EXPENSES

	Year ended	Year ended
Operating expenses		
Depreciation	11,260	10,601
Staff costs:		
Salaries	7,667	6,061
Unified Social Fund contributions	2,240	2,037
Directors' compensation (Note 19)	125	97
Social expenditures and discretionary employee benefits	973	821
Electricity	4,583	3,184
Maintenance and repairs and minor renewals	4,343	4,242
Materials	4,173	4,087
Usage of oil	499	339
Taxes other than profit tax:		
Road users' tax	1,144	1,620
Property tax	520	402
Other taxes	120	1,378
Cost of goods for resale	1,096	4,630
Research and development	192	242
Tax penalties and interest	81	151
Insurance expense (Note 19.1)	1,357	410
Communications expense	176	169
Transport expense	754	490
Administrative expense	339	302
Other	2,007	973
Total operating expenses	43,649	42,236

Taxes included in operating expenses, which are calculated on figures prepared in accordance with RAR, are computed as follows:

- Road users' tax is assessed at 1% (periods up to 31 December 2000 – 2.5%) of revenues invoiced.
- Property tax is assessed at a maximum of 2% on the average annual net book value of property, plant and equipment, intangible assets and inventory. Specific legislation provides for the exclusion of trunk pipelines from the taxable base.

The following items are included in net other operating expenses:

	Year ended 31 December 2001	Year ended 31 December 2000
Changes in linefill	732	-
Changes in provisions against clients' oil	340	241
Losses on disposal of property, plant and equipment and social assets	(1,246)	(125)
(Increase)/decrease in provision against doubtful debts	(230)	(48)
Other operating (expenses)/income	(1,047)	(337)
	(1,451)	(269)

(in millions of Russian roubles except amounts per share)

17 CONSOLIDATED SUBSIDIARIES AND ACQUISITIONS

The names of the consolidated subsidiaries of the Group and the percentage of voting share capital or control held by the Group at 31 December 2001 were as follows:

	Percent (%) of voting share capital held at 31 December 2001
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
Other services	
OAO Giprotruboprovod	100
OAO Svyaztransneft	100
OAO Stroineft	100
OAO Technical Diagnostics Centre	100
OAO Volzhsky Podvodnik	100
ZAO Metrological Ensuring Centre	100
Transneft UK Limited	100
OOO Trade House Transneft	100
ZAO Baltenergo	75
OOO TsUP Stroineft	100
OOO Spetsmornefteport Primorsk	100
OOO Transneftleasing	100
OOO Transpress	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 years ended 31 December 2001 and 2000.

18 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER RISKS

CONTINGENT LIABILITIES

Legal proceedings

18.1 The Group is a party to certain legal proceedings arising in the ordinary course of business. 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. In the opinion of management, there are no current legal proceedings or other claims outstanding which are likely to have a material adverse effect on the results of operations or financial position of the Group.

One of the Group's customers has initiated a claim in the Tyumen Region Court contending that the Government Order No. 476 dated 30 April 1999, which established the investment tariff collected during 1999 to provide funds for the construction of the Baltic Pipeline System, was unlawful. The Tyumen Region Court upheld the customer's claim against the Government. Subsequently, the Government has appealed the decision of the court, stating that the claim is without merit. Management believes the claim will not result in any material loss to the Group, and therefore no provision has been made for any losses in these financial statements.

Taxation

18.2 Russian tax legislation is subject to varying interpretations and frequent changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by the tax authorities, and the Group may be assessed additional taxes, penalties and interest, which can be significant. The tax returns which have been submitted remain open for review by the tax and customs authorities for three years.

Financial guarantees

18.3 The Company had issued a guarantee valued at up to the equivalent of US$ 100 million in respect of the outstanding debt and interest obligations of FSUC All-Russian Television and Broadcasting Company which was valid until the earlier of the settlement date of those obligations or 31 December 2002. During 2001, the guarantee was cancelled by the beneficiary since the underlying obligations had been settled.

COMMITMENTS

18.4 In the normal course of business, the Group has entered into contracts for the purchase of property, plant and equipment. Amounts contracted for, but not reflected in the consolidated financial statements as at 31 December 2001, were approximately RR 3,253 million (31 December 2000 – RR 9,925 million) of which RR 2,018 million is denominated in US dollars. In addition to these contractual commitments, the Board of Directors of the Group has approved an estimated capital expenditure budget of approximately RR 25,851 million for the year ending 31 December 2002 (year ended 31 December 2001 – RR 18,937 million).

OTHER RISKS

Government and tariffs

18.5 The Government of the Russian Federation, through the Ministry of State Property, owns 100% of the issued 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 Energy Commission, which is charged inter alia with the periodic review of tariff rates and structures, which affect capital expenditure programs.

Operations and environmental matters

18.6 The economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, onerous currency controls, a low level of liquidity in the public and private debt and equity markets and persistent 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.

(in millions of Russian roubles except amounts per share)

Insurance risks

18.7 The Group insures the majority of its fire, property, civil liability and environmental risks with Russian insurers and reinsurers, and with its wholly owned subsidiary, Transneft Insurance Company.

19 RELATED PARTIES AND DIRECTORS' COMPENSATION

IAS 24 "Related Party Disclosures" specifically excludes government-controlled entities from the definition of related parties, and therefore transactions between, and balances due to or from, entities under government or other state control and the Group companies are not detailed in this note.

Related party transactions

The amounts included in the consolidated statement of income in respect of provisions against amounts due from and income or expenses attributable to transactions with related parties are as follows:

	Year ended 31 December 2001	Year ended 31 December 2000
Kemerovo Region Administration	-	65
Transneft Insurance Company	591	410
OOO Black Sea Services to Shipping Companies	17	38

19.1 The consolidated statement of income includes insurance expense attributable to policies issued by its wholly owned subsidiary, Transneft Insurance Company, which is not consolidated on the basis that it is not material in the context of the Group.

19.2 The Group has a 65% interest in OOO Black Sea Services to Shipping Companies, which provides shipping services to oil and other exporters at the port of Novorossiysk. This subsidiary is not consolidated on the basis that it is not material in the context of the Group.

Directors' compensation

Compensation paid to directors and senior management for their services in full or part time executive management positions is made up of a contractual salary, non-cash benefits, and a performance bonus depending on results for the year according to financial statements prepared in accordance with RAR.

20 FINANCIAL INSTRUMENTS

Foreign exchange

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 rates of exchange at 1 January and 31 December 2001 were RR 28.16 and RR 30.14 to US$1, respectively.

Interest rate risk

The Group obtains borrowings from and deposits surpluses with banks at current 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, which necessitates the purchase of a significant amount 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

The Group's policy is to place cash and cash equivalents with banks in a manner which reduces the risk of default. The banks are listed in Note 8. The Group does not hold or issue financial instruments for trading purposes. Its trade accounts receivable are unsecured, and the largest single credit exposure (based on combined figures of accounts receivable from and advances to the same group of entities) at 31 December 2001 was RR 1,205 million (31 December 2000 – RR 1,148 million) which is included in "assets under construction including prepayments" in property, plant and equipment.