Транснефть

OIL TRANSPORTING
JOINT STOCK COMPANY
" T R A N S N E F T "

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

WE TRANSPORT OIL,
SO IT SETS THE WORLD IN MOTION

CONTENT

STATEMENT OF DIRECTORS' RESPONSIBILITIES

To the Shareholders of OAO AK Transneft

1. We have prepared the consolidated financial statements for year ended 31 December 2013 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 year and of the results of its operations and cash flows for the year then ended. Management of the Group is responsible for ensuring that the Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management believes that, in preparing the consolidated financial statements set out on pages 6 to 44 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. The consolidated financial statements, which are based on the statutory consolidated accounting reports for the year ended 31 December 2013, approved by management in March 2014, have been converted in accordance with International Financial Reporting Standards.

N.P. Tokarev
President
8 April 2014

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Russian Federation

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Auditors' Report

To the Shareholders and Board of Directors OAO AK Transneft

We have audited the accompanying consolidated financial statements of OAO AK Transneft (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

Audited entity: OAO AK Transneft

Registered by Moscow Registration Chamber on 26 august 1993, Registration No. 026.800

Registered in the Unified State Register of Legal Entities/Entered in the Unified State Register of Legal Entities on 24 July 2002 by Department of Ministry of Taxes and Duties, Registration No. 1027700049486, Certificate series 77 No. 007893052.

119180, Moscow, ul. Bolshaya Polyanka, 57

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

Kim A.A., Director

(power of attorney dated 01 October 2013 No. 72/13)

ZAO KPMG

08 April 2014

Moscow, Russian Federation

ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО г.Р.№ 11585 КПМГ KPMG * МОСКВА *

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

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

	Notes	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Intangible assets		3,624	2,101
Property, plant and equipment	6	1,527,720	1,454,147
Available-for-sale financial assets		217	241
Investments in associates and jointly controlled entities	7,22	31,583	38,622
VAT assets	10	52	35
Receivables and prepayments	10	2,084	877
Other financial assets, including derivatives	8	19,297	39,307
Total non-current assets		**1,584,577**	**1,535,330**
Current assets			
Inventories	9	27,883	25,623
Receivables and prepayments	10	44,634	39,808
VAT assets	10	52,170	84,059
Current income tax prepayments		1,587	14,181
Other financial assets, including derivaitves	8	301,001	213,481
Cash and cash equivalents	11	104,742	84,517
Total current assets		**532,017**	**461,669**
Total assets		**2,116,594**	**1,996,999**
EQUITY AND LIABILITIES			
Equity			
Share capital	12	308	308
Share premium reserve	12	52,553	52,553
Merger reserve	12	(13,080)	(13,080)
Retained earnings		1,249,863	1,096,088
Attributable to the shareholders of OAO AK Transneft		**1,289,644**	**1,135,869**
Non-controlling interests	14	25,395	37,186
Total equity		**1,315,039**	**1,173,055**
Non-current liabilities			
Loans and borrowings	15	484,593	544,103
Deferred income tax liabilities	16	45,304	39,300
Provisions for liabilities and charges	17	43,737	92,598
Total non-current liabilities		**573,634**	**676,001**
Current liabilities			
Trade and other payables, including derivatives	18	128,358	122,261
Current income tax payable		3,598	151
Loans and borrowings	15	95,965	25,531
Total current liabilities		**227,921**	**147,943**
Total liabilities		**801,555**	**823,944**
Total equity and liabilities		**2,116,594**	**1,996,999**

Approved on 8 April 2014 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 10 to 44 are an integral part of these consolidated financial statements

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

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Revenue	19	749,617	732,375
Operating expenses	20	(499,134)	(492,587)
Operating profit		**250,483**	**239,788**
Financial items:			
Exchange gains		72,367	130,329
Exchange loss		(78,154)	(119,758)
Interest income	21	16,632	10,501
Interest expense	21	(37,094)	(30,154)
Net change in fair value of derivatives	8,18	(52)	-
Total financial items		**(26,301)**	**(9,082)**
Profit from disposal of subsidiary	13	2,848	-
Share of (loss)/ profit from associates and jointly controlled entities	7	(1,025)	3,938
Impairment of equity-accounted investee	7	(13,993)	-
Profit before income tax		**212,012**	**234,644**
Current income tax expense		(48,055)	(48,038)
Deferred tax expense		(5,940)	(2,216)
Income tax expense	16	**(53,995)**	**(50,254)**
Profit for the year		**158,017**	**184,390**
Other comprehensive income			
Items that may be reclassified to profit and loss			
Currency translation differences, net of tax		137	(40)
Fair value losses on available-for-sale financial assets, net of tax		-	(25)
Total items that may be reclassified to profit and loss, net of tax		*137*	*(65)*
Items that will not be reclassified to profit and loss			
Remeasurement of net defined benefit plan obligation	17	1,245	(1,291)
Total items that will not be reclassified to profit and loss, net of tax		*1,245*	*(1,291)*
Total other comprehensive income for the year, net of tax		**1,382**	**(1,356)**
Total comprehensive income		**159,399**	**183,034**
Profit attributable to:			
Shareholders of OAO AK Transneft		152,917	180,514
Non-controlling interests		5,100	3,876
Total comprehensive income attributable to:			
Shareholders of OAO AK Transneft		154,275	179,229
Non-controlling interests		5,124	3,805

Approved on 8 April 2014 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 10 to 44 are an integral part of these consolidated financial statements

OAO AK TRANSNEFT

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Notes	Year ended 31 December 2013	Year ended 31 December 2012
Cash flows from operating activities			
Cash receipts from customers		800,382	774,817
Cash paid to suppliers and employees, and taxes other than income tax		(514,979)	(531,894)
Interest paid		(34,887)	(34,490)
Income tax paid		(41,361)	(70,976)
Income tax refund		9,037	14,821
VAT and taxes other than income tax refunds		107,633	66,053
Other cash used in operating activities		(3,049)	(1,744)
Net cash from operating activities		**322,776**	**216,587**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(223,015)	(196,987)
Proceeds from sales of property, plant and equipment		391	229
Interest and dividends received		7,511	8,731
Repayment of loans issued		-	738
Purchase of notes and placement of funds on deposit accounts		(310,566)	(257,191)
Sale of notes and close of deposit accounts		268,155	188,963
Purchase of shares in associates and jointly-controlled entities		(8,104)	(550)
Cash outflow from disposal of subsidiaries		(2,796)	-
Other cash (used in) / from investing activities		(521)	190
Net cash used in investing activities		**(268,945)**	**(255,877)**
Cash flows from financing activities			
Proceeds from long-term loans and borrowings		620	33,995
Repayment of short-term loans and borrowings		(19,859)	(46,192)
Dividends paid		(4,738)	(2,768)
Purchase of non-controlling interests		(12,550)	(3,600)
Other cash (used in) / from financing activities		(266)	92
Net cash used in financing activities		**(36,793)**	**(18,473)**
Effects of exchange rate changes on cash and cash equivalents		**3,187**	**(3,266)**
Net increase/(decrease) in cash and cash equivalents		**20,225**	**(61,029)**
Cash and cash equivalents at the beginning of the year	11	84,517	145,546
Cash and cash equivalents at the end of the year	**11**	**104,742**	**84,517**

Approved on 3 April 2014 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

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

	Attributable to the owners of OAO AK Transneft						
	Share capital	Share premium	Merger reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012	**308**	**52,553**	**(13,080)**	**919,690**	**959,471**	**37,056**	**996,527**
Profit for the year	-	-	-	180,514	180,514	3,876	184,390
Defined benefit plan actuarial losses	-	-	-	(1,220)	(1,220)	(71)	(1,291)
Fair value losses on available-for sale financial assets, net of tax	-	-	-	(25)	(25)	-	(25)
Currency translation differences, net of tax	-	-	-	(40)	(40)	-	(40)
Total comprehensive income for the period	-	-	-	**179,229**	**179,229**	**3,805**	**183,034**
Purchase of non-controlling interests (Note 14)	-	-	-	(47)	(47)	(3,553)	(3,600)
Dividends (Note 12)							
- ordinary shares	-	-	-	(1,671)	(1,671)	(122)	(1,793)
- preference shares	-	-	-	(1,113)	(1,113)	-	(1,113)
Balance at 31 December 2012	**308**	**52,553**	**(13,080)**	**1,096,088**	**1,135,869**	**37,186**	**1,173,055**
Balance at 1 January 2013	**308**	**52,553**	**(13,080)**	**1,096,088**	**1,135,869**	**37,186**	**1,173,055**
Profit for the year	-	-	-	152,917	152,917	5,100	158,017
Defined benefit plan actuarial gains	-	-	-	1,221	1,221	24	1,245
Currency translation differences, net of tax	-	-	-	137	137	-	137
Total comprehensive income for the period	-	-	-	**154,275**	**154,275**	**5,124**	**159,399**
Purchase of non-controlling interests (Note 14)	-	-	-	4,365	4,365	(16,915)	(12,550)
Dividends (Note 12)							
- ordinary shares	-	-	-	(3,800)	(3,800)	-	(3,800)
- preference shares	-	-	-	(1,065)	(1,065)	-	(1,065)
Balance at 31 December 2013	**308**	**52,553**	**(13,080)**	**1,249,863**	**1,289,644**	**25,395**	**1,315,039**

Approved on 8 April 2014 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

1 NATURE OF OPERATIONS

OAO AK Transneft (hereinafter OAO AK Transneft or 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 53,606 km at 31 December 2013 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 19,146 km as at 31 December 2013. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the year ended 31 December 2013, the Group transported 481 million tonnes of crude oil to domestic and export markets (year ended 31 December 2012 – 480 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 31 million tonnes of oil products (27.5 million tonnes for year ended 31 December 2012).

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

These consolidated financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS").

The principal accounting policies have been consistently applied in the preparation of these consolidated financial statements to all periods presented are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (see Note 4). The consolidated financial statements of the Group are prepared under the historical cost convention except as described in Notes 4 and 5.

Certain comparative amounts have been corrected to confirm with the current year's presentation.

