OAO AK TRANSNEFT
CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE SIX MONTHS ENDED 30 JUNE 2008

CONTENTS

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

1. We have prepared the consolidated interim financial statements for the six months ended 30 June 2008 which give a true and fair view of the financial position of the OAO AK Transneft (the "Company") and its subsidiaries (the "Group") at the end of the period and of the results of operations and cash flows for the period then ended. 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 Accounting Standard 34 "Interim Financial Reporting and that their statutory accounting reports comply with Russian laws and regulations. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management considers that, in preparing the consolidated financial statements set out on pages 5 to 35, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Accounting Standard 34 "Interim Financial Reporting" have been followed.

3. None of the directors held any shares in Group companies during the six months ended 30 June 2008.

4. The consolidated financial statements, which are based on the statutory consolidated accounting reports for the six months ended 30 June 2008, approved by management in August 2008, have been converted in accordance with International Financial Reporting Standards.

N.P. Tokarev
President
11 November 2008

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Report on Review of Interim Financial Statements

To the Shareholders and Board of Directors of OAO AK Transneft

Introduction
We have reviewed the accompanying consolidated interim balance sheet of OAO AK Transneft (the "Company") and its subsidiaries (the "Group") as of 30 June 2008, and the related consolidated interim statements of income, changes in equity and cash flows for the six months period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim financial statements set out on pages 5 to 35 in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial statements based on our review.

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the financial position of the Group as of 30 June 2008, and of its financial performance and its cash flows for the six month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Moscow, Russian Federation
11 November 2008

(in millions of Russian roubles)

	Notes	30 June 2008	31 December 2007
ASSETS			
Non-current assets			
Intangible assets		760	930
Property, plant and equipment	6	727,024	633,560
Available-for-sale financial assets	7	996	754
Investment in associates	19	590	-
VAT assets	9	24,308	-
Other financial assets		2,098	-
Total non-current assets		**755,776**	**635,244**
Current assets			
Inventories	8	13,166	9,880
Receivables and prepayments	9	19,488	21,035
VAT assets	9	38,594	50,845
Prepaid income tax		819	1,188
Available-for-sale financial assets	7	9	848
Cash and cash equivalents	10	34,039	23,498
Total current assets		**106,115**	**107,294**
Total assets		**861,891**	**742,538**
EQUITY AND LIABILITIES			
Equity			
Share capital	11	308	307
Share premium reserve	11	52,553	-
Merger reserve	11	(13,080)	-
Retained earnings		468,729	426,185
Attributable to the shareholders of OAO AK Transneft		**508,510**	**426,492**
Minority interest	12	24,406	22,447
Total equity		**532,916**	**448,939**
Non-current liabilities			
Borrowings and finance lease obligations	13	104,894	71,322
Deferred income tax liabilities	14	30,800	29,391
Provisions for liabilities and charges	15	70,468	63,436
Total non-current liabilities		**206,162**	**164,149**
Current liabilities			
Trade and other payables	16	44,042	35,866
Current income tax payable		2,749	2,329
Borrowings and finance lease obligations	13	76,022	91,255
Total current liabilities		**122,813**	**129,450**
Total liabilities		**328,975**	**293,599**
Total equity and liabilities		**861,891**	**742,538**

Approved on 11 November 2008 by:

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

	Notes	Three months ended 30 June 2008	Six months ended 30 June 2008	Three months ended 30 June 2007	Six months ended 30 June 2007
Sales	17	66,350	129,973	55,154	109,497
Operating expenses	18	(38,134)	(73,781)	(31,072)	(63,064)
Net other operating income	18	4,213	6,237	2,768	4,255
Operating profit		**32,429**	**62,429**	**26,850**	**50,688**
Financial items:					
Exchange gains		301	1,762	190	471
Interest income		377	651	90	154
Interest expense		(2,369)	(2,945)	(728)	(1,121)
Share of loss of investment in associates		(36)	(51)	-	-
Other financial items		432	432	-	-
Total financial items		**(1,295)**	**(151)**	**(448)**	**(496)**
Profit before income tax		**31,134**	**62,278**	**26,402**	**50,192**
Current income tax expense		(9,669)	(18,850)	(6,450)	(12,866)
Deferred income tax (expense) / benefit		(287)	927	(791)	(1,349)
Income tax expense	14	**(9,956)**	**(17,923)**	**(7,241)**	**(14,215)**
Profit for the period		**21,178**	**44,355**	**19,161**	**35,977**
Attributable to:					
Shareholders of OAO AK Transneft		20,411	42,965	18,180	34,242
Minority interest	12	767	1,390	981	1,735

Approved on 11 November 2008 by:

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

(in millions of Russian roubles)

