OAO AK TRANSNEFT
CONSOLIDATED INTERIM FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE THREE MONTHS ENDED 31 MARCH 2009

CONTENTS

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

1. We have prepared the consolidated interim financial statements for the three months ended 31 March 2009 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 39, 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 three months ended 31 March 2009.

4. The consolidated interim financial statements, which are based on the statutory consolidated accounting reports for the three months ended 31 March 2009, approved by management in May 2009, have been converted in accordance with International Financial Reporting Standards.

N.P. Tokarev
President
31 July 2009

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Report on Review of Consolidated Interim Financial Statements

To the Shareholders and Board of Directors of OAO AK Transneft

Introduction
We have reviewed the accompanying consolidated interim statement of financial position of OAO AK Transneft (the "Company") and its subsidiaries (the "Group") as of 31 March 2009, and the related consolidated interim statements of comprehensive income, cash flows and changes in equity for the three months 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 39 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 31 March 2009, and of its financial performance and its cash flows for the three months then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Moscow, Russian Federation
31 July 2009

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

	Notes	31 March 2009	31 December 2008
ASSETS			
Non-current assets			
Intangible assets		1,292	1,281
Property, plant and equipment	6	840,806	809,130
Available-for-sale financial assets	7	963	962
Investment in associates	19	1,369	1,062
VAT assets	9	20,387	10,281
Other financial assets		2	1,505
Total non-current assets		**864,819**	**824,221**
Current assets			
Inventories	8	10,539	8,904
Receivables and prepayments	9	20,268	19,082
VAT assets	9	38,490	46,710
Prepaid income tax		2,742	3,647
Cash and cash equivalents	10	80,282	60,565
Total current assets		**152,321**	**138,908**
Total assets		**1,017,140**	**963,129**
EQUITY AND LIABILITIES			
Equity			
Share capital	11	308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		513,771	495,081
Attributable to the owners of OAO AK Transneft		**553,552**	**534,862**
Minority interest	12	25,553	25,035
Total equity		**579,105**	**559,897**
Non-current liabilities			
Borrowings and finance lease obligations	13	227,739	191,597
Deferred income tax liabilities	14	25,179	24,582
Provisions for liabilities and charges	15	75,289	75,005
Total non-current liabilities		**328,207**	**291,184**
Current liabilities			
Trade and other payables	16	46,874	46,633
Current income tax payable		1,533	1,275
Borrowings and finance lease obligations	13	61,421	64,140
Total current liabilities		**109,828**	**112,048**
Total liabilities		**438,035**	**403,232**
Total equity and liabilities		**1,017,140**	**963,129**

Approved on 31 July 2009 by:

N.P. Tokarev — President

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

The accompanying notes set out on pages 9 to 39 are an integral part of these financial statements

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

	Notes	Three months ended 31 March 2009	Three months ended 31 March 2008
Sales	17	85,190	63,623
Operating expenses	18	(40,402)	(35,647)
Net other operating income	18	805	2,024
Operating profit		**45,593**	**30,000**
Financial items:			
Exchange gains		14,980	2,402
Exchange loss		(33,152)	(941)
Interest income		866	274
Interest expense		(4,204)	(576)
Total financial items		**(21,510)**	**1,159**
Share of gain /(loss) from investments in associates		105	(15)
Profit before income tax		**24,188**	**31,144**
Current income tax expense		(4,442)	(9,181)
Deferred income tax (expense) / benefit		(585)	1,214
Income tax expense	14	**(5,027)**	**(7,967)**
Profit for the period		**19,161**	**23,177**
Other comprehensive income after tax			
Currency translation differences		36	-
Fair value gains on available-for-sale financial assets, net of tax		11	-
Total comprehensive income		**19,208**	**23,177**
Profit attributable to:			
Attributable to:			
Shareholders of OAO AK Transneft		18,643	22,554
Minority interest	12	518	623
Total comprehensive income attributable to:			
Shareholders of OAO AK Transneft		18,690	22,554
Minority interest		518	623

Approved on 31 July 2009 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 31 March 2009	Three months ended 31 March 2008
Cash flows from operating activities			
Cash receipts from customers		90,263	69,239
Cash paid to suppliers and employees, and taxes other than profit tax		(47,796)	(36,447)
Interest paid		(7,155)	(2,811)
Income tax paid		(3,251)	(7,706)
Tax refunds		5,368	1,547
Other cash used in operating activities		(160)	(295)
Net cash from operating activities		**37,269**	**23,527**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(35,100)	(16,326)
Proceeds from sales of property, plant and equipment		65	30
Cash on balance sheet of acquired businesses		-	2,826
Interest and dividends received		593	240
Other cash proceeded from/(used in) investing activities		917	(1,739)
Net cash used in investing activities		**(33,525)**	**(14,969)**
Cash flows used in financing activities			
Proceeds from long and short-term Borrowings		23,588	6,362
Repayment of long and short-term borrowings		(10,819)	(6,745)
Payment of finance lease obligations		(828)	(1,263)
Net cash proceeded from/(used in) financing activities		**11,941**	**(1,646)**
Effects of exchange rate changes on cash and cash equivalents		**4,032**	**(41)**
Net increase in cash and cash equivalents		**19,717**	**6,871**
Cash and cash equivalents at the beginning of the period	10	60,565	23,498
Cash and cash equivalents at the end of the period	10	**80,282**	**30,369**

