



OIL TRANSPORTING
JOINT STOCK COMPANY
"TRANSNEFT"

**CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2012**



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

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Independent Auditors' Report

Board of Directors

OAO AK Transneft

Introduction

We have reviewed the accompanying consolidated condensed statement of financial position of OAO «AK «Transneft» (the «Company») and its subsidiaries (the «Group») as at 30 June 2012, and the related consolidated condensed statements of comprehensive income for the three- and six-month periods then ended, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information (the «consolidated interim condensed financial information»). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2012 and for the three- and six-month periods then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG

ZAO KPMG
28 August 2012



OAO AK TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2012
(in millions of Russian roubles, if not stated otherwise)

ASSETS

	Notes	30 June 2012	31 December 2011
Non-current assets			
Intangible assets		1,124	1,197
Property, plant and equipment	5	1,406,475	1,343,501
Available-for-sale financial assets		253	292
Investments in associates and jointly controlled entities	6	36,343	34,889
VAT assets	9	63	28,969
Receivables and prepayments	9	764	880
Other financial assets	7	24,278	5,586
Total non-current assets		1,469,300	1,415,314
Current assets			
Inventories	8	26,827	22,508
Receivables and prepayments	9	39,464	36,296
VAT assets	9	79,976	46,854
Prepaid income tax		17,305	9,939
Other financial assets	7	195,319	181,749
Cash and cash equivalents	10	74,440	145,546
Total current assets		433,331	442,892
Total assets		1,902,631	1,858,206

EQUITY AND LIABILITIES

Equity

Share capital		308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		1,010,624	919,690
Attributable to the shareholders of OAO AK Transneft		1,050,405	959,471
Non-controlling interests		34,960	37,056
Total equity		1,085,365	996,527

Non-current liabilities

Borrowings	13	559,979	551,939
Deferred tax liabilities	14	40,750	37,093
Provisions for liabilities and charges	15	94,679	92,164
Total non-current liabilities		695,408	681,196

Current liabilities

Trade and other payables, including derivatives	16	110,906	124,419
Current income tax payable		328	2,692
Borrowings	13	10,624	53,372
Total current liabilities		121,858	180,483
Total liabilities		817,266	861,679
Total equity and liabilities		1,902,631	1,858,206

Approved on 28 August 2012

N.P. Tokarev

President

M.V. Russskikh

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



The accompanying notes set out on pages 8 to 20 are an integral part of these consolidated interim condensed financial statements



OAO AK TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2012
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 30 June 2012	Six months ended 30 June 2012	Three months ended 30 June 2011	Six months ended 30 June 2011
Sales	18	179,943	361,293	165,784	325,894
Operating expenses	19	(113,226)	(230,821)	(110,267)	(219,608)
Operating profit		66,717	130,472	55,517	106,286
Financial items:					
Exchange gain		31,514	81,638	17,171	46,348
Exchange loss		(46,647)	(79,466)	(14,528)	(23,008)
Interest income	20	3,487	5,117	3,456	7,211
Interest expense	20	(7,876)	(14,483)	(5,657)	(11,734)
Net change in fair value of derivatives	17	(958)	(374)	-	-
Total financial items		(20,480)	(7,568)	442	18,817
Share of profit /(loss) from associates and jointly controlled entities	6	(594)	1,356	822	31,260
Profit before income tax		45,643	124,260	56,781	156,363
Income tax expense	14	(10,125)	(28,900)	(11,727)	(25,851)
Profit for the period		35,518	95,360	45,054	130,512
Other comprehensive income after tax					
Currency translation differences, net of tax		76	7	181	347
Fair value losses on available-for-sale financial assets, net of tax		(2)	(22)	(52)	(60)
Total comprehensive income		35,592	95,345	45,183	130,799
Profit attributable to:					
Shareholders of OAO AK Transneft		34,532	93,244	45,078	129,936
Non-controlling interests		986	2,116	(24)	576
Total comprehensive income attributable to:					
Shareholders of OAO AK Transneft		34,606	93,229	45,207	130,223
Non-controlling interests		986	2,116	(24)	576

Approved on 28 August 2012

N.P. Tokarev

M.V. Russkikh



President

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



OAO AK TRANSNEFT
 CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED) FOR
 THE SIX MONTHS ENDED 30 JUNE 2012
 (in millions of Russian roubles, if not stated otherwise)

