OAO AK TRANSNEFT
CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007

CONTENTS

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

1. We have prepared the consolidated interim financial statements for the nine months ended 30 September 2007 which give a true and fair view of the financial position of the OAO AK Transneft (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 in accordance with International Financial Reporting Standards. Management of the Group is responsible for ensuring that the Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated interim financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management considers that, in preparing the consolidated interim financial statements set out on pages 5 to 30, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Financial Reporting Standards have been followed.

3. None of the directors held any shares in the Company during the nine months ended 30 September 2007.

4. The consolidated interim financial statements, which are based on the statutory consolidated accounting reports for the nine months ended 30 September 2007, approved by management on 20 November 2007, have been converted in accordance with International Financial Reporting Standards.

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N.P. Tokarev
President
29 February 2008

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

INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Board of Directors of OAO AK Transneft

Introduction

We have reviewed the accompanying consolidated interim balance sheet of OAO AK Transneft (the "Company") and its subsidiaries (the "Group") as at 30 September 2007, and the related consolidated interim statements of income for the three- and nine-month periods ended 30 September 2007 and the related consolidated interim statements of changes in equity and cash flows for the nine-month period ended 30 September 2007, and a summary of significant accounting policies and other explanatory notes (the consolidated interim financial statements). Management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements 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 financial statements do not present fairly, in all material respects, the consolidated interim financial position of the Group as at 30 September 2007, and its consolidated interim financial performance for the three- and nine-month periods ended 30 September 2007 and its consolidated interim cash flows for the nine-month period then ended in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

ZAO KPMG
Moscow, Russian Federation
17 March 2008

(in millions of Russian roubles)

	Notes	30 September 2007	31 December 2006
ASSETS			
Non-current assets			
Intangible assets		850	582
Property, plant and equipment	5	609,062	497,619
Available-for-sale financial assets	6	922	1,217
Total non-current assets		**610,834**	**499,418**
Current assets			
Inventories	7	7,730	8,374
Prepayments and advances		15,132	10,488
Accounts receivable	8	3,224	4,058
VAT assets	8	43,064	23,495
Prepaid profit tax		466	379
Available-for-sale financial assets	6	779	216
Cash and cash equivalents	9	24,181	29,293
Total current assets		**94,576**	**76,303**
Total assets		**705,410**	**575,721**
EQUITY AND LIABILITIES			
Equity			
Share capital	10	307	307
Retained earnings		409,126	366,917
Attributable to the shareholders of OAO AK Transneft		**409,433**	**367,224**
Minority interests	11	20,815	17,912
Total equity		**430,248**	**385,136**
Non-current liabilities			
Borrowings and finance lease obligations	12	71,913	1,681
Deferred profit tax liabilities	13	27,908	26,103
Provisions for liabilities and charges	14	51,985	58,100
Total non-current liabilities		**151,806**	**85,884**
Current liabilities			
Borrowings and finance lease obligations	12	83,313	69,200
Trade and other payables	15	38,208	33,657
Current profit tax payable		1,835	1,844
Total current liabilities		**123,356**	**104,701**
Total liabilities		**275,162**	**190,585**
Total equity and liabilities		**705,410**	**575,721**

Approved on 29 February 2008 by:

N.P. Tokarev — President

D.A. Pletnev — General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

(in millions of Russian roubles)

	Notes	**Three months ended 30 September 2007**	**Nine months ended 30 September 2007**	**Three months ended 30 September 2006**	**Nine months ended 30 September 2006**
Sales	16	55,052	164,549	50,949	152,276
Operating expenses	17	(35,261)	(98,325)	(29,779)	(82,826)
Net other operating (expense)/income	17	(3,427)	828	1,299	2,750
Operating profit		**16,364**	**67,052**	**22,469**	**72,200**
Financial items:					
Exchange gains/(losses)		1,054	1,525	(39)	(20)
Net interest expense	12	(205)	(1,172)	(544)	(763)
Net financial items		**849**	**353**	**(583)**	**(783)**
Profit before profit tax		**17,213**	**67,405**	**21,886**	**71,417**
Current profit tax expense		(6,797)	(19,663)	(6,865)	(20,367)
Deferred profit tax expense		(455)	(1,804)	(17)	(161)
Profit tax expense	13	**(7,252)**	**(21,467)**	**(6,882)**	**(20,528)**
Profit for the period		**9,961**	**45,938**	**15,004**	**50,889**
Attributable to:					
Shareholders of OAO AK Transneft		8,793	43,035	14,624	47,898
Minority interests	11	1,168	2,903	380	2,991
		9,961	**45,938**	**15,004**	**50,889**

Approved on 29 February 2008 by:

N.P. Tokarev — President

D.A. Pletnev — General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

(in millions of Russian roubles)