	Notes	Six months ended 30 June 2008	Six months ended 30 June 2007
Cash flows from operating activities			
Cash receipts from customers		146,029	126,438
Cash paid to suppliers and employees, and taxes other than profit tax		(74,397)	(63,777)
Interest paid		(6,653)	(2,238)
Income tax paid		(17,899)	(13,236)
Other cash from operating activities		11,501	4,014
Net cash from operating activities		**58,581**	**51,201**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(49,799)	(98,911)
Proceeds from sales of property, plant and equipment		147	276
Cash on balance sheet of acquired businesses		2,826	-
Interest and dividends received		577	135
Other cash (used in)/proceeded from investing activities		(1,812)	328
Net cash used in investing activities		**(48,061)**	**(98,172)**
Cash flows used in financing activities			
Proceeds from long and short-term borrowings		22,159	134,104
Repayment of long and short-term borrowings		(19,315)	(80,853)
Payment of finance lease obligations		(2,764)	(1,739)
Other payments		-	(1,794)
Net cash from financing activities		**80**	**49,718**
Effects of exchange rate changes on cash and cash equivalents		**(59)**	**15**
Net increase in cash and cash equivalents		**10,541**	**2,762**
Cash and cash equivalents at the beginning of the period	10	23,498	29,293
Cash and cash equivalents at the end of the period	10	**34,039**	**32,055**

Approved on 11 November 2008 by:

N.P. Tokarev — President

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(in millions of Russian roubles)

	Attributable to the shareholders of OAO AK Transneft						
	Share capital	**Share premium**	**Merger reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 31 December 2006	**307**	**-**	**-**	**366,917**	**367,224**	**17,912**	**385,136**
Profit arising from change in fair value of available-for-sale financial assets	-	-	-	18	18	-	18
Net gain recognized directly in equity	-	-	-	18	18	-	18
Profit for the period				34,242	34,242	1,735	35,977
Total recognized income for the period	-	-	-	34,260	34,260	1,735	35,995
Dividends paid							
- preference shares	-	-	-	(472)	(472)		(472)
- ordinary shares	-	-	-	(351)	(351)		(351)
Balance at 30 June 2007	**307**	**-**	**-**	**400,354**	**400,661**	**19,647**	**420,308**
Balance at 31 December 2007	**307**	**-**	**-**	**426,185**	**426,492**	**22,447**	**448,939**
Profit arising from change in fair value of available-for-sale financial assets	-	-	-	6	6	-	6
Disposal of available-for-sale financial assets	-	-	-	(427)	(427)	-	(427)
Net loss recognised directly in equity	-	-	-	(421)	(421)	-	(421)
Profit for the period	-	-	-	42,965	42,965	1,390	44,355
Total recognised income for the period	-	-	-	42,544	42,544	1,390	43,934
Share issue (Note 11)	1	52,553	(13,080)	-	39,474	569	40,043
Balance at 30 June 2008	**308**	**52,553**	**(13,080)**	**468,729**	**508,510**	**24,406**	**532,916**

Approved on 11 November 2008 by:

N.P. Tokarev — President

S.N. Suvorova — General director of OOO Transneft Finance, a specialized organization, which performs the accounting function for OAO AK Transneft

1 NATURE OF OPERATIONS

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

The Company and its subsidiaries (the "Group") described in Note 19 operate the largest crude oil pipeline system in the world totalling approximately 47,455 km. During six months ended 30 June 2008, the Group transported 228.8 million tonnes of crude oil to domestic and export markets (six months ended 30 June 2007 – 230.5 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period.

In January 2008, AK Transnefteproduct become a wholly owned subsidiary of AK Transneft. Pursuant to this acquisition, the Group now operates a large oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling approximately 20,100 km. Its associate operates an interconnected system in the Latvian Republic.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

Whilst there have been improvements in economic trends in the country, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, varying interpretations of tax and customs regulations and relatively high inflation. The Government of the Russian Federation approved amendments to currency regulation that eliminated conversion restrictions on the Russian Rouble as of 1 July 2006.

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 legal and political developments.

The ongoing global liquidity crisis continues to expand over global financial markets which have resulted in among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market have also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. In the current circumstances the Group management undertakes all necessary actions to ensure sustainable development of the Group. The Group believes that the impact of the current global financial crisis on the Group's operations is limited due to the fact that prices for provided services are regulated by the Government and do not depend on the situation on global commodity and financial markets. The Group's monopoly position on the Russian oil transportation market ensures sustainable demand for the Company's services which in fact does not depend on global markets. The generated cash flow is sufficient to finance the Company's current operations and to service its debt obligations. The short-term debt does not exceed the outstanding balance of the confirmed long-term credit line. The Group does not have any variable interest rate debt obligations, interest payments related to fixed foreign currency obligations are not materials compared to its cash flow.

(in millions of Russian roubles)

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 applied in the preparation of these consolidated financial statements 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.

The Company's functional and presentation currency is the national currency of the Russian Federation; the Russian Rouble ("RR"). The official US dollar ("USD") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 23.4573 and 24.5462 as of 30 June 2008 and 31 December 2007, respectively. The official euro ("EUR") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 36.9077 and 35.9332 as of 30 June 2008 and 31 December 2007, respectively.

Business combination under common control

On 24 October 2007 the Extraordinary General Meeting of Shareholders approved an increase in the Company's charter capital by 882,220 roubles through the issuance of an additional 882,220 ordinary shares with a par value of 1 rouble each under a closed subscription.

On 31 January 2008 these shares were issued to the Russian Federal Agency for State Property Management, the Group's controlling shareholder's in return for the acquisition of 100% interest in OAO AK Transnefteproduct ("Transnefteproduct").

Under IFRS the Group accounted for this business combination amongst entities under common control under an accounting policy using the predecessor values method. Accordingly, assets and liabilities of the transferred entities were accounted for at the carrying value in the books of Transnefteproduct, as recorded in that entities IFRS consolidated financial statements. Information in respect of the comparative period was not restated.

