



OIL TRANSPORTING
JOINT STOCK COMPANY
"TRANSNEFT"

**CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012**



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

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Independent Auditors' Report

Board of Directors

ОАО АК Транснефт

Introduction

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

Scope of Review

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

Conclusion

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

ZAO KPMG

ZAO KPMG
5 December 2012



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

ASSETS

| Non-current assets | Notes | 30 September 2012 | 31 December 2011 |
|---|-------|-------------------|------------------|
| Intangible assets | | 1,862 | 1,197 |
| Property, plant and equipment | 5 | 1,429,664 | 1,343,501 |
| Available-for-sale financial assets | | 219 | 292 |
| Investments in associates and jointly controlled entities | 6 | 37,663 | 34,889 |
| VAT assets | 9 | 57 | 28,969 |
| Receivables and prepayments | 9 | 784 | 880 |
| Other financial assets | 7 | 5,364 | 5,586 |
| Total non-current assets | | 1,475,613 | 1,415,314 |
| Current assets | | | |
| Inventories | 8 | 25,712 | 22,508 |
| Receivables and prepayments | 9 | 41,841 | 36,296 |
| VAT assets | 9 | 82,364 | 46,854 |
| Prepaid income tax | | 1,972 | 9,939 |
| Other financial assets, including derivatives | 7 | 204,445 | 181,749 |
| Cash and cash equivalents | 10 | 84,849 | 145,546 |
| Total current assets | | 441,183 | 442,892 |
| Total assets | | 1,916,796 | 1,858,206 |

EQUITY AND LIABILITIES

Equity

| | | | |
|---|--|------------------|----------------|
| Share capital | | 308 | 308 |
| Share premium reserve | | 52,553 | 52,553 |
| Merger reserve | | (13,080) | (13,080) |
| Retained earnings | | 1,058,111 | 919,690 |
| Attributable to the shareholders of OAO AK Transneft | | 1,097,892 | 959,471 |
| Non-controlling interests | | 35,061 | 37,056 |
| Total equity | | 1,132,953 | 996,527 |

Non-current liabilities

| | | | |
|--|----|----------------|----------------|
| Borrowings | 13 | 516,824 | 551,939 |
| Deferred tax liabilities | 14 | 34,341 | 37,093 |
| Provisions for liabilities and charges | 15 | 96,002 | 92,164 |
| Total non-current liabilities | | 647,167 | 681,196 |

Current liabilities

| | | | |
|-------------------------------------|----|------------------|------------------|
| Trade and other payables | 16 | 109,796 | 124,419 |
| Current income tax payable | | 2,699 | 2,692 |
| Borrowings | 13 | 24,181 | 53,372 |
| Total current liabilities | | 136,676 | 180,483 |
| Total liabilities | | 783,843 | 861,679 |
| Total equity and liabilities | | 1,916,796 | 1,858,206 |

Approved on 5 December 2012 by:

N.P. Tokarev

President

M.V. Pissinikh

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



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



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

| | Notes | Three months ended 30 September 2012 | Nine months ended 30 September 2012 | Three months ended 30 September 2011 | Nine months ended 30 September 2011 |
|--|-------|--|---|--|---|
| Sales | 17 | 187,021 | 548,314 | 167,329 | 493,223 |
| Operating expenses | 18 | (131,800) | (362,621) | (109,657) | (329,265) |
| Operating profit | | 55,221 | 185,693 | 57,672 | 163,958 |
| Financial items: | | | | | |
| Exchange gain | | 28,478 | 110,116 | 35,975 | 82,323 |
| Exchange loss | | (22,665) | (102,131) | (56,570) | (79,578) |
| Interest income | 19 | 3,042 | 8,159 | 1,545 | 7,854 |
| Interest expense | 19 | (7,324) | (21,807) | (5,599) | (16,431) |
| Net change in fair value of derivatives | 7 | 375 | 1 | - | - |
| Total financial items | | 1,906 | (5,662) | (24,649) | (5,832) |
| Share of profit/(loss) from associates and jointly controlled entities | 6 | 1,514 | 2,870 | (529) | 30,371 |
| Profit before income tax | | 58,641 | 182,901 | 32,494 | 188,857 |
| Income tax expense | 14 | (11,008) | (39,908) | (7,541) | (33,392) |
| Profit for the period | | 47,633 | 142,993 | 24,953 | 155,465 |
| Other comprehensive income after tax | | | | | |
| Currency translation differences, net of tax | | (42) | (35) | (306) | 41 |
| Fair value losses on available-for-sale financial assets, net of tax | | (3) | (25) | (15) | (75) |
| Total comprehensive income | | 47,588 | 142,933 | 24,632 | 155,431 |
| Profit attributable to: | | | | | |
| Shareholders of OAO AK Transneft | | 47,532 | 140,776 | 23,079 | 153,015 |
| Non-controlling interests | | 101 | 2,217 | 1,874 | 2,450 |
| Total comprehensive income attributable to: | | | | | |
| Shareholders of OAO AK Transneft | | 47,487 | 140,716 | 22,758 | 152,981 |
| Non-controlling interests | | 101 | 2,217 | 1,874 | 2,450 |