	Notes	Nine months ended 30 September 2007	Nine months ended 30 September 2006
Cash flows from operating activities			
Cash receipts from customers		193,132	164,019
Cash paid to suppliers and employees, and taxes other than profit tax		(127,485)	(93,504)
Interest paid		(4,246)	(356)
Profit tax paid		(19,871)	(19,661)
Other cash from operating activities		7,720	20,810
Net cash from operating activities		**49,250**	**71,308**
Cash flows used in investing activities			
Purchases of property, plant and equipment, including advances		(136,397)	(79,733)
Proceeds from sales of property, plant and equipment		1,236	8,826
Interest received		196	294
Other proceeds		183	253
Net cash used in investing activities		**(134,782)**	**(70,360)**
Cash flows used in financing activities			
Proceeds from long and short-term borrowings		176,484	22,834
Repayment of long and short-term borrowings		(92,792)	(24,001)
Repayment of finance lease obligations		(3,236)	(3,096)
Net cash from/(used in) financing activities		**80,456**	**(4,263)**
Effects of exchange rate changes on cash and cash equivalents		**(36)**	**(130)**
Net decrease in cash and cash equivalents		**(5,112)**	**(3,445)**
Cash and cash equivalents at the beginning of the period	9	29,293	29,138
Cash and cash equivalents at the end of the period	9	**24,181**	**25,693**

Approved on 29 February 2008 by:

N.P. Tokarev	President
D.A. Pletnev	General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

	Attributable to the shareholders of OAO AK Transneft			Minority interest	Total equity
	Share capital	Retained earnings	Total		
Balance at 31 December 2005	**307**	**316,708**	**317,015**	**14,650**	**331,665**
Losses arising from change in fair value of available-for-sale financial assets	-	(58)	(58)	-	(58)
Net loss recognized directly in equity	-	(58)	(58)	-	(58)
Profit for the period	-	47,898	47,898	2,991	50,889
Total recognized income for the period	-	47,840	47,840	2,991	50,831
Dividends					
- preferred shares	-	(460)	(460)	-	(460)
- ordinary shares	-	(861)	(861)	-	(861)
Balance at 30 September 2006	**307**	**363,227**	**363,534**	**17,641**	**381,175**
Balance at 31 December 2006	**307**	**366,917**	**367,224**	**17,912**	**385,136**
Losses arising from change in fair value of available-for-sale financial assets	-	(3)	(3)	-	(3)
Net loss recognized directly in equity	-	(3)	(3)	-	(3)
Profit for the period	-	43,035	43,035	2,903	45,938
Total recognized income for the period	-	43,032	43,032	2,903	45,935
Dividends					
- preferred shares	-	(351)	(351)	-	(351)
- ordinary shares	-	(472)	(472)	-	(472)
Balance at 30 September 2007	**307**	**409,126**	**409,433**	**20,815**	**430,248**

Approved on 29 February 2008 by:

N.P. Tokarev	President
D.A. Pletnev	General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

1 NATURE OF OPERATIONS

OAO AK Transneft (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") described in Note 18 operate the largest crude oil pipeline system in the world totalling 47 873 km located in the Russian Federation. During the period ended 30 September 2007, the Group transported 347.46 million tonnes of crude oil to domestic and export markets (nine months ended 30 September 2006 – 340.64 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period.

The Group is considered by management to have a single main activity and therefore one industry and geographic segment.

2 RUSSIAN BUSINESS ENVIRONMENT

The Russian Federation has been experiencing political and economic changes that have affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The consolidated interim financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3 BASIS OF PREPARATION

Statement of compliance

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") (IAS) 34 *Interim Financial Reporting.*

Basis of measurement

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

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RR"), which is the Company's functional currency and the currency in which these consolidated interim financial statements are presented. All financial information presented in RR has been rounded to the nearest million.

Use of judgments, estimates and assumptions

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated interim financial statements in conformity with IFRSs. Actual results may differ from those estimates. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Taxation

Russian tax and customs legislation is subject to varying interpretations (see Note 19).

3 BASIS OF PREPARATION (continued)

Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Dismantlement provision

A 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. This calculation is based on the assumption that dismantlement activities are expected to occur in equal proportions each year throughout the estimated useful life of the network.

A provision is established for the expected cost of dismantling of pipeline related facilities based on an established replacement program. The provision is based on the number of tanks to be replaced annually from 2007 to 2017.

Changes in above-mentioned assumption or assumptions with regard to expected costs, technical change, and discount rate may result in adjustments to the established provisions (see Note 14) and assets.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied by the Group in the preparation of the consolidated interim financial statements, except for changes resulting from amendments to International Financial Reporting Standards discussed below and reclassification of certain prior period amounts to conform with current period presentation.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated interim financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interest

Minority interests at the balance sheet date represents the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the acquisition. Minority interest is presented within equity in the consolidated interim financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

Transactions in foreign currencies are translated to RR at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to RR at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to RR at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in the consolidated interim income statement, except for differences arising on the retranslation of available-for-sale equity instruments.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, investments in equity and debt securities, trade and other receivables, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Group's obligations specified in the contract expire or are discharged or cancelled.