The difference between the consolidated equity of Transnefteproduct and share premium and the nominal value of the shares issued as consideration for the 100% interest in the shares of that Company was recognised within equity as a merger reserve (see Note 11).

The acquired subsidiary contributed revenue of RR 7,204 and profit of RR 1,254 to the Group for the period from the date of acquisition to 30 June 2008. If the acquisition had occurred on 1 January 2008, contributed revenue for six months ended 30 June 2008 would have been RR 8,659 and profit for six months ended 30 June 2008 would have been RR 1,854.

Details of the assets and liabilities acquired are as follows:

	IFRS carrying amount immediately before business combination
Cash and cash equivalents	2,826
Property, plant and equipment	54,996
Investments	816
VAT assets	6,253
Other assets	1,221
Borrowings	(21,201)
Trade and other payables	(1,269)
Deferred tax liabilities	(2,336)
Other Liabilities	(1,263)
Fair value of net assets of subsidiary	40,043
Less: minority interest	(569)
Net assets recognized on business combination	**39,474**

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied by the Group in the preparation of the consolidated interim financial statements for the six months ended 30 June 2008, except for changes resulting from amendments to International Financial Reporting Standards discussed below.

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. All inter-company transactions, balances, and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the acquisition. Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest is presented within equity in the consolidated financial statements.

Investments in associates

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. Investments in associates accounted under equity method.

Property, plant and equipment

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

	Years
Buildings and facilities	8-50
Pipelines and tanks	20-33
Oil products pipelines	45
Other plant and equipment	5-25

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

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

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

The prepayment relates to PPE are included in the category Assets under construction including prepayments.

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 it is not physically consumed in the process of providing services to customers. Any additions to linefill over the period are recognized at cost, and any disposals are recognized and weighed average carrying value of linefill.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil surpluses arising from operations are recognized at market value, deficits – at the weighted average carrying value of linefill and are debited to inventory and credited to oil surplus, a component of net other operating income / (expense), in the consolidated income statement.

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

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

Inventories

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

Impairment of assets
At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group’s assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. The amount of the reduction is recorded in the consolidated income statement in the period in which the reduction is identified. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount. Non-financial assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for any indication of possible reversal of the impairment at each reporting date. When such an indicator is identified, reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit pro rata with the carrying amount of those assets.

Financial assets and liabilities
Financial assets and liabilities carried on the consolidated balance sheet 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 separable 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 balance sheet 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 three months from the balance sheet date, including trade and other receivables and payables, are assumed to approximate their carrying amounts unless there is an indication of impairment at the balance sheet 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 of the balance sheet date.

Gains and losses arising from changes in the fair value of the investments classified as available-for-sale are recognised in equity. When the investments classified as available-for-sale are sold or impaired, the fair value adjustments accumulated in equity are included in the consolidated income statement as gains and losses from the investments.

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the financial assets below its cost is considered in determining whether the financial assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement.

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 a objective evidence that Group will not be able to collect all amounts due to 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 other principal criteria are also used to determine whether there is objective evidence that an impairment loss has 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 adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Prepayments

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

Cash and cash equivalents

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

VAT assets

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

Borrowings

Borrowings are recognised initially at the fair value of the proceeds received 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

effective interest rate method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Deferred taxes

Deferred taxes in the consolidated interim financial statements are accrued based on full-year effective rate applied to the pre-tax income of the interim period. This full-year effective rate is calculated at the rate which is expected to be enacted or substantively enacted at the year end balance sheet date and expected to apply to the period when the asset is realised or the liability is settled. Deferred taxes are calculated using the liability method, for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax liabilities are recognised in respect of all taxable temporary differences relating to investments in subsidiaries, unless the Company is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets attributable to temporary differences and to unutilised tax losses and credits are recognised only to the extent that it is probable that future taxable profit or temporary differences will be available against which they 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 balance sheet date, and are included in the consolidated financial statements at their expected net present values using the discount rate appropriate to the Group in the economic environment of the Russian Federation.

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

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. Pension costs are recognised using the projected unit credit method. The cost of providing pension contributions is charged to operating expenses in the consolidated income statement 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 income statement.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Environmental provision

The Group recognises separately the estimated cost of crude oil spillages, including the cost of the obligation to restore the environment, and the estimated recoveries under applicable insurance policies, at the date of the spillage.

The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised as expenses immediately unless they extend the life of the related property or mitigate or prevent future environmental contamination, in which case they are capitalised.

Revenue recognition

Revenues from transportation services are recognized 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 sales and oil products are recognized 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.

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 balance sheet date and the date of issuing the consolidated financial statements, are disclosed.

New accounting developments

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed.

Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to affect its consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group’s operations because no Group companies operate any loyalty programmers.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group does not expect the amendment to affect its consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have an impact on these consolidated financial statements as the Group does not apply hedge accounting.

On 13 October 2008, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures that , under limited circumstances, permit the reclassification of certain financial assets previously classified as 'held for trading' or 'available for sale' to another category of financial assets. The amendments have an effective date of 1 July 2008 the transition rules are not straightforward and may be amended. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements

The Group has early adopted revised IAS 23 “Borrowing costs” as of 1 January 2007, which is effective for annual periods beginning on or after 1 January 2009. The Standard eliminates the option of recognizing the borrowing costs immediately as an expense to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset. The adoption of the amendment resulted in no change in the opening balance of retained earnings and other reserves.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group’s consolidated financial statements.

