OAO AK TRANSNEFT
CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

CONTENTS

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

1. We have prepared the consolidated financial statements for year ended 31 December 2011 which give a true and fair view of the financial position of the OAO AK Transneft (the "Company") and its subsidiaries (the "Group") at the end of the year and of the results of its operations and cash flows for the year then ended. Management of the Group is responsible for ensuring that the Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management believes that, in preparing the consolidated financial statements set out on pages 5 to 45 the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Financial Reporting Standards have been followed.

3. The consolidated financial statements, which are based on the statutory consolidated accounting reports for the year ended 31 December 2011, approved by management in May 2012, have been converted in accordance with International Financial Reporting Standards.

N.P. Tokarev
President
May 2012

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Independent Auditors' Report

To the Shareholders and Board of Directors of OAO AK Transneft

We have audited the accompanying consolidated financial statements of OAO AK Transneft and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 were audited by other auditors whose report dated 31 May 2011 expressed an unmodified opinion on those statements.

ZAO KPMG

ZAO KPMG

15 May 2012

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

	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Intangible assets		1,197	1,539
Property, plant and equipment	6	1,343,501	1,214,355
Available-for-sale investments	7	292	336
Investments in associates and jointly controlled entities	8,22	34,889	4,835
VAT assets	11	28,969	14,888
Receivables and prepayments	11	880	534
Other financial assets	9	5,586	-
Total non-current assets		**1,415,314**	**1,236,487**
Current assets			
Inventories	10	22,508	17,272
Receivables and prepayments	11	36,296	26,508
VAT assets	11	46,854	33,412
Current income tax prepayments		9,939	3,242
Other financial assets	9	181,749	50,850
Cash and cash equivalents	12	145,546	283,864
Total current assets		**442,892**	**415,148**
Total assets		**1,858,206**	**1,651,635**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	308	308
Share premium reserve	13	52,553	52,553
Merger reserve	13	(13,080)	(13,080)
Retained earnings		919,690	732,864
Attributable to the owners of OAO AK Transneft		**959,471**	**772,645**
Non-controlling interest	14	37,056	33,792
Total equity		**996,527**	**806,437**
Non-current liabilities			
Borrowings	15	551,939	573,148
Deferred income tax liabilities	16	37,093	37,303
Provisions for liabilities and charges	17	92,164	123,579
Total non-current liabilities		**681,196**	**734,030**
Current liabilities			
Trade and other payables	18	124,419	97,966
Current income tax payable		2,692	2,547
Borrowings	15	53,372	10,655
Total current liabilities		**180,483**	**111,168**
Total liabilities		**861,679**	**845,198**
Total equity and liabilities		**1,858,206**	**1,651,635**

Approved on May 2012 by:

N.P. Tokarev — President

M.V. Russkikh — General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

The accompanying notes set out on pages 9 to 45 are an integral part of these consolidated financial statements

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

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Revenue	19	670,270	447,532
Operating expenses	20	(457,848)	(280,609)
Operating profit		**212,422**	**166,923**
Financial items:			
Exchange gains		129,375	65,004
Exchange loss		(125,589)	(64,878)
Interest income	21	9,884	6,764
Interest expense	21	(22,049)	(20,873)
Total financial items		**(8,379)**	**(13,983)**
Share of profit from associates and jointly controlled entities	8	31,486	4,568
Profit before income tax		**235,529**	**157,508**
Current income tax expense		(44,500)	(25,799)
Deferred income tax expense		189	(6,800)
Income tax expense	16	**(44,311)**	**(32,599)**
Profit for the period		**191,218**	**124,909**
Other comprehensive income after tax			
Currency translation differences		44	(21)
Fair value (losses) / gains on available-for-sale financial assets, net of tax		(100)	70
Total comprehensive income		**191,162**	**124,958**
Profit attributable to:			
Shareholders of OAO AK Transneft		188,105	118,617
Non-controlling interest	14	3,113	6,292
Total comprehensive income attributable to:			
Shareholders of OAO AK Transneft		188,049	118,666
Non-controlling interest	14	3,113	6,292

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

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities			
Cash receipts from customers		702,180	498,967
Cash paid to suppliers and employees, and taxes other than profit tax		(497,285)	(311,844)
Interest paid		(35,264)	(35,112)
Income tax paid		(50,776)	(24,860)
Tax refunds		54,274	74,193
Other cash used in operating activities		(1,518)	(6,668)
Net cash from operating activities		**171,611**	**194,676**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(209,526)	(225,119)
Proceeds from sales of property, plant and equipment		2,046	1,249
Interest and dividends received		13,681	14,686
Loans issued		(5,902)	-
Purchase of notes		(183,427)	(51,909)
Sales notes		71,349	39,448
Other cash (used in)/ received from investing activities		(561)	906
Net cash used in investing activities		**(312,340)**	**(220,739)**
Cash flows from financing activities			
Proceeds from long and short-term borrowings		-	32,370
Repayment of long and short-term borrowings		(220)	(861)
Payment of finance lease obligations		(17)	(757)
Dividends paid		(1,173)	(1,417)
Other cash proceeded in financing activities		119	-
Net cash (used in)/ from financing activities		**(1,291)**	**29,335**
Effects of exchange rate changes on cash and cash equivalents		**3,702**	**(3,066)**
Net (decrease)/ increase in cash and cash equivalents		**(138,318)**	**206**
Cash and cash equivalents at the beginning of the period	12	283,864	283,658
Cash and cash equivalents at the end of the period	12	**145,546**	**283,864**

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The accompanying notes set out on pages 9 to 45 are an integral part of these consolidated financial statements

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

	Attributable to the owners of OAO AK Transneft						
	Share capital	**Share premium**	**Merger reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010	**308**	**52,553**	**(13,080)**	**615,171**	**654,952**	**26,444**	**681,396**
Profit for the period	-	-	-	118,617	118,617	6,292	124,909
Fair value gain on available-for sale investments, net of tax	-	-	-	70	70	-	70
Currency translation differences, net of tax	-	-	-	(21)	(21)	-	(21)
Total comprehensive income for the period	**-**	**-**	**-**	**118,666**	**118,666**	**6,292**	**124,958**
Additional issuance of shares by a subsidiary	-	-	-	-	-	1,593	1,593
Dividends							
- ordinary shares	-	-	-	(584)	(584)	(537)	(1,121)
- preference shares	-	-	-	(389)	(389)	-	(389)
Balance at 31 December 2010	**308**	**52,553**	**(13,080)**	**732,864**	**772,645**	**33,792**	**806,437**
Balance at 1 January 2011	**308**	**52,553**	**(13,080)**	**732,864**	**772,645**	**33,792**	**806,437**
Profit for the period	-	-	-	188,105	188,105	3,113	**191,218**
Fair value losses on available-for sale investments, net of tax	-	-	-	(100)	(100)	-	(100)
Currency translation differences, net of tax	-	-	-	44	44	-	44
Total comprehensive income for the period	**-**	**-**	**-**	**188,049**	**188,049**	**3,113**	**191,162**
Additional issuance of shares by a subsidiary	-	-	-	-	-	151	151
Dividends							
- ordinary shares	-	-	-	(734)	(734)	-	(734)
- preference shares	-	-	-	(489)	(489)	-	(489)
Balance at 31 December 2011	**308**	**52,553**	**(13,080)**	**919,690**	**959,471**	**37,056**	**996,527**

Approved on May 2012 by:

N.P. Tokarev — President

M.V. Russkikh — General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

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 51,395 km at 31 December 2011 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 19,071 km as at 31 December 2011. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the year ended 31 December 2011, the Group transported 472 million tonnes of crude oil to domestic and export markets (year ended 31 December 2010 – 466 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 29,3 million tonnes of oil products (30,4 million tonnes for year ended 31 December 2010).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

3 BASIS OF PRESENTATION

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

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

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

The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its principal subsidiaries including ChUP Zapad-Transnefteproduct and DP Prikarpatzapadtrans, and the Group’s presentation currency, is the national currency of the Russian Federation, Russian Roubles (“RUB”). The official US dollar (“USD”) to Russian Rouble (“RUB”) exchange rates as determined by the Central Bank of the Russian Federation (“CBR”) was 32.1961 and 30.4769 as at 31 December 2011 and 31 December 2010, respectively. The official euro (“EUR”) to Russian Rouble (“RUB”) exchange rates as determined by the Central Bank of the Russian Federation was 41.6714 and 40.3331 as at 31 December 2011 and 31 December 2010, respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

Non-controlling interests at the reporting date represent the non-controlling shareholders' portion of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the non-controlling interests' portion of movements in equity since the date of the acquisition. Non-controlling interests are that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which are attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interests are presented within equity in the consolidated financial statements.

Investments in associates and joint control entities

Associates are undertakings over which the Group has significant influence and that are neither a subsidiary nor an interest in joint venture. Significant influence occurred when the Group has the power to participate in the financial and operational policy decisions of the entity but has no control or joint control over those policies.

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

Investments in associates and jointly controlled entities are accounted under equity method.

Business combination under common control

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

Transactions eliminated on consolidation

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

Foreign currency

Foreign currency transactions

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are carried at initial historical cost, including, where appropriate, the net present value of the estimated dismantlement or removal cost of the asset at the end of its estimated useful life, less accumulated depreciation. Assets under construction are carried at historical cost and depreciated from the time the asset is available for use. Depreciation is calculated on the straight-line basis to write down the cost of each asset to its estimated residual value over its estimated useful life as follows:

	Years
Buildings and facilities	8-50
Crude oil pipelines and tanks	20-33
Oil product pipelines	50
Other plant and equipment	5-25

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

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

Crude oil and oil products used for technical operation of the pipeline network (“linefill”) owned by the Group is treated as a separate component of the pipeline class of asset and is not depreciated as its residual value exceeds its carrying amount.

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

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

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

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

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Each lease payment is allocated between the liability and finance charges so as to achieve a constant effective interest rate on the finance balance outstanding. The leased assets are depreciated from the time the asset is available for use. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

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

Inventories

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities

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

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

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

Available-for-sale financial assets

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

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

Accounts receivable

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss in the consolidated statement of comprehensive income.

Cash and cash equivalents

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

VAT assets

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

Borrowings

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

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the profit and loss in the statement of comprehensive income except if it is recognised directly in comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in equity or comprehensive income.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

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

State pension fund

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

Provisions (including dismantlement)

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Pension provision

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

The Group also operates a defined benefit plan that provides lump sum payments to employees on their retirement. Pension costs are recognised using the projected unit credit method. The cost of providing pension contributions is charged to operating expenses in profit or loss, so as to spread the regular cost over the service lives of employees. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability. Actuarial gains and losses are recognised in full as they arise in the profit or loss in the consolidated statement of comprehensive income.

Environmental provision

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

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

Revenue recognition

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

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

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

Revenues represent the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts and value-added tax. Customs duties are reported on a gross-up basis and are shown in "Operating expenses" line of consolidated statement of comprehensive income.

Capitalisation of borrowing costs

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Share capital and dividends

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

Dividends are recognised as a liability and deducted from shareholders’ equity on the date on which they are approved. Dividends proposed at any time, and those approved between the reporting date and the date of issuing the consolidated financial statements, are disclosed.

New accounting developments

A number of new Standards, amendments to Standards and Interpretations have been issued that are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

IAS 19 (2011) Employee Benefits. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 July 2013 and early adoption is permitted. The amendment generally applies retrospectively. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

IAS 27 (2011) Separate Financial Statements will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The amended standard will become effective for annual periods beginning on or after 1 January 2013. Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011). The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

IAS 28 (2011) Investments in Associates and Joint Ventures combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.

IFRS 10 Consolidated Financial Statements will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 Consolidation – Special Purpose Entities. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

IFRS 11 Joint Arrangements will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 Interests in Joint Ventures. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, which are consolidated on a proportionate basis, or as joint ventures, for which the equity method is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

IFRS 12 Disclosure of Interests in Other Entities will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

IFRS 13 Fair Value Measurement will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application. The Group has not yet analysed the likely impact of the new Standard on its financial position or performance.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendment to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income. The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The amendment is not expected to have a significant effect on the consolidated financial statements of the Group.

Amendment to IAS 12 Income taxes – Deferred Tax: Recovery of Underlying Assets. The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The amendment is not expected to have a significant effect on the consolidated financial statements of the Group.

Amendment to IFRS 7 Disclosures – Transfers of Financial Assets. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have a significant effect on the consolidated financial statements of the Group.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

Useful lives of property, plant and equipment

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

Should the useful life of the oil pipeline increase by 10 years, the profit for the year ended 31 December 2011 would be RUB 5,818 higher (the year ended 31 December 2010: RUB 4,309) as a result of decrease of depreciation expenses.

Dismantlement provision

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

The calculation of oil pipelines 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 pipelines 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.

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

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

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

Should the average current cost per kilometre of oil pipeline removal increase/(decrease) by 10%, the profit for the period in year ended 31 December 2011 would be RUB 1,476 lower/(higher) (the year ended 31 December 2010: RUB 894) due to changes of depreciation and interest expenses.

Should the useful life of the oil pipeline increase by 10 years, the profit for the year ended 31 December 2011 would be RUB 2,847 higher (the year ended 31 December 2010: RUB 1,770) as a result of decrease of depreciation and interest expenses.

Should the discount rate applied in calculation of dismantlement provision increase/(decrease) by 1%, dismantlement provision would (decrease)/increase by (RUB 9,564) / RUB 11,616 as at 31 December 2011 ((RUB 14,794) / RUB 18,230 as at 31 December 2010).

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

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	**Pipelines and tanks**	**Other plant and equipment**	**Linefill**	**Assets under construction including prepayments**	**Total**
At 1 January 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	(4,106)	(35,177)	(41,645)	-	-	(80,928)
Additions (including prepayments)	-	-	-	7,978	244,549	252,527
Transfers from assets under construction	10,641	100,406	51,411	-	(162,458)	-
Change in provision for impairement of property, plant and equipment	-	2	165	-	-	167
Net change in dismantlement provision (see Note 17)	-	(38,620)	-	-	(261)	(38,881)
Disposals/retirements at cost	(1,046)	(2,340)	(4,113)	(607)	-	(8,106)
Accumulated depreciation on disposals/retirements and impairment	394	921	3,052	-	-	4,367
Net book value at 31 December 2011	**94,774**	**528,694**	**276,700**	**84,502**	**358,831**	**1,343,501**
At 31 December 2011						
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 31 December 2011	**94,774**	**528,694**	**276,700**	**84,502**	**358,831**	**1,343,501**

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

6 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2010						
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)
Net book value at 1 January 2010	**80,684**	**476,041**	**249,042**	**76,372**	**115,261**	**997,400**
Depreciation	(3,569)	(30,336)	(39,511)	-	-	(73,416)
Additions (including prepayments)	-	-	-	1,170	261,821	262,991
Transfers from assets under construction	11,989	30,204	62,180	-	(104,373)	-
Transfers to assets under construction	-	-	(2,091)	-	2,091	-
Additional impairment provision	-	83	-	-	-	83
Net change in dismantlement provision (see Note 17)	-	27,759	-	-	2,201	29,960
Disposals/retirements at cost	(366)	(1,511)	(5,712)	(411)	-	(8,000)
Accumulated depreciation on disposals/retirements and impairment	153	1,262	3,922	-	-	5,337
Net book value at 31 December 2010	**88,891**	**503,502**	**267,830**	**77,131**	**277,001**	**1,214,355**
At 31 December 2010						
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 31 December 2010	**88,891**	**503,502**	**267,830**	**77,131**	**277,001**	**1,214,355**

Property, plant and equipment and assets under construction as at 31 December 2011 are presented net of impairment provision of RUB 5,227 (as at 31 December 2010 – net of impairment provision of RUB 5,394), against specific pipeline assets and machinery.

Losses from disposal of fixed assets in the amount of RUB 3,739 and RUB 2,663 for the year ended 31 December 2011 and 31 December 2010 respectively, are included in other expenses in the consolidated statement of comprehensive income.

Line fill represents RUB 77,740 of crude oil and RUB 6,762 of oil products as at 31 December 2011 (as at 31 December 2010 – RUB 70,050 of crude oil and RUB 7,081 of oil products) (Note 4).

During the year ended 31 December 2011, borrowing costs in the amount of RUB 25,440 were capitalised as part of cost of assets under construction (for the year ended 31 December 2010 – RUB 13,991) including interests to be capitalised in the amount of RUB 22,113 less interest income on the temporary investment of borrowings in the amount of RUB 6,176 as disclosed in Note 21.

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

7 AVAILABLE-FOR-SALE INVESTMENTS

Marketable securities mainly include investments in corporate shares listed on the market.

	31 December 2011	31 December 2010
Marketable securities	44	113
Investments in other Russian companies	248	223
Non-current available-for-sale investments	**292**	**336**

8 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Carrying amount of investment in associates and jointly controlled entities in amount of RUB 34,889 as at 31 December 2011 (RUB 4,835 - at 31 December 2010) are shown net of impairment provision of RUB 1,772 as at 31 December 2011 (RUB 1,689 - at 31 December 2010) (the amount of provision in Latvian lat was LVL 29,729 thousand at 31 December 2011 and LVL 29,729 thousand at 31 December 2010).

In January 2011 the Group's jointly controlled entity Omirico Ltd sold 100% of OOO Primorsk Trade Port ("PTP") to OAO Novorossiysk Commercial Sea Port ("NCSP") for US Dollars 2,153 million (RUB 64,406 at the CBR exchange rate at the date of transaction). As a result of this transaction Group recognized a gain on disposal of PTP in the amount of RUB 29,034 which is presented in the consolidated statement of comprehensive income as Share of profit from associates and jointly controlled entities .

At the same time Omirico Ltd indirectly acquired a controlling interest (50.1%) in NCSP. As a result of this transaction Group obtained the effective interest of 25.05% in NCSP. As of 31 December 2011 the carrying value of Group's investment in NCSP is RUB 33,484. The principal activities of NCSP and its subsidiaries are stevedoring and additional port services, and tug and towing services and bunkering.

Summarised financial information of associates and jointly controlled entities at 31 December 2011 and 2010 was as follows:

	31 December 2011	31 December 2010
Assets	259,114	27,647
Liabilities	(102,892)	(16,463)
	2011	**2010**
Revenue	133,828	43,988
Profit for the year	66,316	6,481

9 OTHER FINANCIAL ASSETS

As at 31 December 2011 other non-current financial assets include:

- loan to Omirico Ltd was issued in January 2011. Loan amounts to USD 173.5 million (RUB 5,221 at the CBR exchange rate effective at the issuance date), with the carrying value of RUB 5,586 (at the CBR exchange rate as at 31 December 2011). Interest rate is 5.27% per annum. The loan is due in 5 years. The loan and interest accrued should be paid at the date of repayment.

As at 31 December 2011 other current financial assets mainly include:

- Non-interest-bearing notes which are repayable on demand but not earlier than the fourth quarter of 2012. They were purchased by the Group in 2011 for a consideration of RUB 11,993, nominal value of RUB 12,795, carring value of RUB 12,046.
- Non-interest-bearing notes which are repayable on demand but not earlier than January – September 2012. They were purchased by the Group in 2011 for a consideration of USD 4,145 million (RUB 120,870 at the CBR exchange rate effective at the purchase date), nominal value of USD 4,284 million, carring value of RUB 134,541 (at the CBR exchange rate as at 31 December 2011).
- Interest-bearing notes which mature in June – December 2012. They were purchased by the Group in the fourth quarter of 2011 for a consideration of USD 844 million (RUB 26,796 at the CBR exchange rate effective at the purchase date), carring value of RUB 27,159 (at the CBR exchange rate as at 31 December 2011).

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

9 OTHER FINANCIAL ASSETS (continued)

– Non-interest-bearing notes which are repayable on demand but not earlier than June 2012. They were purchased by the Group in 2011 for a consideration of EUR 95 million (RUB 3,810 at the CBR exchange rate effective at the purchase date), nominal value of EUR 99 million, carring value of RUB 4,013 (at the CBR exchange rate as at 31 December 2011).

– Deposits in Russian roubles for a total amount of RUB 3,029 with maturity date no later than November 2012.

As at 31 December 2010 other financial assets include:

– Non-interest-bearing notes which mature in the first quarter of 2011. They were purchased by the Group in the first quarter of 2010 for a consideration of RUB 18,525, nominal value of RUB 20,315, carring value of RUB 19,316.

– Non-interest-bearing notes which are repayable on demand but not earlier than January – December 2011. They were purchased by the Group in the fourth quarter of 2010 for a consideration of USD 841 million (RUB 26,339 at the CBR exchange rate effective at the purchase date), nominal value of USD 872 million, carring value of RUB 25,667 (at the CBR exchange rate as at 31 December 2010).

– Interest-bearing note which matures in the first quarter of 2011. It was purchased by the Group in the third quarter of 2010 for a consideration of USD 50 million (RUB 1,555 at the CBR exchange rate effective at the purchase date), nominal value of USD 51 million, carring value of RUB 1,524 (at the CBR exchange rate as at 31 December 2010).

– Interest-bearing note which matures in the third quarter of 2011. It was purchased by the Group in the third quarter of 2010 for a consideration of EUR 40 million (RUB 1,565 at the CBR exchange rate effective at the purchase date), nominal value of EUR 42 million carring value of RUB 1,613 (at the CBR exchange rate as at 31 December 2010).

– Deposits in Russian roubles to the total amount of RUB 2,575 with maturity in the first quarter of 2011.

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

Fair value of other financial assets does not significantly differ from their carrying amount as at 31 December 2011 and 31 December 2010.

10 INVENTORIES

	31 December 2011	**31 December 2010**
Materials and supplies	14,090	10,012
Sundry goods for resale	8,392	7,042
Other items	26	218
	22,508	**17,272**

Materials and supplies are presented net of provisions for obsolescence of RUB 168 as at 31 December 2011 (as at 31 December 2010 –RUB 364). Materials are primarily used in the maintenance of pipeline equipment.

Sundry goods for resale, including oil and oil products, are presented net of impairment provision of RUB 6 thousand as at 31 December 2011 (as at 31 December 2010 – RUB 1).

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

11 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	31 December 2011	31 December 2010
Financial assets		
Other long-term receivables	880	534
Total long-term receivables	**880**	**534**

	31 December 2011	31 December 2010
Short-term receivables		
Financial assets		
Trade receivables	16,511	1,811
Other receivables	10,914	11,210
less: provision for doubtful debts	(3,640)	(3,265)
Total financial assets in short-term receivables	**23,785**	**9,756**
Non-financial assets		
Prepayments and advances and other non-financial receivables	12,511	16,752
Total receivables	**36,296**	**26,508**

As at 31 December 2011 and 31 December 2010 other accounts receivable include advances issued for capital construction which are currently subject to legal proceedings due to non-fulfilment of works under the contract, interest receivable related to temporarily available cash balances with banks and receivables related to insurance.The provision for doubtful debt on other receivable primarily consists of amounts provided against advances issued for capital construction which is currently subject to legal proceedings due to non-fulfilment of works under the contract.

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

	2011		2010	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January	16	3,249	40	3,215
Reversal of provision	(20)	(21)	(35)	(54)
Accrued provision	14	402	11	88
As at 31 December	10	3,630	16	3,249

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

According to the analysis of accounts receivable in respect to the payment dates the Group has the following overdue balances not included in the provision for accounts receivable as at 31 December 2011 and 2010:

Overdue period	31 December 2011		31 December 2010	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Less than 90 days	136	92	78	216
More than 90 days but less than 365 days	76	231	109	205
Over 365 days	36	141	47	293
	248	**464**	**234**	**714**

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

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

11 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS (continued)

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

Currency	31 December 2011			31 December 2010		
	Trade receivables	Other receivables	Total receivables	Trade receivables	Other receivables	Total receivables
Russian roubles	2,045	7,008	9,053	1,689	7,511	9,200
USD	14,415	275	14,690	92	395	487
Other	41	1	42	14	55	69
	16,501	**7,284**	**23,785**	**1,795**	**7,961**	**9,756**

VAT assets

	31 December 2011	31 December 2010
Recoverable VAT related to construction projects	36,190	17,893
Recoverable VAT related to ordinary activity	39,633	30,407
	75,823	48,300
Less: short-term VAT	(46,854)	(33,412)
Long-term VAT	**28,969**	**14,888**

12 CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
Balances in Russian roubles	54,440	199,912
Balances in US dollars	63,637	75,700
Balances in Euro	27,367	8,157
Balances in other currencies	102	95
	145,546	**283,864**

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain established requirements. As at 31 December 2011 and 31 December 2010, a significant portion of cash was placed with State controlled financial institutions (59% and 48% correspondingly).

13 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital

	31 December 2011			31 December 2010		
	Number of shares	**Histori cal cost**	**Inflated cost**	**Number of shares**	**Histori cal cost**	**Inflated cost**
Authorised, issued and fully paid shares of par value RUB 1 each						
Ordinary:	5,546,847	5.6	231	5,546,847	5.6	231
Preferred:	1,554,875	1.5	77	1,554,875	1.5	77
	7,101,722	**7.1**	**308**	**7,101,722**	**7.1**	**308**

The carrying value of the share capital as at 31 December 2011 and as at 31 December 2010 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

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

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

13 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

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

Rights attributable to preferred shares

Holders of preferred shares shall receive dividends pursuant to the authorization of dividend payments at the general meeting of shareholders. The amount of dividends to be paid on preferred shares is established as 10 percent of the net profits of the Company prepared in accordance with RSA for the most recent financial year.

Dividends on the preferred shares are not cumulative.

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

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

Dividends

In June 2011 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2010

	Russian roubles per share	Total
Ordinary shares	132.34	734
Preferred shares	314.73	489
		1,223

The whole amount of dividends was paid in August 2011.

In June 2010 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2009

	Russian roubles per share	Total
Ordinary shares	105.29	584
Preferred shares	250.39	389
		973

The whole amount of dividends was paid in December 2010.

In 2010 dividends for a total amount of RUB 537 were approved at the general shareholders meeting of a subsidiary.

Distributable profits

The statutory accounting reports of the Company are the basis for their respective profit distribution and other appropriations. The statutory profit of the Company was RUB 11,142 for the year ended 31 December 2011 (RUB 4,894 for the year ended 31 December 2010 as for financial statements prepared in 2010).

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

14 NON-CONTROLLING INTEREST

Non-controlling interest mainly represents the shares in subsidiary entities held by OAO Svayzinvestneftekhim (36% of OAO SZMN), the Ministry of Land and Property Relations of the Republic of Bashkortostan (24.5% of OAO Uralsibnefteprovod, 13.8% OAO Uraltransnefteproduct) and ZALANA COMPANY LIMITED (49.96% of OAO Energoterminal) and ZAO UVZ-Trans (49% of OAO VOSTOKNEFTETRANS). For share in other subsidiaries refer to Note 22.

15 BORROWINGS

	31 December 2011	31 December 2010
Borrowings and loans	605,311	583,803
Total borrowings and loans	605,311	583,803
Less: current borrowings and loans and current portion of non-current borrowings and loans	(53,372)	(10,655)
	551,939	**573,148**

Maturity of non-current borrowings and loans		
Due for repayment:		
Between one and five years	196,172	236,378
After five years	355,767	336,770
	551,939	**573,148**

Borrowings and loans include fixed rate Eurobonds with a carrying value of RUB 140,246 and fair value of RUB 152,338 as at 31 December 2011 (as at 31 December 2010 carrying amount of fixed rate loans was RUB 133,378, fair value – RUB 147,431). Carrying amount and fair value of nonconvertible interest bearing documentary bonds payable to bearer are RUB 135,000 and RUB 145,505 accordingly as at 31 December 2011 (as at 31 December 2010 carrying amount and fair value were 135,000 and RUB 140,410 accordingly). Fair value of Eurobonds and nonconvertible interest bearing documentary bonds payable to bearer were determined with reference to quoted prices. The fair value of the short-term borrowings approximates their carrying amount as at 31 December 2011 and 31 December 2010. Fair value of floating rate loans approximates their carrying amount as at 31 December 2011 and 31 December 2010.

In March 2007, the Group issued Eurobonds in the amount of USD 1.3 billion (RUB 41,854 at CBR exchange rate at 31 December 2011, RUB 39,619 at CBR exchange rate at 31 December 2010) 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 (RUB 16,098 at CBR exchange rate at 31 December 2011, RUB 15,238 at CBR exchange rate at 31 December 2010) 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 (RUB 29,170 at CBR exchange rate 31 December 2011, RUB 28,233 at CBR exchange rate at 31 December 2010) 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 (RUB 19,318 at CBR exchange rate as 31 December 2011, RUB 18,286 at CBR exchange rate at 31 December 2010) at an interest rate of 7.70% per annum due in 5 years.

Also in August 2008, the Group issued Eurobonds in the amount of USD 1.05 billion (RUB 33,806 at CBR exchange rate as 31 December 2011, RUB 32,001 at CBR exchange rate at 31 December 2010) 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.

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

15 BORROWINGS (continued)

In October 2007, the Group entered into a further revolving credit facility agreement with Sberbank for up to RR 145,000 to be available until 2014 for the purpose of financing the construction of the Eastern Siberia-Pacific Ocean pipeline. There are no liabilities under this agreement as at 31 December 2011 (as at 31 December 2010 – RUB 1).

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 quarter 2011 and on a monthly basis after 1 quarter 2011. In 2009 the Group received USD 9.0 billion and USD 1.0 billion in 2010. The proceeds will be used for the construction of crude oil pipeline infrastructure, including construction of the crude oil pipeline from Scovorodino 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 RUB 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, for the second coupon periods - at 9.5%- 9.9% and for the third coupon period – at 9.75% - 10.15%. 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.