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

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary assets, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to the consolidated interim income statement.

Investments at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are carried at initial 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 available for 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 and facilities	8-50
Pipelines and tanks	20-33
Other plant and equipment	5-25

Management approves specific plans for prospective dismantlement or decommissioning of sections of pipeline and related facilities on an annual basis and, at that time, the estimated useful life of the related asset is revised and the annual depreciation charge is amended if applicable.

Renewals and improvements are capitalized and the assets replaced are retired. Maintenance, repairs, and minor renewals are expensed as incurred. Gains and losses arising from the retirements or other disposals of property, plant and equipment are included in the consolidated interim income statement.

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Before 1 January 2007, interest costs on borrowings to finance the construction of property, plant and equipment were expensed as incurred.

Crude oil used for technical operation of the pipeline network ("linefill") owned by the Group is treated as a separate component of the pipeline class of asset and is not depreciated as it is not physically consumed in the process of providing services to customers. Oil surpluses arising from operations are recognized at market value, deficits – at the weighted average carrying value of linefill and are credited to oil surplus, a component of net other operating expense, in the consolidated interim income statement.

Disposals of oil surpluses are accounted for as sales in the consolidated interim income statement.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Each lease payment is allocated between the liability and finance charges so as to achieve a constant effective interest rate on the finance balance outstanding. The property, plant and equipment under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Inventories

Inventories are valued at the lower of weighted average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in the consolidated interim income statement. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to the consolidated interim income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognized in the consolidated interim income statement. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

VAT assets

VAT assets primarily relate to VAT incurred on capital construction, operating and export activities. VAT is included in current assets if the amount is expected to be recovered within 12 months after the reporting date.

Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

State pension fund

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

Provisions (including dismantlement)

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

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

Changes in the provisions resulting from the passage of time are reflected in the consolidated interim income statement each period under financial items. Changes in the provisions resulting from the changes in the discount rate and other changes in provisions, related to a change in the expected pattern or estimated cost of settlement of the obligation, are treated as a change in an accounting estimate in the period of the change by adjusting the corresponding asset or expense.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension provision

In addition to contributions to State pension fund, the Group sponsors a defined contribution plan for its employees. The Group's contributions to the defined contribution plan are based upon 12% of accrued annual payroll. The Group's contributions to this plan are expensed when incurred and are included within salaries and pension expense in operating expenses.

The Group also operates a defined benefit plan. In the consolidated interim financial statements expected pension costs are calculated by using pension liabilities calculated for the prior financial year adjusted for the period and significant market fluctuations.

Environmental provision

The Group recognizes separately the estimated cost of crude oil spillages, including the cost of the obligation to restore the environment, 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 recognized as expenses.

Revenue recognition

Revenues from transportation services are recognized when the services are provided as evidenced by the delivery of crude oil to the owner or the owner's customer in accordance with the contract. Revenues from oil sales are recognized upon shipment of goods to the customer, when the goods cease to be under the physical control of the Group and risks of ownership have been transferred to the buyer.

Financial items

Financial items comprise gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains and losses, interest expense on borrowings, unwinding of the discount on provisions and impairment losses on held-to-maturity investments and financial assets available-for-sale.

Interest income is recognized as it accrues, using the effective interest method. All borrowing costs are recognized in the consolidated interim income statement using the effective interest method, except for borrowing costs related to qualifying assets which are recognized as part of the cost of such assets.

Share capital and dividends

Ordinary shares and non-redeemable preferred shares with the right to receive discretionary annual fixed dividends are both classified as equity.

Dividends are recognized as a liability and deducted from shareholders' equity on the date on which they are approved. Dividends proposed at any time, and those approved between the balance sheet date and the date of issuing the consolidated interim financial statements, are disclosed.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting developments

The Group has adopted all IFRS, amendments and interpretations which are effective 1 January 2007 and which are relevant to its operations.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. As the application of the Standard only affects disclosure requirements, it did not have an impact on Group’s results of operations, financial position or cash flows.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. As the amendment of the Standard only affects disclosure requirements, it did not have an impact on Group’s results of operations, financial position or cash flows.

The Group has early adopted the following interpretation as of 1 January 2007:

- Amended IAS 23 *Borrowing costs*, which is effective for annual periods beginning on or after 1 January 2009. The Standard eliminates the option of recognizing the borrowing costs immediately as an expense to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. Following the transitional provisions of amended IAS 23, this adoption did not result in any changes, in the opening balance of retained earnings.

A number of new Standards, amendments to Standards and Interpretations are not yet effective as of 1 January 2007, and have not been applied in preparing these consolidated interim financial statements. Management believes that these pronouncements will not have any impact on the Group’s operations.