Notes	Six months ended 30 June 2012	Six months ended 30 June 2011
Cash flows from operating activities		
Cash receipts from customers	376,426	341,665
Cash paid to suppliers and employees, and taxes other than profit tax	(276,451)	(248,441)
Interest paid	(14,735)	(16,385)
Income tax paid	(48,517)	(29,205)
Income tax refunds	12,437	600
VAT and other taxes refunds	33,034	21,295
Other cash used in operating activities	(595)	(701)
Net cash from operating activities	81,599	68,828
Cash flows used in investing activities		
Purchase of property, plant and equipment	(85,293)	(117,068)
Proceeds from sales of property, plant and equipment	129	274
Interest and dividends received	5,418	6,282
Loans issued	(200)	(5,404)
Purchase of notes	(117,423)	(76,262)
Sales notes	97,729	24,168
Other cash used in investing activities	(3,139)	(2,272)
Net cash used in investing activities	(102,779)	(170,282)
Cash flows used in financing activities		
Repayment of long and short-term Borrowings	(46,192)	208
Purchase of non-controlling interest	(3,600)	-
Payment of finance lease obligations	-	(17)
Other cash proceeded in financing activities	89	121
Net cash used in financing activities	(49,703)	312
Change in cash due to deviation of currency exchange rate	(223)	(6,191)
Net decrease in cash and cash equivalents	(71,106)	(107,333)
Cash and cash equivalents at the beginning of the period	10 145,546	283,864
Cash and cash equivalents at the end of the period	10 74,440	176,531

Approved on 28 August 2012 by:

N.P. Tokarev

President

M.V. Russkikh

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



The accompanying notes set out on pages 8 to 20 are an integral part of these consolidated interim condensed financial statements



OAO AK TRANSNEFT

CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2012

(in millions of Russian roubles, if not stated otherwise)

	Attributable to the shareholders of OAO AK Transneft					Non-controlling interests	Total equity
	Share capital	Share premium reserve	Merger reserve	Retained earnings	Total		
Balance at 1 January 2011	308	52,553	(13,080)	732,864	772,645	33,792	806,437
Profit for the period	-	-	-	129,936	129,936	576	130,512
Fair value loss on available-for-sale financial assets, net of tax	-	-	-	(60)	(60)	-	(60)
Currency translation differences, net of tax	-	-	-	347	347	-	347
Total comprehensive income for the period	-	-	-	130,223	130,223	576	130,799
Additional emission of shares by a subsidiary	-	-	-	-	-	151	151
Dividends paid on - ordinary shares	-	-	-	(734)	(734)	-	(734)
- preference shares	-	-	-	(489)	(489)	-	(489)
Balance at 30 June 2011	308	52,553	(13,080)	861,864	901,645	34,519	936,164
Balance at 1 January 2012	308	52,553	(13,080)	919,690	959,471	37,056	996,527
Profit for the period	-	-	-	93,244	93,244	2,116	95,360
Fair value loss on available-for-sale financial assets, net of income tax	-	-	-	(22)	(22)	-	(22)
Currency translation differences, net of income tax	-	-	-	7	7	-	7
Total comprehensive income for the period	-	-	-	93,229	93,229	2,116	95,345
Acquisition of non-controlling interest	-	-	-	490	490	(4,090)	(3,600)
Dividends paid on - ordinary shares	-	-	-	(1,671)	(1,671)	(122)	(1,793)
- preference shares	-	-	-	(1,114)	(1,114)	-	(1,114)
Balance at 30 June 2012	308	52,553	(13,080)	1,010,624	1,050,405	34,960	1,085,365

Approved on 28 August 2012

N.P. Tokarev

M.V. Russkikh



President

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

The accompanying notes set out on pages 8 to 20 are an integral part of these consolidated interim condensed 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 by the Russian Government Resolution No. 810 under Presidential Decree No. 1403 dated 17 November 1992. The Company's registered office is at 119180 Moscow, Ul. Bolshaya Polyanka 57, Russian Federation.