Approved on 5 December 2012 by:

N.P. Tokarev

President

M.V. Rossikh

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



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



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

| Notes | Nine months ended 30 September 2012 | Nine months ended 30 September 2011 |
|---|--|--|
| Cash flows from operating activities | | |
| Cash receipts from customers | 565,488 | 515,437 |
| Cash paid to suppliers and employees, and taxes other than profit tax | (403,672) | (375,617) |
| Interest paid | (27,991) | (28,435) |
| Income tax paid | (50,153) | (39,889) |
| Income tax refunds | 14,075 | 919 |
| VAT and other taxes refunds | 49,500 | 37,240 |
| Other cash used in operating activities | (849) | (631) |
| Net cash from operating activities | 146,398 | 109,024 |
| Cash flows used in investing activities | | |
| Purchase of property, plant and equipment | (136,625) | (166,133) |
| Proceeds from sales of property, plant and equipment | 180 | 711 |
| Interest and dividends received | 7,144 | 11,679 |
| Loans issued / repayment of loans issued | 338 | (5,731) |
| Purchase of notes | (180,380) | (124,607) |
| Sale of notes | 160,865 | 30,655 |
| Other cash used in investing activities | (3,557) | (2,838) |
| Net cash used in investing activities | (152,035) | (256,264) |
| Cash flows used in financing activities | | |
| Repayment of long and short-term borrowings | (46,192) | (218) |
| Dividends paid | (2,768) | (1,166) |
| Purchase of non-controlling interest | (3,600) | - |
| Payment of finance lease obligations | - | (17) |
| Other cash proceeded in financing activities | 82 | 93 |
| Net cash used in financing activities | (52,478) | (1,308) |
| Change in cash due to deviation of currency exchange rate | (2,582) | 2,707 |
| Net decrease in cash and cash equivalents | (60,697) | (145,841) |
| Cash and cash equivalents at the beginning of the period | 10 145,546 | 283,864 |
| Cash and cash equivalents at the end of the period | 10 84,849 | 138,023 |



Approved on 5 December 2012 by:

N.P. Sokolov

M.V. Busskikh

President

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

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



OAO AK TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2012
(in millions of Russian roubles, if not stated otherwise)

| | Attributable to the shareholders of OAO AK Transneft | | | | | Non-controlling interests | Total equity |
|---|--|-----------------------|-----------------|-------------------|------------------|---------------------------|------------------|
| | Share capital | Share premium reserve | Merger reserve | Retained earnings | Total | | |
| Balance at 1 January 2011 | 308 | 52,553 | (13,080) | 732,864 | 772,645 | 33,792 | 806,437 |
| Profit for the period | - | - | - | 153,015 | 153,015 | 2,450 | 155,465 |
| Fair value loss on available-for-sale financial assets, net of tax | - | - | - | (75) | (75) | - | (75) |
| Currency translation differences, net of tax | - | - | - | 41 | 41 | - | 41 |
| Total comprehensive income for the period | - | - | - | 152,981 | 152,981 | 2,450 | 155,431 |
| Additional issue of shares by a subsidiary | - | - | - | - | - | 151 | 151 |
| Dividends paid on | | | | | | | |
| - ordinary shares | - | - | - | (734) | (734) | - | (734) |
| - preference shares | - | - | - | (489) | (489) | - | (489) |
| Balance at 30 September 2011 | 308 | 52,553 | (13,080) | 884,622 | 924,403 | 36,393 | 960,796 |
| Balance at 1 January 2012 | 308 | 52,553 | (13,080) | 919,690 | 959,471 | 37,056 | 996,527 |
| Profit for the period | - | - | - | 140,776 | 140,776 | 2,217 | 142,993 |
| Fair value loss on available-for-sale financial assets, net of income tax | - | - | - | (25) | (25) | - | (25) |
| Currency translation differences, net of income tax | - | - | - | (35) | (35) | - | (35) |
| Total comprehensive income for the period | - | - | - | 140,716 | 140,716 | 2,217 | 142,933 |
| Acquisition of non-controlling interest | - | - | - | 490 | 490 | (4,090) | (3,600) |
| Dividends paid on | | | | | | | |
| - ordinary shares | - | - | - | (1,671) | (1,671) | (122) | (1,793) |
| - preference shares | - | - | - | (1,114) | (1,114) | - | (1,114) |
| Balance at 30 September 2012 | 308 | 52,553 | (13,080) | 1,058,111 | 1,097,892 | 35,061 | 1,132,953 |