(in millions of Russian roubles)

5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2007						
Cost	61,511	349,020	200,913	50,818	102,011	764,273
Accumulated depreciation	(17,948)	(153,530)	(95,176)	-	-	(266,654)
Net book value at 1 January 2007	**43,563**	**195,490**	**105,737**	**50,818**	**102,011**	**497,619**
Depreciation	(1,151)	(10,269)	(11,703)	-	-	(23,123)
Additions (including prepayments)	-	-	3,235	363	137,916	141,514
Transfers from assets under construction	1,156	3,074	9,273	-	(13,503)	-
Net change in dismantlement provision (see Note 14)	-	(6,798)	-	-	-	(6,798)
Disposals/retirements at cost	(96)	(401)	(1,301)	(102)	-	(1,900)
Accumulated depreciation on disposals/retirements	140	350	1,260	-	-	1,750
Net book value at 30 September 2007	**43,612**	**181,446**	**106,501**	**51,079**	**226,424**	**609,062**
At 30 September 2007						
Cost	62,571	344,895	212,120	51,079	226,424	897,089
Accumulated depreciation	(18,959)	(163,449)	(105,619)	-	-	(288,027)
Net book value at 30 September 2007	**43,612**	**181,446**	**106,501**	**51,079**	**226,424**	**609,062**

(in millions of Russian roubles)

5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2006						
Cost	53,355	274,715	165,973	54,378	38,914	587,335
Accumulated depreciation	(16,742)	(145,286)	(85,117)	-	-	(247,145)
Net book value at 1 January 2006	**36,613**	**129,429**	**80,856**	**54,378**	**38,914**	**340,190**
Depreciation	(1,061)	(7,038)	(8,358)	-	-	(16,457)
Additions (including prepayments)	-	-	1,520	3,543	71,799	76,862
Transfers from assets under construction	3,783	9,103	8,160	-	(21,046)	-
Net change in dismantlement provision (see Note 14)	-	40,490	-	-	-	40,490
Disposals/retirements at cost	(483)	(81)	(2,984)	(2,361)	-	(5,909)
Accumulated depreciation on disposals/retirements	189	79	1,985	-	-	2,253
Net book value at 30 September 2006	**39,041**	**171,982**	**81,179**	**55,560**	**89,667**	**437,429**
At 30 September 2006						
Cost	56,655	324,227	172,669	55,560	89,667	698,778
Accumulated depreciation	(17,614)	(152,245)	(91,490)	-	-	(261,349)
Net book value at 30 September 2006	**39,041**	**171,982**	**81,179**	**55,560**	**89,667**	**437,429**

Property, plant and equipment as of 30 September 2007 is presented net of impairment provisions of RR 4,704 (as of 31 December 2006 – RR 4,704) against specific pipeline assets and machinery.

Linefill represents 26,880 thousand tonnes of crude oil as of 30 September 2007 (31 December 2006 – 26,872 thousand tonnes) (see Note 4).

During the nine months ended 30 September 2007 borrowing costs of RR 5,033 were capitalized to assets under construction (see Note 4).

(in millions of Russian roubles)

6 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 September 2007	31 December 2006
Marketable securities	997	961
Investments in other Russian companies	704	472
	1,701	1,433
Less: current available-for-sale financial assets	(779)	(216)
	922	**1,217**

7 INVENTORIES

	30 September 2007	31 December 2006
Materials and supplies	5,928	5,216
Goods for resale	1,368	3,052
Other items	434	106
	7,730	**8,374**

Inventories are presented net of provisions for obsolescence of RR 37 as of 30 September 2007 (31 December 2006 – RR 37). Materials are primarily used in the maintenance of pipeline equipment.

8 ACCOUNTS RECEIVABLE AND VAT ASSETS

Accounts receivable

	30 September 2007	31 December 2006
Trade receivables (net of a provision for doubtful debts of RR 108 at 30 September 2007 (31 December 2006 - RR 133))	1,792	2,115
Other receivables (net of a provision for doubtful debts of RR 56 at 30 September 2007 (31 December 2006 - RR 106))	1,432	1,943
	3,224	**4,058**

VAT assets

	30 September 2007	31 December 2006
Recoverable VAT related to construction projects	24,045	9,975
Recoverable VAT related to ordinary activity	16,424	10,185
Other VAT receivable	2,595	3,335
	43,064	**23,495**

9 CASH AND CASH EQUIVALENTS

	30 September 2007	31 December 2006
Balances denominated in Russian roubles	23,947	27,661
Balances denominated in US dollars	234	1,632
	24,181	**29,293**

(in millions of Russian roubles)

10 SHARE CAPITAL

Share capital

	Historical cost	30 September 2007 and 31 December 2006
Authorised, issued and fully paid shares of par value 1 rouble each		
Ordinary: 4,664,627 shares	4.7	230
Preferred: 1,554,875 shares	1.5	77
6,219,502 shares	**6.2**	307

The carrying value of the share capital differs from historical cost due to the effect of hyperinflation in the Russian Federation.