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 financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Taxation

Russian tax and customs legislation is subject to varying interpretations (see Note 20).

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

Useful lives of property, plant and equipment

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

Dismantlement provision

Provisions are established for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometre of removal according to an estimated plan of replacement over the long term. The provision calculation is based on the assumption that dismantlement activities are expected to cover the same number of kilometres each year over the useful life of the network. Changes in this assumption or assumptions with regard to expected costs, technical change, and discount rate may result in adjustments to the established provisions (see Note 15) and assets.

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

(in millions of Russian roubles)

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 2008						
Cost	63,553	378,633	217,909	51,271	215,959	927,325
Accumulated depreciation	(19,366)	(166,309)	(108,090)	-	-	(293,765)
Net book value at 1 January 2008	**44,187**	**212,324**	**109,819**	**51,271**	**215,959**	**633,560**
Depreciation	(855)	(6,512)	(9,421)	-	-	(16,788)
Additions (including prepayments)	-	-	-	2,557	48,570	51,127
Transfers from assets under construction	6,468	2,950	12,257	-	(21,675)	-
Net change in dismantlement provision (see Note 15)	-	5,059	-	-	(820)	4,239
Disposals/retirements at cost	(183)	(114)	(763)	(397)	-	(1,457)
Accumulated depreciation on disposals/retirements	40	95	639	-	-	774
Cost acquisition though business combinations	13,017	25,252	9,784	7,653	23,270	78,976
Accumulated depreciation acquisition though business combinations	(4,965)	(12,507)	(5,935)	-	-	(23,407)
Net book value at 30 June 2008	**57,709**	**226,547**	**116,380**	**61,084**	**265,304**	**727,024**
At 30 June 2008						
Cost	82,855	411,780	239,187	61,084	265,304	1,060,210
Accumulated depreciation	(25,146)	(185,233)	(122,807)	-	-	(333,186)
Net book value at 30 June 2008	**57,709**	**226,547**	**116,380**	**61,084**	**265,304**	**727,024**

Property, plant and equipment as of 30 June 2008 is presented net of impairment provision of RR 3,586 (as of 31 December 2007 – net of impairment provision of RR 3,586), against specific pipeline assets and machinery.

Linefill represents 27,154 thousand tonnes of crude oil and 1,261 thousand tonnes of oil products as of 30 June 2008 (31 December 2007 – 26,888 thousand tonnes of crude oil) (see Note 4).

During the six months ended 30 June 2008, borrowing costs in the amount of RR 5,455 were capitalised as part of cost of assets under construction (see Note 4).

The Group leased certain equipment (other plant and equipment) under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment. At 30 June 2008 the net book value of leased property, plant and equipment was RR 8,147 (as at 31 December 2007 – RR 9,365).

(in millions of Russian roubles)

7 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2008	31 December 2007
Marketable securities	169	604
Investments in other Russian companies	836	998
	1,005	1,602
Less: short-term available-for-sale financial assets	(9)	(848)
	996	**754**

Marketable securities include investments in corporate shares and government currency bonds. Government currency bonds are nominated in US dollars.

8 INVENTORIES

	30 June 2008	31 December 2007
Materials and supplies	6,373	5,477
Sundry goods for resale	6,736	4,197
Other items	57	206
	13,166	**9,880**

Inventories are presented net of provisions for obsolescence of RR 112 as of 30 June 2008 (31 December 2007 – RR 136). Materials are primarily used in the maintenance of pipeline equipment.

9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	30 June 2008	31 December 2007
Trade receivables (net of a provision for doubtful debts of RR 55 at 30 June 2008 (31 December 2007 - RR 16))	2,246	1,933
Prepayments and advances	9,859	10,030
Other receivables (net of a provision for doubtful debts of RR 3,622 at 30 June 2008 (31 December 2007 - RR 94))	7,383	9,072
	19,488	**21,035**

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. In the second quarter the Group received of RR 846 in respect of insurance under non-delivery of works under the contact; this is recorded as other income.

VAT assets

	30 June 2008	31 December 2007
Recoverable VAT related to construction projects	36,629	28,211
Recoverable VAT related to ordinary activity	26,273	22,634
	62,902	50,845
Less: short-term VAT	(38,594)	(50,845)
Long-term VAT	**24,308**	**-**

(in millions of Russian roubles)

10 CASH AND CASH EQUIVALENTS

	30 June 2008	31 December 2007
Balances denominated in Russian roubles	33,697	23,464
Balances denominated in US dollars	341	34
Balances denominated in euro	1	-
	34,039	**23,498**

Balance of cash and cash equivalents as at 30 June 2008 includes short-term bank deposits of Transnefteproduct in amount of RR 1,629 that were placed mainly with Vneshtorgbank for less than 1 month. Cash in main part are placed with State controlled financial institutions, which are considered to have minimal risk of default.