Approved on 31 July 2009 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, if not stated otherwise)

	Attributable to the owners of OAO AK Transneft						
	Share capital	**Share premium**	**Merger reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2008	**307**	**-**	**-**	**426,185**	**426,492**	**22,447**	**448,939**
Profit for the period	-	-	-	22,554	22,554	623	23,177
Total comprehensive income for the period	**-**	**-**	**-**	**22,554**	**22,554**	**623**	**23,177**
Business combination	1	52,553	(13,080)	-	39,474	569	40,043
Balance at 31 March 2008	**308**	**52,553**	**(13,080)**	**448,739**	**488,520**	**23,639**	**512,159**
Balance at 1 January 2009	**308**	**52,553**	**(13,080)**	**495,081**	**534,862**	**25,035**	**559,897**
Profit for the period	-	-	-	18,643	18,643	518	19,161
Fair value gain on available-for-sale financial assets, net of tax	-	-	-	11	11	-	11
Currency translation differences, net of tax	-	-	-	36	36	-	36
Total comprehensive income for the period	**-**	**-**	**-**	**18,690**	**18,690**	**518**	**19,208**
Balance at 31 March 2009	**308**	**52,553**	**(13,080)**	**513,771**	**553,552**	**25,553**	**579,105**

Approved on 31 July 2009 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 operates the largest crude oil pipeline system in the world totalling 48,292 km. During the three months ended 31 March 2009, the Group transported 113.0 million tonnes of crude oil to domestic and export markets (three months ended 31 March 2008 – 113.6 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, OAO AK Transnefteproduct ("Transnefteproduct") became a wholly owned subsidiary of the Company. Transnefteproduct and its subsidiaries ("Group Transnefteproduct") operates a large oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 18,769 km. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The ongoing global economic crisis has 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 crisis has also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia.

Related to this crisis, there has been a significant deterioration in the performance of the Russia economy since mid 2008. In addition, since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US dollar ("USD") exchange rate of the Central Bank of the Russian Federation ("CBR") increased from RR 25.3718 at 1 October 2008 to RR 34.0134 at 31 March 2009. The spot Free On Board price per barrel of Urals oil decreased from USD 91.15 as at 29 September 2008 to USD 41.76 as at 31 March 2009.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.The Group believes that the impact of the current 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 interim consolidated financial statements are prepared in accordance with, and comply with, International Accounting Standard 34 "Interim Financial Reporting".

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 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, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR"). The official US dollar ("USD") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 34.0134 and 29.3804 as at 31 March 2009 and 31 December 2008, respectively. The official euro ("EUR") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 44.9419 and 41.4411as at 31 March 2009 and 31 December 2008, respectively.

3 BASIS OF PRESENTATION (continued)

Adoption of IFRS 8

Effective 1 January 2009, the Group adopted IFRS 8, Operating Segments ("IFRS 8"), which replaced ISA 14, Segment reporting. IFRS 8 introduces new requirements and guidelines regarding the disclosures of operating segments.

Operating segments are defined as components of the Group which it earn revenues and incur expenses, separate financial information is available and reported regularly to the chief operating decision maker represented by the Management of the Group. Based on this information Management of the Group makes decisions on how to allocate resources and assesses operational and financial performance of the components.

The Group conducts its business activities through its principal reportable segments "Crude oil transportation" and "Oil product transportation".

Revenue of each reportable segment is generated based on transportation tariffs which are set by the Russian Federation, through the Federal Tariff Agency (FTA):

- in the Oil Transportation segment tariffs are set by the FTA in an amount sufficient to cover costs, taxes and duties and to generate net profit to be used to finance, pipeline construction, infrastructure modernization and reconstruction, and to pay dividends;
- pricing in the Oil Product Transportation segment is regulated via the FTA's setting of the tariff ceiling, including the marginal ratio of oil product pipeline transportation cost to alternative transportation cost. The actual tariffs are approved by Transnefteproduct's Management Board within the limits set out by FSA; the tariffs are calculated in the amount required to cover reasonable expenses and ensure adequate margin to fund economically feasible investments aimed at constructing new major fixed assets and updating the existing ones.

For each segment economic feasibility of costs is determined by budgeting its income and expenses. Management of the Group approves target figures of the budgets and subsequently analyzes actual information against plans on a regular basis. Management of the Group analyzes business segment results by types of income and expenses that form pre-tax profit.

Reportable segments' assets include all assets recognized under the Russian statutory accounting rules (hereinafter "RAR"). Reportable segments' assets reviewed by Management of the Group on a regular basis include fixed assets, construction in progress, trade accounts receivable and advances originated. Reportable segments' liabilities include all liabilities recognized under RAR. Reportable segments' liabilities reviewed by Management of the Group on a regular basis include accounts payable and advances received as well as long-term and short-term borrowings. Other assets and liabilities of the reportable segments can be reviewed as part of the Group's analysis of reportable segments depending on the materiality.