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its principal subsidiaries including ChUP Zapad-Transnefteproduct and DP Prikarpatzapadtrans, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rouble ("RUB"). The official US dollar ("USD") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation ("CBR") was 32.7292 and 30.3727 as at 31 December 2013 and 31 December 2012, respectively. The official euro ("EUR") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation was 44.9699 and 40.2286 as at 31 December 2013 and 31 December 2012, respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies of the subsidiary. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Non-controlling interests at the reporting date represent the non-controlling shareholders' portion of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the non-controlling interests' portion of movements in equity since the date of the acquisition. Non-controlling interests are presented within equity in the consolidated financial statements.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Investments in associates and jointly controlled entities

Associates are undertakings over which the Group has significant influence, but not control, over the financial and operating policies. Significant influence occurred when the Group has the power to participate in the financial and operational policy decisions of the entity but has no control or joint control over those policies.

Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Joint control entities are companies, financial or operating policies of which are controlled by the Group as well as other members of these companies.

Investments in associates and jointly controlled entities are accounted under equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Business combination under common control

Business combinations under common control are accounted for using the predecessor values method from the date of combination. Under this method the acquired entities results are included into the acquirer's financial statements from the date the transaction occurred. The assets and liabilities of the subsidiary transferred under common control are recorded at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary’s IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity’s original acquisitions is also recorded in consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated 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.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

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
Crude oil pipelines and tanks	20-33
Oil product pipelines	50
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 capitalised 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 profit for the period in the consolidated statement of comprehensive income.

Crude oil and oil products 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 its residual value exceeds its carrying amount.

Any additions to linefill over the period are recognised at cost, and any disposals are written off at weighted average carrying value of linefill.

Oil surpluses arising from operations are recognised at market value and are recorded in inventory with a correspondent credit to oil surplus, a component of net other operating income, in profit and loss netted by expenses on charity, made from income received.

Disposals of oil surpluses are accounted for as revenues and included in sales in the consolidated statement of comprehensive income.

The prepayments which relate to property, plant and equipment and inventory for construction are included in the category Assets under construction including prepayments.

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 leased assets are depreciated from the time the asset is available for use. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

Other lease agreements are classified as operating leases and corresponding leased assets are not recognized in the Group’s consolidated statement of financial position.

Inventories

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-derivative financial instruments

Financial assets and liabilities

Financial assets and liabilities include cash and cash equivalents, available-for-sale financial assets, receivables, borrowings, and trade and other payables and other financial assets. These items are initially recognised at fair value adjusted for transaction costs on the date when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised only when the rights to the appropriate benefits under the relevant contract are settled, lost, surrendered, or have expired. Financial liabilities are partially or fully de-recognised only when the obligation specified in the relevant contract is discharged, cancelled, or has expired.

Available-for-sale financial assets are re-measured to fair value at each subsequent reporting date, other financial assets and financial liabilities are carried at amortised cost.

The fair values of financial assets and liabilities with a maturity date less than year from the reporting date, including trade and other receivables and payables, are assumed to approximate their carrying amounts unless there is an indication of impairment at the reporting date. The fair value of all other financial assets and liabilities is based on the amount receivable or payable at the expected settlement date, discounted to net present value using a rate considered appropriate for the asset or liability.

A financial asset not carried at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Besides, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20% to be significant and a period of twelve months to be prolonged.

Impairment of an equity-accounted investee are shown as financial items in the statement of profit or loss and other comprehensive income.

Available-for-sale financial assets

Fair value of available-for-sale securities is determined using the quoted prices on active market. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the reporting date.

Gains and losses arising from changes in the fair value of the investments classified as available-for-sale are recognised in other comprehensive income. When the investments classified as available-for-sale are sold or impaired, the fair value adjustments accumulated in other comprehensive income are included in profit or loss as a reclassification adjustment as gains and losses from the investments.

Accounts receivable

Accounts receivable are carried at original invoice amount inclusive of value added taxes less provision made for impairment.

A provision for impairment is established when there is an objective evidence that Group will not be able to collect all amounts due according to the original terms of the contract. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for the similar borrowers at the date of origination of the receivables. The following principal criteria are used to determine whether there is objective evidence that an impairment loss might have occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents consist of cash, bank balances, and highly liquid investments, and which have original maturities of three months or less.

VAT assets

VAT assets relate to VAT incurred on capital construction, operating and export activities, including oil transportation to russian oil-processing plants. VAT is included in current assets if the amount is expected to be recovered within 12 months after the reporting date.

Loans and borrowings

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

Derivatives

The Group has certain derivatives in the form of options which were acquired for hedging and as held for trading. Derivatives are initially recognised at fair value, relevant expenses are recognised in the statement of other comprehensive income. Following initial recognition derivatives are re-measured at fair value with appropriate changes recognised directly in profit or loss for the period.

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (ie the fair value of the consideration given or received). If the Group determines that the fair value on initial recognition differs from the transaction price, the difference between the fair value at initial recognition and the transaction price is taken into account as follows:

(a) in profit or loss if the fair value of the quoted price is confirmed for identical assets or liabilities in an active market (accounted for Level 1) or based on a valuation method, which uses only data from observable markets.

(b) as deferred income or loss to defer recognition of the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes the difference as the deferred gain or loss over the life of the financial instrument, but not later than the time when the estimate of its fair value can be made on fully observable market data, or the date of termination.

The Group has established a system of control in relation to the fair value measurement. Within this framework, the Group regularly checks significant unobservable inputs and valuation adjustments. In estimating the fair value of the asset or liability Group applies as possible, observable market data. Fair value estimates are different levels of the fair value hierarchy depending on the input data used in the relevant assessment methods:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the initial data used to estimate the fair value of the asset or liability can be attributed to different levels of the fair value hierarchy, the fair value generally refers to the level of the hierarchy, which corresponds to the original data of the lowest level, are essential for the entire evaluation.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period in which the change occurred.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the profit and loss in the statement of comprehensive

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

income except if it is recognised directly in equity or comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in equity or comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

Changes in the provisions resulting from the passage of time are reflected in profit or loss 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.

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 determined on the amount of not more than 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. Pension costs are recognised using the projected unit credit method. The cost of providing pension contributions is charged to operating expenses in profit or loss, so as to spread the regular cost over the service lives of employees. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability. The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income in the consolidated statement of profit or loss and other comprehensive income.

Environmental provision

The Group periodically evaluates its obligations under environmental regulations, including as discussed below for the remediation of oil spillage. As obligations are determined, they are recognised as expenses immediately unless they mitigate or prevent future environmental contamination, in which case they are capitalised.

At the date of spillage the Group recognises separately the estimated cost of crude oil spillages, including the cost of the obligation to restore the environment. The Group recognises the estimated recoveries under applicable insurance policies, when it is virtually certain that reimbursement will be received.

Revenue recognition

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues from oil and oil products sales are recognised upon shipment of goods to the customer, when the goods cease to be under physical control of the Group and risks of ownership have been transferred to the buyer.

Revenue and costs under the construction contract are recognised as revenue and costs, respectively, to the extent the stages under the contract are completed as of the end of the reporting period. The percentage of completion is measured by comparing costs under the contract incurred to fulfil work as of the specific date against the aggregate costs under the contract.

Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts and value-added tax. Customs duties are reported as income and expenses in the consolidated statement of profit or loss and other comprehensive income.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity borrowed funds in its functional currency, and borrowing costs actually incurred on foreign currency borrowings.

The portion of the foreign exchange movements is estimated based on interest rates on similar borrowing in the Group's functional currency. The foreign exchange gains and losses eligible for capitalisation are assessed on a cumulative basis.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The portion of the foreign exchange movements on the USD loan eligible for capitalisation is estimated based on the interest rates of the coupon yield for the first period on the RUB nonconvertible interest bearing documentary bonds placed by the Group in the period of June to October 2009.

The foreign exchange gain on these borrowing is not attributable to the interest rate differentials and therefore is not capitalised.

Foreign currency gains and losses are reported on a gross-up basis as "Exchange gains" and "Exchange losses".

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 recognised 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 reporting date and the date of issuing the consolidated financial statements, are disclosed.

New accounting developments

A number of new Standards and amendments to Standards including IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, amendments to IFRS 7 Disclosures-Offsetting Financial Assets and Financial Liabilities have initially been applied in 2013. Application of IFRS 12 Disclosure of Interests in Other Entities required additional disclosures in these consolidated financial statements (Note 7). Application of afore-mentioned standards had neither significantly affected the Group's financial position nor its results.

A number of new Standards, amendments to Standards and Interpretations have been issued that are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

October 2010. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early. The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable. The new amendments are not expected to have a significant effect on the consolidated financial statements of the Group.

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively. The new amendments are not expected to have a significant effect on the consolidated financial statements of the Group.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13. The new amendments are not expected to have a significant effect on the consolidated financial statements of the Group.

IFRIC 21 Levies provides guidance on accounting for levies in accordance with the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 Income taxes, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted. The new amendments are not expected to have a significant effect on the consolidated financial statements of the Group.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates and judgments. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

Should the useful life of the oil pipeline increase by 10 years, the profit for the year ended 31 December 2012 would be RUB 8,776 higher (the year ended 31 December 2011: RUB 8,562) as a result of decrease of depreciation expenses.

Dismantlement provision

As at 31 December 2013 the Group revised the assumption used to calculate the provision for dismantlement of the existing network of oil pipelines and oil product pipelines, according to which it was previously assumed that over the useful life the same amount of kilometers of pipelines will be dismantled each year. Analysis of the practice accumulated till 2013 for replacing and removing oil and oil product pipelines showed that the actual length of the dismantled oil and oil product pipelines in the analyzed periods did not correspond to previously estimated kilometers of pipelines. This was due to the fact that the pipeline network is under regular diagnostics, maintained properly, periodically upgraded and reconstructed, which leads to the extension of its useful life. Also, as at the reporting date the Group has no plans for removal and as a consequence for dismantling the existing network of oil pipelines and oil product pipelines at least until the end of its useful life. Thus, the calculation of the dismantlement provision was based on the assumption that the removal of the entire length of the existing network of oil pipelines and oil product pipelines would be performed in the end of its useful life.