The Government of the Russian Federation, through the Federal Agency for the Management of Federal Property, holds 100% of the ordinary shares of OAO AK Transneft.

Rights attributable to preferred shares

Holders of preferred shares shall receive dividends pursuant to the authorization of dividend payments at the general meeting. The amount of dividends to be paid on preferred shares is established as 10 percent of the net profits of the Company for the most recent financial year. Dividends on the preferred shares are not cumulative.

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

- on the reorganization and liquidation of the Company;
- on the introduction of amendments and addenda to the Charter of the Company which limit the rights of shareholders that hold preferred shares, including the determination or increase in the amount of dividends and/or liquidation cost to be paid on preferred shares of the previous level of priority;
- on all issues within the competence of the general meeting of shareholders, after an annual general meeting of shareholders where no decision on payment of dividends was adopted or a decision was adopted on partial payment of dividends on preferred shares. This right is terminated from the time of the first full payment of dividends on the indicated shares.

Dividends

In June 2007, the following dividends were approved at the general shareholders meeting for the year ended 31 December 2006:

	RR per share	Total, mln RR
Ordinary shares	101.23	472
Preferred shares	225.42	351
		823

The dividends were paid in December 2007.

Distributable profits

The statutory accounting reports of the Company are the basis for the respective profit distribution and other appropriations. The statutory profit of the Company was RR 3,976 for the nine months ended 30 September 2007 (RR 3,953 for the nine months ended 30 September 2006).

(in millions of Russian roubles)

11 MINORITY INTERESTS

Minority interests represent the shares in subsidiary entities held by OAO Soyuzinvestneftekhim (36% of OAO Severo-Zapadnye MN) and Ministry of State Property of the Republic of Bashkortostan (24.5% of OAO Uralsibnefteprovod) (see Note 18).

12 BORROWINGS, FINANCE LEASE OBLIGATIONS AND INTEREST EXPENSE

	30 September 2007	31 December 2006
Unsecured borrowings and loans	150,211	66,504
Finance lease obligations	5,015	4,377
Total borrowings and loans	155,226	70,881
Less: current borrowings and loans and current portion of non-current borrowings and loans and finance lease obligations	(83,313)	(69,200)
	71,913	**1,681**
Maturity of non-current borrowings and loans and finance lease obligations (excluding interest)		
Due for repayment:		
Between one and five years	39,401	1,621
After five years	32,512	60
	71,913	**1,681**

In August 2006, a revolving credit facility amounting to RR 65,000 was made available to the Group until 2012 by Sberbank, a state-controlled bank, for the financing of construction of the Eastern Siberia-Pacific Ocean pipeline. Under this agreement the Group obtains one year nonrevolving credit lines. In the reporting period under this agreement the Group made an advanced prepayment of RR 91,416 and obtained a number of nonrevolving credit lines totalling RR 66,014 maturing in 2008. Interest is payable at a fixed rate and is subject to revision if the Central Bank of the Russian Federation (CBR) refinancing rate is in excess of the CBR refinancing rate effective on the date of credit line agreements by more than 10%.

In November 2006, a Group company entered into a seven year revolving credit facility agreement with Sberbank for up to RR 15,000 to finance the construction of the Eastern Siberia-Pacific Ocean pipeline. Under this agreement the Group obtained two credit lines of RR 5,000 and RR 10,000 maturing in December 2008 and January 2008, respectively, the full amounts of which were drawn down. Interest is payable at a fixed rate and is subject to revision if the CBR refinancing rate is in excess of the CBR refinancing rate effective on the date of credit line agreements by more than 10%.

In June 2007, a Group company entered into revolving credit facility agreement with Sberbank for up to RR 65,000 to be available until December 2008 for the purpose of financing the construction of the Eastern Siberia-Pacific Ocean pipeline. Under this agreement the Group obtained nonrevolving credit lines maturing in one year period of which RR 24,963 was drawn down. Interest is payable at a fixed rate and is subject to revision if the CBR refinancing rate is in excess of the CBR refinancing rate effective on the date of credit line agreement by more than 10%.

The rates on the above RR loans range from 7% to 10% per annum.

In March 2007, the Group issued Eurobonds in the amount of USD 1.3 billion (RR 32,434 at CBR exchange rate at 30 September 2007) at an interest rate of 5.67% per annum due in 7 years. The proceeds are to be used to finance construction of the Eastern Siberia – Pacific Ocean pipeline.

In June 2007, the Group issued Eurobonds in the amount of USD 0.5 billion (RR 12,475 at CBR exchange rate at 30 September 2007) at an interest rate of 6.103% per annum and EUR 0.7 billion (RR 24,742 at CBR exchange rate at 30 September 2007) at an interest rate of 5.381% per annum due in 5 years. The proceeds are to be used to finance construction of the Eastern Siberia – Pacific Ocean pipeline.