Management of the Group regularly reviews income and expenses included as separate items in the statement of comprehensive income. When reviewing reportable segments Management of the Group also considers amounts of segments' capital expenditures and their fulfillment of capital repairs and maintenance programs.

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.

In January 2008 these shares were issued to the Russian Federal Agency for Federal Property Management, the Group's controlling shareholder in return for the acquisition of 100% interest in Transnefteproduct.

Under IFRS, the Group accounted for this business combination amongst entities under common control 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 Group, as recorded in that Group's IFRS consolidated financial statements. Information in respect of the comparative period was not restated.

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

3 BASIS OF PRESENTATION (continued)

The difference between the historic IFRS book value of the Company's 100% share in Transnefteproduct's net assets and the share premium and the nominal value of the share capital issued as consideration for the interest was recognised within equity as a merger reserve (see Note 11).

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)
Net assets of subsidiary acquired	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 financial statements for the three months ended 31 March 2009, 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 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 are accounted under equity method.

Business combination under common control. Business combination 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 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 these 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.

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
Pipelines and tanks	20-50
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 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 profit and loss .

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 recognized at cost, and any disposals are written off at weighed average carrying value of linefill.

Oil surpluses arising from operations are recognized at market value and are recorded in inventory and with a correspondent credit to oil surplus, a component of net other operating income, in profit and loss.

Disposals of oil surpluses are accounted for as revenues and included in sales in profit and loss .

The prepayments which relate to PPE 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 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 profit and loss 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.

Financial assets and liabilities

Financial assets and liabilities carried on the consolidated statement of financial position 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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 reclassified from equity to profit and loss as a reclassification adjustment.

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 according to the original terms of the contract. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for the similar borrowers at the date of origination of the receivables. The following principal criteria are used to determine whether there is objective evidence that an impairment loss might have occurred:

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

Prepayments

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 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 financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss except if it is recognised outside profit or loss because it relates to transactions that are also recognised, in the same or a different period, outside profit or loss.

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

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.

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 liability in the economic environment of the Russian Federation.

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

State pension fund

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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 and oil products sales 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

In 2009 the Group has adopted all standards, amendments and interpretations which were effective as at 1 January 2009 and which are relevant to its operations.

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, if not stated otherwise:

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers The Group is currently assessing the impact of the IFRIC 8 on its consolidated financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The Group is currently assessing the impact of amendments on its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC

9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group does not intend to adopt IFRS for SMEs.

Amendments to IFRS 2 ("Share-based payment – Group cash-settled share-based payment transactions"), which are effective for annual periods beginning on or after 1 January 2010. The amendments provide a clear basis to determine the classification of share based payment awards in both consolidated and separate financial statements. They incorporate IFRIC 8 and IFRIC 11 into the standard and expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendment also clarifies the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its 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).

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 up to 50 years, the profit for the three months ended 31 March 2009 would be RR 1,793 higher (the three months ended 31 March 2008: RR 1,664).

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), expenses and assets.

Should the average current cost per kilometre of oil pipeline removal increase/ (decrease) by 10%, the profit for the period in three months ended 31 March 2009 would be RR 165 lower/higher (the three months ended 31 March 2008: RR 665)

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

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

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2009						
Cost	91,434	503,016	273,675	65,533	225,467	1,159,125
Accumulated depreciation and impairment	(26,427)	(191,886)	(131,682)	-	-	(349,995)
Net book value at 1 January 2009	**65,007**	**311,130**	**141,993**	**65,533**	**225,467**	**809,130**
Depreciation	(833)	(4,375)	(5,951)	-	-	(11,159)
Additions (including prepayments)	-	-	-	416	43,222	43,638
Transfers from assets under construction	1,417	132	4,349	-	(5,898)	-
Net change in dismantlement provision (see Note 15)	-	(806)	-	-	181	(625)
Disposals/retirements at cost	(48)	(2)	(407)	(101)	-	(558)
Accumulated depreciation on disposals/retirements and impairment	3	2	375	-	-	380
Net book value at 31 March 2009	**65,546**	**306,081**	**140,359**	**65,848**	**262,972**	**840,806**
At 31 March 2009						
Cost	92,803	502,340	277,617	65,848	262,972	1,201,580
Accumulated depreciation and impairment	(27,257)	(196,259)	(137,258)	-	-	(360,774)
Net book value at 31 March 2009	**65,546**	**306,081**	**140,359**	**65,848**	**262,972**	**840,806**