Approved on 5 December 2012 by:

N.V. Tokarev

President

M.V. Russkikh

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



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



1 NATURE OF OPERATIONS

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

The Company and its subsidiaries (the "Group") operate the oil pipeline system in the Russian Federation totalling 51,648 km at 30 September 2012 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 19,046 km as at 30 September 2012. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the nine months ended 30 September 2012, the Group transported 360.0 million tonnes of crude oil to domestic and export markets (nine months ended 30 September 2011 – 351.9 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 20.6 million tonnes of oil products (23.3 million tonnes for the nine months ended 30 September 2011).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

3 BASIS OF PRESENTATION

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

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

The official US dollar ("USD") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 30.9169 and 32.1961 as at 30 September 2012 and 31 December 2011, respectively. The official Euro ("EURO") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 39.9786 and 41.6714 as at 30 September 2012 and 31 December 2011, respectively.

New standards and interpretations

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

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

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

5 PROPERTY, PLANT AND EQUIPMENT

| | Buildings and facilities | Pipelines and tanks | Other plant and equipment | Line fill | Assets under construction including prepayments | Total |
|--|--------------------------------|------------------------|---------------------------------|---------------|--|------------------|
| At 1 January 2012 | | | | | | |
| Cost | 130,793 | 807,460 | 499,225 | 84,502 | 358,831 | 1,880,811 |
| Accumulated depreciation and impairment | (36,019) | (278,766) | (222,525) | - | - | (537,310) |
| Net book value at 1 January 2012 | 94,774 | 528,694 | 276,700 | 84,502 | 358,831 | 1,343,501 |
| Depreciation | (3,352) | (27,879) | (33,433) | - | - | (64,664) |
| Additions (including prepayments) | - | - | - | 14,793 | 138,503 | 153,296 |
| Transfers from assets under construction | 7,823 | 65,784 | 54,343 | - | (127,950) | - |
| Net change in dismantlement provision | - | (570) | - | - | 289 | (281) |
| Disposals/retirements at cost | (330) | (1,872) | (1,319) | (154) | - | (3,675) |
| Accumulated depreciation and impairment on disposals/retirements | 215 | 290 | 982 | - | - | 1,487 |
| Net book value at 30 September 2012 | 99,130 | 564,447 | 297,273 | 99,141 | 369,673 | 1,429,664 |
| At 30 September 2012 | | | | | | |
| Cost | 138,286 | 870,802 | 552,249 | 99,141 | 369,673 | 2,030,151 |
| Accumulated depreciation and impairment | (39,156) | (306,355) | (254,976) | - | - | (600,487) |
| Net book value at 30 September 2012 | 99,130 | 564,447 | 297,273 | 99,141 | 369,673 | 1,429,664 |



5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| | Buildings and facilities | Pipelines and tanks | Other plant and equipment | Line fill | Assets under construction including prepayments | Total |
|--|--------------------------|---------------------|---------------------------|---------------|---|------------------|
| At 1 January 2011 | | | | | | |
| Cost | 121,198 | 748,012 | 451,762 | 77,131 | 277,001 | 1,675,104 |
| Accumulated depreciation and impairment | (32,307) | (244,510) | (183,932) | - | - | (460,749) |
| Net book value at 1 January 2011 | 88,891 | 503,502 | 267,830 | 77,131 | 277,001 | 1,214,355 |
| Depreciation | (2,976) | (25,701) | (30,929) | - | - | (59,606) |
| Additions (including prepayments) | - | - | - | 5,606 | 185,192 | 190,798 |
| Transfers from assets under construction | 2,557 | 12,221 | 12,024 | - | (26,802) | - |
| Net change in dismantlement provision | - | (24,872) | - | - | 369 | (24,503) |
| Disposals/retirements at cost | (390) | (916) | (2,289) | (459) | - | (4,054) |
| Accumulated depreciation and impairment on disposals/retirements | 199 | 801 | 1,782 | - | - | 2,782 |
| Net book value at 30 September 2011 | 88,281 | 465,035 | 248,418 | 82,278 | 435,760 | 1,319,772 |
| At 30 September 2011 | | | | | | |
| Cost | 123,365 | 734,445 | 461,497 | 82,278 | 435,760 | 1,837,345 |
| Accumulated depreciation and impairment | (35,084) | (269,410) | (213,079) | - | - | (517,573) |
| Net book value at 30 September 2011 | 88,281 | 465,035 | 248,418 | 82,278 | 435,760 | 1,319,772 |

In value terms line fill represents RUB 92,134 of crude oil and RUB 7,007 of oil products as at 30 September 2012 (as at 31 December 2011 – RUB 77,740 of crude oil and RUB 6,762 of oil products).

During the nine months ended 30 September 2012, borrowing costs in the amount of RUB 6,644 were capitalised as part of cost of assets under construction (for the nine months ended 30 September 2011 – RUB 17,735) including interests to be capitalised in the amount of RUB 9,728 less interest income on the temporary investment of borrowings in the amount of RUB 3,084 as disclosed in Note 19.

6 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

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

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

| | 30 September 2012 | 31 December 2011 |
|-----------------------|--|--|
| Assets | 263,386 | 259,114 |
| Liabilities | (104,859) | (102,892) |
| | Nine months ended 30 September 2012 | Nine months ended 30 September 2011 |
| Revenue | 57,416 | 115,844 |
| Profit for the period | 13,241 | 64,141 |

**7 OTHER FINANCIAL ASSETS, INCLUDING DERIVATIVES**

During the nine months ended 30 September 2012 following short-term financial assets were purchased by the Group:

- zero-coupon notes which are subject to repayment on demand but not earlier than January – September 2013. The notes were purchased for a consideration of USD 5,564 million (RUB 176,316 at the CBR exchange rate effective at the purchase date), have a nominal value of USD 5,844 million and carrying value of RUB 173,594 (at the CBR exchange rate effective as at 30 September 2012);
- interest notes which are subject to repayment in December 2012 - March 2013. The notes were purchased for a consideration of USD 140 million (RUB 4,064 at the CBR exchange rate effective at the purchase date), have a carrying value of RUB 4,340 (at the CBR exchange rate effective as at 30 September 2012).

These notes were purchased from entities, which are under common control or significant influence of the state.

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

In January and February 2012 in order to reduce the adverse effects associated with decreasing of exchange rate of the US dollar the Group had simultaneously purchased put options and sold written call options for the total amount of USD 1,300 million with the exercise dates during June-October 2012 period and the carrying amount of RUB 1 as at 30 September 2012. The Group classified 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.

8 INVENTORIES

| | 30 September 2012 | 31 December 2011 |
|-------------------------|-------------------|------------------|
| Materials and supplies | 19,441 | 14,090 |
| Sundry goods for resale | 6,260 | 8,392 |
| Other items | 11 | 26 |
| | 25,712 | 22,508 |

Materials and supplies are presented net of provisions for obsolescence of RUB 162 as at 30 September 2012 (as at 31 December 2011 – RUB 168).

9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS**Receivables and prepayments**

| | 30 September 2012 | 31 December 2011 |
|------------------------------------|-------------------|------------------|
| Financial assets | | |
| Other long-term receivables | 784 | 880 |
| Total long-term receivables | 784 | 880 |

| | 30 September 2012 | 31 December 2011 |
|---|-------------------|------------------|
| Short-term receivables | | |
| Financial assets | | |
| Trade receivables | 23,982 | 16,511 |
| Other receivables | 10,598 | 10,914 |
| less: provision for doubtful debts | (3,030) | (3,640) |
| Total financial assets | 31,550 | 23,785 |
| Non-financial assets | | |
| Prepayments and advances and other non-financial assets | 10,291 | 12,511 |
| Total receivables | 41,841 | 36,296 |

VAT assets

| | 30 September 2012 | 31 December 2011 |
|--|-------------------|------------------|
| Recoverable VAT related to construction projects | 33,567 | 36,190 |
| Recoverable VAT related to ordinary activity | 48,854 | 39,633 |
| Total VAT assets | 82,421 | 75,823 |
| Less: short-term VAT | (82,364) | (46,854) |
| Long-term VAT | 57 | 28,969 |

**10 CASH AND CASH EQUIVALENTS**

| | 30 September 2012 | 31 December 2011 |
|---|-------------------|------------------|
| Balances denominated in Russian roubles | 27,047 | 54,440 |
| Balances denominated in US dollars | 56,213 | 63,637 |
| Balances denominated in Euro | 1,560 | 27,367 |
| Balances denominated in other currency | 29 | 102 |
| | 84,849 | 145,546 |

11 DIVIDENDS

In June 2012 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2011 in the amount of RUB 2,785 (preference shares – RUB 1,114, ordinary shares – RUB 1,671). Dividends were paid out in August 2012.

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

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

12 ACQUISITION OF NON-CONTROLLING INTEREST

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 8,348. The Group recognized a decrease in non-controlling interests in the amount of RUB 4,090 and an increase in retained earnings amounting to RUB 490.

13 BORROWINGS

| | 30 September 2012 | 31 December 2011 |
|---|-------------------|------------------|
| Borrowings and loans | 541,005 | 605,311 |
| Less: current borrowings and loans, current portion of long-term borrowings and loans | (24,181) | (53,372) |
| | 516,824 | 551,939 |
| Maturity of non-current borrowings and loans | | |
| Between one and five years | 243,896 | 196,172 |
| After five years | 272,928 | 355,767 |
| | 516,824 | 551,939 |

The non-convertible interest-bearing documentary bonds amounting to RUB 135,000 which mature in 2019 with a possibility of earlier repayment required by bond-holders or by intention of the issuer in 2015 are included in non-current borrowings and loans with maturity ranging between one and five years.

14 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

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

15 PROVISIONS FOR LIABILITIES AND CHARGES

| | 30 September 2012 | 31 December 2011 |
|-------------------------|-------------------|------------------|
| Dismantlement provision | 88,650 | 84,900 |
| Pension provision | 7,352 | 7,264 |
| | 96,002 | 92,164 |

**15 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)****Dismantlement provision**

The provision is established for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometre of removal according to an estimated plan of replacement over the long term. The calculation of oil pipeline provision 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 calculation of oil products pipeline provision is based on the assumption of accomplishment of approved long-term programs for capital repair of oil products pipeline and that dismantlement activity which are expected to cover the same number of kilometres each year over the useful life of the network. The cost of dismantlement is added to the cost of property, plant and equipment and depreciated over the useful economic life of the pipeline network. Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 8.37 % per annum (31 December 2011 – 8.51 % per annum).

Should the nominal average rate increase/(decrease) by 1%, dismantlement provision would (decrease)/increase by RUB (8,269)/13,519 as at 30 September 2012 accordingly (RUB (9,564)/11,616 as at 31 December 2011 accordingly).

Pension provision

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

Service cost, past service cost and actuarial (profit)/loss amounting to RUB 489 and RUB 82 for the nine months ended 30 September 2012 and 2011, respectively, are included in staff costs in the consolidated interim condensed statement of comprehensive income.

16 TRADE AND OTHER PAYABLES

| | 30 September 2012 | 31 December 2011 |
|---|--------------------------|-------------------------|
| Trade payables | 34,224 | 36,105 |
| Other payables | 9,943 | 8,496 |
| Total financial payables | 44,167 | 44,601 |
| Advances received for oil and oil product transportation services | 26,778 | 33,966 |
| Accruals | 25,820 | 31,411 |
| VAT output tax payable | 11,327 | 12,989 |
| Other taxes payable | 1,704 | 1,452 |
| Total payables | 109,796 | 124,419 |