(in millions of Russian roubles)

12 BORROWINGS, FINANCE LEASE OBLIGATIONS AND INTEREST EXPENSE (continued)

The fair value of the loans, borrowings, and finance lease obligations approximates their carrying amounts as obligations bear interest rates approximating market rates at 30 September 2007.

Interest expense

	Three months ended 30 September 2007	Nine months ended 30 September 2007	Three months ended 30 September 2006	Nine months ended 30 September 2006
Interest expense	267	1,388	639	1,126
Interest income	(62)	(216)	(95)	(363)
Net interest expense	**205**	**1,172**	**544**	**763**

Finance lease obligations

Finance lease obligations are payable as follows:

	30 September 2007		
	Payments	**Interest**	**Present value of finance lease liability**
Less than one year	3,820	1,056	2,764
Between one and five years	2,975	802	2,173
After five years	78	-	78
	6,873	**1,858**	**5,015**

	31 December 2006		
	Payments	**Interest**	**Present value of finance lease liability**
Less than one year	3,146	412	2,734
Between one and five years	1,909	326	1,583
After five years	70	10	60
	5,125	**748**	**4,377**

13 DEFERRED PROFIT TAX LIABILITIES AND PROFIT TAX EXPENSE

Deferred profit tax liabilities and assets consist of the following:

	30 September 2007	31 December 2006
Deferred profit tax liabilities:		
Carrying value of property, plant and equipment in excess of tax base	(40,839)	(40,292)
Other	(153)	(327)
	(40,992)	(40,619)
Deferred profit tax assets:		
Provisions against inventories, receivables and accruals	324	451
Provisions for dismantlement and other expenses	12,760	14,065
	13,084	14,516
Net deferred tax liability	(27,908)	**(26,103)**

(in millions of Russian roubles)

13 DEFERRED TAX LIABILITIES AND PROFIT TAX EXPENSE (continued)

Operations in the Russian Federation are subject to Federal income tax rate that totals 6.5% and a regional income tax rate that varies from 13.5% to 17.5% at the discretion of the individual regional administration. The combined statutory tax rate in the Russian Federation is 24%.

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. The tax effect of the movement on these temporary differences is recorded at the statutory rate of 24%.

The temporary differences associated with undistributed earnings of subsidiaries amount to RR 263,887 as of 30 September 2007 (as of 31 December 2006 – RR 214,784). A deferred tax liability on these temporary differences was not recognized because management controls the timing of the reversal of the temporary differences and they will not reverse in the foreseeable future.

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

	Three months ended 30 September 2007	**Nine months ended 30 September 2007**	**Three months ended 30 September 2006**	**Nine months ended 30 September 2006**
Profit before profit tax	17,213	67,405	21,886	71,417
Theoretical profit tax expense at 24%	4,131	16,177	5,253	17,140
Increase due to:				
Items not deductible for profit tax purposes	3,121	5,290	1,629	3,388
Actual tax expense	**7,252**	**21,467**	**6,882**	**20,528**

14 PROVISIONS FOR LIABILITIES AND CHARGES

	30 September 2007	**31 December 2006**
Dismantlement provision	48,150	54,228
Pension provision	3,709	3,761
Other provisions	126	111
	51,985	**58,100**

Dismantlement provision

The description of estimates and judgements made to calculate provision for dismantlement of pipeline network and related facilities are disclosed in Note 3. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal rate of 7% per year (31 December 2006 – 7% per year). The net present value of the dismantlement provision is added to the cost of property, plant and equipment, and depreciated over the useful economic life of the related assets.

	2007	**2006**
At 1 January	54,228	6,774
Net change in provision (see Note 5)	(6,798)	40,490
Accretion of interest	720	284
At 30 September	**48,150**	**47,548**

(in millions of Russian roubles)

14 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Pension provision

Under collective agreements with the 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 five years. Also under collective agreements with the employees, an amount ranging from one to eight months minimal salary is paid on public holidays to those retired employees who have not entered in an agreement with the Non-state pension fund of OAO AK Transneft. Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19 "Employee Benefits". Under this method, a provision has been established having regard to employee life expectancy.

Movements in the net liability recognized in the balance sheet are as follows:

	2007	2006
At 1 January	3,761	2,574
Net expense included in staff costs in the consolidated interim income statement (see Note 17)	159	1,388
Benefits paid	(211)	(214)
At 30 September	**3,709**	**3,748**

The amounts associated with pension provision recognized in the balance sheet are as follows:

	30 September 2007	31 December 2006
Present value of provision (unfunded)	3,709	3,761
Liability	3,709	3,761

Principal actuarial assumptions used (expressed as weighted average):

	As at 30 September 2007 and 31 December 2006
Discount rate (nominal)	7%
Future salary increases (nominal)	7%
Employees average remaining working life (years)	13

15 TRADE AND OTHER PAYABLES

	30 September 2007	31 December 2006
Trade payables	21,991	14,647
Advances received for oil transportation services	8,509	13,146
VAT output tax payable	1,192	815
Accruals and deferred income	1,866	2,023
Payables to employees	1,032	833
Other taxes payable	855	752
Dividends payable	823	-
Other payables	1,940	1,441
	38,208	**33,657**