(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 2008						
Cost	63,553	378,633	217,909	51,271	215,959	927,325
Accumulated depreciation and impairment	(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	(412)	(3,703)	(4,067)	-	-	(8,182)
Additions (including prepayments)	-	-	-	516	18,892	19,408
Transfers from assets under construction	108	118	652	-	(878)	-
Net change in dismantlement provision (see Note 15)	-	7,292	-	-	(869)	6,423
Disposals/retirements at cost	(31)	(7)	(722)	(105)	-	(865)
Accumulated depreciation on disposals/retirements and impairment	7	6	230	-	-	243
Cost acquisition through business combinations	13,017	25,252	9,784	7,653	23,270	78,976
Accumulated depreciation acquisition through business combinations	(4,965)	(12,507)	(5,935)	-	-	(23,407)
Net book value at 31 March 2008	**51,911**	**228,775**	**109,761**	**59,335**	**256,374**	**706,156**
At 31 March 2008						
Cost	76,647	411,288	227,623	59,335	256,374	1,031,267
Accumulated depreciation and impairment	(24,736)	(182,513)	(117,862)	-	-	(325,111)
Net book value at 31 March 2008	**51,911**	**228,775**	**109,761**	**59,335**	**256,374**	**706,156**

Property, plant and equipment as at 31 March 2009 is presented net of impairment provision of RR 4,078 (as at 31 December 2008 – net of impairment provision of RR 4,078), against specific pipeline assets and machinery.

Linefill represents 27,712 thousand tonnes of crude oil and 1,224 thousand tonnes of oil products as at 31 March 2009 (as at 31 December 2008 – 27,656 thousand tonnes of crude oil and 1,237 thousand tonnes of oil products) (see Note 4).

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

The Group leased certain units (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. As at 31 March 2009 the net book value of leased property, plant and equipment was RR 7,170 (as at 31 December 2008 – RR 7,538).

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

7 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 March 2009	31 December 2008
Marketable securities	105	82
Investments in other Russian companies	858	880
	963	962
Less: short-term available-for-sale financial assets	-	-
	963	**962**

Marketable securities mainly include investments in corporate shares.

8 INVENTORIES

	31 March 2009	31 December 2008
Materials and supplies	7,305	6,600
Sundry goods for resale	3,189	2,262
Other items	45	42
	10,539	**8,904**

Materials and supplies are presented net of provisions for obsolescence of RR 689 as at 31 March 2009 (as at 31 December 2008 – RR 727). 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 RR 248 as at 31 March 2009 (as at 31 December 2008 – RR 2,725).

9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	31 March 2009	31 December 2008
Trade receivables (net of a provision for doubtful debts of RR 61 at 31 March 2009 (31 December 2008 - RR 34))	1,928	1,662
Prepayments and advances	11,263	11,422
Other receivables (net of a provision for doubtful debts of RR 3,597 at 31 March 2009 (31 December 2008 - RR 3,620))	7,077	5,998
	20,268	**19,082**

Other receivables primarily include amounts of funds originally transferred to suppliers of capital construction services where the services have not been provided and where the Group has entered into amicable agreements with the suppliers to obtain repayment of the funds provided.. Payments under amicable agreements are in accordance with agreed schedules.

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 millions of Russian roubles, if not stated otherwise)

9 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS (continued)

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:

	2009		2008	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January	34	3,620	16	94
Addition of provision through acquisition	-	-	14	21
Reversal of provision	(4)	(29)	(13)	(4)
Accrued provision	31	6	24	2,645
As at 31 March	61	3,597	41	2,756

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 March 2009 and 31 December 2008:

Overdue period	31 March 2009		31 December 2008	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Less than 90 days	107	15	176	67
More than 90 days but less than 365 days	182	64	287	217
Over 365 days	95	145	96	162
	384	224	559	446

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

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

	RUR	USD	Other	Total
31 March 2009				
trade receivables	1,928	-	-	1,928
other receivables	6,941	133	3	7,077
	8,869	133	3	9,005
31 December 2008				
trade receivables	1, 535	35	92	1,662
other receivables	5,788	193	17	5,998
	7,323	228	109	7,660

VAT assets

	31 March 2009	31 December 2008
Recoverable VAT related to construction projects	41,150	41,898
Recoverable VAT related to ordinary activity	17,727	15,093
	58,877	56,991
Less: short-term VAT	(38,490)	(46,710)
Long-term VAT	**20,387**	**10,281**

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

10 CASH AND CASH EQUIVALENTS

	31 March 2009	31 December 2008
Balances denominated in Russian roubles	36,930	41,572
Balances denominated in US dollars	17,447	12,899
Balances denominated in euro	25,905	6,094
	80,282	**60,565**

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain legally established requirements. As at 31 March 2009 and 31 December 2008, a significant portion of cash was placed with State controlled financial institutions (see Note 21). The remaining cash balance mainly was placed with other financial institutions with Standard and Poor's credit ratings not lower than BB-.

11 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital

	31 March 2009			31 December 2008		
	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	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 March 2009 and as of 31 December 2008 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

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 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 the Company's share in Transnefteproduct Group net assets (amounting to RR 39,473,636 thousands) and the nominal value of the share capital issued and the 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 paragraph "business combination under common control" (Note 3) the Group accounted for this transaction as of 31 January 2008.

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. 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, if not stated otherwise)

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 556 for the three months ended 31 March 2009 (RR 1,175 for the three months ended 31 March 2008).

12 MINORITY INTEREST

Minority interest mainly represents the shares in subsidiary entities held by OAO Svayzinvestneftekhim (36% of OAO SZMN) and the Ministry of Land and Property Relations of the Republic of Bashkortostan (24.5% of OAO Uralsibnefteprovod, 13.8% OAO Uraltransnefteproduct). For other subsidiaries with minority interest refer to Note 19.