17 SALES

| | Three months ended 30 September 2012 | Nine months ended 30 September 2012 | Three months ended 30 September 2011 | Nine months ended 30 September 2011 |
|--|---|--|---|--|
| Revenues from crude oil transportation services | | | | |
| Domestic tariff | 55,521 | 163,221 | 52,041 | 148,343 |
| Export tariff | 68,989 | 206,447 | 61,841 | 186,063 |
| Total revenues from crude oil transportation services | 124,510 | 369,668 | 113,882 | 334,406 |
| Revenues from crude oil sales | 43,860 | 126,893 | 37,331 | 112,359 |
| Revenues from oil products transportation services | 9,256 | 24,056 | 7,837 | 24,752 |
| Other revenues | 9,395 | 27,697 | 8,279 | 21,706 |
| | 187,021 | 548,314 | 167,329 | 493,223 |

Revenues from crude oil sales for the nine months ended 30 September 2012 include, mostly, revenues from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement the oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases the oil under the contract signed in April 2009 with OAO NK Rosneft (see Note 21).

18 OPERATING EXPENSES

| | Three months ended 30 September 2012 | Nine months ended 30 September 2012 | Three months ended 30 September 2011 | Nine months ended 30 September 2011 |
|--|---|--|---|--|
| Depreciation | 20,424 | 61,133 | 18,843 | 57,927 |
| Staff costs: | | | | |
| Salaries and pension expense | 24,277 | 62,281 | 18,084 | 52,206 |
| Social Funds contributions | 4,124 | 13,609 | 2,720 | 11,851 |
| Social expenses | 1,314 | 2,678 | 1,141 | 2,375 |
| Cost of oil sold | 25,540 | 69,937 | 18,165 | 63,220 |
| Export custom duties | 17,965 | 56,705 | 18,648 | 48,064 |
| Energy | 7,765 | 23,503 | 7,677 | 25,726 |
| Materials | 5,335 | 12,687 | 3,883 | 12,040 |
| Repairs services and maintenance of relevant technical condition of pipeline | 4,775 | 9,328 | 3,260 | 7,885 |
| Transportation of oil using railways and related services | 7,989 | 23,686 | 8,271 | 22,352 |
| Other | 12,292 | 27,074 | 8,965 | 25,619 |
| | 131,800 | 362,621 | 109,657 | 329,265 |



19 INTEREST INCOME AND INTEREST EXPENSE

| Interest income | Three months ended 30 September 2012 | Nine months ended 30 September 2012 | Three months ended 30 September 2011 | Nine months ended 30 September 2011 |
|--|---|--|---|--|
| Interest income on cash and cash equivalents | 1,426 | 5,031 | 2,048 | 9,869 |
| Interest income from other financial assets | 2,416 | 5,927 | 634 | 2,257 |
| Other interest income | 108 | 285 | 72 | 183 |
| Total interest income | 3,950 | 11,243 | 2,754 | 12,309 |
| Less interest income on the temporary investment of borrowings | (908) | (3,084) | (1,209) | (4,455) |
| Total interest income recognised in the statement of comprehensive income | 3,042 | 8,159 | 1,545 | 7,854 |
| Interest expense | Three months ended 30 September 2012 | Nine months ended 30 September 2012 | Three months ended 30 September 2011 | Nine months ended 30 September 2011 |
| Interest expense on borrowing cost | 8,197 | 25,645 | 8,310 | 24,357 |
| Provisions for asset retirement obligations: unwinding of the present value discount | 1,807 | 5,421 | 2,186 | 6,556 |
| Other interest expenses | 160 | 469 | 147 | 439 |
| Total interest expense | 10,164 | 31,535 | 10,643 | 31,352 |
| Less interest expense to be capitalised | (2,840) | (9,728) | (5,044) | (14,921) |
| Total interest expense recognised in the statement of comprehensive income | 7,324 | 21,807 | 5,599 | 16,431 |