All borrowings and loans of the Group, except loan received from China Development Bank Corporation, are unsecured as at 31 December 2011 and 31 December 2010.

16 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Deferred tax liabilities and assets consist of the following:

	1 January 2011	**(Charged)/ credited to profit or loss**	**(Charged)/ credited directly to equity**	**31 December 2011**
Deferred tax liabilities:				
Carrying value of property, plant and equipment in excess of tax base	(64,805)	3,907	-	(60,898)
Other liabilities:	(521)	(122)	21	(622)
	(65,326)	**3 785**	**21**	**(61,520)**
Deferred tax assets:				
Provisions against inventories, receivables and accruals	1,079	(580)	-	499
Tax loss	3,566	3,354	-	6,920
Provisions for dismantlement and other expenses	23,378	(6,370)	-	17,008
	28,023	**(3,596)**	**-**	**24,427**
Net deferred tax liability	**(37,303)**	**189**	**21**	**(37,093)**

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

16 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

	1 January 2010	(Charged)/ credited to profit or loss	(Charged) /credited directly to equity	31 December 2010
Deferred tax liabilities:				
Carrying value of property, plant and equipment in excess of tax base	(49,041)	(15,764)	-	(64,805)
Other	(347)	(176)	2	(521)
	(49,388)	**(15,940)**	**2**	**(65,326)**
Deferred tax assets:				
Provisions against inventories, receivables and accruals	1,000	79	-	1,079
Tax loss carry forward	1,705	1,861	-	3,566
Provisions for dismantlement and other expenses	16,178	7,200	-	23,378
	18,883	**9,140**	**-**	**28,023**
Net deferred tax liability	**(30,505)**	**(6,800)**	**2**	**(37,303)**

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the statutory rate of 20% for year ended 31 December 2011 and 31 December 2010.

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

	Year ended 31 December 2011	Year ended 31 December 2010
Profit before income tax	**235,529**	**157,508**
Theoretical income tax expense at 20%	47,106	31,502
Increase due to:		
Items not taxable for income tax purposes	(5,998)	-
Items not deductible for income tax purposes	3,203	1,097
Actual income tax expense	**44,311**	**32,599**

The Group has not recognised a deferred tax liability in respect of RUB 180,246 as at 31 December 2011 (as at 31 December 2010 - RUB 167,521) of taxable temporary differences associated with its investments in subsidiaries as the Group is able to control the timing of their reversal and does not believe they will reverse in the foreseeable future.

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

According to the Russian tax legislation the amounts of tax losses generated by a taxpayer before joining a consolidated taxpayers' group are not available for offset against taxable profits of other participants of the consolidated taxpayers' group. However, if a taxpayer leaves a consolidated taxpayers' group, such losses again become available for offset. The expiration period of the losses is extended to take account of any time spent within a consolidated taxpayers' group. Due to creation of the consolidated taxpayers' group in 2012, the impact, if any, on deferred tax balances will be accounted in 2012.

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

17 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2011	31 December 2010
Dismantlement provision	84,900	116,202
Pension provision	7,264	7,377
	92,164	**123,579**

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 of pipelines. 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 8.51% per year (31 December 2010 – 7.52% per year).

	2011	2010
At 1 January	116,202	80,535
Provision on additions to property, plant and equipment	387	2,864
Changes in estimates adjusted against property, plant and equipment	(39,268)	27,096
Utilised in the period	(669)	(740)
Unwinding of the present value discount	8,741	6,840
Reversal of provision	(493)	(393)
At 31 December	**84,900**	**116,202**

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.

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

Movement in defined benefit obligation	**2011**	**2010**
At 1 January	7,377	6,247
Interest cost	585	547
Service cost	278	269
Actuarial (gain)/ loss	(110)	843
Past service cost	-	271
Benefits paid	(866)	(800)
At 31 December	**7,264**	**7,377**

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

17 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Service cost, past service cost and actuarial (profit) / loss amounting to RUB 168 and RUB 1,383 for the year ended 31 December 2011 and 2010, respectively, are included in staff costs in the consolidated statement of comprehensive income, interest expense in the amount of RUB 585 and RUB 547 for the year ended 31 December 2011 and 2010, respectively, are included in interest expenses.

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

	31 December 2011	31 December 2010	31 December 2009	31 December 2008	31 December 2007
Present value of provision (unfunded)	7,264	7,377	6,247	5,772	4,607
Liability	7,264	7,377	6,247	5,772	4,607
Unrecognised past service (cost)/credit	-	-	-	-	-

Principal actuarial assumptions used (expressed as weighted average):

	31 December 2011	31 December 2010
Average nominal discount rate	8.51%	7.93%
Future salary increases (nominal)	4.96%	6.00%
Expected long-term inflation rate	4.00%	5.00%

As at 31 December 2011, if the future estimated inflation rate had increased by 1%, the amount of the Group pension provisions would have been RUB 629 higher (as at 31 December 2010 – RUB 700).

18 TRADE AND OTHER PAYABLES

	31 December 2011	31 December 2010
Trade payables	36,105	32,447
Other payables	8,496	6,085
Total financial payables	44,601	38,532
Advances received for oil and oil product transportation services	33,966	28,948
Accrued expenses	31,411	19,814
VAT output tax payable	12,989	9,049
Other taxes payable	1,452	1,623
Total payables	**124,419**	**97,966**

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

Currency	31 December 2011			31 December 2010		
	Trade payables	Other payables	Total payables	Trade payables	Other payables	Total payables
Russian roubles	26,791	6,978	33,769	32,376	5,382	37,758
USD	9,205	1,241	10,446	56	341	397
Euro	14	277	291	12	362	374
Other	95	-	95	3	-	3
	36,105	**8,496**	**44,601**	**32,447**	**6,085**	**38,532**

Trade payables include payables for purchases of property, plant and equipment in amount RUB 19,892 as at 31 December 2011 and RUB 21,971 as at 31 December 2010.

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

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

19 REVENUE

	Year ended 31 December 2011	Year ended 31 December 2010
Revenues from crude oil transportation services		
Domestic tariff	198,116	164,253
Export tariff	257,636	221,891
Total revenues from crude oil transportation services	**455,752**	**386,144**
Revenues from oil products transportation services	31,068	30,605
Revenues from crude oil sales	152,108	8,084
Revenues from oil products sales	12,671	5,374
Revenues from construction contract	-	3,849
Revenues from oil compounding	4,861	4,053
Other revenues	13,810	9,423
	670,270	**447,532**

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

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

Other amounts included in export tariffs are:

- a fixed tariff denominated and payable in USD, under intergovernmental agreements for the transportation of crude oil from Azerbaijan over the territory of the Russian Federation, for export at the port of Novorossiysk;
- a tariff denominated and payable in RUB, set by the Federal Tariff Agency for transit of Kazakhstan crude oil over the territory of the Russian Federation.

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

- revenue from sale of oil product transportation services in the Russian Federation at "price to destination" tariffs, set in compliance with the requirement for the ratio of tariffs for oil product transportation to railroad transportation to not exceed 0.7 for oil product transportation to similar destinations;
- revenue from execution of orders and dispatching of deliveries for transportation of oil products en route for export, as well as for the domestic markets of Russia and countries of the Customs Union, at tariffs, the maximum level of which, are set by the Federal Tariff Service of the Russian Federation;
- revenue from loading of oil products from the oil product pipeline system at tariffs, the maximum level of which, are set by the Federal Tariff Service of the Russian Federation.