13 BORROWINGS AND FINANCE LEASE OBLIGATIONS

	31 March 2009	31 December 2008
Borrowings and loans	286,865	253,104
Finance lease obligations	2,295	2,633
Total borrowings and loans	289,160	255,737
Less: current borrowings and loans and current portion of non-current borrowings and loans and finance lease obligations	(61,421)	(64,140)
	227,739	**191,597**

Maturity of non-current borrowings and loans and finance lease obligations		
Due for repayment:		
Between one and five years	192,025	122,551
After five years	35,714	69,046
	227,739	**191,597**

Long-term borrowings include fixed rate loans with a carrying value of RR 227,245 and RR 190,970 and fair value of RR 204,635 and RR 144,798 as at 31 March 2009 and 31 December 2008, respectively. The following valuation techniques were used in determining fair value of borrowings: fair value of Eurobonds was determined with reference to quoted prices, fair value of other long-term loans using discounting techniques to net present value at discount rate 10.93%.

The fair value of the short-term borrowings and finance lease obligations approximates their carrying amount as at 31 March 2009 and 31 December 2008.

In October 2007, the Group entered into a 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

13 BORROWINGS AND FINANCE LEASE OBLIGATIONS (continued)

maturing in one or several years. During the three months ended 31 March 2009, the Group obtained RR 21,196 of such financing, RR 9,884 was redeemed. Liabilities under this agreement as at 31 March 2009 amounted to RR 104,876 (31 December 2008 – RR 93,565). 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 11% to 13%.

In March 2007, the Group issued Eurobonds in the amount of USD 1.3 billion (RR 44,217 at CBR exchange rate at 31 March 2009, RR 38,195 at CBR exchange rate at 31 December 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 17,007 at the CBR exchange rate at 31 March 2009, RR 14,690 at the CBR exchange rate at 31 December 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 31,459 at the CBR exchange rate 31 March 2009, RR 29,009 at CBR the exchange rate at 31 December 2008) at an interest rate of 5.381% per annum due in 5 years.

In August 2008, the Group issued Eurobonds in the amount of USD 0.6 billion (RR 20,408 at the CBR exchange rate as 31 March 2009, RR 17,628 at the CBR exchange rate at 31 December 2008) 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 (RR 35,714 at the CBR exchange rate as 31 March 2009, RR 30,849 at the CBR exchange rate at 31 December 2008) 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 October 2005, Transnefteproduct signed a long-term loan facility agreement for USD 753 million with Vneshtorgbank, 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 was originally repayable by April 2013 starting in October 2008. The outstanding liability as at 31 March 2009 was RR 24,082 (RR 21,389 at 31 December 2008). On 27 April 2009 Transnefteproduct has amended loan agreement with the Vneshtorgbank so the loan is payable quarterly from 12 April 2011 to 12 April 2013, each payment amounted to 1/9 of the outstanding loan amount at the date of loan agreement amendment. Outstanding loan amount at the date of amendment was USD 708 million.

All borrowings and loans of the Group are unsecured as at 31 March 2009 and 31 December 2008.

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

13 BORROWINGS AND FINANCE LEASE OBLIGATIONS (continued)

Finance lease obligations

Finance lease obligations denominated in nominal unit are payable at CBR exchange USD rate as follows:

	31 March 2009		
	Total minimum lease payments	**Interest**	**Present value of finance lease liability**
Less than one year	2,618	817	1,801
Between one and five years	719	225	494
	3,337	**1,042**	**2,295**

	31 December 2008		
	Total minimum lease payments	**Interest**	**Present value of finance lease liability**
Less than one year	2,887	881	2,006
Between one and five years	902	275	627
	3,789	**1,156**	**2,633**

14 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Deferred tax liabilities and assets consist of the following:

	31 March 2009	**31 December 2008**
Deferred tax liabilities:		
Carrying value of property, plant and equipment in excess of tax base	(45,139)	(41,551)
Other	(120)	(184)
	(45,259)	**(41,735)**
Deferred tax assets:		
Provisions against inventories, receivables and accruals	991	898
Tax loss carry forward	4,594	1,882
Provisions for dismantlement and other expenses	14,495	14,373
	20,080	**17,153**
Net deferred tax liability	**(25,179)**	**(24,582)**

	31 March 2008	**31 December 2007**
Deferred tax liabilities:		
Carrying value of property, plant and equipment in excess of tax base	(47,606)	(44,790)
Other	(477)	(133)
	(48,083)	**(44,923)**
Deferred tax assets:		
Provisions against inventories, receivables and accruals	2,036	261
Provisions for dismantlement and other expenses	15,534	15,271
	17,570	**15,532**

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

Net deferred tax liability	**(30,513)**	**(29,391)**

14 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

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 three months ended 31 March 2009 (24% - for three months ended 31 March 2008).
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 31 March 2009	Three months ended 31 March 2008
Profit before income tax	**24,188**	**31,144**
Theoretical income tax expense at 20% (at 24% for 2008)	4,838	7,474
Increase due to:		
Items not deductible for income tax	189	493
Actual income tax expense	5,027	7,967

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009.

The Group has not recognized a deferred tax liability in respect of RR 396,918 as at 31 March 2009 (as at 31 December 2008 - RR 377,237) 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.

15 PROVISIONS FOR LIABILITIES AND CHARGES

	31 March 2009	31 December 2008
Dismantlement provision	70,286	69,233
Pension provision	5,003	5,772
	75,289	**75,005**

Dismantlement provision

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

Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 11.32% per year (31 December 2008 – 10.08% per year).

	2009	2008
At 1 January	69,233	58,708
Provision on additions to property, plant and equipment	143	168
Changes in estimates adjusted against property, plant and equipment	(768)	6,255
Utilised in the period	(73)	(260)
Unwinding of the present value discount	1,751	230
Acquisition through business combinations	-	447

At 31 March	**70,286**	**65,548**

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

15 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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, 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 the Group, and regular payments 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". Under this method, a provision has been established having regard to employee life expectancy.

Movements in the net liability recognised in the statement of financial position are as follows:

	2009	**2008**
At 1 January	5,772	4,607
Interest cost	140	80
Service cost	85	68
Actuarial (gain) / loss	(890)	135
Benefits paid	(104)	(85)
At 31 March	**5,003**	**4,805**

Interest cost, services cost and actuarial loss / (profit) amounting to RR (665) and RR 283 for the three months ended 31 March 2009 and 2008, respectively, are included in staff costs in the consolidated interim statement of comprehensive income (see Note 18).

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

	31 March 2009	**31 December 2008**
Present value of provision (unfunded)	5,003	5,772
Liability	5,003	5,772

Principal actuarial assumptions used (expressed as weighted average):

	As at 31 March 2009	**As at 31 December 2008**
Average nominal discount rate	11.36%	9.67%
Future salary increases (nominal)	9.50%	9.50%
Employees average remaining working life (years)	12	12

16 TRADE AND OTHER PAYABLES

	31 March 2009	**31 December 2008**
Trade payables	17,256	14,057
Advances received for oil and oil product transportation services	10,415	17,584
Accruals	8,214	6,335
VAT output tax payable	4,630	4,910
Payables to employees	2,187	1,434
Other taxes payable	1,339	755
Other payables	2,833	1,558
	46,874	**46,633**

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

16 TRADE AND OTHER PAYABLES (continued)

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

	RUR	USD	Other	Total
31 March 2009				
trade payables	17,208	-	48	17,256
other payables	2,804	29	-	2,833
	20,012	29	48	20,089
31 December 2008				
trade payables	13,984	25	48	14,057
other payables	1,313	216	29	1,558
	15,297	241	77	15,615

17 SALES

	Three months ended 31 March 2009	Three months ended 31 March 2008
Revenues from crude oil transportation		
Domestic tariff	31,423	25,350
Export tariff	41,885	32,645
Total revenues from crude oil transportation services	**73,308**	**57,995**
Revenues from oil products transportation services	6,757	2,936
Revenues from crude oil sales	1,653	311
Revenues from oil products sales	760	84
Other revenues	2,712	2,297
	85,190	**63,623**

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;
- a distance-related tariff denominated and payable in RR, 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, set by the Federal Tariff Agency for transit of Kazakhstan crude oil through the Makhachkala – Novorossiysk pipeline.

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

17 SALES (continued)

Revenues from oil products transportation services are earned by Group 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.

Other Group's revenues mainly comprise oil blending, oil and oil product storage, and rent.

18 OPERATING EXPENSES AND NET OTHER OPERATING INCOME

	Three months ended 31 March 2009	Three months ended 31 March 2008
Depreciation	10,557	7,918
Staff costs:		
Salaries and pension expense	10,475	8,352
Unified Social Fund contributions	2,072	1,611
Key management personnel compensation (see Note 21)	70	43
Social expenses	475	479
Energy	6,780	5,930
Materials	2,767	2,803
Cost of crude oil sold	1,066	333
Cost of oil products sold	678	78
Insurance expense	703	1,386
Net change in doubtful debt provision	5	2,698
(Reversal) /Reduction of inventory to net realisable value	(743)	-
Repairs and maintenance services	1,476	842
Business trip expense	918	611
Transport expense	487	413
Taxes other than profit tax:		
Property tax	535	410
Other taxes	27	19
Other	2,054	1,721
	40,402	**35,647**

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 three months ended 31 March 2009 in amount of RR 1,497 (for the three months ended 31 March 2008 – RR 981).

Salaries and pension expense include Group expenses in relation to the non-state defined contribution plan for the three months ended 31 March 2009 in amount of RR 1,196 (for the three months ended 31 March 2008 – RR 776).