Group creates provisions for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometer of removal.

Changes in this assumption or assumptions with regard to expected costs, technical change, and discount rate may result in adjustments to the established provisions, expenses and assets.

Should the average current cost per kilometre of oil pipeline removal increase/(decrease) by 10%, the profit for the period in year ended 31 December 2013 would be RUB 561 lower/(higher) (the year ended 31 December 2012: RUB 921) due to changes of depreciation and interest expenses.

Should the useful life of the oil pipeline increase by 10 years, the profit for the year ended 31 December 2013 would be RUB 864 higher (the year ended 31 December 2012: RUB 1,588) as a result of decrease of depreciation and interest expenses.

The Group’s estimates for provisions for liabilities and charges are based on currently available facts and the Group’s estimates of the ultimate outcome or resolution of the liability in the future. Actual results may differ from the estimates, and the Group’s estimates can be revised in the future, either negatively or positively, depending upon the outcome or expectations based on the facts surrounding each exposure.

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

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2013						
Cost	157,566	1,037,518	654,543	100,647	124,206	2,074,480
Accumulated depreciation and impairment	(40,355)	(313,166)	(266,812)	-	-	(620,333)
Net book value at 1 January 2013	**117,211**	**724,352**	**387,731**	**100,647**	**124,206**	**1,454,147**
Depreciation	(4,659)	(42,225)	(58,599)	-	-	(105,483)
Additions (including prepayments)	3,482	-	-	2,153	228,039	233,674
Transfers from assets under construction	9,319	52,680	59,795	-	(121,794)	-
Change in provision for impairement of property, plant and equipment	-	(40)	(153)	-	-	(193)
Net change in dismantlement provision (see Note 17)	-	(52,707)	-	-	41	(52,666)
Reclassification of cost	(21,026)	6,479	14,547	-	-	-
Reclassification of accumulated depreciation	5,655	(2,148)	(3,507)	-	-	-
Disposals/retirements at cost	(862)	(5,290)	(3,141)	(538)	(18)	(9,849)
Accumulated depreciation on disposals/retirements and impairment	393	4,307	3,390	-	-	8,090
Net book value at 31 December 2013	**109,513**	**685,408**	**400,063**	**102,262**	**230,474**	**1,527,720**
At 31 December 2013						
Cost	148,479	1,038,640	725,591	102,262	230,474	2,245,446
Accumulated depreciation and impairment	(38,966)	(353,232)	(325,528)	-	-	(717,726)
Net book value at 31 December 2013	**109,513**	**685,408**	**400,063**	**102,262**	**230,474**	**1,527,720**

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

6 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 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	(4,679)	(36,942)	(46,086)	-	-	(87,707)
Additions (including prepayments)	-	-	-	16,547	194,630	211,177
Transfers from assets under construction	27,371	243,284	157,440	-	(428,095)	-
Additional impairment provision	-	617	1	-	-	618
Net change in dismantlement provision (see Note 17)	-	(10,781)	-	-	(1,160)	(11,941)
Disposals/retirements at cost	(598)	(3,062)	(2,123)	(402)	-	(6,185)
Accumulated depreciation on disposals/retirements and impairment	343	2,542	1,799	-	-	4,684
Net book value at 31 December 2012	**117,211**	**724,352**	**387,731**	**100,647**	**124,206**	**1,454,147**
At 31 December 2012						
Cost	157,566	1,037,518	654,543	100,647	124,206	2,074,480
Accumulated depreciation and impairment	(40,355)	(313,166)	(266,812)	-	-	(620,333)
Net book value at 31 December 2012	**117,211**	**724,352**	**387,731**	**100,647**	**124,206**	**1,454,147**

Property, plant and equipment and assets under construction as at 31 December 2013 are presented net of impairment provision of RUB 4,654 (as at 31 December 2012 – net of impairment provision of RUB 4,782), against specific pipeline assets and machinery.

Losses from disposal of fixed assets in the amount of RUB 1,759 and RUB 1,501 for the years ended 31 December 2013 and 31 December 2012 respectively, are included in other expenses in the consolidated statement of comprehensive income.

Linefill represents RUB 94,765 of crude oil and RUB 7,497 of oil products as at 31 December 2013 (as at 31 December 2012 – RUB 93,431 of crude oil and RUB 7,216 of oil products).

During the year ended 31 December 2013, borrowing costs in the amount of RUB 2,389 were capitalised as part of cost of assets under construction (for the year ended 31 December 2012 – RUB 7,389) including interests to be capitalised in the amount of RUB 3,911 less interest income on the temporary investment of borrowings in the amount of RUB 2,798 as disclosed in Note 21.

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

7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In September-October 2013 the Group acquired further 10.52% shares of OAO Novorossiysk Commercial Sea Port ("NCSP") for RUB 8,104. As a result, the Group increased its interest in NCSP from 25.05% to 35.57%.

In March 2012 the Group acquired a 26% interest 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.

Carrying amount of investment in associates and jointly controlled entities in amount of RUB 31,583 as at 31 December 2013 (RUB 38,622 - at 31 December 2012) is shown net of impairment provision of RUB 15,898 as at 31 December 2013 (RUB 1,715 - at 31 December 2012), including the amount of provision in Latvian lat that was LVL 29,729 thousand at 31 December 2013 and LVL 29,729 thousand at 31 December 2012.

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

	31 December 2013	31 December 2012
Current assets	24,755	20,192
including cash and cash equivalents	18,793	*13,371*
Non-current assets	220,334	225,251
Current liabilities	(19,732)	(6,628)
including current financial liabilities	(15,309)	*(3,816)*
Non-current liabilities	(82,062)	(91,172)
including non-current financial liabilities	(73,087)	*(80,541)*
Total net assets	143,295	147,643
Share in net assets	**45,576**	**38,622**
Impairement of investment	**(13,993)**	**-**
Carrying value of investment	**31,583**	**38,622**

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue	74,323	76,622
Interest expense	4,135	4,479
Current income tax expense	1,616	4,054
Profit	(7,759)	15,251
Other comprehensive income	(631)	-
Total comprehensive income	(8,390)	15,251
Share of comprehensive income	**(1,025)**	**3,938**
Dividends received	**(536)**	**(2,469)**

The most significant share in the net assets (more than 90% as at 31 December 2013 and as at 31 December 2012), revenue (about 40% as at 31 December 2013 and more than 40% as at 31 December 2012) and profit (more than 50% as at 31 December 2013 and as at 31 December 2012) is attributable to NCSP. The estimated effective share of the Group in NCSP based on share price at MICEX amounted to RUB 19,388 (RUB 13,847 – as at 31 December 2012). The main operating activities of NCSP and its subsidiaries are the provision of stevedore and supporting services of the port as well as servicing of sea ships.

As a result of significant decline in the share market price of NCSP as at the reporting date and its continuing decline after the reporting date the Group recognised impairment loss of the equity-accounted investee in the amount of RUB 13,993. The estimation of the recoverable amount of investment was based on assessment of its value in use, and the following assumptions were used – the forecast period of 5 years, the discount rate of 10.5%, growth rate after the forecast period of 2%.

8 OTHER FINANCIAL ASSETS, INCLUDING DERIVATIVES

As at 31 December 2013 other non-current financial assets include:

– loan to Omirico Ltd was issued in January 2011. Loan amounts to USD 173.5 million (RUB 5,221 at the CBR exchange rate effective at the issuance date), with the carrying value of RUB 5,679 (at the CBR exchange rate as at 31 December 2013). Interest rate is 5.27% per annum. The loan is due in 5 years. The loan and interest accrued should be paid at the date of repayment;

– non-interest-bearing notes which are repayable on demand but not earlier than June 2015. They were purchased by the Group in December 2013 for a consideration of USD 399 (RUB 13,257 at the CBR exchange rate effective at the purchase date), nominal value of USD 411, carring value of RUB 13,056 (at the CBR exchange rate effective at the purchase date).

As at 31 December 2013 other current financial assets mainly include:

– Non-interest-bearing notes which are repayable on demand but not earlier than in January-November 2014, which were purchased by the Group in 2013 for a consideration of USD 5,830 (RUB 184,020 at the CBR exchange rate effective at the purchase date), nominal value of USD 5,987 million, carrying value of RUB 192,455 (at the CBR exchange rate as at 31 December 2013);

– Interest-bearing notes which are repayable in January-October 2014 purchased by the Group during 2013 for USD 634 (RUB 19,892 at the CBR exchange rate effective at the purchase date), with carrying value of RUB 20,737 (at the CBR exchange rate as at 31 December 2013);

– Non-interest-bearing notes which are repayable on demand but not earlier than December 2014, which were purchased by the Group in December 2012 for a consideration of RUB 34,000, nominal value of RUB 40,744, carrying value of RUB 36,298 as at 31 December 2013;

– Interest-bearing notes repayable in May 2014, which were purchased by the Group in May 2013 for RUB 2,500;

– Deposits in US Dollars in the amount of USD 1,490 repayable during 2014 with carrying value of RUB 48,770 (at the CBR exchange rate as at 31 December 2013);

– Deposits in the amount of RUB 126 repayable during 2014.

As at 31 December 2012 other financial assets include:

– loan to Omirico Ltd was issued in January 2011. Loan amounts to USD 173.5 million (RUB 5,221 at the CBR exchange rate effective at the issuance date), with the carrying value of RUB 5,270 (at the CBR exchange rate as at 31 December 2012). Interest rate is 5.27% per annum. The loan is due in 5 years. The loan and interest accrued should be paid at the date of repayment;

– non-interest-bearing notes repayable on demand but not earlier than December 2014, purchased by the Group in December 2012 for RUB 34,000, nominal value of RUB 40,744 and with carrying value of RUB 34,037 as at 31 December 2012.

As at 31 December 2012 other current financial assets mainly include:

– Non-interest-bearing notes which are repayable on demand but not earlier than in January-December 2013, which were purchased by the Group in 2012 for a consideration of USD 6,445 (RUB 203,626 at the CBR exchange rate effective at the purchase date), nominal value of USD 6,773 million, carrying value of RUB 198,591 (at the CBR exchange rate as at 31 December 2012);

– Interest-bearing notes which are repayable in March 2013, which were purchased by the Group in March 2012 for USD 140 (RUB 4,064 at the CBR exchange rate effective at the purchase date), carring value of RUB 4,264 (at the CBR exchange rate as at 31 December 2012);

– Interest-bearing notes which are repayable in December 2013, which were purchased by the Group in December 2012 for RUB 4,000;

– Deposits in Russian roubles for a total amount of RUB 6,618 with maturity dates during 2013.

The afore-mentioned notes were mainly purchased from organistations under control or significant influence of the state.

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

Derivatives

During 2013 in order to reduce the adverse effects associated with decreasing of exchange rate of the US dollar the Group the Group has simultaneously purchased put options and sold written call options for the total amount of USD 4,297 with the exercise dates during March 2013 - October 2014 period and with carrying value of RUB 90. The Group qualifies these contracts as financial instruments at fair value through profit and loss as at 31 December 2013.

In January-February 2012 in order to reduce the adverse effects associated with decreasing of exchange rate of the US dollar the Group the Group has simultaneously purchased put options and written call options for the total amount of USD 1,300 million with the exercise dates during June-October 2012 period. The Group qualifies these contracts as financial instruments at fair value through profit and loss.

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.

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

9 INVENTORIES

	31 December 2013	31 December 2012
Materials and supplies	18,618	19,104
Sundry goods for resale	9,265	6,503
Other items	-	16
	27,883	**25,623**

Materials and supplies are presented net of provisions for obsolescence of RUB 143 as at 31 December 2013 (as at 31 December 2012 – RUB 138). Materials are primarily used for repeirment and maintenance of pipeline equipment.

Sundry goods for resale, including oil and oil products, are presented net of impairment provision of RUB 2 as at 31 December 2013 (as at 31 December 2012 – RUB 1).

10 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	31 December 2013	31 December 2012
Financial assets		
Other long-term receivables	2,084	877
Total long-term receivables	**2,084**	**877**

	31 December 2013	31 December 2012
Short-term receivables		
Financial assets		
Trade receivables	20,233	22,084
Other receivables	15,077	9,366
less: provision for doubtful debts	(3,335)	(3,130)
Total financial assets in short-term receivables	**31,975**	**28,320**
Non-financial assets		
Prepayments and advances and other non-financial receivables	12,659	11,488
Total receivables	**44,634**	**39,808**

As at 31 December 2013 and 31 December 2012 other accounts receivable include advances issued for capital construction which are currently subject to legal proceedings due to non-fulfilment of works under the contract, interest receivable related to temporarily available cash balances with banks and receivables related to insurance. The provision for doubtful debt on other receivable primarily consists of amounts provided against advances issued for capital construction which are currently subject to legal proceedings due to non-fulfilment of works under the contract.

The provision for impairment of accounts receivable was calculated based on an analysis of collectability. The movement of the provision is shown in the table below:

	2013		2012	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January	**13**	**3,117**	**10**	**3,630**
Reversal of provision	(7)	(241)	(6)	(818)
Accrued provision	94	359	9	305
As at 31 December	**100**	**3,235**	**13**	**3,117**

Management determines the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows.

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

10 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS (continued)

According to the analysis of accounts receivable in respect to the payment dates the Group has the following overdue balances not included in the provision for accounts receivable as at 31 December 2013 and 2012:

Outstanding period	31 December 2013 Trade receivables	31 December 2013 Other receivables	31 December 2012 Trade receivables	31 December 2012 Other receivables
Less than 90 days	58	156	138	273
More than 90 days but less than 365 days	24	38	75	158
Over 365 days	50	52	113	178
	132	246	326	609

Management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections and other non-cash settlements, and therefore the recorded value of accounts receivable approximates their fair value.

Breakdown of accounts receivable by currency is presented in the tables below:

Currency	31 December 2013 Trade receivables	31 December 2013 Other receivables	31 December 2013 Total receivables	31 December 2012 Trade receivables	31 December 2012 Other receivables	31 December 2012 Total receivables
Russian roubles	6,036	11,504	17,540	9,213	5,866	15,079
USD	14,080	281	14,361	12,848	360	13,208
Other	17	57	74	10	23	33
	20,133	11,842	31,975	22,071	6,249	28,320

VAT assets

	31 December 2013	31 December 2012
Recoverable VAT related to construction projects	4,689	40,747
Recoverable VAT related to ordinary activity	47,533	43,347
Total VAT assets	**52,222**	**84,094**
Less: short-term VAT	(52,170)	(84,059)
Long-term VAT	**52**	**35**

11 CASH AND CASH EQUIVALENTS

	31 December 2013	31 December 2012
Balances in Russian roubles	36,129	38,461
Balances in US dollars	67,655	44,405
Balances in Euro	809	1,596
Balances in other currencies	149	55
	104,742	84,517

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain established requirements. As at 31 December 2013 and 31 December 2012, a significant portion of cash was placed with banks, which are under common control or significant influence of the state (34% and 35% correspondingly).

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

12 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital	31 December 2013			31 December 2012		
	Number of shares	Historical cost	Inflated cost	Number of shares	Historical cost	Inflated cost
Authorised, issued and fully paid shares of par value RUB 1 each						
Ordinary:	5,546,847	5.6	231	5,546,847	5.6	231
Preferred:	1,554,875	1.5	77	1,554,875	1.5	77
	7,101,722	**7.1**	**308**	**7,101,722**	**7.1**	**308**

The carrying value of the share capital as at 31 December 2013 and as at 31 December 2012 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

The difference of RUB 13,080,359 thousand between the historic IFRS book value of the Company's share in Transnefteproduct Group net assets (amounting to RUB 39,473,636 thousands) and the nominal value of the ordinary shares issued and the share premium (RUB 52,553,995 thousands including share premium of RUB 52,553,113 thousand), has been recorded as merger reserve within equity.

The Russian Federation, through the Federal Agency for the Management of State Property, holds 100% of the ordinary shares of the Company.

Rights attributable to preferred shares

Holders of preferred shares shall receive dividends pursuant to the authorization of dividend payments at the general meeting of shareholders. The amount of dividends to be paid on preferred shares is established as 10 percent of the net profits of the Company prepared in accordance with Russian Accounting Standards (RAS) 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 determination 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;
- in other cases provided for by acting legislation of the Russian Federation.

Dividends

In June 2013 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2012:

	Russian roubles per share	Total
Ordinary shares	685.10	3,800
Preferred shares	685.10	1,065
		4,865

The whole amount of dividends was paid in August 2013. In June 2012 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2011:

	Russian roubles per share	Total
Ordinary shares	301.31	1,671
Preferred shares	716.58	1,113
		2,784

The whole amount of dividends was paid in August 2012.

Distributable profits

The statutory accounting reports of the Company are the basis for their respective profit distribution and other appropriations. The statutory profit of the Company was RUB 11,260 for the year ended 31 December 2013 (RUB 10,652 for the year ended 31 December 2012).

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

13 ACQUISITION AND SALE OF SUBSIDIARIES

In September 2013 the Group acquired 100% share of OOO Avesta and co for USD 110 (RUB 3,510 at the CBR exchange rate at acquisition date). The main asset of Avesta and Co is the office building which is to be used for the Group's purposes. The Group classified the acquisition as purchase of an asset and attributed the purchase consideration to this asset.

In Septeber 2013 OAO AK Transneft held an open tender for sale of shares of ZAO SK Transneft. The winner of the tender for 98.9 per cent of the shares of ZAO SK Transneft offered RUB 9,396. The deal was closed in the 4th quarter of 2013. According to the agreement the significant part of consideration is to be received by the end of 2014. Due to the fact that ZAO SK Transneft does not represent a separate major line of business for the Group its results of operations are not presented as discontinued operations.

Assets and liabilities of ZAO SK Transneft as at disposal date are shown in the table below:

Property, plant and equipment	48
Receivables and prepayments	1,317
Deposits	7,432
Cash and cash equivalents	5,792
Other assets	2,259
Payables	(683)
Accruals	(9,499)
Other liabilities	(20)
Total net assets	6,646

14 NON-CONTROLLING INTERESTS

The disclosure below presents information of the subsidiary with significant non-controling interest:

Company name	Type of activity	Country of incorporation	Non-controling interest 2013	2012
OAO SZMN	oil transportation	Russia	36%	36%

Aggregated financial information relating to OAO SZMN presented in accordance with IFRS including consolidation adjustments but without elimination of intercompany operations between companies of the Group was as following:

	2013	2012
Revenue	30,974	26,857
Profit	8,504	3,714
Profit of non-controlling interests	3,062	1,337
Other recognised income	65	(91)
Total recognised income	**8,570**	**3,623**
Total recognised income relating to non-controlling interests	3,085	1,304
Assets	73,173	69,330
Liabilities	7,741	12,468
Net assets	**65,432**	**56,862**
Net assets of non-controlling interests	23,556	20,470
Cash flows from operating activities	11,219	8,849
Cash flows used in investing activities	(11,379)	(7,700)
Cash flows from/(used in) financing activities	142	(1,129)
Net (decrease)/increase in cash and cash equivalents	(18)	20
Dividends paid to non-controlling interests for the period	-	-

In August 2013 the Group acquired further 24.5% and 13.8% shares of OAO Uralsibnefteprovod and OAO Uraltransnefteproduct for RUB 10,438 and RUB 2,112 accordingly, which were paid in cash. As a result the Group's interest in OAO Uralsibnefteprovod and OAO Uraltransnefteproduct increased from 75.5% and 86.2% accordingly to 100%. As at the date of acquisition the book value of net assets of these subsidiaries in the Group's consolidated financial statements amounted to RUB 72,763. The Group recognized a decrease in non-controlling interests in the amount of RUB 16,915 and an increase in retained earnings amounting to RUB 4,365.

As at 31 December 2012 other non-controlling interests were mainly presented by shares owned by the Ministry of Land and Property Relations of the Republic of Bashkortostan (24.5% of OAO Uralsibnefteprovod, 13.8% of OAO Uraltransnefteproduct) and ZALANA COMPANY LIMITED (49.96% of OAO Energoterminal).

Shares in other companies are disclosed in Note 22.

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

14 NON-CONTROLLING INTERESTS (continued)

In May 2012 the Group acquired the additional share of 49% of OAO VOSTOKNEFTETRANS for the consideration of RUB 3,600 which was paid out in cash. The acquisition resulted in increase of a total share in OAO VOSTOKNEFTETRANS 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 7,252. The Group recognized a decrease in non-controlling interests in the amount of RUB 3,553 and an decrease in retained earnings amounting to RUB 47. In October 2013 OAO VOSTOKNEFTETRANS was liquidated and its assets were transferred to shareholders.

15 LOANS AND BORROWINGS

	31 December 2013	31 December 2012
Total loans and borrowings	580,558	569,634
Less: current loans and borrowings and current portion of non-current loans and borrowings	(95,965)	(25,531)
	484,593	**544,103**
Maturity of non-current loans and borrowings		
Between one and five years	257,307	281,042
After five years	227,286	263,061
	484,593	**544,103**

Fair values of current loans and borrowings did not differ significantly from their carrying amounts as at 31 December 2013 and 31 December 2012. Fair values of loans and borrowings with floating interest rate did not differ materially from their carrying amounts as at 31 December 2013 and 31 December 2012.

Type of bonds	Interest rate	Currency	Carrying amounts 31 December 2013	Carrying amounts 31 December 2012	Fair value 31 December 2013	Fair value 31 December 2012
Non-convertible interest-bearing documentary	Floating	RUB	135,000	135,000	141,266	142,713
Eurobonds	Fixed	USD	76,914	89,600	84,959	101,661

Fair value of financial liabilities was measured by referring to market quotations and in accordance with fair value hierarchy the Group classified them as Level 1.

Type of bonds	Date of issue	Years to maturity	Currency	Interest rate, %	Carrying amount 31 December 2013	Carrying amount 31 December 2012
Eurobonds	March 2007	7	USD	5.67	42,548	39,485
Eurobonds	August 2008	5	USD	7.70	-	18,224
Eurobonds	August 2008	10	USD	8.70	34,366	31,891
Non-convertible interest-bearing documentary	June-October 2009	10*	RUB	Floating, depending on CBR's REPO rate	135,000	135,000
Non-convertible interest-bearing documentary	Decmber 2012	3**	RUB	7.50 (1st-4th coupons)	34,000	34,000
Loan agreement with China Development Bank Corporation	February 2009	20***	USD	Floating-LIBOR	327,292	303,727
Loan agreement with OOO Latrostrans	April 2013	2	USD	Floating-LIBOR	663	-

* earlier redemption possibility in 2015

** earlier redemption on offer in 2014

*** equal instalments during 5 years after attraction.

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

15 LOANS AND BORROWINGS (continued)

The proceeds from all Eurobonds issues are used to finance the construction of the Eastern Siberia – Pacific Ocean pipeline or for the refinancing of current borrowings, obtained for the same purpose.

The loan proceeds from China Development Bank Corporation was used for the construction of crude oil pipeline infrastructure, including construction of the crude oil pipeline from Skovorodino to the border of the People's Republic of China and general corporate purposes.

In October 2007 the Group entered into renewal loan agreement with a credit limit of RUB 145,000 with Sberbank Russia till 2014 to finance the construction of the Eastern Siberia – Pacific Ocean pipeline. There were not any amounts due under this agreement as at 31 December 2013 and 31 December 2012.

Collateral

All borrowings and loans of the Group, except loan received from China Development Bank Corporation, are unsecured as at 31 December 2013 and 31 December 2012.

In February 2009 as collateral for the loan from China Development Bank Corporation the Company signed a contract for the term of 20 years for the annual supply of 6 mln. tons of crude oil to the People's Republic of China starting from 1 January 2011. For the fulfillment of this obligations, a contract was signed with OAO NK Rosneft in April 2009 for the supply of corresponding volumes of crude oil to the Company.

16 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Deferred tax liabilities and assets consist of the following:

	1 January 2013	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	Changes in the composition of the Group	31 December 2013
Deferred tax liabilities:					
Carrying value of property, plant and equipment in excess of tax base	(60,328)	6,706	-	-	(53,622)
Changes in the Group's structure	-	(4,014)	-	-	(4,014)
Other	(418)	170	(14)	(50)	(312)
	(60,746)	**2,862**	**(14)**	**(50)**	**(57,948)**
Deferred tax assets:					
Provisions against inventories, receivables and accruals	825	444	-	-	1,269
Tax loss carry-forwards	3,983	37	-	-	4,020
Provisions for dismantlement and other expenses	16,638	(9,283)	-	-	7,355
	21,446	**(8,802)**	**-**	**-**	**12,644**
Net deferred tax liability	**(39,300)**	**(5,940)**	**(14)**	**(50)**	**(45,304)**

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

16 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

	1 January 2012	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	31 December 2012
Deferred tax liabilities:				
Carrying value of property, plant and equipment in excess of tax base	(60,898)	570	-	**(60,328)**
Other	(622)	195	9	**(418)**
	(61,520)	765	9	(60,746)
Deferred tax assets:				
Provisions against inventories, receivables and accruals	499	326	-	**825**
Tax loss carry-forwards	6,920	(2,937)	-	**3,983**
Provisions for dismantlement and other expenses	17,008	(370)	-	**16,638**
	24,427	(2,981)	-	21,446
Net deferred tax liability	**(37,093)**	**(2,216)**	**9**	**(39,300)**

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 20% for year ended 31 December 2013 and 31 December 2012.

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

	Year ended 31 December 2013	Year ended 31 December 2012
Profit before income tax	212,012	234,644
Theoretical income tax expense at 20%	42,402	46,929
Increase due to:		
Changes in the recognised deductible temporary differences (due to write-offs or recovery of deferred tax assets)	-	2,983
Changes in the Group's structure	7,812	-
Items not taxable for income tax purposes	(230)	(741)
Items not deductible for income tax	4,011	1,083
Actual income tax expense	**53,995**	**50,254**

The Group does not recognise a deferred tax liability in respect of RUB 196,309 as at 31 December 2013 (as at 31 December 2012 - RUB 179,353) of taxable temporary differences associated with its investments in subsidiaries as the Group is able to control the timing of their reversal and does not believe they will reverse in the foreseeable future.

Since 1 January 2012 OAO AK Transneft and almost all of its significant subsidiaries merged into the consolidated taxpayers' group for the purpose of calculation and payment of income tax.

According to the Russian tax legislation the amounts of tax losses generated by a taxpayer before joining a consolidated taxpayers' group are not available for offset against taxable profits of other participants of the consolidated taxpayers' group. However, if a taxpayer leaves a consolidated taxpayers' group, such losses again become available for offset. The expiration period of the losses is extended to take account of any time spent within a consolidated taxpayers' group. Due to creation of the consolidated taxpayers' group, the Group has written-off in the year ended 31 December 2012 deferred tax assets amounted RUB 2,983 which was generated in previous reporting periods.

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

17 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2013	31 December 2012
Dismantlement provision	29,234	78,266
Pension provision	8,939	10,153
Other provisions	5,564	4,179
	43,737	**92,598**

Dismantlement provision

As at 31 December 2013 the Group revised the assumption used to calculate the provision for dismantlement of the existing network of oil pipelines and oil product pipelines, according to which it was previously assumed that over the useful life the same amount of kilometers of pipelines will be dismantled each year. Analysis of the experience for replacing and removing oil and oil product pipelines showed that the actual length of the dismantled oil and oil product pipelines in the analyzed periods did not correspond to previously estimated kilometers of pipelines. This was due to the fact that the pipeline network is under regular diagnostics, maintained properly, periodically upgraded and reconstructed, which leads to the extension of its useful life. Also, as at the reporting date the Group has no plans for removal and as a consequence for dismantling the existing network of oil pipelines and oil product pipelines at least until the end of its useful life. Thus, the calculation of the dismantlement provision was based on the assumption that the removal of the entire length of the existing network of oil pipelines and oil product pipelines would be performed in the end of its useful life. Group creates provisions for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometer of removal.

The calculation of oil pipeline provision is based on the assumption that dismantlement activities are expected to cover all length of the pipelines at the end of their useful lives. 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 7.90% per year (31 December 2012 – 7.34% per year).

	2013	2012
At 1 January	**78,266**	**84,900**
Provision on additions to property, plant and equipment	683	742
Changes in estimates adjusted against property, plant and equipment	(53,349)	(12,683)
Utilised in the period	(2,105)	(1,707)
Unwinding of the present value discount	5,777	7,180
Reversal of provision	(38)	(166)
At 31 December	**29,234**	**78,266**

Should the discount rate applied in calculation of dismantlement provision increase/(decrease) by 1%, dismantlement provision would (decrease)/increase by (RUB 7,215) / RUB 9,820 as at 31 December 2013 ((RUB 9,631) / RUB 11,720 as at 31 December 2012).

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.

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

17 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Reconciliation of opening and closing present value of the defined benefit obligation is as follows:

Movement in defined benefit obligation	2013	2012
At 1 January	**10,153**	**7,264**
Interest cost	707	618
Service cost	327	335
Actuarial (gain)/loss	(1,245)	1,291
Past service cost	-	1,686
Benefits paid	(1,003)	(1,041)
At 31 December	**8,939**	**10,153**

Service cost, past service cost amounting to RUB 327 and RUB 2,021 for the year ended 31 December 2013 and 2012, respectively, are included in staff costs in the consolidated statement of comprehensive income, interest expense in the amount of RUB 707 and RUB 618 for the year ended 31 December 2013 and 2012, respectively, are included in interest expenses.

Actuarial gains amounting to RUB 1,245 for the year ended 31 December 2013 are included in other comprehensive income and total actuarial losses amounted to RUB 46 as at 31 December 2013. Actuarial losses amounting to RUB 1,291 for the year ended 31 December 2012 were included in other comprehensive income and total actuarial losses amounted to RUB 1,291 as at 31 December 2012.

Assumptions regarding future mortality are based on published statistics and mortality tables. The retirement age in Russia is currently 60 years for men and 55 years for women.

The amounts associated with pension provision recognised in the statement of financial position are as follows:

	31 December 2012	31 December 2011
Present value of provision (unfunded)	8,939	10,153
Liability	8,939	10,153
Unrecognised past service (cost)/credit	-	-

Principal actuarial assumptions used (expressed as weighted average):

	31 December 2013	31 December 2012
Average nominal discount rate	8.04%	6.96%
Future salary increases (nominal)	3.90%	4.89%
Expected long-term inflation rate	2.90%	3.89%

As at 31 December 2013, if the future estimated inflation rate had increased by 1%, the amount of the Group pension provisions would have been RUB 754 higher.

As at 31 December 2013, if the average nominal discount rate had decreased by 1%, the amount of the Group pension provisions would have been RUB 724 higher.

18 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	31 December 2013	31 December 2012
Trade payables	38,756	30,459
Other payables	9,999	9,192
Total financial payables	**48,755**	**39,651**
Advances received for oil and oil product transportation services	42,013	40,161
Accrued expenses	26,026	31,356
VAT output tax payable	8,808	9,334
Other taxes payable	2,756	1,759
Total payables	**128,358**	**122,261**

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

18 TRADE AND OTHER PAYABLES, INCLUDING DERIVAITES (continued)

Breakdown of accounts payable by currency is presented in the table below:

Currency	31 December 2013			31 December 2012		
	Trade payables	Other payables	Total payables	Trade payables	Other payables	Total payables
Russian roubles	30,206	8,374	38,580	22,780	7,678	30,458
USD	8,523	1,154	9,677	7,677	1,257	8,934
Euro	-	441	441	-	254	254
Other	27	30	57	2	3	5
	38,756	**9,999**	**48,755**	**30,459**	**9,192**	**39,651**

Trade payables include payables for purchases of property, plant and equipment in amount RUB 22,762 as at 31 December 2013 and RUB 16,510 as at 31 December 2012.

Accrued expenses mainly include amounts of unused vacation allowance, provision for the annual bonus of the reporting year.

Derivatives

In December 2013 for trading purposes the Group had simultaneously purchased barrier put options with a delayed condition and sold barrier call options with a delayed condition for the total amount of USD 1,999 with the exercise date in September 2015.

The Group classified this contract as a derivative recognised at fair value through profit and loss. Fair value measurement is based on Black-Scholes model, the inputs for which are observable in the market except for assumed volatility measure and the Group classified them to Level 3 in accordance with the hierarchy of fair value.

At the contract date the excess of fair value of the liability under mentioned derivatives over fair value of the premium receivable under the contract amounting to RUB 563 was recognised as other financial asset.

As at 31 December 2013 the carrying value of the liability amounted to RUB 1,836.

The assumed volatility measure used for calculation of the fair value of the derivative at the contract date and at the reporting date was 9.3%. Should the measure of the volatility increase / (decrease) by 1% while other inputs unchanged the fair value of the liability would increase / (decrease) by RUB 629 and RUB 580 respectively.

Should USD to RUB exchange rate increase / (decrease) by 1 rouble while other inputs unchaged the fair value of the liability would increase / (decrease) by RUB 1,024 and RUB 724 respectively.

19 REVENUE

	Year ended 31 December 2013	Year ended 31 December 2012
Revenues from crude oil transportation services		
Domestic tariff	216,074	209,574
Export tariff	290,610	284,968
Total revenues from crude oil transportation services	**506,684**	**494,542**
Revenues from oil products transportation services	42,580	33,371
Revenues from crude oil sales	165,326	166,275
Revenues from oil products sales	6,569	14,285
Revenues from oil compounding	5,310	6,096
Other revenues	23,148	17,806
	749,617	**732,375**

Revenues from crude oil sales for the year ended 31 December 2013 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 25).

19 REVENUE (continued)

The Group revenues from crude 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 RUB 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 denominated in RUB and payable in RUB and revised periodically after approval by the Federal Tariff Agency ("export tariff");
- revenues for transportation of transit crude oil from Azerbaijan to export destinations through the territory of the Russian Federation to the Novorossiysk's port, based on fixed tariff approved by intergovernmental agreement ("export tariff") and paid for in USD;
- revenues for transportation of transit crude oil from Kazakhstan, based on the tariffs which are set by the Federal Tariff Agency and paid for in RUB ("export tariff").

Revenue from oil products transportation includes revenue from oil product transportation in the Russian Federation, in Belarus and in the Ukraine and Kazakhstan.

Revenue from domestic transportation of oil products is formed on the basis of tariffs which are set within limits imposed by government regulations and includes:

- revenue for oil products transportation services in the territory of the Russian Federation and countries of the Customs Union which is based on tariffs set and paid for in RUB;
- revenue for oil products transportation services for export outside the territory of the Russian Federation and countries of the Customs Union at tariffs set and paid for in RUB;

Revenue from oil product transportation in Belarus is formed on the basis of tariffs set in US Dollars by the relevant regulatory body of the Belarusian Republic in compliance with the Treaty between the governments of the Russian Federation and the Belarusian Republic on cooperation in operating oil product pipelines, located on the territory of the Belarusian Republic. These services are paid for in USD.

Revenue from oil product transportation services in the Ukraine is formed on the basis of tariffs set by OAO AK Transneft in US Dollars calculated using the amount of expenses needed for normal operation of oil product transporting companies. These services are paid for in USD.

Revenue from oil product transportation services in the Kazakhstan is formed on the basis of tariffs set by OAO AK Transneft in Kazakh tenge calculated using the amount of expenses needed for normal operation of oil product transporting companies. These services are paid for in RUB at the exchange rate set by CBR at the date of payment.

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

20 OPERATING EXPENSES

	Year ended 31 December 2013	Year ended 31 December 2012
Amortisation and depreciation	102,261	84,197
Staff costs:		
Salaries and pension expense	93,129	84,704
Social Funds contributions	19,600	17,223
Social expenses	3,218	3,272
Energy	32,089	30,951
Transportation of oil using railways	6,515	31,411
Materials	22,009	20,459
Repairs and maintenance services	14,328	11,494
Cost of crude oil sold	89,244	90,182
Customs duties	74,422	75,526
Cost of oil products sold	6,205	13,557
Insurance expense	6,717	5,952
Net change in doubtful debt provision	205	(510)
Net change in impairment provision of property, plant and equipment	193	(445)
Business trip expense	5,996	5,301
Property tax and other taxes other than profit tax	10,153	5,183
Other expenses	12,850	14,130
	499,134	**492,587**

Social Funds contributions include Group expenses in relation to the State Pension Fund, which is a defined contribution plan, for the year ended 31 December 2013 in amount of RUB 15,330 (for the year ended 31 December 2012 – RUB 13,619).

Transportation of oil by using railways comprises transportation of oil by railway from Skovorodino to port Kozmino.

Other expenses comprise of income and expenses from disposal of fixed assets, the gain from oil surplus, expenses on charity, both received and paid penalties, and also other operating income and expenses.

21 INTEREST INCOME AND INTEREST EXPENSE

Interest income	Year ended 31 December 2013	Year ended 31 December 2012
Interest income on cash and cash equivalents	5,380	5,946
Interest income from other financial assets	13,746	8,396
Other interest income	304	342
Total interest income	**19,430**	**14,684**
less interest income on the temporary investment of borrowings	(2,798)	(4,183)
Total interest income recognised in statement of other comprehensive income	**16,632**	**10,501**

Interest expense	Year ended 31 December 2013	Year ended 31 December 2012
Interest expense on borrowing cost	34,096	33,920
Provisions for asset retirement obligations: unwinding of the present value discount	5,777	7,180
Other interest expenses	1,132	626
Total interest expenses	**41,005**	**41,726**
Less capitalised finance costs	(3,911)	(11,572)
Total interest expenses recognised in the statement of other comprehensive income	**37,094**	**30,154**

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

22 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The following are the principal subsidiaries which have been consolidated and associates and jointly controlled entities accounted for using equity method in these consolidated financial statements:

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2013
Subsidiaries, associates and jointly controlled entities "Oil transportation" segment			
OAO Sibnefteprovod	crude oil transportation	Russia	100.0
OAO Chernomortransneft	crude oil transportation	Russia	100.0
OAO MN Druzhba	crude oil transportation	Russia	100.0
OAO Privolzhsknefteprovod	crude oil transportation	Russia	100.0
OAO Transsibneft	crude oil transportation	Russia	100.0
OAO Verkhnevolzhsknefteprovod	crude oil transportation	Russia	100.0
OAO Tsentrsibnefteprovod	crude oil transportation	Russia	100.0
OAO SMN	crude oil transportation	Russia	100.0
OOO Baltnefteprovod	crude oil transportation	Russia	100.0
OAO Uralsibnefteprovod	crude oil transportation	Russia	100.0
OAO SZMN	crude oil transportation	Russia	64.0
OOO Vostoknefteprovod	crude oil transportation	Russia	100.0
OOO Dalnefteprovod	crude oil transportation	Russia	100.0
OAO Giprotruboprovod	project and designed work for oil pipeline	Russia	100.0
OAO Svyaztransneft	technological connection	Russia	100.0
OAO CTD Diascan	diagnostics	Russia	100.0
OAO Volzhsky Podvodnik	diagnostics, repair and maintenance of underwater line	Russia	100.0
ZAO Centre MO	metrological support	Russia	100.0
OOO Spetsmornefteport Primorsk	loading and off-loading	Russia	100.0
OOO TransPress	press	Russia	100.0
OOO TsUP VSTO	constructor of ESPO	Russia	100.0
OOO Transneft Finance	accounting	Russia	100.0
OOO Spetsmornefteport Kozmino	loading of oil and oil products	Russia	100.0
OOO Transneftenergo	electric power transmission	Russia	100.0
OOO Transneft-Servis	port facilities	Russia	100.0
OAO Energoterminal	organisation of cargo	Russia	50.04
OAO SvyaztroyTN	construction	Russia	100.0
OOO DSD	construction of ESPO-2	Russia	100.0
OOO TSD	provision of general construction services	Russia	100.0
OOO Spetsmornefteport Ust-Luga	port facilities	Russia	100.0
OOO Transneft-Logistika	transportation of cargo	Russia	100.0
OOO Transneftstroy	general pipe contractor	Russia	100.0
Fenti Development Limited	financial activity	British Virgin Islands	100.0
OOO Transneft-Terminal	organization of transhipment of crude oil and oil prodructs	Russia	75.0

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

22 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2013
Subsidiaries, associates and jointly controlled entities "Oil transportation" segment			
OOO Rusenergoresurs *	wholesale of electric and heat power	Russia	25.0
OOO TK-BA *	designing and construction of "Burgas – Alexandroupolis" pipeline	Russia	33.34
ZAO Promsfera *	rent	Russia	50.0
OOO Impex-Plus *	wholesale agent	Russia	50.0
OOO Tikhoretsk –Nafta *	cargo handling	Russia	50.0
ZAO Transneft-Servis	crude oil sea and domestic water transportation	Russia	100.0
ZAO MPS	cargo handling	Russia	100.0
ZAO Omega	production of monitoring systems of pipe-lines	Russia	60.0
OOO NII TNN	research	Russia	100.0
OOO TES	transmission of electricity	Russia	100.0
OOO TsRIVIS	development, tuning and implementation of automated management systems	Russia	100.0
OOO Transneft Nadzor	technical and building supervision and control	Russia	100.0
OAO Novorossiysk Commercial Sea Port *	cargo handling	Russia	35.57
OOO PTP *	cargo handling	Russia	35.57
OOO Avesta and Co.	construction of buildings	Russia	100.0
Omirico Ltd. *	financial activity	Cyprus	50.0
Subsidiaries and associates, "Oil product transportation" segment			
OAO Mostransnefteproduct	oil product transportation	Russia	100.0
OAO Yugo-Zapad transnefteproduct	oil product transportation	Russia	100.0
OAO Sredne-VolzhskyTransnefteproduct	oil product transportation	Russia	100.0
OAO Sibtransnefteproduct	oil product transportation	Russia	100.0
ChUP Zapad-Transnefteproduct	oil product transportation	Belarus	100.0
DP PrikarpatZapadtrans	oil product transportation	Ukraine	100.0
OOO Balttransnefteproduct	oil product transportation	Russia	100.0
OAO Ryazantransnefteproduct	oil product transportation	Russia	100.0
OAO Uraltransnefteproduct	oil product transportation	Russia	100.0
OAO AK Transnefteproduct	oil product transportation	Russia	100.0
OOO ChOP STNP	security	Russia	100.0
OAO Trade House Transnefteproduct	integrated storage	Russia	100.0
OAO Telecomnefteproduct	communication services	Russia	100.0
OOO BalttransServis	handling, storage and loading of oil products in Primorsk seaport	Russia	100.0
Rovensky Tsekh Elektrosvyazi	communication services	Ukraine	100.0
ChUP Zapad-Telecomnefteproduct	communication services	Belarus	100.0
OOO LatRosTrans *	oil product transportation	Latvia	34.0

* equity accounted investees or jointly controlled entities

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

22 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The Company is the only founder of non-state pension fund "Transneft" (hereinafter – NPF Transneft), classified as unconsolidated structured entity. As at 31 December 2013 the share of the Company in the share capital of NPF Transneft amounted to RUB 50 (as at 31 December 2012 – RUB 50). The main operating activity of NPF Transneft is non-governmental pension security of the Group's personnel. The amount which the companies of the Group contributed to NPF Transneft in favour of the Group's personnel for the year ended 31 December 2013 was RUB 5,709 (for the year ended 31 December 2012 – RUB 6,741). The Group neither provides any sponsorhip support to NPF Transneft nor carries any risks of losses associated with participation in NPF Transneft.

23 OPERATING LEASES

The Group leases a number of land plots, mainly, owned by local governments under operating lease. Land lease payments are determined by lease agreements and are as follows:

	31 December 2013	31 December 2012
Less than one year	987	936
Between one year and five years	3,946	3,743
After five years	44,397	42,112
Total	**49,330**	**46,791**

The land areas leased by the Group are the territories on which the Group the oil pipeline, the oil product pipeline and other assets are located. Most contracts for land lease are long term and concluded for duration up to 49 years with subsequent prolongation. In accordance with contracts for land lease the land title does not pass. After contract term expiration it can be terminated. The rent paid to the landlord of the land is increased in accordance with the contractual terms at regular intervals, and the Group does not participate in the value of the land, it was determined that substantially all the risks and rewards of the land are with the landlord. As such, the Group determined that the leases are operating leases.

During the year ended 31 December 2013 RUB 535 (2012: RUB 557) was recognised in profit or loss in respect of operating lease.

24 CONTINGENT LIABILITIES, COMMITMENTS 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 outstanding at 31 December 2013, which could have a material adverse effect on the results of operations or financial position of the Group.

25 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 members represented by the Ministry of Energy, other Federal bodies, and independent companies. The Government also appoints the members of the Federal Tariff Agency which sets the tariff rates.

As at 31 December 2013 and 31 December 2012 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, 7% of the shares of the Caspian Pipeline Consortium-R and 7% of the shares of Caspian Pipeline Consortium–K and also 24% of the shares of the Caspian Pipeline Consortium-R and 24% of the shares of Caspian Pipeline Consortium–K. These interests are not recognised in these consolidated financial statements as the Company is acting as an agent on behalf of the Russian Government.

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 banks, which are under common control or significant influence of the state.

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

25 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The Group had the following significant transactions with entities, which are under common control or significant influence of the state:

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue from oil transportation services	231,149	172,839
OAO NK Rosneft and its subsidiaries	203,303	146,821
OAO Gazprom and its subsidiaries	27,354	25,216
Others	492	802
Revenue from oil products transportation services	18,843	10,630
OAO NK Rosneft and its subsidiaries	8,276	2,735
OAO Gazprom and its subsidiaries	10,567	7,895
Purchases of oil (OAO NK Rosneft)	78,417	79,274
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	7,270	21,705
Electricity expenses	426	376
Interest income from other financial assets	10,843	6,966
Transportation expenses	862	-

During the year ended 31 December 2013 and 31 December 2012, Group had following transactions with associates and jointly controlled entities:

	Year ended 31 December 2013	Year ended 31 December 2012
Revenue	2,128	1,777
Purchases of goods and services	31,387	31,185

At the 31 December 2013 and 31 December 2012, Group had following accounts with related parties and associates:

	31 December 2013	31 December 2012
Trade and other receivables	1,443	1,560
Trade and other payables	472	113
Loan issued	5,679	5,270
Loan received	663	-

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 the 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.

	Year ended 31 December 2013	Year ended 31 December 2012
Salaries and bonuses	1,414	1,341
Termination benefits	8	16
Other	11	17
	1,433	**1,374**

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

25 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

Amounts of loans issued to key management personnel were as follows:

	2013	2012
1 January	8	9
Issued	-	-
Repaid	(1)	(1)
31 December	7	8
due for repayment during 1 year	1	1
due for repayment after 1 year	6	7

During the year ended 31 December 2013 the Group contributed to NPF "Transneft in favour of the key management personnel RUB 58 (for 2012 – RUB 245).

Contribution to the Pension Fund Transneft represent transfer to the fund of the present value of future pension values in connection with retirement in accordance with the terms of contracts for non-state pension benefits. These payments will be made when the right to receive the pensions in accordance with established rules of NPF Transneft vest.

Key management personnel for whom information was disclosed in the financial statements include members of the Board of Directors and the Board of OAO AK Transneft, as well as CEOs and their families (including change of management during the reporting periods) of subsidiaries that are considered as the most significant in the implementation of productive activities of the Group.

26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The accounting policies for financial instruments have been applied to the items below:

	Loans and receivables	Available-for-sale financial assets
Assets as per balance sheet		
31 December 2013		
Cash and cash equivalents (Note 11)	104,742	-
Available-for-sale financial assets	-	217
Other non-current financial assets (Note 8)	19,297	-
Other current financial assets (Note 8)	301,001	-
Accounts receivable (trade and other) (Note 10)	31,975	-
	457,015	**217**
31 December 2012		
Cash and cash equivalents (Note 11)	84,517	-
Available-for-sale financial assets	-	241
Other non-current financial assets (Note 8)	39,307	-
Other current financial assets (Note 8)	213,481	-
Accounts receivable (trade and other) (Note 10)	28,320	-
	365,625	**241**

	31 December 2013	31 December 2012
Liabilities as per balance sheet		
Accounts payable (trade and other) (Note 18)	48,755	39,651
Loans and borrowings (Note 15)	580,558	569,634
	629,313	**609,285**

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 risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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 the EURO. The Group does not use foreign exchange or forward contracts. The Group's foreign exchange exposure mainly arises on US dollar and EURO-denominated borrowings, which the Group obtained in 2007-2010 (see Note 15) and US dollar and EURO-denominated cash balances. Assets and liabilities denominated in Ukrainian hryvna or the Belarusian rouble which give rise to foreign currency exchange exposure are insignificant.

As at 31 December 2013, if the US dollar had strengthened/weakened by 10% against the Russian rouble, with all other variables held constant, after tax profit and equity would have been RUB 4,320 lower/higher (for the year ended 31 December 2012 if the US dollar had strengthened/weakened by 10% against the Russian rouble, with all other variables held constant, after tax profit and equity would have been – RUB 13,911 lower/higher), mainly as a result of foreign exchange losses/(gains) on translation of US dollar-denominated borrowings and US dollar-denominated cash balances into Russian roubles.

As at 31 December 2013, if the EURO had strengthened/weakened by 10% against the Russian rouble, with all other variables held constant, after tax profit and equity would have been RUB 30 higher/lower (for the year ended 31 December 2012 if the EURO had strengthened/weakened by 10% against the Russian rouble, with all other variables held constant, after tax profit and equity would have been RUB 134 higher/lower) as a result of foreign exchange losses on translation of EURO-denominated borrowings and EURO-denominated cash balances into Russian roubles.