The Company and its subsidiaries (the "Group") operate the oil pipeline system in the Russian Federation totalling 51,399 km at 30 June 2012 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 19,046 km as at 30 June 2012. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the six months ended 30 June 2012, the Group transported 238.1 million tonnes of crude oil to domestic and export markets (six months ended 30 June 2011 – 232.7 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 12.9 million tonnes of oil products (15.4 million tonnes for the six months ended 30 June 2011).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. There can be different developments in the economic environment which can have a varying impact on the Group's operations and management is unable to predict their potential effect on the financial position of the Group. The impact of recent economic crisis on the Group's operations is limited due to the fact that prices for its services are regulated by the Government. Furthermore, the Group's monopoly position on the Russian oil and oil product pipeline transportation market ensures sustainable demand for the Group's services. Group management believes that cash flows from ongoing operations are sufficient to finance the Group's current operations and to service its debt obligations.

Furthermore, the tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

3 BASIS OF PRESENTATION

The consolidated interim condensed financial statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") and should be read together with the consolidated financial statements for the year ended 31 December 2011 prepared in accordance with International Financial Reporting Standards ("IFRS").

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

The official US dollar ("USD") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 32.8169 and 32.1961 as at 30 June 2012 and 31 December 2011, respectively. The official Euro ("EURO") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 41.3230 and 41.6714 as at 30 June 2012 and 31 December 2011, respectively.

New standards and interpretations

Implementation of the new standards and interpretations that are mandatory for the Group's accounting periods beginning on 1 January 2012 has not significantly impacted the Group's consolidated interim condensed financial statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning after 1 January 2013 and which the Group has not early adopted. Information concerning the most significant standards and interpretations is disclosed in the consolidated financial statements for the year ended 31 December 2011.



4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2011.

5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Line fill	Assets under construction including prepayments	Total
At 1 January 2012						
Cost	130,793	807,460	499,225	84,502	358,831	1,880,811
Accumulated depreciation and impairment	(36,019)	(278,766)	(222,525)	-	-	(537,310)
Net book value at 1 January 2012	94,774	528,694	276,700	84,502	358,831	1,343,501
Depreciation	(2,113)	(18,718)	(22,572)	-	-	(43,403)
Additions (including prepayments)	-	-	-	7,600	100,495	108,095
Transfers from assets under construction	5,127	37,187	39,344	-	(81,658)	-
Net change in dismantlement provision	-	(989)	-	-	291	(698)
Disposals/retirements at cost	(235)	(802)	(810)	(103)	-	(1,950)
Accumulated depreciation and impairment on disposals/retirements	176	205	549	-	-	930
Net book value at 30 June 2012	97,729	545,577	293,211	91,999	377,959	1,406,475
At 30 June 2012						
Cost	135,685	842,856	537,759	91,999	377,959	1,986,258
Accumulated depreciation and impairment	(37,956)	(297,279)	(244,548)	-	-	(579,783)
Net book value at 30 June 2012	97,729	545,577	293,211	91,999	377,959	1,406,475



5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Line fill	Assets under construction including prepayments	Total
At 1 January 2011						
Cost	121,198	748,012	451,762	77,131	277,001	1,675,104
Accumulated depreciation and impairment	(32,307)	(244,510)	(183,932)	-	-	(460,749)
Net book value at 1 January 2011	88,891	503,502	267,830	77,131	277,001	1,214,355
Depreciation	(2,010)	(17,053)	(20,848)	-	-	(39,911)
Additions (including prepayments)	-	-	-	239	118,871	119,110
Transfers from assets under construction	1,331	6,647	7,747	-	(15,725)	-
Net change in dismantlement provision	-	(20,412)	-	-	300	(20,112)
Disposals/retirements at cost	(247)	(651)	(1,738)	(202)	-	(2,865)
Accumulated depreciation and impairment on disposals/retirements	129	558	1,402	-	-	2,089
Net book value at 30 June 2011	88,067	472,591	254,393	77,168	380,447	1,272,666
At 30 June 2011						
Cost	122,255	733,596	457,771	77,168	380,447	1,771,237
Accumulated depreciation and impairment	(34,188)	(261,005)	(203,378)	-	-	(498,571)
Net book value at 30 June 2011	88,067	472,591	254,393	77,168	380,447	1,272,666

In value terms line fill represents RUB 85,003 of crude oil and RUB 6,996 of oil products as at 30 June 2012 (as at 31 December 2011 – RUB 77,740 of crude oil and RUB 6,762 of oil products).