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

18 OPERATING EXPENSES AND NET OTHER OPERATING INCOME (continued)

The following amounts are included in net other operating income:

	Three months ended 31 March 2009	Three months ended 31 March 2008
Oil surplus	1,070	2,278
(Loss)/gain on disposal of property, plant and equipment	(177)	75
Charitable contribution	(136)	(329)
Gain on insurance received	62	-
Loss on available-for-sale investments	(14)	-
	805	**2,024**

19 SUBSIDIARIES AND ASSOCIATES

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

	Country of incorporation	Percentage (%) of ownership interest at 31 March 2009
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
ZAO Transneft-Servis	Russia	75.0
OOO Transneft-Terminal	Russia	75.0
OAO Energoterminal	Russia	51.0
Fenti Development Limited	Cyprus	100

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

19 CONSOLIDATED SUBSIDIARIES AND ASSOCIATES (continued)

	Country of incorporation	Percentage (%) of ownership interest at 31 March 2009
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 Spetstransnefteproduct	Russia	100.0
OAO Trade House Transnefteproduct	Russia	100.0
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
ZAO Promsfera	Russia	50.0
OOO Impex-Plus	Russia	50.0
OOO Tikhoretsk –Nafta	Russia	50.0

20 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 March 2009, which could have a material adverse effect on the results of operations or financial position of the Group.

Management assesses an unfavourable outcome of the matters discussed as possible.

As of the date of issuing these consolidated interim financial statements, the courts of the first to third instances confirmed the right of certain entities of the Group (the Company and Transnefteproduct) to claim RR 6,482 of VAT paid during the period January 2004 – September 2007 at a rate of 18% to their transportation subsidiaries for oil transportation services and oil products transportation services. Due to the tax authority's contestation of judicial acts favorable for the Company and OAO AK Transnefteproduct within the period from February to June 2009, judicial acts favorable for OAO AK Transnefteproduct for the total amount of RR 285 were transferred for a new trial to the court of first instance or cancelled. In May 2009, the Moscow regional court invalidated the decisions of the lower courts with regard to certain claims amounting to RR 1,397 and transferred a part of the claim (RR 701) to the court of the first instance.

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

20 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER RISKS (continued)

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. The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged in the future. As a result, 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.

21 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

The Russian Federation, through the Federal Agency for the Management of Federal Property, owns 100% of the ordinary shares of the Company and controls its operations through Board 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.

The Company holds in trust on behalf of the Russian Government 24% of the shares of the Caspian Pipeline Consortium-R, 24% of the shares of the Caspian Pipeline Consortium – K as at 31 March 2009 and 31 December 2008. 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.

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

	Three months ended 31 March 2009	Three months ended 31 March 2008
Revenue from oil transportation services	20,499	16,830
Revenue from oil products transportation services	2,161	1,086
Electricity expenses	90	397
Interest expenses	3,437	1,814

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

21 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

	31 March 2009	31 December 2008
Receivables and prepayments	898	770
Cash	44,966	29,083
Advances received for oil transportation services	2,439	4,083
Advances received for oil product transportation services	717	1,044
Non-current and current borrowings	135,289	118,111

Transactions with the state include taxes which are detailed in the consolidated statement of financial position, in profit and loss in statement of comprehensive income and Notes 9, 16, 17 and 18.

Key management personnel compensation

Short-term compensation payable to the key management personnel of the Company and its subsidiaries consists of contractual remuneration for their services in full time executive positions. Compensation amounts were as follows:

	Three months ended 31 March 2009	Three months ended 31 March 2008
Salaries and bonuses	68	38
Termination benefits	-	2
Other	2	3
	70	**43**

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 a one-time payment from the Group at their retirement date.

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 statement of financial position		
31 March 2009		
Cash and cash equivalents (Note 10)	80,282	-
Available-for-sale financial assets (Note 7)	-	963
Other financial assets	2	-
Accounts receivable (trade and other) (Note 9)	9,005	-
	89,289	**963**
31 December 2008		
Cash and cash equivalents (Note 10)	60,565	-
Available-for-sale financial assets (Note 7)	-	962
Other financial assets	1,505	-
Accounts receivable (trade and other) (Note 9)	7,660	-
	69,730	**962**

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

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

	31 March 2009	31 December 2008
Liabilities as per statement of financial position		
Accounts payable (trade and other) (Note 16)	20,089	15,615
Borrowings and finance lease obligations (Note 13)	289,160	255,737
	309,249	**271,352**

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 2007-2008 (see Note 13) 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 March 2009, if the US dollar had strengthened / weakened by 20% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been RR 24,796 (for the three months ended 31 March 2008, if the US dollar had strengthened / weakened by 10% against the Russian rouble – RR 4,974) lower / higher, mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings less US dollar-denominated cash balances.

As at 31 March 2009, if the EURO had strengthened / weakened by 20% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been RR 1,111 (for the three months ended 31 March 2008, if the EURO had strengthened / weakened by 10% against the Russian rouble – RR 2,595) lower / higher as a result of foreign exchange losses / gains on translation of EURO-denominated borrowings less 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 favourable to the Group over the expected period until maturity.

As the Group has no significant interest-bearing assets with variable interst rate, 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.

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. 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.

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

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

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 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 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 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.

Cash and bank deposits mainly are placed with State controlled financial institutions or other financial institutions with Standard and Poor credit ratings not lower than BB-, which are considered to have minimal or low risk of default.