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

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

19 REVENUE (continued)

Revenue from oil product transportation in the Ukraine and Kazakhstan is formed on the basis of tariffs set by OAO AK Transneft calculated using the amount of expenses needed for normal operation of oil product transporting companies.

Oil product transportation services are settled:

- in roubles for transportation in Russia;
- in USD for transportation in Belarus and in the Ukraine;
- in rouble equivalent at rate for Kazakh tenge, set by the Russian Central Bank on the date of payment.

20 OPERATING EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Operating expenses		
Amortisation and depreciation	78,767	71,969
Staff costs:		
Salaries and pension expense	85,128	70,546
Social Funds contributions	12,311	7,998
Social expenses	3,248	3,197
Energy	34,187	31,961
Transportation of oil using railways	29,764	29,593
Materials	16,460	16,029
Repairs and maintenance services	11,554	12,236
Cost of crude oil sold	83,577	7,659
Customs duties	66,889	-
Cost of oil products sold	11,947	4,793
Insurance expense	4,839	3,158
Net change in doubtful debt provision	375	10
Net change in provision of goods for resale	(1)	(41)
Net change in impairment provision of property, plant and equipment	(167)	(83)
Business trip expense	4,735	4,457
Property tax and other taxes other than profit tax	4,604	4,204
Other expenses	9,631	12,923
	457,848	**280,609**

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

Social Funds contributions include Group expenses in relation to the State Pension Fund, which is a defined contribution plan, for the year ended 31 December 2011 in amount of RUB 11,349 (for the year ended 31 December 2010 – RUB 4,806).

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

Other expenses contain net of incomes and the expenses connected with disposal of fixed assets, the gain from oil surplus, expenses on charity, both the received and paid penalties, and also other operating incomes and expenses.

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

21 INTEREST INCOME AND INTEREST EXPENSE

	Year ended 31 December 2011	Year ended 31 December 2010
Interest income on cash and cash equivalents	11,941	13,516
Interest income from available-for-sale investments	3,865	2,851
Other interest income	254	108
Total interest income	**16,060**	**16,475**
less interest income on the temporary investment of borrowings	(6,176)	(9,711)
Total interest income recognised in profit or loss	**9,884**	**6,764**

	Year ended 31 December 2011	Year ended 31 December 2010
Interest expense on borrowing cost	34,836	34,704
Provisions for asset retirement obligations: unwinding of the present value discount	8,741	6,840
Other interest expenses	585	704
Total interest expenses	**44,162**	**42,248**
Less capitalised finance costs	(22,113)	(21,375)
Total interest expenses recognised in profit or loss	**22,049**	**20,873**

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

22 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

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

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2011
Subsidiaries, associates and jointly controlled entities			
“Oil transportation” segment			
OAO Sibnefteprovod	crude oil transportation	Russia	100.0
OAO Chernomortransneft	crude oil transportation	Russia	100.0
OAO MN Druzhba	crude oil transportation	Russia	100.0
OAO Privolzhsknefteprovod	crude oil transportation	Russia	100.0
OAO Transsibneft	crude oil transportation	Russia	100.0
OAO Verkhnevolzhsknefteprovod	crude oil transportation	Russia	100.0
OAO Tsentrsibnefteprovod	crude oil transportation	Russia	100.0
OAO SMN	crude oil transportation	Russia	100.0
OOO Baltnefteprovod	crude oil transportation	Russia	100.0
OAO Uralsibnefteprovod	crude oil transportation	Russia	75.5
OAO SZMN	crude oil transportation	Russia	64.0
OOO Vostoknefteprovod	crude oil transportation	Russia	100.0
OOO Dalnefteprovod	crude oil transportation	Russia	100.0
OAO Giprotruboprovod	project and designed work for oil pipeline	Russia	100.0
OAO Svyaztransneft	technological connection	Russia	100.0
OAO CTD Diascan	diagnostics	Russia	100.0
OAO Volzhsky Podvodnik	diagnostics, repair and maintenance of underwater line	Russia	100.0
ZAO Centre MO	metrological support	Russia	100.0
OOO Spetsmornefteport Primorsk	loading and off-loading	Russia	100.0
OOO TransPress	press	Russia	100.0
OOO TsUP VSTO	constructor of ESPO	Russia	100.0
OOO Transneft Finance	accounting	Russia	100.0
OOO Spetsmornefteport Kozmino	loading of oil and oil products	Russia	100.0
OOO Transneftenergo	electric power transmission	Russia	100.0
OOO Transneft-Servis	port facilities	Russia	100.0
OAO Energoterminal	organisation of cargo	Russia	50.04
OAO Svyaztroytransneft	construction	Russia	100.0
OOO DSD	construction of ESPO-2	Russia	100.0
OOO Spetsmornefteport Ust-Luga	port facilities	Russia	100.0
OAO VOSTOKNEFTETRANS	crude oil railway transportation	Russia	51.0
OOO Transneftstroy	general pipe contractor	Russia	100.0
Fenti Development Limited	financial activity	British Virgin Islands	100.0
ZAO SK Transneft	insurance	Russia	100.0
OOO Transneft-Terminal	organization of compounding of crude oil and oiprodructs	Russia	75,0

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

22 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

	Type of activity	Country of incorporati-on	Percentage (%) of ownership interest at 31 December 2011
Subsidiaries, associates and jointly controlled entities **“Oil transportation” segment**			
OOO Rusenergoresurs	wholesale of electric and heat power	Russia	25.0
OOO TK-BA	designing and construction of “ Burgas – Alexandroupolis” pipeline	Russia	33.3
ZAO Promsfera	rent	Russia	50.0
OOO Impex-Plus	wholesale agent	Russia	50.0
OOO Tikhoretsk –Nafta	cargo handling	Russia	50.0
ZAO Transneft-Servis	crude oil sea and domestic water transportation	Russia	100.0
ZAO Morskoy portovii service	cargo handling	Russia	100.0
ZAO Omega	Production of monitoring systems of pipe-lines	Russia	60.0
OAO Zapoliare	construction and operation pipeline	Russia	100.0
OOO NII TNN	research	Russia	100.0
OAO Novorossiiskiy morskoy torgoviy port	cargo handling	Russia	25.05
OOO Primorskiy torgoviy port	cargo handling	Russia	25.05
Omirico Ltd.	financial activity	Cyprus	50.0
Subsidiaries and associates, “Oil product transportation” segment			
OAO Mostransnefteproduct	oil product transportation	Russia	100.0
OAO Yugo-Zapad transnefteproduct	oil product transportation	Russia	100.0
OAO Sredne-VolzhskyTransnefteproduct	oil product transportation	Russia	100.0
OOO PeterburgTransnefteproduct	oil product transportation	Russia	100.0
OAO Sibtransnefteproduct	oil product transportation	Russia	100.0
ChUP Zapad-Transnefteproduct	oil product transportation	Belarus	100.0
DP PrikarpatZapadtrans	oil product transportation	Ukraine	100.0
OOO Balttransnefteproduct	oil product transportation	Russia	100.0
OAO Ryazantransnefteproduct	oil product transportation	Russia	100.0
OAO Uraltransnefteproduct	oil product transportation	Russia	86.2
OAO AK Transnefteproduct	oil product transportation	Russia	100.0
OOO ChOP STNP	security	Russia	100.0
OAO Trade House Transnefteproduct	integrated storage	Russia	100.0
OAO Telecomnefteproduct	communication services	Russia	100.0
OOO Sot-Trans	insurance	Russia	100.0
OOO BalttransServis	construction of oil product pipeline	Russia	100.0
OOO LatRosTrans	oil product transportation	Latvia	34.0

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

23 OPERATING LEASES

The Group leases a number of land plots, mainly, owned by local governments under operating lease.