(in millions of Russian roubles)

16 SALES

	Three months ended 30 September 2007	Nine months ended 30 September 2007	Three months ended 30 September 2006	Nine months ended 30 September 2006
Revenues from oil transportation services				
Domestic tariff	20,789	60,385	19,290	55,016
Export tariff	29,115	88,492	27,246	83,617
Total revenues from oil transportation services	49,904	148,877	46,536	138,633
Revenues from oil sales	3,212	10,089	3,055	7,216
Other revenues	1,936	5,583	1,358	6,427
	55,052	**164,549**	**50,949**	**152,276**

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

- revenues for transportation of crude oil to destinations in the Russian Federation and the Custom Union countries, based on distance-related tariffs denominated and payable in RR and revised periodically after approval by the Federal Tariff Agency ("domestic tariff");

- revenues for transportation of crude oil which is destined for export (outside of the Russian Federation and the Custom Union countries), based on distance-related tariffs from 2007 denominated and payable in RR (until 2007 – based on distance-related tariffs denominated in USD and in RR but payable in RR) and revised periodically after approval by the Federal Tariff Agency ("export tariff").

Other amounts included in export tariffs are:

- a fixed tariff denominated and payable in USD, under intergovernmental agreements for the transportation of crude oil from Azerbaijan over the territory of the Russian Federation, for export at the port of Novorossiysk;

- a distance-related tariff denominated and payable in USD, set by the Federal Tariff Agency for transit of Kazakhstan crude oil over the territory of the Russian Federation, except for the Makhachkala – Novorossiysk pipeline, and

- a fixed tariff denominated and payable in USD, set by the Federal Tariff Agency for transit of Kazakhstan crude oil through the Makhachkala – Novorossiysk pipeline.

(in millions of Russian roubles)

17 OPERATING EXPENSES AND NET OTHER OPERATING INCOME

	Three months ended 30 September 2007	Nine months ended 30 September 2007	Three months ended 30 September 2006	Nine months ended 30 September 2006
Operating expenses				
Depreciation	7,646	22,556	5,172	16,005
Staff costs:				
Salaries and pension expense	6,152	17,231	7,588	17,122
Unified Social Tax contributions	1,083	3,339	1,187	3,216
Key management personnel compensation (see Note 20)	55	182	49	186
Social expenses	729	1,570	1,198	2,277
Electricity	5,055	15,045	4,244	12,933
Materials	1,898	5,721	677	4,435
Cost of oil sold	3,115	9,454	2,354	5,476
Insurance expense	1,803	4,738	1,586	4,911
Repairs and maintenance	2,239	5,153	2,466	6,075
Administrative expense	1,507	3,974	923	2,519
Transport expense	489	1,383	488	1,391
Taxes other than profit tax:				
Property tax	413	1,090	340	906
Other taxes	25	98	78	182
Other	3,052	6,791	1,429	5,192
	35,261	**98,325**	**29,779**	**82,826**

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

Unified Social Tax contributions include Group expenses in relation to the State Pension Fund, which is a defined contribution plan, for the nine months ended 30 September 2007 of RR 1,029 (for the nine months ended 30 September 2006 – RR 871).

Salaries and pension expense includes Group expenses in relation to the non-state defined contribution plan for the nine months ended 30 September 2007 of RR 1,647 (for the nine months ended 30 September 2006 – RR 1,493).

The following amounts are included in net other operating (expense)/income:

	Three months ended 30 September 2007	Nine months ended 30 September 2007	Three months ended 30 September 2006	Nine months ended 30 September 2006
Oil surplus	2,157	7,903	2,230	4,156
Loss on disposal of property, plant and equipment	(485)	(922)	(189)	(461)
Charitable contributions	(5,099)	(6,153)	(742)	(945)
	(3,427)	**828**	**1,299**	**2,750**

(in millions of Russian roubles)

18 CONSOLIDATED SUBSIDIARIES

	Percentage (%) of ownership interest at 30 September 2007
Regional pipeline operators	
OAO Sibnefteprovod	100.0
OAO Chernomortransneft	100.0
OAO MN Druzhba	100.0
OAO Privolzhsknefteprovod	100.0
OAO Transsibneft	100.0
OAO Verkhnevolzhsknefteprovod	100.0
OAO Tsentrsibnefteprovod	100.0
OAO Severnye MN	100.0
OOO Baltnefteprovod	100.0
OAO Uralsibnefteprovod	75.5
OAO Severo-Zapadnye MN	64.0
OOO Vostoknefteprovod	100.0
Other services	
OAO Giprotruboprovod	100.0
OAO Svyaztransneft	100.0
OAO CTD Diascan	100.0
OAO Volzhsky Podvodnik	100.0
ZAO Centre MO	100.0
OOO Spetsmornefteport Primorsk	100.0
OOO TransPress	100.0
OOO TsUP VSTO	100.0
OOO Transneft Finance	100.0

All of the consolidated subsidiaries are incorporated in the Russian Federation. There were no material changes in the structure of the Group during the nine months ended 30 September 2007.