11 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital

	30 June 2008			31 December 2007		
	Number of shares	**Historical cost**	**Inflated cost**	**Number of shares**	**Historical cost**	**Inflated cost**
Authorised, issued and fully paid shares of par value RR 1 each						
Ordinary:	5,546,847	5.6	231	4,664,627	4.7	230
Preferred:	1,554,875	1.5	77	1,554,875	1.5	77
	7,101,722	**7.1**	**308**	**6,219,502**	**6.2**	**307**

In January 2008 the Group increased its charter capital by 882,220 roubles through the issuance of an additional 882,220 ordinary shares with a nominal value of RR 1 per share. Ordinary shares for total amount of RR 882,220 were paid for in kind by the contribution of 100% of the shares of OAO AK Transnefteproduct, the value of which was determined by independent appraisers as being equal to RR 52,553,995 thousand.

Share premium of RR 52,553,113 thousand was recognised in respect of the difference between the appraisers' value of the contributions to the share capital and the nominal value of the shares issued.

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

As described in Note 3 the Group accounted for theses transaction as of 31 January 2008.

The carrying value of the share capital as of 30 June 2008 and as of 31 December 2007 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

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

Rights attributable to preferred shares

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

(in millions of Russian roubles)

11 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

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.

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 RR 2,291 for the six months ended 30 June 2008 (RR 1,989 for the six months ended 30 June 2007).

12 MINORITY INTEREST

Minority interest represents the shares in subsidiary entities held by OAO Svayzinvetsneftekhim (36% of OAO Severo-Zapadnye MN) and the Ministry of State Property of the Republic of Bashkortostan (24.5% of OAO Uralsibnefteprovod, 13.8% share in the consolidated subsidiary OAO Uraltransnefteproduct) (see Note 19).

13 BORROWINGS AND FINANCE LEASE OBLIGATIONS

	30 June 2008	31 December 2007
Unsecured borrowings and loans	178,898	157,656
Finance lease obligations	2,018	4,921
Total borrowings and loans	180,916	162,577
Less: current borrowings and loans and current portion of non-current borrowings and loans and finance lease obligations	(76,022)	(91,255)
	104,894	**71,322**
Maturity of non-current borrowings and loans and finance lease obligations		
Due for repayment:		
Between one and five years	74,400	40,752
After five years	30,494	30,570
	104,894	**71,322**

The fair value of the borrowings and finance lease obligations approximates their carrying amount as obligations are either short-term or bear interest rates approximating market rates as of 30 June 2008.

In August 2006, a revolving credit facility amounting to RR 65,000 was made available to a Group company by Sberbank, a state-controlled bank, for the financing of construction of the Eastern Siberia-Pacific Ocean pipeline. Under this agreement the Group obtained access to nonrevolving credit lines individually maturing in one year. In October 2007 the Group signed a supplementary agreement with Sberbank, that stated a period of availability of credit amount attracted under revolving credit facility up to 30 October 2007.

(in millions of Russian roubles)

13 BORROWINGS AND FINANCE LEASE OBLIGATIONS (continued)

During the six months ended 30 June 2008 the Group has redeemed RR 18,998. Liabilities under this agreement as at 30 June 2008 equaled RR 16,821 (31 December 2007 – RR 35,810). Interest is payable at a fixed rate and is subject to revision if the CBR refinancing rate is in excess of the CBR refinancing rate effective on the date of the credit line agreement by more than 10%.

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. Under this agreement the Group obtained nonrevolving credit lines individually maturing in one year. During the six months ended 30 June 2008 the Group has attracted 22,014 RR of such financing. Liabilities under this agreement as at 30 June 2008 equalled RR 72,802 (31 December 2007 – RR 50,788). Interest is payable at a fixed rate and is subject to revision if the CBR refinancing rate is in excess of the CBR refinancing rate effective on the date of the credit line agreement by more than 10%.

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

In March 2007, the Group issued Eurobonds in the amount of USD 1.3 billion (RR 30,494 at CBR exchange rate at 30 June 2008) at an interest rate of 5.67% per annum due in 7 years.

In June 2007, the Group issued Eurobonds in the amount of USD 0.5 billion (RR 11,729 at CBR exchange rate at 30 June 2008) at an interest rate of 6.103% per annum due in 5 years.

Also in June 2007, the Group issued Eurobonds in the amount of EUR 0.7 billion (RR 25,835 at CBR exchange rate 30 June 2008) at an interest rate of 5.381% per annum due in 5 years.

The proceeds from all Eurobonds issues are used to finance the construction of the Eastern Siberia – Pacific Ocean pipeline.

In October 2005, AK Transnefteproduct signed a long-term loan facility agreement for USD 753 million from the Bank of International Trade, of which USD 753 million had been drawn by 31 December 2007. The loan was used for financing Project “North”, the construction of a new oil product pipeline “Kstovo-Yaroslavl-Kirishy-Primorsk”. The loan bears interest at an annual rate of 10%, which is paid quarterly. The loan is repayable by April 2013 starting October 2008. The outstanding liability as at 30 June 2008 is in the amount of RR 17,863.