20 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

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

21 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

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

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

**21 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)**

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

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

| | Three months ended 30 September 2012 | Nine months ended 30 September 2012 | Three months Ended 30 September 2011 | Nine months ended 30 September 2011 |
|--|---|--|---|--|
| Revenue from oil transportation services | 43,548 | 128,999 | 40,061 | 118,144 |
| OAO NK Rosneft and its subsidiaries | 37,049 | 109,749 | 33,915 | 100,080 |
| OAO Gazprom and its subsidiaries | 6,359 | 18,799 | 5,983 | 17,599 |
| Others | 140 | 451 | 163 | 465 |
| Revenue from oil products | 3,061 | 7,508 | 2,263 | 7,730 |
| OAO NK Rosneft and its subsidiaries | 790 | 1,787 | 276 | 1,369 |
| OAO Gazprom and its subsidiaries | 2,271 | 5,721 | 1,987 | 6,361 |
| Purchases of oil (OAO NK Rosneft) | 21,213 | 61,147 | 17,025 | 56,852 |
| Transportation of oil using railways and related services (OAO RZD and its subsidiaries) | 6,865 | 20,960 | 6,692 | 19,339 |
| Electricity expenses | 91 | 274 | 32 | 226 |
| Interest income from other financial assets | 1,790 | 4,711 | 479 | 2,108 |

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

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

| | Three months ended 30 September 2012 | Nine months ended 30 September 2012 | Three months ended 30 September 2011 | Nine months ended 30 September 2011 |
|---------------------------------|---|--|---|--|
| Revenue | 297 | 1,091 | 484 | 1,419 |
| Purchases of goods and services | 7,960 | 23,677 | 7,035 | 25,353 |

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

| | 30 September 2012 | 31 December 2011 |
|-----------------------------|-------------------|------------------|
| Trade and other receivables | 623 | 1,800 |
| Trade and other payable | 321 | 136 |
| Loan issued | 5,364 | 6,141 |

Key management personnel compensation

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



22 SEGMENT INFORMATION

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

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

Segment information for the nine months ended 30 September 2012 and at 30 September 2011 is as follows:

| Nine months ended 30 September 2012 | Oil transportation services | Oil products transportation services | Oil sales to China | Adjustments | Total IFRS |
|---|-----------------------------------|--|-----------------------|----------------|----------------|
| Sales | | | | | |
| Sales to third parties | 403,517 | 27,281 | 117,516 | - | 548,314 |
| Inter-segment sales | 3,313 | 47 | - | (3,360) | - |
| Total sales | 406,830 | 27,328 | 117,516 | (3,360) | 548,314 |
| Operating expenses | (245,706) | (19,452) | (117,325) | 19,862 | (362,621) |
| including amortisation and depreciation | (69,926) | (2,380) | - | 11,173 | (61,133) |
| Interest income | 9,018 | 57 | - | (916) | 8,159 |
| Interest expenses | (19,204) | (293) | - | (2,310) | (21,807) |
| Exchange gains/(loss) | 7,798 | 275 | (15) | (73) | 7,985 |
| Net change in fair value of derivatives | - | - | - | 1 | 1 |
| Other income/(expenses) | 10,850 | (27) | - | (10,823) | - |
| Share of profit from associates and jointly controlled entities | - | - | - | 2,870 | 2,870 |
| Profit/(loss) before income tax | 169,586 | 7,888 | 176 | 5,251 | 182,901 |
| Income tax expense | - | - | - | - | (39,908) |
| Profit for the period | - | - | - | - | 142,993 |
| Other segment disclosures | | | | | |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | 139,708 | 5,107 | - | 8,481 | 153,296 |



22 SEGMENT INFORMATION (CONTINUED)

| Nine months ended 30 September 2011 | Oil transportation services | Oil products transportation services | Oil sales to China | Adjustments | Total IFRS |
|---|-----------------------------------|--|-----------------------|----------------|----------------|
| Sales | | | | | |
| Sales to third parties | 360,701 | 27,295 | 105,227 | - | 493,223 |
| Inter-segment sales | 1,709 | 32 | - | (1,741) | - |
| Total sales | 362,410 | 27,327 | 105,227 | (1,741) | 493,223 |
| Operating expenses | (209,243) | (17,650) | (105,097) | 2,725 | (329,265) |
| Including depreciation and amortisation | (55,574) | (2,208) | - | (145) | (57,927) |
| Interest income | 13,071 | 110 | - | (5,327) | 7,854 |
| Interest expenses | (14,749) | (395) | - | (1,287) | (16,431) |
| Exchange gains/(loss) | (4,833) | (17) | 619 | 6,976 | 2,745 |
| Other income/(expenses) | 1,412 | (485) | - | (927) | - |
| Share of profit from associates and jointly controlled entities | - | - | - | 30,731 | 30,731 |
| Profit before income tax | 148,068 | 8,890 | 749 | 31,150 | 188,857 |
| Income tax expense | - | - | - | - | (33,392) |
| Profit for the period | - | - | - | - | 155,465 |
| Other segment disclosures | | | | | |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | 186,400 | 1,962 | - | 2,436 | 190,798 |