19 CONTINGENT LIABILITIES, CONTRACT LIABILITIES, COMMITMENTS AND OTHER RISKS

Contingent liabilities

Taxation

Russian tax and customs legislation is subject to varying interpretations and changes which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and it is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

(in millions of Russian roubles)

19 CONTINGENT LIABILITIES, CONTRACT LIABILITIES, COMMITMENTS AND OTHER RISKS (continued)

Insurance

The insurance industry in the Russian Federation is in a developing state. Management believes that the Group has adequate property damage coverage for its main production assets. The Group does not have full coverage for business interruption, third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations.

Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Environmental matters

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.

Environmental regulations are currently under consideration in the Russian Federation. The Group routinely assess and evaluate their obligations in response to new and changing legislation.

Under existing legislation management believes that there are no significant unrecorded liabilities or contingencies, which could have a materially adverse effect on the operating results or financial position of the Group.

Capital commitments

In the normal course of business, the Group has outstanding commitments under the contracts for the purchase and construction of property, plant and equipment for RR 65,648.

20 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

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

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

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

	Three months ended 30 September 2007	Nine months ended 30 September 2007	Three months ended 30 September 2006	Nine months ended 30 September 2006
Revenue from oil transportation services	14,740	44,498	12,479	37,893
Electricity expenses	(556)	(1,531)	(367)	(1,368)
Interest accrued	(1,554)	(3,394)	(50)	(193)

(in millions of Russian roubles)

20 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

	30 September 2007	31 December 2006
Receivables and prepayments	483	151
Cash	790	1,157
Advances received for oil transportation services	1,804	3,570
Non-current and current borrowings	79,562	66,260

Transactions with the state include taxes which are detailed in the balance sheet, income statement and Notes 8, 13, 15 and 17.

Key management personnel compensation

Compensation payable to the key management personnel of OAO AK Transneft and its subsidiaries consists of contractual remuneration for their services in full time executive positions. Compensation amounts were as follows:

	Three months ended 30 September 2007	Nine months ended 30 September 2007	Three months ended 30 September 2006	Nine months ended 30 September 2006
Salaries and bonuses	49	165	40	166
Termination benefits	-	2	2	4
Other	6	15	7	16
	55	**182**	**49**	**186**

21 FINANCIAL RISK MANAGEMENT

The Group’s activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, commodity price risks, credit risk and liquidity risk. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Group’s financial performance.

Foreign exchange risk

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble, the US dollar or EURO. Furthermore, the Group does not use foreign exchange or forward contracts.

As at 30 September 2007, if the US dollar had strengthened by 10% against the Russian rouble with all other variables held constant, profit and equity would have been RR 3,777 (for the nine months ended 30 September 2006 – RR 111) lower mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings.

As at 30 September 2007, if the EURO had strengthened by 10% against the Russian rouble with all other variables held constant, profit and equity would have been RR 1,880 lower mainly as a result of foreign exchange losses on translation of EURO-denominated borrowings.

Interest rate risk

As the Group has no significant interest-bearing assets, the Group’s income and operating cash flows are substantially independent of changes in market interest rates.

Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group obtains borrowings

21 FINANCIAL RISK MANAGEMENT (continued)

from banks at current market interest rates and does not use any hedging instruments to manage its exposure to changes in interest rates. Changes in interest rates may occur but they are not expected to have a material impact on the Group's financial performance.

Commodity price risk

The Group's main activity requires it to maintain and replace the existing pipeline network and to construct new pipelines. This necessitates the purchase of significant amounts of steel pipe each year for new and replacement pipelines and of crude oil as linefill. The Group does not have long-term contracts with the manufacturers of pipe or the producers of crude oil and does not use derivative contracts to manage its exposure to fluctuations in the price of steel or crude oil.

Credit risk and contract performance

The Group does not hold or issue financial instruments for hedging or trading purposes and its trade accounts receivable are unsecured. The Group has no material concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. For this purpose, the Group's capital is considered to be equity attributable to the shareholders of the Company.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

22 SUBSEQUENT EVENTS

On 24 October 2007 the Extraordinary General Meeting of Shareholders approved an increase in the Company's charter capital by 882,220 rouble through issuance of an additional 882,220 ordinary shares with a par value of 1 rouble each under a closed subscription. On 15 January 2008 these shares were paid up by the transfer of a 100% interest in OAO "AK "Transnefteproduct" by the Federal Agency for Federal Property Management, representing the Government of the Russian Federation. This share issuance was registered by the Federal service for financial markets on 31 January 2008. OAO "AK "Transnefteproduct" operates an oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine.