

**OAO AK TRANSNEFT  
IFRS CONSOLIDATED  
INTERIM CONDENSED  
FINANCIAL STATEMENTS  
(UNAUDITED)  
FOR THE THREE MONTHS ENDED 31 MARCH 2010**

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**Report on Review of Consolidated Interim Condensed Financial Information  
To the Shareholders and Board of Directors of OAO AK Transneft**

*Introduction*

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO AK Transneft (the “Company”) and its subsidiaries (the “Group”) as of 31 March 2010, and the related consolidated interim condensed statements of comprehensive income, consolidated condensed interim statements of cash flows and changes in equity for the three months then ended, and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information set out on pages 4 to 20 in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review.

*Scope of Review*

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

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation  
1 July 2010

**OAO AK TRANSNEFT**  
**IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**  
**(UNAUDITED) AS AT 31 MARCH 2010**  
(in millions of Russian roubles, if not stated otherwise)

	Notes	31 March 2010	31 December 2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		1,617	1,275
Property, plant and equipment	5	1,047,260	997,400
Available-for-sale financial assets		443	419
Investment in associates		1,905	2,151
VAT assets	8	2,419	1,194
Receivables and prepayments	8	306	322
<b>Total non-current assets</b>		<b>1,053,950</b>	<b>1,002,761</b>
<b>Current assets</b>			
Inventories	7	14,298	12,900
Receivables and prepayments	8	19,755	17,612
VAT assets	8	65,088	61,812
Prepaid income tax		2,979	5,388
Other financial assets	6	55,439	35,616
Cash and cash equivalents	9	261,266	283,658
<b>Total current assets</b>		<b>418,825</b>	<b>416,986</b>
<b>Total assets</b>		<b>1,472,775</b>	<b>1,419,747</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		648,862	615,171
<b>Attributable to the owners of OAO AK Transneft</b>		<b>688,643</b>	<b>654,952</b>
Non-controlling interest		27,587	26,444
<b>Total equity</b>		<b>716,230</b>	<b>681,396</b>
<b>Non-current liabilities</b>			
Borrowings and finance lease obligations	10	528,407	541,952
Deferred income tax liabilities	11	35,645	30,505
Provisions for liabilities and charges	12	108,914	86,782
<b>Total non-current liabilities</b>		<b>672,966</b>	<b>659,239</b>
<b>Current liabilities</b>			
Trade and other payables	13	70,101	63,955
Current income tax payable		979	3,821
Borrowings and finance lease obligations	10	12,499	11,336
<b>Total current liabilities</b>		<b>83,579</b>	<b>79,112</b>
<b>Total liabilities</b>		<b>756,545</b>	<b>738,351</b>
<b>Total equity and liabilities</b>		<b>1,472,775</b>	<b>1,419,747</b>

Approved on 30 June 2010 by

N.P. Tokarev

President

S.N. Suvorova

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

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

**ОАО АК ТРАНСНЕФТ**  
**IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2010**  
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 31 March 2010	Three months ended 31 March 2009
Sales	14	102,785	85,190
Operating expenses	15	(61,052)	(40,402)
Net other operating income	15	314	805
<b>Operating profit</b>		<b>42,047</b>	<b>45,593</b>
Financial items:			
Exchange gains		17,734	14,980
Exchange loss		(10,971)	(33,152)
Interest income		620	866
Interest expense		(4,054)	(4,204)
<b>Total net financial items</b>		<b>3,329</b>	<b>(21,510)</b>
Share of gain from investments in associates		360	105
<b>Profit before income tax</b>		<b>45,736</b>	<b>24,188</b>
<b>Income tax expense</b>	<b>11</b>	<b>(10,899)</b>	<b>(5,027)</b>
<b>Profit for the period</b>		<b>34,837</b>	<b>19,161</b>
<b>Other comprehensive income after tax</b>			
Currency translation differences		(25)	36
Fair value gains on available-for-sale financial assets, net of tax		22	11
<b>Total comprehensive income</b>		<b>34,834</b>	<b>19,208</b>
<b>Profit attributable to:</b>			
Shareholders of ОАО АК Транснефт		33,694	18,643
Non-controlling interest		1,143	518
<b>Total comprehensive income attributable to:</b>			
Shareholders of ОАО АК Транснефт		33,691	18,690
Non-controlling interest		1,143	518

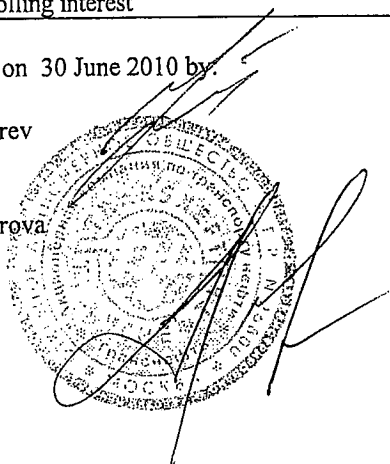
Approved on 30 June 2010 by:

N.P. Tokarev

President

S.N. Suvorova

General director of ООО Транснефт Финанс,  
a specialized organization, which performs the  
accounting function for ОАО АК Транснефт



**OAO AK TRANSNEFT**  
**IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2010**  
(in millions of Russian roubles, if not stated otherwise)

Notes	Three months ended 31 March 2010	Three months ended 31 March 2009
<b>Cash flows from operating activities</b>		
Cash receipts from customers	107,541	90,263
Cash paid to suppliers and employees, and taxes other than profit tax	(54,436)	(47,796)
Interest paid	(7,879)	(7,155)
Income tax paid	(6,164)	(3,251)
Tax refunds	2,793	5,368
Other cash used in operating activities	9	(160)
<b>Net cash from operating activities</b>	<b>41,864</b>	<b>37,269</b>
<b>Cash flows used in investing activities</b>		
Purchase of property, plant and equipment	(41,407)	(35,100)
Proceeds from sales of property, plant and equipment	27	65
Interest and dividends received	3,059	593
Purchase of promissory notes of other companies	(19,844)	-
Other cash proceeded from investing activities	619	917
<b>Net cash used in investing activities</b>	<b>(57,546)</b>	<b>(33,525)</b>
<b>Cash flows from financing activities</b>		
Proceeds from long and short-term borrowings	-	23,588
Repayment of long and short-term borrowings	(3)	(10,819)
Payment of finance lease obligations	(972)	(828)
<b>Net cash proceeds from financing activities</b>	<b>(975)</b>	<b>11,941</b>
<b>Cash increase due to deviation of currency exchange rate</b>	<b>(5,735)</b>	<b>4,032</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(22,392)</b>	<b>19,717</b>
Cash and cash equivalents at the beginning		
Of the period	9	283,658
<b>Cash and cash equivalents at the end</b>		
<b>Of the period</b>	<b>9</b>	<b>261,266</b>

Approved on 30 June 2010 by:

N.P. Tokarev

President

S.N. Suvorova

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

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

**OAO AK TRANSNEFT**  
**IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2010**  
(in millions of Russian roubles, if not stated otherwise)

	Attributable to the owners of OAO AK Transneft					Total	Non-controlling interest	Total equity
	Share capital	Share premium	Merger reserve	Retained earnings				
<b>Balance at 1 January 2009</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>495,081</b>	<b>534,862</b>	<b>25,035</b>	<b>559,897</b>	
Profit for the period	-	-	-	18,643	18,643	518	19,161	
Fair value gain on available-for-sale financial assets, net of tax	-	-	-	11	11	-	11	
Currency translation differences, net of tax	-	-	-	36	36	-	36	
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,690</b>	<b>18,690</b>	<b>518</b>	<b>19,208</b>	
<b>Balance at 31 March 2009</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>513,771</b>	<b>553,552</b>	<b>25,553</b>	<b>579,105</b>	
<b>Balance at 1 January 2010</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>615,171</b>	<b>654,952</b>	<b>26,444</b>	<b>681,396</b>	
Profit for the period	-	-	-	33,694	33,694	1,143	34,837	
Fair value gain on available-for-sale financial assets, net of tax	-	-	-	22	22	-	22	
Currency translation differences, net of tax	-	-	-	(25)	(25)	-	(25)	
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,691</b>	<b>33,691</b>	<b>1,143</b>	<b>34,834</b>	
<b>Balance at 31 March 2010</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>648,862</b>	<b>688,643</b>	<b>27,587</b>	<b>716,230</b>	

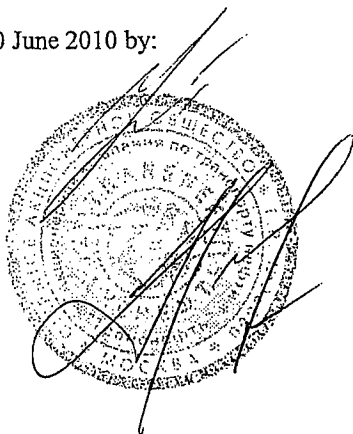
Approved on 30 June 2010 by:

N.P. Tokarev

President

S.N. Suvorova

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



**OA O AK TRANSNEFT**  
**NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2010**  
(in millions of Russian roubles, if not stated otherwise)

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**1 NATURE OF OPERATIONS**

OA O AK Transneft (the "Company") was established as an open joint stock company and incorporated on 14 August 1993 by the Russian Government Resolution No. 810 under Presidential Decree No. 1403 dated 17 November 1992. The Company's registered office is at 119180 Moscow, ul. Bolshaya Polyanka 57, Russian Federation.

The Company and its subsidiaries (the "Group") operate the largest crude oil pipeline system in the world totalling 50,142 km at 31 March 2010. During the three months ended 31 March 2010, the Group transported 113.2 million tonnes of crude oil to domestic and export markets (three months ended 31 March 2009 – 113.0 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period.

OA O AK Transnefteproduct ("Transnefteproduct") became a wholly owned subsidiary of the Company. Transnefteproduct and its subsidiaries ("Group Transnefteproduct") operate a large oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 18,786 km. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

**2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION**

The global economic crisis significantly impacted the Russian economy in 2008-2010, including as follows: instability of commodity and financial markets, including market of foreign currency and borrowings.

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 Group believes that the impact of the 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 interim condensed financial statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") and should be read together with the consolidated financial statements for the year ended 31 December 2009 prepared in accordance with International Financial Reporting Standards ("IFRS").

The official US dollar ("USD") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 29.3638 and 30.2442 as at 31 March 2010 and 31 December 2009, respectively. The official Euro ("EURO") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 39.7028 and 43.3883 as at 31 March 2010 and 31 December 2009, respectively.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2009.

Implementation of the new standards and interpretations that are mandatory for the Group's accounting periods beginning on 1 January 2010 has not significantly impacted the Group's consolidated interim condensed financial statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning after 1 January 2010 and which the Group has not early adopted. Information concerning these standards and interpretations is disclosed in the consolidated financial statements for the year ended 31 December 2009.



**OAO AK TRANSNEFT**  
**NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2010**  
(in millions of Russian roubles, if not stated otherwise)

**5 PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings and facilities</b>	<b>Pipelines and tanks</b>	<b>Other plant and equipment</b>	<b>Linefill</b>	<b>Assets under construction including prepayments</b>	<b>Total</b>
<b>At 1 January 2010</b>						
Cost	109,575	691,560	397,385	76,372	115,261	1,390,153
Accumulated depreciation and impairment	(28,891)	(215,519)	(148,343)	-	-	(392,753)
<b>Net book value at 1 January 2010</b>	<b>80,684</b>	<b>476,041</b>	<b>249,042</b>	<b>76,372</b>	<b>115,261</b>	<b>997,400</b>
Depreciation	(813)	(6,654)	(8,439)	-	-	(15,906)
Additions (including prepayments)	-	-	688	268	45,551	46,507
Transfers from assets under construction	544	1,893	10,066	-	(12,503)	-
Net change in dismantlement provision	-	19,018	-	-	535	19,553
Disposals/retirements at cost	(74)	(30)	(1,363)	(181)	-	(1,648)
Accumulated depreciation and impairment on disposals/retirements	41	22	1,291	-	-	1,354
<b>Net book value at 31 March 2010</b>	<b>80,382</b>	<b>490,290</b>	<b>251,285</b>	<b>76,459</b>	<b>148,844</b>	<b>1,047,260</b>
<b>At 31 March 2010</b>						
Cost	110,045	712,441	406,776	76,459	148,844	1,454,565
Accumulated depreciation and impairment	(29,663)	(222,151)	(155,491)	-	-	(407,305)
<b>Net book value at 31 March 2010</b>	<b>80,382</b>	<b>490,290</b>	<b>251,285</b>	<b>76,459</b>	<b>148,844</b>	<b>1,047,260</b>

**OAO AK TRANSNEFT**  
**NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2010**  
(in millions of Russian roubles, if not stated otherwise)

**5 PROPERTY, PLANT AND EQUIPMENT (continued)**

	<b>Buildings and facilities</b>	<b>Pipelines and tanks</b>	<b>Other plant and equipmen t</b>	<b>Linefill</b>	<b>Assets under construction including prepayments</b>	<b>Total</b>
<b>At 1 January 2009</b>						
Cost	91,434	503,016	273,675	65,533	225,467	1,159,125
Accumulated depreciation and impairment	(26,427)	(191,886)	(131,682)	-	-	(349,995)
<b>Net book value at 1 January 2009</b>	<b>65,007</b>	<b>311,130</b>	<b>141,993</b>	<b>65,533</b>	<b>225,467</b>	<b>809,130</b>
Depreciation	(833)	(4,375)	(5,951)	-	-	(11,159)
Additions (including prepayments)	-	-	-	416	43,222	43,638
Transfers from assets under construction	1,417	132	4,349	-	(5,898)	-
Net change in dismantlement provision	-	(806)	-	-	181	(625)
Disposals/retirements at cost	(48)	(2)	(407)	(101)	-	(558)
Accumulated depreciation and impairment on disposals/retirements	3	2	375	-	-	380
<b>Net book value at 31 March 2009</b>	<b>65,546</b>	<b>306,081</b>	<b>140,359</b>	<b>65,848</b>	<b>262,972</b>	<b>840,806</b>
<b>At 31 March 2009</b>						
Cost	92,803	502,340	277,617	65,848	262,972	1,201,580
Accumulated depreciation and impairment	(27,257)	(196,259)	(137,258)	-	-	(360,774)
<b>Net book value at 31 March 2009</b>	<b>65,546</b>	<b>306,081</b>	<b>140,359</b>	<b>65,848</b>	<b>262,972</b>	<b>840,806</b>

Linefill represents 29,411 thousand tonnes of crude oil and 1,152 thousand tonnes of oil products as at 31 March 2010 (as at 31 December 2009 – 29,400 thousand tonnes of crude oil and 1,159 thousand tonnes of oil products).

During the three months ended 31 March 2010, borrowing costs in the amount of RR 3,026 were capitalised as part of cost of assets under construction (for the three months ended 31 March 2009 – RR 4,759).

**6 OTHER FINANCIAL ASSETS**

As at 31 March 2010 other financial assets generally include:

non-interest-bearing notes which are subject to repayment in the fourth quarter of 2010. They were purchased by the Group in the third quarter of 2009 for a consideration of USD 1,136 million (RR 36,079 at the CBR exchange rate effective at the purchase date), nominal value of USD 1,224 million, carrying value RR 34,671 at the CBR exchange rate as at 31 March 2010 and RR 35,186 at the CBR exchange rate as at 31 December 2009.

non-interest-bearing notes which are subject to repayment in the second quarter of 2010 – first quarter of 2011. They were purchased by the Group in the first quarter of 2010 for a consideration of RR 19,844, nominal value of RR 21,732, carrying value RR 19,968.

These notes were classified as loans and receivables and the Group does not intend to dispose these notes prior to the maturity date.

**OAO AK TRANSNEFT**  
**NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2010**  
(in millions of Russian roubles, if not stated otherwise)

**7 INVENTORIES**

	<b>31 March 2010</b>	<b>31 December 2009</b>
Materials and supplies	9,124	7,803
Sundry goods for resale	5,105	5,035
Other items	69	62
	<b>14,298</b>	<b>12,900</b>

Sundry goods for resale, including oil and oil products, are presented net of impairment provision of RR 0 as at 31 March 2010 (as at 31 December 2009 – RR 42).

**8 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS**

**Receivables and prepayments**

	<b>31 March 2010</b>	<b>31 December 2009</b>
<b>Non-financial assets</b>		
Other long-term receivables	306	322
<b>Total long-term receivables</b>	<b>306</b>	<b>322</b>

	<b>31 March 2010</b>	<b>31 December 2009</b>
<b>Short-term receivables</b>		
<b>Financial assets</b>		
Trade receivables	1,809	1,905
Other receivables	8,694	8,024
less: provision for doubtful debts	(3,255)	(3,255)
<b>Total financial assets</b>	<b>7,248</b>	<b>6,674</b>
<b>Non-financial assets</b>		
Prepayments and advances and other nonfinancial assets	12,507	10,938
<b>Total receivables</b>	<b>19,755</b>	<b>17,612</b>

**VAT assets**

	<b>31 March 2010</b>	<b>31 December 2009</b>
Recoverable VAT related to construction projects	39,002	44,425
Recoverable VAT related to ordinary activity	28,505	18,581
	67,507	63,006
Less: short-term VAT	(65,088)	(61,812)
<b>Long-term VAT</b>	<b>2,419</b>	<b>1,194</b>

**9 CASH AND CASH EQUIVALENTS**

	<b>31 March 2010</b>	<b>31 December 2009</b>
Balances denominated in Russian roubles	167,730	96,137
Balances denominated in US dollars	73,302	165,576
Balances denominated in Euro	20,109	21,929
Balances denominated in other currency	125	16
	<b>261,266</b>	<b>283,658</b>

**OAO AK TRANSNEFT**  
**NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED) FOR THE THREE MONTHS ENDED 31 MARCH 2010**  
(in millions of Russian roubles, if not stated otherwise)

**10 BORROWINGS AND FINANCE LEASE OBLIGATIONS**

	<b>31 March 2010</b>	<b>31 December 2009</b>
Borrowings and loans	540,629	552,940
Finance lease obligations	277	348
<b>Total borrowings and loans</b>	<b>540,906</b>	<b>553,288</b>
Less: current borrowings and loans and current portion of non-current borrowings and loans and finance lease obligations	(12,499)	(11,336)
	<b>528,407</b>	<b>541,952</b>
Maturity of non-current borrowings and loans and finance lease obligations		
Due for repayment:		
Between one and five years	98,300	102,997
After five years	430,107	438,955
	<b>528,407</b>	<b>541,952</b>

In February 2009, the Group signed a facility agreement with China Development Bank Corporation for USD 10 billion, at a floating LIBOR-based rate, due in 20 years and repayable by equal installments, starting from the fifth year after the date of the first drawdown. Interest on the credit agreement is payable once every six months until 1 January 2011 and on a monthly basis after 1 January 2011. In 2009, the Group received USD 9.0. The proceeds will be used for the construction of crude oil pipeline infrastructure, including construction of the crude oil pipeline from Skovorodino, Russia to the border of the People's Republic of China and general corporate purposes.

In February 2009 as collateral for the above agreement 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 the obligations, a contract was signed with OAO NK Rosneft in April 2009 for the supply of corresponding volumes of crude oil to the Company.

In June – October 2009, the Company placed nonconvertible interest bearing documentary bonds payable to bearer (series 01-03) in totaling RR 135,000 with a nominal value of one thousand roubles each, due in 10 years. There is an option to redeem the bonds earlier at the request of the bearer and at the discretion of the issuer, but not earlier than 6 years after the placement. The proceeds are used for financing investment programs and can be also used for other general corporate purposes. The bonds have 10 coupon periods of 364 days each. The coupon yield for the first period is set at 11.75% - 13.75% per annum. The coupon yield for the second - sixth coupon periods will be determined as a fixed direct REPO rate of the Central Bank of Russian Federation for the term of one year and effective as at the third day before the beginning of the respective coupon period plus 2% - 2.4% per annum. The coupon yield for the seventh - tenth periods will be determined by the issuer in accordance with the prospectus.

In March 2007, the Group issued Eurobonds in the amount of USD 1.3 billion (RR 38,173 at CBR exchange rate at 31 March 2010, RR 39,317 at CBR exchange rate at 31 December 2009) at an interest rate of 5.67% per annum due in 7 years.

In June 2007, the Group issued Eurobonds in the amount of USD 0.5 billion (RR 14,682 at CBR exchange rate at 31 March 2010, RR 15,122 at CBR exchange rate at 31 December 2009) at an interest rate of 6.103% per annum due in 5 years.

Also in June 2007, the Group issued Eurobonds in the amount of EUR 0.7 billion (RR 27,792 at CBR exchange rate 31 March 2010, RR 30,372 at CBR exchange rate 31 December 2009) at an interest rate of 5.381% per annum due in 5 years.

In August 2008, the Group issued Eurobonds in the amount of USD 0.6 billion (RR 17,618 at CBR exchange rate as 31 March 2010, RR 18,147 at CBR exchange rate as 31 December 2009) at an interest rate of 7.70% per annum due in 5 years.

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**10 BORROWINGS AND FINANCE LEASE OBLIGATIONS (continued)**

Also in August 2008, the Group issued Eurobonds in the amount of USD 1.05 billion (RR 30,832 at CBR exchange rate as 31 March 2010, RR 31,756 at CBR exchange rate as 31 December 2009) at an interest rate of 8.70% per annum due in 10 years.

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.

All borrowings and loans of the Group except for the loan received from China Development Bank Corporation are unsecured as at 31 March 2010 and 31 December 2009.

**11 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE**

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

**12 PROVISIONS FOR LIABILITIES AND CHARGES**

	<b>31 March 2010</b>	<b>31 December 2009</b>
Dismantlement provision	101,799	80,535
Pension provision	7,115	6,247
	<b>108,914</b>	<b>86,782</b>

**Dismantlement provision**

The provision is established for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometre of removal according to an estimated plan of replacement over the long term. The provision calculation is based on the assumption that dismantlement activities are expected to cover the same number of kilometres each year over the useful life of the network. The cost of dismantlement is added to the cost of property, plant and equipment and depreciated over the useful economic life of the pipeline network. Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 6.97% per year (31 December 2009 – 8.49% per year).

**Pension provision**

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

Service cost, past service cost and actuarial (profit) /loss amounting to RR 875 and RR 805 for the three months ended 31 March 2010 and 2009, respectively, are included in staff costs in the consolidated statement of comprehensive income.

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**13 TRADE AND OTHER PAYABLES**

	<b>31 March 2010</b>	<b>31 December 2009</b>
Trade payables	23,986	17,690
Other payables	5,081	3,542
<b>Total financial payables</b>	<b>29,067</b>	<b>21,232</b>
Advances received for oil and oil product transportation services	17,798	24,295
Accruals	16,166	12,977
VAT output tax payable	4,419	4,087
Other taxes payable	2,651	1,364
<b>Total payables</b>	<b>70,101</b>	<b>63,955</b>

**14 SALES**

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Revenues from crude oil transportation services		
Domestic tariff	37,903	31,423
Export tariff	52,532	41,885
<b>Total revenues from crude oil transportation services</b>	<b>90,435</b>	<b>73,308</b>
Revenues from oil products transportation services	7,538	6,757
Revenues from crude oil sales	1,836	1,653
Other revenues	2,976	3,472
	<b>102,785</b>	<b>85,190</b>

**15 OPERATING EXPENSES AND NET OTHER OPERATING INCOME**

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Depreciation	16,049	10,557
Staff costs:		
Salaries and pension expense	16,366	10,475
Unified Social Fund contributions	2,836	2,072
Social expenses	544	475
Energy	8,098	6,780
Materials	3,522	2,767
Repairs services and maintenance of relevant technical condition of pipeline	2,375	1,476
Transportation of oil using railways	3,689	-
Other	7,573	5,800
	<b>61,052</b>	<b>40,402</b>

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**15 OPERATING EXPENSES AND NET OTHER OPERATING INCOME (continued)**

The following amounts are included in the net other operating income:

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Oil surplus	1,752	1,070
Charitable contribution	(181)	(136)
Other expenses	(1,257)	(129)
	<b>314</b>	<b>805</b>

**16 CONTINGENT LIABILITIES**

**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 March 2010, which could have a material adverse effect on the results of operations or financial position of the Group.

As at 31 March 2010 the input VAT includes RR 696 of VAT charged to the Company by its subsidiaries for August 2007, recovery of which was rejected by the resolution of the Federal Arbitration Court of the Moscow region ("FAC MR") dated 12 May 2009 No. KA-A40/459-09. As the period for revision of the FAC MR's resolution under the supervision procedure has expired, the Company is currently considering filing an application to the Russian Supreme Arbitration Court for retrial under newly revealed circumstances.

**17 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION**

The Russian Federation, through the Federal Agency for the Management of Federal Property, owns 100% of the ordinary shares of the Company and controls its operations through Board of directors which is chaired by the Minister of Energy of the Russian Federation and includes governmental representatives and independent directors.. The Government also appoints the members of the Federal Tariff Agency which sets the tariff rates.

As at 31 March 2010 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, 31% of the shares of the Caspian Pipeline Consortium-R and 31% of the shares of Caspian Pipeline Consortium-K. The Company held 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, 31% of the shares of the Caspian Pipeline Consortium-R and 31% of the shares of Caspian Pipeline Consortium-K as at 31 December 2009. These interests are not recognised in these consolidated interim condensed 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: transportation of oil and oil products and transactions with banks.

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

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Revenue from oil transportation services	28,215	20,499
Revenue from oil products transportation services	2,287	2,161
Electricity expenses	88	90
Interest expenses	-	3,437
Interest income from other financial assets	644	-

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**17 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)**

	<b>31 March 2010</b>	<b>31 December 2009</b>
Receivables and prepayments	1,589	510
Cash	181,033	202,692
Advances received for oil transportation services	4,656	7,111
Advances received for oil product transportation services	946	1,303
Non-current and current borrowings	1	1
Other financial assets	54,639	35,186

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

During the period ended 31 March 2010 the Group acquired electric energy from associated company Rusenergoresurs on amount RR 7,540. Accounts receivables (incl. advances paid) as at 31 March 2010 amounted RR 375 (as at 31 December 2009 – RR1,065), accounts payables as at 31 March 2010 amounted RR 361 (as at 31 December 2009 – RR 164).

**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.

**18 SEGMENT INFORMATION**

Generally, Management of the Group analyses information by separate legal entities. These legal entities are further aggregated into two reportable segments: Oil transportation and Oil product transportation. Cost elements presented to Management of the Group are determined in accordance with the Russian Accounting Rules (RAR). Tables below present consolidated amounts analyzed by Management of the Group. These amounts are calculated under RAR.

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

Adjusting entries also relate to intersegment transactions material of which are as follows: US Dollar denominated loan granted in RR which amounted to RR 11,217 as at 31 March 2010, the loan interest of RR 324 and related exchange difference of RR 402 (as at 31 December 2009 US Dollar denominated loan granted in RR which amounted to RR 14,215, the loan interest of RR 848 and related exchange difference of RR 1,267).



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**18 SEGMENT INFORMATION (continued)**

Segment information for the three months ended 31 March 2010 and for the three months ended 31 March 2009 is as follows:

<b>For the three months ended 31 March 2010</b>	<b>Oil transportati on services</b>	<b>Oil products transportatio n services</b>	<b>Adjustments</b>	<b>Total IFRS</b>
<b>External revenue</b>	<b>89,867</b>	<b>7,590</b>	<b>5,328</b>	<b>102,785</b>
Operating expenses	(53,585)	(4,172)	(3,295)	(61,052)
Depreciation and amortisation	(16,249)	(658)	858	(16,049)
Interest income	3,683	60	(3,123)	620
Interest expenses	(7,147)	(322)	3,415	(4,054)
Share of profit/(loss) from associates	637	4	(281)	360
<b>Profit before income tax</b>	<b>40,987</b>	<b>3,443</b>	<b>1,306</b>	<b>45,736</b>
Income tax expense	(9,421)	(768)	(710)	(10,899)
<b>Profit for the year</b>	<b>31,566</b>	<b>2,675</b>	<b>596</b>	<b>34,837</b>

**Other segment disclosures**

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

	46,482	344	(1,457)	45,369
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<b>For the three months ended 31 March 2009</b>	<b>Oil transportati on services</b>	<b>Oil products transportatio n services</b>	<b>Adjustments</b>	<b>Total IFRS</b>
<b>External revenue</b>	<b>76,133</b>	<b>6,211</b>	<b>2,846</b>	<b>85,190</b>
Operating expenses	(35,916)	(3,081)	(1,405)	(40,402)
Depreciation and amortisation	(8,162)	(711)	(1,684)	(10,557)
Interest income	775	87	4	866
Interest expenses	(3)	(654)	(3,547)	(4,204)
Share of profit/(loss) from associates	113	-	(8)	105
<b>Profit before income tax</b>	<b>27,697</b>	<b>(322)</b>	<b>(3,187)</b>	<b>24,188</b>
Income tax expense	(6,433)	69	1,337	(5,027)
<b>Profit for the year</b>	<b>21,263</b>	<b>(253)</b>	<b>(1,849)</b>	<b>19,161</b>

**Other segment disclosures**

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

	38,167	651	7,651	46,469
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**18 SEGMENT INFORMATION (continued)**

Segment information as at 31 March 2010 and as at 31 December 2009 is as follows:

<b>As at 31 March 2010</b>	<b>Oil transportati on services</b>	<b>Oil products transportatio n services</b>	<b>Adjustments</b>	<b>Total IFRS</b>
Investments in associates	4,697	100	(2,892)	1,905
<b>Total segment assets</b>	<b>1,460,621</b>	<b>58,498</b>	<b>(46,344)</b>	<b>1,472,775</b>
Trade payables and advances received	37,277	3,860	647	41,784
Non-current borrowings	528,372	11,217	(11,217)	528,372
Current borrowings	12,256	253	(253)	12,256
<b>Total segment liabilities</b>	<b>636,353</b>	<b>18,325</b>	<b>101,867</b>	<b>756,545</b>

<b>As at 31 December 2009</b>	<b>Oil transportati on services</b>	<b>Oil products transportatio n services</b>	<b>Adjustments</b>	<b>Total IFRS</b>
Investments in associates	4,060	36	(1,945)	2,151
<b>Total segment assets</b>	<b>1,431,407</b>	<b>57,839</b>	<b>(69,499)</b>	<b>1,419,747</b>
Trade payables and advances received	38,173	3,433	379	41,985
Non-current borrowings	541,914	14,215	(14,215)	541,914
Current borrowings	11,026	374	(374)	11,026
<b>Total segment liabilities</b>	<b>638,797</b>	<b>20,201</b>	<b>79,353</b>	<b>738,351</b>

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

Adjusting items for segment's assets in the amount of RR 46,344 as at 31 March 2010 and RR 69,449 as at 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	<b>31 March 2010</b>	<b>31 December 2009</b>
Property, plant and equipment dismantlement provision recognized in cost	72,020	54,526
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"	(99,020)	(101,880)
Revaluation of line fill required under IAS 29 "Financial reporting in hyper-inflationary economies and other	50,857	50,744
Assets received under finance lease	3,403	4,363
Business combination with Transnefteproduct	(52,554)	(52,554)
Deferred tax assets	(8,724)	(6,150)
Intersegment loans and interest	(11,470)	(14,215)
Others	(856)	(4,333)
<b>Total unallocated reconciliation adjustments of segment assets</b>	<b>(46,344)</b>	<b>(69,449)</b>

Adjusting items for segment's liabilities in the amount of RR 101,867 as at 31 March 2010 and RR 79,353 as at 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

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**18 SEGMENT INFORMATION (continued)**

	<b>31 March 2010</b>	<b>31 December 2009</b>
Dismantlement provision	101,799	80,535
Pension liabilities	7,115	6,247
Deferred tax liabilities	2,782	4,215
Lease liabilities	277	348
Intersegment loans and interest	(11,470)	(14,215)
Others	1,364	2,223
<b>Total unallocated reconciliation adjustments of segment liabilities</b>	<b>101,867</b>	<b>79,353</b>

Adjusting items for segment's revenues in the amount of RR 5,328 for the three months ended 31 March 2010 and RR 2,846 for the three months ended 31 March 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Recovery of non-controlling interest in accordance with RAR	5,622	2,992
Intersegment operations	(294)	(146)
<b>Total unallocated reconciliation adjustments of segment revenues</b>	<b>5,328</b>	<b>2,846</b>

Adjusting items for segment's expenses in the amount of RR 3,295 for the three months ended 31 March 2010 and RR 1,405 for the three months ended 31 March 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Recovery of non-controlling interest in accordance with RAR	4,093	2,475
Dismantlement provision	657	658
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"	(3,091)	1,375
Recovery of inventories impairment provision	-	(769)
Pension liabilities	732	(909)
Intersegment operations	(287)	(117)
Others	1,191	(1,308)
<b>Total unallocated reconciliation adjustments of segment expenses</b>	<b>3,295</b>	<b>1,405</b>

*Geographical information.* The Group's two segments primary operate on the territory of the Russian Federation. Revenue from external customers is presented based on the customers domicile (registered office) although the majority of revenues are generated by assets located in the Russian Federation. The oil product transportation segment has certain assets located on the territory of Latvia, Ukraine and Belarus. The carrying value of these assets is not significant.

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

	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Russian Federation	97,327	82,656
Other countries	5,458	2,534
	<b>102,785</b>	<b>85,190</b>

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

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*Major customers.* The Group's major customers are oil production companies which produce oil and transport it for export, domestic sale or refining. Revenues from customers which, individually, constitute 10 per cent or more of the Group's revenue are as follows:

**18 SEGMENT INFORMATION (continued)**

<b>Company</b>	<b>Three months ended 31 March 2010</b>	<b>Three months ended 31 March 2009</b>
Companies under control of the Government of the Russian Federation	30,502	22,660
OAO Lukoil	14,475	12,724
OAO Surgutneftegaz	14,447	12,383
OAO TNK-BP Holding	13,108	11,055
	<b>72,532</b>	<b>58,822</b>

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

**19 EVENTS AFTER THE REPORTING PERIOD**

In May 2010 the coupon rate for the second coupon period was determined for nonconvertible interest bearing documentary bonds of the 01 series. The interest rate of the second coupon is 9.75% per annum.