Interest rate risk

Management has a formal policy of determining how much the Group's exposure should be to fixed or variable rates. At the time of raising new loans or borrowings management uses its judgment, economic feasible and risk assessment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

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

Borrowings received at fixed rates expose the Group to fair value interest rate risk. The Group obtains borrowings from banks at current market interest rates and does not use any hedging instruments to manage its exposure to changes in interest rates. The Group does not account for any of its fixed rate financial assets and liabilities at fair value through the profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit or equity.

Loans and borrowings received by the Group under variable interest rate expose the Company to the risk of changes in the cash flows under loans and borrowings. As the Group receives bank loans for financing its investment projects, the part of borrowing costs are capitalised. An increase of 1% in interest rates for the year ended 31 December 2013 would have decreased equity and profit for the period before income tax by RUB 2,419 (year ended 31 December 2012 – RUB 1,021). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Commodity price risk

The Group's principle activities include technical maintenance, replacement of the existing pipelines and construction of new pipelines. These require annual purchases of a significant number of metal pipes for replacement and construction of new pipelines.

The Group concluded framework agreements with pipes producers, under which the delivery price and delivery dates are not fixed at the moment of signing these agreements. In addition, the Group has no long-term contracts with oil producing companies (except agreement on crude oil delivery with OAO NK Rosneft) and refineries and does not use the additional contracts to manage the risks associated with changes in metal prices and prices for oil and oil product.

Credit risk and compliance with contractual terms and obligations

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

The Group's policy is generally to transact with its customers on a prepayment basis. The Group does not hold or issue financial instruments for hedging or trading purposes and its trade accounts receivable are unsecured. Being a natural monopoly on the Russian oil and oil product pipeline transportation market, Group ensures equal access to the oil and oil product pipeline for all russian oil refining and oil products companies. The majority of the Group's customers are the major oil companies of the Russian Federation including those controlled by the State. The Group has no material concentrations of credit risk or any material past due accounts receivable. Historically, the Group did not have significant bad debts on its trade accounts receivable.

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

26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Credit risk is managed on a Group basis. For certain customers there is no independent rating and therefore Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The credit quality of financial assets that are neither past due nor impaired are assessed with the reference to historical information about counterparties, which are existing customers with no defaults in the past.

The Group's suppliers of assets and services are selected mainly through tenders. The criteria for the bidders include both technical and financial indicators (availability of production facilities, skilled personnel, relevant experience, cost of assets and services etc.) and reliability (financial position, professional and ethical image of the bidders, whether quality control of the assets and services is established). The tender approach is designed to ensure the selection of suppliers with a low risk of failure to discharge their contractual obligations.

An analysis cash and cash equivalents with reference to external credit ratings of credit quality of major banks in which the Group holds cash and cash equivalents is presented in the table below. The relevant credit ratings were published by Moody's Investor Service.

Credit rating	31 December 2013
External credit rating Baa1	3,494
External credit rating Baa2	14,721
External credit rating Baa3	22,582
External credit rating Ba1	18,529
External credit rating Ba3	15,713
External credit rating B2	21,230
External credit rating B3	7,677
Total	**103,945**

Information about credit quality of short-term financial assets (excluding equity securities) is presented in the table below with reference to external credit ratings of related counterparties or instruments (published by Moody's and other rating agencies). The table below uses Moody's rating classification.

Credit rating	31 December 2013
External credit rating Baa1	9,354
External credit rating Baa2	92,718
External credit rating Baa3	109,081
External credit rating Ba1	40,174
External credit rating Ba3	47,650
External credit rating B1	985
External credit rating B2	13,978
External credit rating B3	20
Total	**313,960**

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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.

Offseting and similar agreements

The Group may conclude agreements for purchase and sale with same counterparties in the ordinary course of business. Relevant amounts of receivables and payables are not always available for offsetting in the statement of financial position. This is due to the fact that the Group may not have currently legally enforceable right to offset the recognized amounts, since the right of set-off may be valid only when certain events occur in the future. In particular, in accordance with civil law in force in Russia, the obligation may be settled by offsetting uniform requirements, which are due either not specified or determined by the time on demand.

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

26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

The following are the carrying values of recognised financial instruments under afore-mentioned contracts:

	Trade and other receivables	Trade and other payables
31 December 2013		
Gross amounts	31,975	48,755
Net amounts shown in the statement of financial position	31,975	48,755
Amounts relating to recognised financial instruments which can not be offset	5,798	5,798
Net amount	26,177	42,957

	Trade and other receivables	Trade and other payables
31 December 2012		
Gross amounts	28,320	39,651
Net amounts shown in the statement of financial position	28,320	39,651
Amounts relating to recognised financial instruments which can not be offset	8,682	8,682
Net amount	19,638	30,969

The following are the contractual undiscounted cash flows of financial liabilities, including estimated interest payments:

31 December 2013:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Loans and borrowings	580,558	715,211	121,461	186,233	136,375	271,142
Trade and other payables	48,755	48,755	48,755	-	-	-
	629,313	**763,966**	**170,216**	**186,233**	**136,375**	**271,142**

31 December 2012:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Loans and borrowings	569,634	737,645	52,889	117,313	250,063	317,380
Trade and other payables	39,651	39,651	39,651	-	-	-
	609,285	**777,296**	**92,540**	**117,313**	**250,063**	**317,380**

Fair values

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. The fair value of the trade receivables and payables approximates their carrying amounts at 31 December 2013 and 31 December 2012. The fair values of loans, borrowings are disclosed in Note 15.

Capital 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 and the long-term and short-term debt (long-term and short term borrowings and trade and other payables). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, attract new or repay existing loans and borrowings.

Within the framework of capital management for the purpose of maintaining major debt parameters at the optimal level, the Group's management monitors its key financial indicators, such as total debt/EBITDA, total debt/equity and cash from operating activities/total debt; that allows Group to maintain its credit ratings at a high level, but not less than BBB- by Standard & Poor's and Baa3 on the Moody's scale. The current credit Group's ratings were fixed at the level BBB by Standard & Poor's and Baa1 by Moody's.

There were no changes in the Group's approach to capital management during the reporting period.

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

27 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, 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 Standards (RAS). Tables below present consolidated amounts analysed by Management of the Group. These amounts are calculated under RAR.

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

Segment information for the years ended 31 December 2013 and 31 December 2012 was as follows:

Year ended 31 December 2013	Oil transporta-tion services	Oil products transportation services	Oil sales to China	Other segments and unallocated items	Adjust-ments	Total IFRS
Revenue						
Revenue from sales to third parties	**506,685**	**42,580**	**153,688**	**46,664**	-	**749,617**
Operating expenses	(261,555)	(18,949)	(153,108)	(93,916)	28,394	(499,134)
including depreciation	(115,775)	(3,782)	-	(794)	18,090	(102,261)
Operating profit	**245,130**	**23,631**	**580**	**(47,252)**	**28,394**	**250,483**
Interest income	-	-	-	-	-	16,632
Interest expenses	-	-	-	-	-	(37,094)
Exchange losses, net	-	-	-	-	-	(5,787)
Net change in the fair value of derivatives	-	-	-	-	-	(52)
Profit from disposal of subsidiarie	-	-	-	-	-	2,848
Share of loss from associates and jointly controlled entities						(1,025)
Impairment of equity-accounted investee	-	-	-	-	-	(13,993)
Profit before income tax	-	-	-	-	-	**212,012**
Income tax expense	-	-	-	-	-	(53,995)
Profit for the year	-	-	-	-	-	**158,017**

Year ended 31 December 2012	Oil transporta-tion services	Oil products transportation services	Oil sales to China	Other segments and unallocated items	Adjust-ments	Total IFRS
Revenue						
Revenue from sales to third parties	494,542	33,371	155,134	49,328	-	**732,375**
Operating expenses	(255,273)	(18,833)	(155,379)	(87,345)	24,243	(492,587)
Including depreciation	(96,721)	(3,009)	-	(810)	16,343	(84,197)
Operating profit	**239,269**	**14,538**	**(245)**	**(38,017)**	**24,243**	**239,788**
Interest income	-	-	-	-	-	10,501
Interest expenses	-	-	-	-	-	(30,154)
Exchange gains, net	-	-	-	-	-	10,571
Share of profit from associates and jointly controlled entities	-	-	-	-	-	3,938
Profit before income tax	-	-	-	-	-	**234,644**
Income tax expense	-	-	-	-	-	(50,254)
Profit for the year	-	-	-	-	-	**184,390**

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

27 SEGMENT INFORMATION (continued)

Adjusting items for segment's expenses in the amount of RUB 28,394 for the year ended 31 December 2013 and RUB 24,243 for the year ended 31 December 2012 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Year ended 31 December 2013	Year ended 31 December 2012
Dismantlement provision	1,007	1,386
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"	(19,994)	(16,661)
Financial leasing	-	(229)
Pension liabilities	(676)	1,159
Other operating expenses, net	(12,613)	(15,752)
Others	3,882	5,854
Total adjusting items for segment's expenses	**(28,394)**	**(24,243)**

Geographical information. The Group's most part of assets attributable to reporting segments is primary located in the territory of the Russian Federation which results in the operating activity by each segment being carried out in the territory of the Russian Federation. Geographical information on revenue from external customers is presented based on the customers' country of incorporation; 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 Latvia, Ukraine and Belarus.

Information on revenue allocation by customers' country of incorporation is set out below:

	Year ended 31 December 2013	Year ended 31 December 2012
Russian Federation	566,439	548,160
China	153,688	155,134
Other countries	29,490	29,081
	749,617	**732,375**

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

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

The information about largest customers of the Group is presented below:

	Year ended 31 December 2013	Year ended 31 December 2012
Companies under control of the state	249,992	183,469
China National United Oil Corporation	153,688	155,134
OAO Surgutneftegaz	87,872	83,274
OAO Lukoil	72,053	71,940
OAO TNK-BP Holding*	13,347	60,463
	576,952	**554,280**

* Revenue from OAO TNK-BP Holding is considered as revenue from the companies under control of the Russian Federation starting from the date when OAO TNK-BP Holding was acquired by OAO NK Rosneft.

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