Finance lease obligations

Finance lease obligations are payable as follows:

	30 June 2008		
	Total minimum lease payments	**Interest**	**Present value of finance lease liability**
Less than one year	2,095	1,010	1,085
Between one and five years	1,085	152	933
After five years	-	-	-
	3,180	**1,162**	**2,018**

(in millions of Russian roubles)

13 BORROWINGS AND FINANCE LEASE OBLIGATIONS (continued)

	30 June 2007		
	Payments	**Interest**	**Present value of finance lease liability**
Less than one year	3,210	768	2,442
Between one and five years	2,495	498	1,997
After five years	73	19	54
	5,778	**1,285**	**4,493**

14 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Deferred tax liabilities and assets consist of the following:

	30 June 2008	31 December 2007
Deferred tax liabilities:		
Carrying value of property, plant and equipment in excess of tax base	(48,490)	(44,790)
Other	(478)	(133)
	(48,968)	**(44,923)**
Deferred tax assets:		
Provisions against inventories, receivables and accruals	2,032	261
Provisions for dismantlement and other expenses	16,136	15,271
	18,168	**15,532**
Net deferred tax liability	**(30,800)**	**(29,391)**

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the statutory rate of 24%.

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

	Three months ended 30 June 2008	Six months ended 30 June 2008	Three months ended 30 June 2007	Six months ended 30 June 2007
Profit before income tax	**31,134**	**62,278**	**26,402**	**50,192**
Theoretical income tax expense at 24%	7,472	14,946	6,336	12,046
Increase due to:				
Items not deductible for income tax	2,484	2,977	905	2,169
Actual income tax expense	9,956	17,923	7,241	14,215

(in millions of Russian roubles)

15 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2008	31 December 2007
Dismantlement provision	65,216	58,708
Pension provision	5,131	4,607
Other provisions	121	121
	70,468	**63,436**

Dismantlement provision

The provision is established for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometre of removal according to an estimated plan of replacement over the long term. The provision calculation is based on the assumption that dismantlement activities are expected to cover the same number of kilometres each year over the useful life of the network. The cost of dismantlement is added to the cost of property, plant and equipment and depreciated over the useful economic life of the pipeline network.

Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a rate of 9.6% per year (31 December 2007 – 6.6% per year).

	2008	2007
At 1 January	58,708	54,228
Net change in provision (see Note 6)	4,239	(5,994)
Acquisition though business combinations	447	-
Accretion of interest	1,822	649
At 30 June	**65,216**	**48,883**

Pension provision

Under collective agreements with the employees, an amount ranging from one to five months final salary is payable upon retirement to those who have worked for the Group for more than five years. Also under collective agreements with the employees, an amount ranging from one to eight months minimal salary is payable on an annual basis until the death of employees to those retired employees who have not entered in an agreement with the Non-state pension fund of OAO AK Transneft. Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19 “Employee Benefits”. Under this method, a provision has been established having regard to employee life expectancy.

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

	2008	2007
At 1 January	4,607	3,761
Net expense included in staff costs in the consolidated income statement (see Note 18)	566	106
Benefits paid	(42)	(136)
At 30 June	**5,131**	**3,731**

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

	30 June 2008	31 December 2007
Present value of provision (unfunded)	5,131	4,607
Liability	5,131	4,607

(in millions of Russian roubles)

15 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Principal actuarial assumptions used (expressed as weighted average):

	Six months ended 30 June 2008	Six months ended 30 June 2007
Discount rate (nominal)	7%	7%
Future salary increases (nominal)	8%	8%
Employees average remaining working life (years)	12	12

16 TRADE AND OTHER PAYABLES

	30 June 2008	31 December 2007
Trade payables	19,018	15,500
Advances received for oil and oil product transportation services	10,431	12,844
Accruals and deferred income	3,027	2,301
VAT output tax payable	7,297	1,229
Payables to employees	1,698	1,057
Other taxes payable	657	770
Other payables	1,914	2,165
	44,042	**35,866**

17 SALES

	Three months ended 30 June 2008	Six months ended 30 June 2008	Three months ended 30 June 2007	Six months ended 30 June 2007
Revenues from crude oil transportation services				
Domestic tariff	24,478	50,096	19,464	39,596
Export tariff	34,382	66,759	30,396	59,377
Total revenues from crude oil transportation services	58,860	116,855	49,860	98,973
Revenues from oil products transportation services	3,766	7,057	-	-
Revenues from crude oil sales	750	1,061	3,461	6,877
Revenues from oil products sales	157	241	-	-
Other revenues	2,817	4,759	1,833	3,647
	66,350	**129,973**	**55,154**	**109,497**

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

Other amounts included in export tariffs are:

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

(in millions of Russian roubles)

17 SALES (continued)

- a distance-related tariff denominated and payable in RR (until 2008 denominated and payable in USD), set by the Federal Tariff Agency for transit of Kazakhstan crude oil over the territory of the Russian Federation, except for the Makhachkala – Novorossiysk pipeline, and

- a fixed tariff denominated and payable in RR (until 2008 denominated and payable in USD), set by the Federal Tariff Agency for transit of Kazakhstan crude oil through the Makhachkala – Novorossiysk pipeline.

Revenues from oil products transportation services are earned by OAO AK Transnefteproduct and are derived from distance-related tariffs, which are denominated and payable in RR and revised periodically after approval by the Federal Tariffs Service for transportation of oil products to destinations in Russia, Belarus and Ukraine on the pipeline networks in those countries. The tariffs set by the Federal Tariffs Service represent the maximum amount that may be charged for each journey, and the actual tariffs are frequently lower.