Land lease payments are determined by lease agreements and are as follows:

	31 December 2011	31 December 2010
Less than one year	933	798
Between one year and five years	3,732	3,194
After five years	41,986	35,930
Total	**46,651**	**39,922**

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

During the year ended 31 December 2011 RUB 557 (2010: RUR 557) was recognised in profit or loss in respect of operating lease.

24 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER RISKS

Legal proceedings

The Group is involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group’s management, there are no current legal proceedings or claims outstanding at 31 December 2011, which could have a material adverse effect on the results of operations or financial position of the Group.

Taxation contingencies

During 2011 tax authority conducted on-site inspection of OAO AK Transneft for the period 2008-2009. Management believes that the Company followed the requirements of the tax legislation during these periods. The Company submitted its objections to the preliminary findings of the tax inspection in relation to withholding of tax on income of a foreign legal entity. As of the current date the final decision of the tax inspection is not issued.

25 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

The Russian Federation, through the Federal Agency for the Management of Federal Property, owns 100% of the ordinary shares of the Company and controls its operations through Board members represented by the Ministry of Energy, other Federal bodies, and independent companies. The Government also appoints the members of the Federal Tariff Agency which sets the tariff rates.

As at 31 December 2011 and 31 December 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, 7% of the shares of the Caspian Pipeline Consortium-R and 7% of the shares of Caspian Pipeline Consortium–K and also 24% of the shares of the Caspian Pipeline Consortium-R and 24% of the shares of Caspian Pipeline Consortium–K. These interests are not recognised in these consolidated financial statements as the Company is acting as an agent on behalf of the Russian Government.

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

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

25 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

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

	Year ended 31 December 2011	Year ended 31 December 2010
Revenue from oil transportation services	160,391	124,792
OAO NK Rosneft and its subsidiaries	135,959	102,768
OAO Gazprom and its subsidiaries	23,796	21,153
Others	636	871
Revenue from oil products transportation services	9,450	8,109
OAO NK Rosneft and its subsidiaries	1,698	2,196
OAO Gazprom and its subsidiaries	7,752	5,913
Purchases of oil (OAO NK Rosneft)	76,229	-
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	25,829	25,205
Electricity expenses	351	737
Interest income from other financial assets	3,464	2,764

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

During the year ended 31 December 2011 and 31 December 2010, Group had following transactions with associates and jointly controlled entities:

	Year ended 31 December 2011	Year ended 31 December 2010
Revenue	1,940	929
Purchases of goods and services	35,334	34,555

At the 31 December 2011 and 31 December 2010, Group had following accounts with related parties and associates:

	31 December 2011	31 December 2010
Trade and other receivables	1,800	1,456
Trade and other payable	136	465
Loan issued	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 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.

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

25 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

	Year ended 31 December 2011	Year ended 31 December 2010
Salaries and bonuses	1,022	1,018
Termination benefits	18	12
Other	17	10
	1,057	**1,040**

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

	2011	2010
1 January	**6**	**29**
Issued	10	15
Repaid	(7)	(38)
31 December	**9**	**6**
due for repayment during 1 year	1	4
due for repayment after 1 year	8	**2**

During the year ended 31 December 2011 the Group contributed to NPF "Transneft in favour of the key management personnel RUB 289 (for 2010 – RUB 35).

The increase in 2011 contributions to the Pension Fund Transneft due to the transfer to the fund the present value of future pension payments in connection with reaching retirement age in accordance with the terms of contracts of non-state pension provision. These payments will be made after the right to receive pension in accordance with established rules of NPF Transneft.

As a key management personnel, information about the payments to which was disclosed in the financial statements, are recognized members of the Board of Directors and the Board of OAO AK Transneft, as well as CEOs and their families (including change of management during the reporting periods) subsidiaries recognized the most significant in the implementation of productive activities of the Group.

Total quantity of the persons who have received payments as the key management personnel, constituted in 2011 - 64 persons, in 2010 - 64 persons.

26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

	Loans and receivables	Available-for-sale investments
Assets as per balance sheet		
31 December 2011		
Cash and cash equivalents (Note 12)	145,546	-
Available-for-sale investments (Note 7)	-	292
Other financial non-current assets (Note 9)	5,586	
Other financial current assets (Note 9)	181,749	-
Accounts receivable (trade and other) (Note 11)	24,665	-
	357,546	**292**
31 December 2010		
Cash and cash equivalents (Note 12)	283,864	-
Available-for-sale investments (Note 7)	-	336
Other financial assets (Note 9)	50,850	-
Accounts receivable (trade and other) (Note 11)	10,290	-
	345,004	**336**

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

26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

	31 December 2011	31 December 2010
Liabilities as per balance sheet		
Accounts payable (trade and other) (Note 18)	44,601	38,532
Borrowings (Note 15)	605,311	583,803
	649,912	**622,335**

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, commodity price risks, credit risk and liquidity risk.

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

Foreign exchange risk

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble, the US dollar or the EURO. The Group does not use foreign exchange or forward contracts. The Group's foreign exchange exposure mainly arises on US dollar and EURO-denominated borrowings, which the Group obtained in 2007-2010 (see Note 15) and US dollar and EURO-denominated cash balances. Assets and liabilities denominated in Ukrainian hryvna or the Belarusian rouble which give rise to foreign currency exchange exposure are insignificant.

As at 31 December 2011, if the US dollar had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been RUB 19 987 (for the year ended 31 December 2010 if the US dollar had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been – RUB 27,293) lower / higher, mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings and US dollar-denominated cash balances.

As at 31 December 2011, if the EURO had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been RUB 112 higher (for the year ended 31 December 2010 if the EURO had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been RUB 1,685 lower) as a result of foreign exchange losses / gains on translation of EURO-denominated borrowings and EURO-denominated cash balances.

Interest rate risk

Management does not have a formal policy of determining how much the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

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

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

Loans and borrowings received by the Group under variable interest rate expose the Company to the risk of changes in the cash flows under loans and borrowings. As the Group receives bank loans for financing its investment projects, the almost all borrowing costs are capitalised. An increase of 1% in interest rates for the period ended 31 December 2011 would have decreased equity and profit for the period before income tax by RUB 917. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. All of this interest was capitalized in the year ended 31 December 2010 and changes in the interest rates had not a significant effect on income and equity.

Therefore, changes in the interest rates will not have a significant effect on income and equity.

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

26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Commodity price risk

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

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

Credit risk and compliance with contractual terms and obligations

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

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

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

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

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

Credit rating	31 December 2011
External credit rating Baa1	21,513
External credit rating Baa2	1,008
External credit rating Baa3	67,685
External credit rating Ba2	7,115
External credit rating Ba3	5,167
External credit rating B2	38,708
Total	**141,196**

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

Credit rating	31 December 2011
External credit rating Baa1	114,867
External credit rating Baa2	11,020
External credit rating Baa3	44,098
External credit rating Ba2	5,563
External credit rating Ba3	1,931
Others	4,270
Total	**181,749**

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

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

26 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

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

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

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

31 December 2011:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Borrowings and loans	605,311	815,687	84,074	52,555	306,636	372,422
Trade and other payables	44,601	44,601	44,601	-	-	-
	649,912	**860,288**	**128,675**	**52,555**	**306,636**	**372,422**

31 December 2010:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Borrowings and loans	583,803	807,931	36,944	76,835	313,053	381,099
Trade and other payables	38,532	38,532	38,532	-	-	-
	622,335	**846,463**	**75,476**	**76,835**	**313,053**	**381,099**

Fair values

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. The fair value of the trade receivables and payables approximates their carrying amounts at 31 December 2011 and 31 December 2010. The fair values of loans, borrowings are disclosed in Note 15.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. For this purpose, the Group's capital is considered to be equity attributable to the shareholders of the Company and the long-term and short-term debt (long-term and short term borrowings and trade and other payables). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, attract new or repay existing loans and borrowings.