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

| 30 September 2012 | Oil transportation services | Oil products transportation services | Oil sales to China | Adjustments | Total IFRS |
|--|-----------------------------------|--|-----------------------|------------------|------------------|
| Investments in associates and jointly controlled entities | - | - | - | 37,663 | 37,663 |
| Total segment assets | 2,001,824 | 72,109 | 12,784 | (169,921) | 1,916,796 |
| Trade payables and advances received | 70,700 | 4,373 | - | (14,071) | 61,002 |
| Non-current borrowings | 516,824 | 5,724 | - | (5,724) | 516,824 |
| Current borrowings | 24,499 | 860 | - | (1,178) | 24,181 |
| Total segment liabilities | 708,673 | 15,091 | 8,846 | 51,233 | 783,843 |



22 SEGMENT INFORMATION (CONTINUED)

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

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

Adjusting items for segment's expenses in the amount of RUB 19,862 for the nine months ended 30 September 2012 and RUB 2,725 for the nine months ended 30 September 2011 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

| | Nine months ended 30 September 2012 | Nine months ended 30 September 2011 |
|--|--|--|
| Dismantlement provision | 2,091 | 2,691 |
| 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" | (14,767) | (5,148) |
| Financial leasing | (172) | 1,353 |
| Pension liabilities | (376) | (532) |
| Other operating expenses, net | (10,850) | (1,422) |
| Electricity | 830 | 242 |
| Accruals on future payments | 1,633 | - |
| Deferred expenses write-off | 1,804 | (552) |
| Intersegment operations | (2,267) | (1,067) |
| Others | 2,212 | 1,710 |
| Total adjusting items for segment's expenses | (19,862) | (2,725) |

Adjusting items for segment's assets in the amount of RUB 169,921 as at 30 September 2012 and RUB 170,060 as at 31 December 2011 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

| | 30 September 2012 | 31 December 2011 |
|---|-------------------|------------------|
| Increase in property plant and equipment for dismantlement provision | 36,668 | 40,431 |
| Adjustment to Property plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies" | (171,966) | (186,725) |
| Revaluation of linefill oil and oil products required under IAS 29 "Financial reporting in hyper-inflationary economies" and other adjustments | 50,641 | 50,566 |
| Business combination with Transnefteproduct | (52,553) | (52,553) |
| Deferred tax assets | (26,010) | (24,066) |
| Intersegment assets | (19,015) | (16,540) |
| Exchange loss and interest expenses recognized in fixed assets and assets under construction | 14,126 | 13,905 |
| Others | (1,812) | 4,922 |
| Total adjusting items for segment's assets | (169,921) | (170,060) |



22 SEGMENT INFORMATION (CONTINUED)

Adjusting items for segment's liabilities in the amount of RUB 51,233 as at 30 September 2012 and RUB 55,661 as at 31 December 2011 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

| | 30 September 2012 | 31 December 2011 |
|--|-------------------|------------------|
| Dismantlement provision | 88,650 | 84,900 |
| Pension liabilities | 7,351 | 7,264 |
| Deferred tax liabilities | (24,279) | (22,634) |
| Intersegment borrowings and interest expense | (19,015) | (16,540) |
| Others | (1,474) | 2,671 |
| Total adjusting items for segment's liabilities | 51,233 | 55,661 |

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

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

| | Nine months ended 30 September 2012 | Nine months ended 30 September 2011 |
|--------------------|--|--|
| Russian Federation | 409,137 | 368,508 |
| China | 117,516 | 105,227 |
| Other countries | 21,661 | 19,488 |
| | 548,314 | 493,223 |

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

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

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

| | Nine months ended 30 September 2012 | Nine months ended 30 September 2011 |
|---|--|--|
| Companies under control of the Government of the Russian Federation | 136,507 | 125,874 |
| China National United Oil Corporation | 117,516 | 105,227 |
| OAO Surgutneftegaz | 61,030 | 54,540 |
| OAO Lukoil | 55,484 | 48,672 |
| OAO TNK-BP Holding | 46,041 | 45,117 |
| | 416,578 | 379,430 |

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