18 OPERATING EXPENSES AND NET OTHER OPERATING INCOME

	Three months ended 30 June 2008	Six months ended 30 June 2008	Three months ended 30 June 2007	Six months ended 30 June 2007
Operating expenses				
Depreciation	8,230	16,148	7,875	14,910
Staff costs:				
Salaries and pension expense	11,260	19,612	5,193	11,079
Unified Social Fund contributions	2,103	3,714	944	2,256
Key management personnel compensation (see Note 21)	89	132	89	127
Social expenses	822	1,302	98	841
Energy	5,760	11,698	4,849	9,990
Materials	3,010	5,813	1,716	3,823
Cost of crude oil and oil product sold	783	1,216	2,817	6,339
Insurance expense	541	1,927	750	2,935
Doubtful debt provision	846	3,554	-	-
Repairs and maintenance	1,362	2,204	2,015	2,914
Administrative expense	1,213	2,190	1,642	2,467
Transport expense	447	859	500	894
Taxes other than profit tax:				
Property tax	518	928	305	677
Other taxes	25	44	39	73
Other	1,125	2,450	2,240	3,739
	38,134	**73,781**	**31,072**	**63,064**

(in millions of Russian roubles)

18 OPERATING EXPENSES AND NET OTHER OPERATING INCOME (continued)

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

Unified Social Fund contributions include Group expenses in relation to the State Pension Fund, which is a defined contribution plan, for the six months ended 30 June 2008 in amount of RR 2,305 (for the six months ended 30 June 2007 – RR 750).

Salaries and pension expense include Group expenses in relation to the non-state defined contribution plan for the six months ended 30 June 2008 in amount of RR 1,723 (for the six months ended 30 June 2007 – RR 1,229).

The following amounts are included in net other operating income:

	Three months ended 30 June 2008	Six months ended 30 June 2008	Three months ended 30 June 2007	Six months ended 30 June 2007
Oil surplus	3,230	5,508	3,177	5,746
(Loss) / Gain on disposal of property, plant and equipment	(49)	26	(249)	(437)
Charitable contribution and net other operating income / (expenses)	82	(247)	(160)	(1,054)
Gain on insurance received	950	950		
	4,213	**6,237**	**2,768**	**4,255**

(in millions of Russian roubles)

19 SUBSIDIARIES AND ASSOCIATES

The following are the principal subsidiaries which have been consolidated and associates accounted for using equity method into these consolidated interim financial statements:

	Country of incorporation	Percentage (%) of ownership interest at 30 June 2008
Regional crude oil pipeline operators		
OAO Sibnefteprovod	Russia	100.0
OAO Chernomortransneft	Russia	100.0
OAO MN Druzhba	Russia	100.0
OAO Privolzhsknefteprovod	Russia	100.0
OAO Transsibneft	Russia	100.0
OAO Verkhnevolzhsknefteprovod	Russia	100.0
OAO Tsentrsibnefteprovod	Russia	100.0
OAO SMN	Russia	100.0
OOO Baltnefteprovod	Russia	100.0
OAO Uralsibnefteprovod	Russia	75.5
OAO SZMN	Russia	64.0
OOO Vostoknefteprovod	Russia	100.0
Other services for crude oil pipeline operators		
OAO Giprotruboprovod	Russia	100.0
OAO Svyaztransneft	Russia	100.0
OAO CTD Diascan	Russia	100.0
OAO Volzhsky Podvodnik	Russia	100.0
ZAO Centre MO	Russia	100.0
OOO Spetsmornefteport Primorsk	Russia	100.0
OOO TransPress	Russia	100.0
OOO TsUP VSTO	Russia	100.0
OOO Transneft Finance	Russia	100.0
OOO Spetsmornefteport Kozmino	Russia	100.0
OOO Transneft-Terminal	Russia	75.0
Regional oil product pipeline operators		
OAO Mostransnefteproduct	Russia	100.0
OAO Yugo-Zapad transnefteproduct	Russia	100.0
OAO Sredne-VolzhskyTransnefteproduct	Russia	100.0
OAO PeterburgTransnefteproduct	Russia	100.0
OAO Ryazantransnefteproduct	Russia	100.0
OAO Severo-Kavkazsky transnefteproduct	Russia	100.0
OAO Sibtransnefteproduct	Russia	100.0
ChUP Zapad-Transnefteproduct	Belarus	100.0
DP Prikarpatzapadtrans	Ukraine	100.0
OOO Balttransnefteproduct	Russia	100.0
OAO Uraltransnefteproduct	Russia	86.2
Other services for oil product pipeline operators		
OAO AK Transnefteproduct	Russia	100.0
OOO ChOP STNP	Russia	100.0
OAO Trade House Transnefteproduct	Russia	100.0

(in millions of Russian roubles)

19 SUBSIDIARIES AND ASSOCIATES (continued)

	Country of incorporation	Percentage (%) of ownership interest at 30 June 2008
OAO Telecomnefteproduct	Russia	100.0
OAO Podvodspetstransnefteproduct	Russia	100.0
OAO Institute Nefteproductproect	Russia	100.0
OOO Sot-Trans	Russia	100.0
OOO BalttransServis	Russia	100.0
Equity accounted associates		
SIA LatRosTrans	Latvia	34.0
OOO TK-BA	Russia	33.3

20 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER RISKS

Contingent liabilities

Legal proceedings

The Group is a party to certain legal proceedings arising in the ordinary course of business.

In the opinion of management of the Group, there are no current legal proceedings threatened or outstanding which could have a material adverse effect on the results of operations or financial position of the Group.