During the six months ended 30 June 2012, borrowing costs in the amount of RUB 8,819 were capitalised as part of cost of assets under construction (for the six months ended 30 June 2011 – RUB 6,631) including interests to be capitalised in the amount of RUB 6,888 less interest income on the temporary investment of borrowings in the amount of RUB 2,176 as disclosed in Note 20.

6 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In March 2012 the Group acquired a significant share (26%) in OOO Nevskaya truboprovodnaya companya for US Dollars 19 million (RUB 554 at the CBR exchange rate at the date of transaction). The company is the owner of oil-loading infrastructure in the Ust-Luga seaport.

Summarised financial information of associates and jointly controlled entities was as follows:

	30 June 2012	31 December 2011
Assets	268,821	259,114
Liabilities	(106,066)	(102,892)
	Six months ended 30 June 2012	Six months ended 30 June 2011
Revenue	37,962	98,541
Profit for the period	7,213	67,280



7 OTHER FINANCIAL ASSETS

During the six months ended 30 June 2012 following long-term financial assets were purchased:

- zero-coupon notes which are subject to repayment on demand but not earlier than July – August 2013. The notes were purchased for a consideration of USD 565 million (RUB 18,006 at the CBR exchange rate effective at the purchase date), have a nominal value of USD 595 million and carrying value of RUB 18,578 (at the CBR exchange rate effective as at 30 June 2012).

During the six months ended 30 June 2012 following short-term financial assets were purchased:

- zero-coupon notes which are subject to repayment on demand but not earlier than January – February 2013. The notes were purchased for a consideration of USD 3,045 million (RUB 95,354 at the CBR exchange rate effective at the purchase date), have a nominal value of USD 3,186 million and carrying value of RUB 100,511 (at the CBR exchange rate effective as at 30 June 2012);
- interest notes which are subject to repayment in March 2013. The notes were purchased for a consideration of USD 140 million (RUB 4,064 at the CBR exchange rate effective at the purchase date), have a carrying value of RUB 4,607 (at the CBR exchange rate effective as at 30 June 2012).

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

8 INVENTORIES

	30 June 2012	31 December 2011
Materials and supplies	18,865	14,090
Sundry goods for resale	7,944	8,392
Other items	18	26
	26,827	22,508

Materials and supplies are presented net of provisions for obsolescence of RUB 230 as at 30 June 2012 (as at 31 December 2011 – RUB 168).

9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	30 June 2012	31 December 2011
Financial assets		
Other long-term receivables	764	880
Total long-term receivables	764	880

	30 June 2012	31 December 2011
Short-term receivables		
Financial assets		
Trade receivables	18,258	16,511
Other receivables	10,579	10,914
less: provision for doubtful debts	(3,094)	(3,640)
Total financial assets	25,743	23,785

	30 June 2012	31 December 2011
Non-financial assets		
Prepayments and advances and other non-financial assets	13,721	12,511
Total receivables	39,464	36,296

VAT assets

	30 June 2012	31 December 2011
Recoverable VAT related to construction projects	36,381	36,190
Recoverable VAT related to ordinary activity	43,658	39,633
Total VAT assets	80,039	75,823
Less: short-term VAT	(79,976)	(46,854)
Long-term VAT	63	28,969



10 CASH AND CASH EQUIVALENTS

	30 June 2012	31 December 2011
Balances denominated in Russian roubles	37,458	54,440
Balances denominated in US dollars	35,332	63,637
Balances denominated in Euro	1,620	27,367
Balances denominated in other currency	30	102
	74,440	145,546

11 DIVIDENDS

In June 2012 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2011 in the amount of RUB 2,785 (preference shares – RUB 1,114, ordinary shares – RUB 1,671). Dividends are to be paid out not later than 60 days after approval by the shareholders.

In June 2011 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2010 in the amount of RUB 1,223 (preferred shares – RUB 489, ordinary shares – RUB 734) at the annual general meeting of shareholders. The whole amount of dividends was paid in August 2011.

At the General meeting held by subsidiary of the Group payment of dividends in the amount of RUB 122 to the non-controlling shareholders for the year ended 31 December 2011 was approved. Dividends are to be paid out not later than 60 days after approve by shareholders.