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

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

27 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. Starting from 2011 the Group discloses Sales oil to the People's Republic of China (China), which exceed quantitative thresholds (segment revenue equal 21.4% in total revenue). 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 used to reconcile this information with information in the consolidated financial statements primarily include adjustments and reclassifications resulting from differences between RAR and IFRS.

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

27 SEGMENT INFORMATION (continued)

Adjusting entries also relate to intersegment transactions (non-current borrowings), those which are material, related with transfer in 2009 year third party US Dollar debt to the intersegment borrowing, are as follows: US Dollar denominated loan and interests granted in RUB which amounted to RUB 7,958 as at 31 December 2011, the loan interest payable of RUB 512 accrued for the year ended 31 December 2011 and related exchange difference of RUB 369 (as at 31 December 2010 US Dollar denominated loan granted in RUB including interest receivable which amounted to RUB 9,628, loan interest payable of RUB 1,113 accrued for the year ended 31 December 2010 and related exchange difference of RUB 21).

Segment information for the year ended 31 December 2011 is as follows:

	Oil transportation services	Oil products transportation services	Oil sales to China	Adjustments	Total IFRS
Sales					
Sales to third parties	**491,158**	**35,768**	**143,639**	**(295)**	**670,270**
Inter-segment sales	3,016	107	-	(3,123)	-
Total sales	**494,174**	**35,875**	**143,639**	**(3,418)**	**670,270**
Operating expenses	(293,120)	(25,366)	(143,216)	3,854	(457,848)
Including depreciation and amortisation	(74,892)	(2,890)		(985)	(78,767)
Interest income	15,661	154	-	(5,931)	9,884
Interest expenses	(19,402)	(512)	-	(2,135)	(22,049)
Exchange gains/(loss)	(5,823)	(130)	914	8,825	3,786
Other expenses	(8,418)	(1,355)	-	9,773	-
Share of profit from associates and jointly controlled entities	-	-	-	31,486	31,486
Profit before income tax	**183,072**	**8,666**	**1,337**	**42,454**	**235,529**
Income tax expense	-	-	-	-	(44,311)
Profit for the period	**-**	**-**	**-**	**-**	**191,218**
Other segment disclosures					
Additions to non-current assets (other than financial instruments and deferred tax assets)	244,078	1,580	-	6,869	252,527

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

27 SEGMENT INFORMATION (continued)

Segment information for the year ended 31 December 2010 is as follows:

	Oil transportation services	Oil products transportation services	Oil sales to China	Adjustments	Total IFRS
Sales					
Sales to third parties	415,596	32,297	-	(361)	447,532
Inter-segment sales	1,711	522	-	(2,233)	-
Total sales	**417,307**	**32,819**	**-**	**(2,594)**	**447,532**
Operating expenses	(264,133)	(19,698)	-	3,222	(280,609)
Including depreciation and amortisation	(68,349)	(2,663)	-	(957)	(71,969)
Interest income	16,799	300	-	(10,335)	6,764
Interest expenses	(24,922)	(1,113)	-	5,162	(20,873)
Exchange gains/(loss)	(1,929)	(49)	-	2,104	126
Other expenses	(7,715)	(905)	-	8,620	
Share of profit from associates and jointly controlled entities	-	-	-	4,568	4,568
Profit before income tax	**135,407**	**11,354**	**-**	**10,747**	**157,508**
Income tax expense	-	-	-	-	(32,599)
Profit for the period	**-**	**-**	**-**	**-**	**124,909**
Other segment disclosures					
Additions to non-current assets (other than financial instruments and deferred tax assets)	257,710	180	-	5,101	262,991

Segment information as at 31 December 2011 as follows:

	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**

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

27 SEGMENT INFORMATION (continued)

Segment information as at 31 December 2010 as follows:

	Oil transportation services	Oil products transportation services	Oil sales to China	Adjustments	Total IFRS
Investments in associates	-	-	-	4,835	4,835
Total segment assets	**1,620,060**	**62,123**	**-**	**(30,548)**	**1,651,635**
Trade payables and advances received	57,369	3,027	-	999	61,395
Non-current borrowings	573,466	8,227	-	(8,545)	573,148
Current borrowings	11,269	1,450	-	(2,064)	10,655
Total segment liabilities	**719,504**	**15,755**	**-**	**109,939**	**845,198**

Adjustments to income and expenses that form profit before tax are mainly represented by IFRS adjustments 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 differed taxes for IFRS purposes.

Adjusting items for segment’s expenses in the amount of RUB 3,854 for the year ended 31 December 2011 and RUB 3,222 for the year ended 31 December 2010 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Year ended 31 December 2011	Year ended 31 December 2010
Dismantlement provision	3,779	2,596
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”	(15,617)	(8,494)
Financial leasing	1,727	2,832
Pension liabilities	(698)	583
Accruals net	8,400	(6,764)
Intersegment operations	(1,989)	(2,232)
Others	544	8,257
Total adjusting items for segment’s expenses	**(3,854)**	**(3,222)**

Adjusting items for interest income and interest expenses in the amount of RUB 5,931 and RUB 2,135 respectively for year ended 31 December 2011 and RUB 10,335 and RUB 5,162 respectively for the year ended 31 December 2010 include IFRS adjustments on interest capitalisation.

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

27 SEGMENT INFORMATION (continued)

Adjusting items for segment's assets in the amount of RUB 170,060 as at 31 December 2011 and RUB 30,548 as at 31 December 2010 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 December 2011	31 December 2010
Increase in property plant and equipment for dismantlement provision	40,431	83,760
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"	(186,725)	(93,639)
Revaluation of linefill oil and oil products required under IAS 29 "Financial reporting in hyper-inflationary economies" and other	50,566	50,716
Business combination with Transnefteproduct	(52,554)	(52,554)
Deferred tax assets	(24,066)	(9,000)
Intersegment assets	(16,540)	(9,677)
Forex and interest expenses recognized in CIP	15,766	5,748
Others	3,062	(5,902)
Total adjusting items for segment's assets	**(170,060)**	**(30,548)**

Adjusting items for segment's liabilities in the amount of RUB 55,661 as at 31 December 2011 and RUB 109,939 as at 31 December 2010 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 December 2011	31 December 2010
Dismantlement provision	84,900	116,202
Pension liabilities	7,264	7,377
Deferred tax liabilities	(22,634)	(1,037)
Intersegment loans and interest accrued	(16,540)	(9,677)
Others	2,671	(2,926)
Total adjusting items for segment's liabilities	**55,661**	**109,939**

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.

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

	Year ended 31 December 2011	Year ended 31 December 2010
Russian Federation	498,988	424,622
China	143,639	-
Other countries	27,643	22,910
	670,270	**447,532**

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

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

27 SEGMENT INFORMATION (continued)

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:

	Year ended 31 December 2011	**Year ended 31 December 2010**
Companies under control of the Government of the Russian Federation	169,841	132,901
China National United Oil Corporation	143,639	-
OAO Surgutneftegaz	79,586	62,120
OAO Lukoil	71,510	58,910
OAO TNK-BP Holding	66,573	54,670
	531,149	**308,601**

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

28 SUBSEQUENT EVENTS

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.