Taxation

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

Environmental matters

The Group is subject to various environmental laws regarding handling, storage, and disposal of certain products and is subject to regulation by various governmental authorities.

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(in millions of Russian roubles)

21 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

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

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

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

	Three months ended 30 June 2008	Six months ended 30 June 2008	Three months ended 30 June 2007	Six months ended 30 June 2007
Revenue from oil transportation services	19,925	36,561	15,754	29,757
Revenue from oil products transportation services	1,407	2,493	-	-
Electricity expenses	357	753	446	975
Interest expenses	2,038	3,852	890	1 840

	30 June 2008	31 December 2007
Receivables and prepayments	623	235
Cash	21,763	6,915
Advances received for oil transportation services	2,387	2,989
Advances received for oil product transportation services	503	-
Non-current and current borrowings	110,341	86,656

Transactions with the state include taxes which are detailed in the balance sheet, income statement and Notes 9, 16, 17 and 18.

Key management personnel compensation

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

	Six months ended 30 June 2008	Six months ended 30 June 2007
Salaries and bonuses	122	83
Termination benefits	6	1
Other	4	5
	132	**89**

(in millions of Russian roubles)

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK

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

	Loans and receivables	Available-for-sale financial assets
Assets as per balance sheet		
30 June 2008		
Cash and cash equivalents (Note 10)	34,039	-
Available-for-sale financial assets (Note 7)	-	1,005
Other financial assets	2,098	-
Accounts receivable (trade and other) (Note 9)	9,629	-
	45,766	**1,005**
31 December 2007		
Cash and cash equivalents (Note 10)	23,498	-
Available-for-sale financial assets (Note 7)	-	1,602
Accounts receivable (trade and other) (Note 9)	11,005	-
	34,503	**1,602**

	30 June 2008	31 December 2007
Liabilities as per balance sheet		
Accounts payable (trade and other) (Note 16)	20,932	17,665
Borrowings and finance lease obligations (Note 13)	180,916	162,577
	201,848	**180,242**

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 or the US dollar or EURO. Furthermore, the Group does not use foreign exchange or forward contracts. Mainly, the Group's foreign exchange exposure arises on US dollar and EURO-denominated borrowings, which the Group obtained in 2007 (see Note 13). Assets and liabilities denominated in Ukrainian hryvna or Belarusian rouble attributable to AK Transnefteproduct giving rise to foreign currency exchange exposure are insignificant.

As a 30 June 2008, if the US dollar had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, post tax profit for the six months would have been RR 4,943 (for the six months ended 30 June 2007 – RR 3,855) lower / higher mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings.

As at 30 June 2008, if the EURO had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, profit and equity would have been RR 2,584 (for the six months ended 30 June 2007 – RR 1,847) lower / higher mainly as a result of foreign exchange losses / gain on translation of EURO-denominated borrowings.

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

Interest rate risk

Management does not have a formal policy of determining how much of 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 favourable to the Group over the expected period until maturity.

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

Borrowings issued 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.

Commodity price risk

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

Credit risk

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 state monopoly, Group ensures equal access to the oil and oil product pipeline for all Russian oil 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 and 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 wholesale 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 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 ensures selection of suppliers with the minimum risk of failure to discharge contractual obligations.

Cash and bank deposits are placed with State controlled financial institutions, which are considered to have minimal risk of default.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. As at 30 June 2008, other receivables are collateralised by bank guarantees for RR 2,150.

(in millions of Russian roubles)

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (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:

30 June 2008:

		Contractual cash flows				
	Carrying amount	**Total**	**12 months or less**	**1-2 years**	**2-5 years**	**More than 5 years**
Unsecured borrowings and loans	178,898	206,445	82,054	31,773	60,319	32,299
Trade and other payables	20,932	20,932	20,932	-	-	-
Finance lease liabilities	2,018	3,180	2,003	1,018	159	-
	201,848	**230,557**	**104,989**	**32,791**	**60,478**	**32,299**

31 December 2007:

		Contractual cash flows				
	Carrying amount	**Total**	**12 months or less**	**1-2 years**	**2-5 years**	**More than 5 years**
Unsecured borrowings and loans	157,656	182,612	96,604	3,912	48,059	34,037
Trade and other payables	17,665	17,665	17,665	-	-	-
Finance lease liabilities	4,921	6,589	4,166	2,098	325	-
	180,242	**206,866**	**118,435**	**6,010**	**48,384**	**34,037**

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, loans, borrowings, and finance lease obligations approximates their carrying amounts as obligations bear interest rates approximating market rates at 30 June 2008 and 31 December 2007.

Capital risk management

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

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 POST BALANCE SHEET EVENTS

In July 2008, the shareholders of the Company approved the payment of dividends for 2007 in the amount of RR 1,152 (ordinary shares – RR 750, preferred shares – RR 402) at the annual general meeting of shareholders. The whole amount of dividends is expected to be paid before 31 December 2008.

In August 2008, the Group issued Eurobonds in the amount of USD 0.6 billion at an interest rate of 7.70% due in 5 years and Eurobonds in the amount of USD 1.05 billion at an interest rate of 8.70% due in 10 years. Proceeds from the issues were used to refinance indebtedness incurred to finance the construction of the East Siberia – Pacific Ocean pipeline.