12 ACQUISITION OF NON-CONTROLLING INTEREST

In May 2012 the Group acquired the additional share of 49% of OAO VOSTOKNEFTETTRANS for the consideration of RUB 3,600 which was paid out in cash. The acquisition resulted in increase of a total share in OAO VOSTOKNEFTETTRANS from 51% to 100%. As at the date of acquisition the book value of net assets in the Group's consolidated financial statements amounted to RUB 8,348. The Group recognized a decrease in non-controlling interests in the amount of RUB 4,090 and an increase in retained earnings amounting to RUB 490.

13 BORROWINGS

	30 June 2012	31 December 2011
Borrowings and loans	570,603	605,311
Less: current borrowings and loans	(10,624)	(53,372)
	559,979	551,939
Maturity of non-current borrowings and loans		
Between one and five years	264,809	196,172
After five years	295,170	355,767
	559,979	551,939

14 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. Income tax expense in the consolidated interim condensed financial statements is accrued based on full-year effective rate applied to the pre-tax income of the interim period.

15 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2012	31 December 2011
Dismantlement provision	87,304	84,900
Pension provision	7,375	7,264
	94,679	92,164



15 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Dismantlement provision

The provision is established for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometre of removal according to an estimated plan of replacement over the long term. The provision calculation is based on the assumption that dismantlement activities are expected to cover the same number of kilometres each year over the useful life of the network. The cost of dismantlement is added to the cost of property, plant and equipment and depreciated over the useful economic life of the pipeline network. Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 8.43 % per annum (31 December 2011 – 8.51 % per annum).

Should the nominal average rate increase/(decrease) by 1%, dismantlement provision would (decrease)/ increase by RUB (8,909)/12,238 as at 30 June 2012 accordingly (RUB (9,564)/11,616 as at 31 December 2011 accordingly).

Pension provision

Under collective agreements with Group's employees, an amount ranging from one to five months final salary is payable upon retirement to those who have worked for the Group for more than three years. Also under collective agreements with the employees the Group provides regular payments to those retired employees who have not entered in an agreement with the Non-state pension fund of the Group, and an amount ranging from one to five months minimal salary is payable to retired employees for anniversary milestones and to cover funeral costs. Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19 *Employee Benefits*. For the calculation of obligations the projected unit method was applied.

Service cost, past service cost and actuarial (profit)/loss amounting to RUB 239 and RUB 77 for the six months ended 30 June 2012 and 2011, respectively, are included in staff costs in the consolidated interim condensed statement of comprehensive income.

16 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	30 June 2012	31 December 2011
Trade payables	35,952	36,105
Other payables, including derivatives	13,426	8,496
Dividends payable	2,907	-
Total financial payables	52,285	44,601
Advances received for oil and oil product transportation services	25,665	33,966
Accruals	19,417	31,411
VAT output tax payable	11,611	12,989
Other taxes payable	1,928	1,452
Total payables	110,906	124,419

17 DERIVATIVES

In January and February 2012 in order to reduce the adverse effects associated with decreasing of exchange rate of the US dollar the Group had simultaneously purchased put options and sold written call options for the total amount of 1300 million US dollars with the exercise dates during June-October 2012 period and the carrying amount of RUB 374 as at 30 June 2012. The Group classified these contracts as financial instruments at fair value through profit and loss. The carrying amount of derivatives is presented in other payables.

Fair value measurement is based on Black-Scholes model, the inputs for which are observable in the market and the Group classified them to Level 2 in accordance with the hierarchy of fair value.



OAO AK TRANSNEFT
NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2012
(in millions of Russian roubles, if not stated otherwise)

18 SALES

	Three months ended 30 June 2012	Six months ended 30 June 2012	Three months ended 30 June 2011	Six months ended 30 June 2011
Revenues from crude oil transportation services				
Domestic tariff	46,360	93,978	48,882	96,302
Export tariff	77,231	151,180	62,442	124,222
Total revenues from crude oil transportation services	123,591	245,158	111,324	220,524
Revenues from crude oil sales	40,233	83,033	39,007	75,028
Revenues from oil products transportation services	6,598	14,800	8,458	16,915
Other revenues	9,521	18,302	6,995	13,427
	179,943	361,293	165,784	325,894

Revenues from crude oil sales for the six months ended 30 June 2012 include, mostly, revenues from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement the oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases the oil under the contract signed in April 2009 with OAO NK Rosneft (see Note 22).

19 OPERATING EXPENSES

	Three months ended 30 June 2012	Six months ended 30 June 2012	Three months ended 30 June 2011	Six months ended 30 June 2011
Depreciation	20,098	40,709	19,277	39,084
Staff costs:				
Salaries and pension expense	18,333	38,004	17,116	34,122
Social Funds contributions	4,231	9,485	4,162	9,131
Social expenses	775	1,364	730	1,234
Cost of oil sold	19,717	44,397	20,562	45,055
Export custom duties	19,825	38,740	18,487	29,416
Energy	7,084	15,738	8,279	18,049
Materials	3,548	7,352	4,712	8,157
Repairs services and maintenance of relevant technical condition of pipeline	2,732	4,553	2,883	4,625
Transportation of oil using railways and related services	8,457	16,548	7,043	14,081
Other	8,426	13,931	7,016	16,654
	113,226	230,821	110,267	219,608



20 INTEREST INCOME AND INTEREST EXPENSE

Interest income	Three months ended 30 June 2012	Six months ended 30 June 2012	Three months ended 30 June 2011	Six months ended 30 June 2011
Interest income on cash and cash equivalents	1,851	3,605	4,123	7,822
Interest income from other financial assets	2,417	3,511	409	1,623
Other interest income	93	177	47	110
Total interest income	4,361	7,293	4,579	9,555
Less interest income on the temporary investment of borrowings	(874)	(2,176)	(1,123)	(2,344)
Total interest income recognised in profit or loss	3,487	5,117	3,456	7,211
Interest expense	Three months ended 30 June 2012	Six months ended 30 June 2012	Three months ended 30 June 2011	Six months ended 30 June 2011
Interest expense on borrowing cost	9,489	17,448	7,921	16,047
Provisions for asset retirement obligations: unwinding of the present value discount	1,807	3,614	2,185	4,370
Other interest expenses	155	309	145	292
Total interest expense	11,451	21,371	10,251	20,709
Less interest expense to be capitalised	(3,575)	(6,888)	(4,594)	(8,975)
Total interest expense recognised in profit or loss	7,876	14,483	5,657	11,734

21 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

The Group is involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group's management, there are no current legal proceedings or claims not presented in these financial statements as at 30 June 2012, which could have a material adverse effect on the results of operations or financial position of the Group.

22 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

The Russian Federation, through the Federal Agency for the Management of Federal Property, owns 100% of the ordinary shares of the Company and controls its operations through Board of directors represented by the Federal bodies (professional agents) and independent directors as at 30 June 2012. The Government also appoints the members of the Federal Tariff Agency which sets the tariff rates.

As at 30 June 2012 and 31 December 2011 the Company holds in trust on behalf of the Russian Government 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company (owns 7% of the shares of the CPC-R and 7% of the shares of CPC-K), 24% of the shares of the CPC-R and 24% of the shares of CPC-K. These interests are not recognised in these consolidated interim condensed financial statements as the Company is acting as a trustee over the shares of the above entities.



22 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

The Group's transactions with other state-controlled entities occur in the normal course of business and include, but are not limited to the following: purchases of electric energy, transportation of oil produced by state-owned entities and transactions with state-controlled banks.

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

	Three months ended 30 June 2012	Six months ended 30 June 2012	Three months Ended 30 June 2011	Six months ended 30 June 2011
Revenue from oil transportation services	43,458	85,451	39,672	78,083
OAO Rosneft and its subsidiaries	37,011	72,700	33,691	66,165
OAO Gazprom and its subsidiaries	6,301	12,440	5,824	11,616
Others	146	311	157	302
Revenue from oil products	1,637	4,447	2,458	5,467
OAO Rosneft and its subsidiaries	308	997	296	1,093
OAO Gazprom and its subsidiaries	1,329	3,450	2,162	4,374
Purchases of oil (OAO Rosneft)	17,379	39,934	17,524	39,827
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	7,089	14,095	5,890	12,647
Electricity expenses	101	183	107	194
Interest income from other financial assets	1,834	2,922	448	1,629

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

During the six months ended 30 June 2012 and 30 June 2011, Group had following transactions with associates and jointly controlled entities:

	Three months ended 30 June 2012	Six months ended 30 June 2012	Three months ended 30 June 2011	Six months ended 30 June 2011
Revenue	271	793	673	935
Purchases of goods and services	7,312	15,717	11,533	18,318

As at 30 June 2012 and 31 December 2011, the Group had the following balances with related parties and associates:

	30 June 2012	31 December 2011
Trade and other receivables	1,511	1,800
Trade and other payable	736	136
Loan issued	6,260	6,141

Key management personnel compensation

Key management personnel (the members of the Board of directors and Management Committee of the Company and general directors of subsidiaries) receive short-term compensations, including salary, bonuses, other payments and long-term and short-term interest-free loans. Short-term compensations payable to key management personnel of the Company and subsidiaries consists of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Boards of Directors of Company are subject to approval by the General Meeting of Shareholders. According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Transneft, and one-time payments at the retirement date.



23 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities. These legal entities are further aggregated into three reportable segments: Oil transportation and Oil product transportation and Sales oil to the People's Republic of China (China). Cost elements presented to management of the Group are determined in accordance with the Russian Accounting Rules (RAR). Tables below present consolidated amounts analysed by management of the Group. These amounts are calculated under RAR.

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

Segment information for the six months ended 30 June 2012 and at 30 June 2011 is as follows:

Six months ended 30 June 2012	Oil transportation services	Oil products transportation services	Oil sales to China	Adjustments	Total IFRS
Sales					
Sales to third parties	265,935	16,950	78,390	18	361,293
Inter-segment sales	1,722	31	-	(1,753)	-
Total sales	267,657	16,981	78,390	(1,735)	361,293
Operating expenses	(156,272)	(12,028)	(79,431)	16,910	(230,821)
Including amortisation and depreciation	(46,517)	(1,585)	-	7,393	(40,709)
Interest income	6,326	44	-	(1,253)	5,117
Interest expenses	(12,764)	(196)	-	(1,523)	(14,483)
Exchange gains/(loss)	(2,372)	(126)	448	4,222	2,172
Net change in fair value of derivatives	-	-	-	(374)	(374)
Other expenses	8,234	(76)	-	(8,158)	-
Share of profit from associates and jointly controlled entities	-	-	-	1,356	1,356
Profit/(loss) before income tax	110,809	4,599	(593)	9,445	124,260
Income tax expense	-	-	-	-	(28,900)
Profit for the period	-	-	-	-	95,360
Other segment disclosures					
Additions to non-current assets (other than financial instruments and deferred tax assets)	85,746	2,833	-	19,516	108,095



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23 **SEGMENT INFORMATION (CONTINUED)**

Six months ended 30 June 2011	Oil transportation services	Oil products transportation services	Oil sales to China	Adjustments	Total IFRS
Sales					
Sales to third parties	239,004	18,072	68,884	(66)	325,894
Inter-segment sales	836	2,103	-	(2,939)	-
Total sales	239,840	20,175	68,884	(3,005)	325,894
Operating expenses	(139,978)	(10,917)	(69,361)	(1,352)	(219,608)
Including depreciation and amortisation	(37,128)	(1,479)	-	(477)	(39,084)
Interest income	7,844	78	-	(711)	7,211
Interest expenses	(9,912)	(271)	-	(1,551)	(11,734)
Exchange gains/(loss)	22,531	1,014	177	(382)	23,340
Other expenses	276	(444)	-	168	-
Share of profit from associates and jointly controlled entities	-	-	-	31,260	31,260
Profit before income tax	122,601	9,635	(300)	24,427	156,363
Income tax expense	-	-	-	-	(25,851)
Profit for the period	-	-	-	-	130,512

Other segment disclosures

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

100,662	987	-	17,461	119,110
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Adjusting entries also relate to intersegment transactions (non-current borrowings), those which are material, related with transfer in 2009 year third party US Dollar debt to the intersegment borrowing, are as follows: US dollar denominated loan and interests granted in RUB which amounted to RUB 6,988 as at 30 June 2012, the loan interest payable of RUB - 196 accrued for the six months ended 30 June 2012 and related exchange difference loss of RUB - 84 (as at 31 December 2011 US Dollar denominated loan granted in RUB including interest receivable which amounted to RUB 7,958, loan interest payable of RUB - 512 accrued for the year ended 31 December 2010 and related exchange difference of RUB gain - 369).

Segment information for the six months ended 30 June 2012 and at 31 December 2011 is as follows:

30 June 2012	Oil transportation services	Oil products transportation services	Oil sales to China	Adjustments	Total IFRS
Investments in associates and jointly controlled entities	-	-	-	36,343	36,343
Total segment assets	1,990,304	69,673	11,799	(169,145)	1,902,631
Trade payables and advances received	69,126	4,099	-	(11,608)	61,617
Non-current borrowings	559,979	6,353	-	(6,353)	559,979
Current borrowings	10,946	635	-	(957)	10,624
Total segment liabilities	744,979	15,003	6,676	50,608	817,266



23 SEGMENT INFORMATION (CONTINUED)

31 December 2011	Oil transportation services	Oil products transportation services	Oil sales to China	Adjustments	Total IFRS
Investments in associates	-	-	-	34,889	34,889
Total segment assets	1,948,071	65,868	14,327	(170,060)	1,858,206
Trade payables and advances received	74,812	3,239	-	(7,980)	70,071
Non-current borrowings	551,939	5,690	-	(5,690)	551,939
Current borrowings	54,307	2,268	-	(3,203)	53,372
Total segment liabilities	781,323	15,508	9,187	55,661	861,679

Adjustments to income and expenses that form profit before tax are mainly represented by IFRS adjustments to record non-controlling interest, to recognise fixed assets revaluation results required under IAS 29 *Financial reporting in hyper-inflationary economies* and elimination of fixed assets revaluation results performed under RAR, to accrue provision for dismantling and removing of fixed assets and to accrue deferred taxes for IFRS purposes.

Adjusting items for segment's expenses in the amount of RUB 16,910 for the six months ended 30 June 2012 and RUB 1,352 for the six months ended 30 June 2011 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Dismantlement provision	1,405	1,795
Adjustment to Property, plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(9,743)	(3,407)
Financial leasing	(115)	978
Pension liabilities	(198)	(285)
Other operating expenses, net	(8,234)	(292)
Electricity	1,179	971
Intersegment operations	(904)	(639)
Others	(300)	2,231
Total adjusting items for segment's expenses	(16,910)	1,352

Adjusting items for segment's assets in the amount of RUB 169,145 as at 30 June 2012 and RUB 170,060 as at 31 December 2011 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	30 June 2012	31 December 2011
Increase in property plant and equipment for dismantlement provision	37,815	40,431
Adjustment to Property plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(176,989)	(186,725)
Revaluation of linefill oil and oil products required under IAS 29 "Financial reporting in hyper-inflationary economies" and other	50,598	50,566
Business combination with Transnefteproduct	(52,554)	(52,554)
Deferred tax assets	(28,440)	(24,066)
Intersegment assets	(17,929)	(16,540)
Forex and interest expenses recognized in FA and CIP	18,272	13,905
Others	82	4,923
Total adjusting items for segment's assets	(169,145)	(170,060)



23 SEGMENT INFORMATION (CONTINUED)

Adjusting items for segment's liabilities in the amount of RUB 50,608 as at 30 June 2012 and RUB 55,661 as at 31 December 2011 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	30 June 2012	31 December 2011
Dismantlement provision	87,304	84,900
Pension liabilities	7,374	7,264
Deferred tax liabilities	(23,326)	(22,634)
Intersegment liabilities	(17,929)	(16,540)
Others	(2,815)	2,671
Total adjusting items for segment's liabilities	50,608	55,661

Geographical information. Most of the assets of the Group included in reportable segments, located on the territory of the Russian Federation, resulting in economic activity for each segment are primary operated on the territory of the Russian Federation. Revenue from external customers is presented based on the customers domicile (registered office) although the majority of revenues are generated by assets located in the Russian Federation. The oil product transportation segment has certain assets located on the territory of the Latvian Republic, Ukraine and the Republic of Belarus.

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

	Six months ended 30 June 2012	Six months ended 30 June 2011
Russian Federation	268,561	243,894
China	78,390	68,884
Other countries	14,342	13,116
	361,293	325,894

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

Major customers. The Group's major customers are oil production companies which produce oil and transport it for export, domestic sale or refining.

Revenues from customers which individually constitute 10 per cent or more of the Group's total revenue were as follows:

	Six months ended 30 June 2012	Six months ended 30 June 2011
Companies under control of the Government of the Russian Federation	89,898	83,550
China National United Oil Corporation	78,390	68,884
OAO Surgutneftegaz	40,775	35,904
OAO NK Lukoil	37,050	32,203
OAO TNK-BP Holding	30,127	30,038
	276,240	250,579

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