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

Liquidity risk

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

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

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

31 March 2009:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Borrowings and loans	286,865	365,256	73,566	93,773	148,234	49,683
Trade and other payables	20,089	20,089	20,089	-	-	-
Finance lease liabilities	2,295	3,337	2,618	681	18	20
	309,249	**388,682**	**96,273**	**94,454**	**148,252**	**49,703**

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

22 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

31 December 2008:

		Contractual cash flows				
	Carrying amount	**Total**	**12 months or less**	**1-2 years**	**2-5 years**	**More than 5 years**
Borrowings and loans	253,104	325,537	74,986	65,548	101,466	83,537
Trade and other payables	15,615	15,615	15,615	-	-	-
Finance lease liabilities	2,633	3,789	2,887	864	18	20
	271,352	**344,941**	**93,488**	**66,412**	**101,484**	**83,557**

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 March 2009 and 31 December 2008. The fair value of loans, borrowings and finance lease obligations disclosed in Note 13.

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.

23 SEGMENT INFORMATION

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

Adjusting entries reconciling this information with these consolidated interim financial statements indicators primarily include adjustments and reclassifications resulting from differences between RAR and IFRS.

The Group has no material transactions between operating segments.

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

23 SEGMENT INFORMATION (continued)

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

	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
External revenue	**76,133**	**6,211**	**2,846**	**85,190**
Operating expenses	(35,916)	(3,081)	(1,405)	(40,402)
Depreciation and amortisation	(8,162)	(711)	(1,684)	(10,557)
Interest income	775	87	5	866
Interest expenses	(3)	(654)	(3,547)	(4,204)
Share of profit/(loss) from associates	113	-	(8)	105
Profit/(loss) before income tax	**27,697**	**(322)**	**(3,187)**	**24,188**
Income tax (expense)/credit	(6,433)	69	1,337	(5,027)
Profit/(loss) for the year	**21,263**	**(253)**	**(1,850)**	**19,161**
Investments in associates	814	1	554	1,369
Total segment assets	**914,292**	**62,868**	**39,980**	**1,017,140**
Trade payables and advances received	25,729	1,764	178	27,671
Non-current borrowings	208,625	18,730	(110)	227,245
Current borrowings	51,210	8,415	(5)	59,620
Total segment liabilities	**329,267**	**30,170**	**78,598**	**438,035**
Other segment disclosures				
Additions to non-current assets (other than financial instruments and deferred tax assets)	38,167	651	7,651	46,469

Segment information for the three months ended 31 March 2008 is as follows:

	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
External revenue	**58,432**	**2,908**	**2,283**	**63,623**
Operating expenses	(24,401)	(2,565)	(8,681)	(35,647)
Depreciation and amortisation	(6,140)	(329)	(1,449)	(7,918)
Interest income	263	9	2	274
Interest expenses	(11)	(334)	(231)	(576)
Share of profit/(loss) from associates	-	1	(16)	(15)
Profit/(loss) before income tax	**37,635**	**1,488**	**(7,979)**	**31,144**
Income tax (expense)/credit	(9,641)	(366)	2,040	(7,967)
Profit/(loss) for the year	**27,994**	**1,122**	**(5,939)**	**23,177**
Investments in associates	223	1	360	584
Total segment assets	**718,195**	**57,658**	**60,243**	**836,096**
Trade payables and advances received	21,423	1,408	921	23,752
Non-current borrowings	70,893	19,149	(156)	89,886
Current borrowings	85,420	1,512	-	86,932
Total segment liabilities	**207,058**	**23,170**	**93,709**	**323,937**
Other segment disclosures:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	18,278	488	1,085	19,851

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

23 SEGMENT INFORMATION (continued)

Adjustments to income and expenses that form pre-tax profit are mainly represented by IFRS adjustments to record minority interest, to recognize fixed assets and process oil revaluation results, to accrue provision for dismantling and removing of fixed assets, to decapitalize interest costs capitalized earlier under RAR and to accrue deferred taxes for IFRS purposes.

Adjusting items for segment's assets in the amount of RR 39,980 as of 31 March 2009 and RR 60,243 as of 31 March 2008 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 March 2009	31 March 2008
Property, plant and equipment dismantlement provision recognized in cost	50,559	57,752
Revaluation of linefill	47,966	47,621
Assets received under finance lease	7,170	8,599
Transnefteproduct consolidation	(52,554)	(52,554)
Deferred tax assets	(11,512)	(1,046)
Others	(1,649)	(129)
Total unallocated reconciliation adjustments of segment assets	**39,980**	**60,243**

Adjusting items for segment's liabilities in the amount of RR 78,598 as of 31 March 2009 and RR 93,709 as of 31 March 2008 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 March 2009	31 March 2008
Dismantlement provision	70,286	65,548
Pension liabilities	5,003	4,805
Deferred tax liabilities	1,082	16,666
Lease liabilities	2,295	3,441
Others	(68)	3,249
Total unallocated reconciliation adjustments of segment liabilities	**78,598**	**93,709**

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 geographical location of customers although the majority of revenues are generated by assets located in the Russian Federation. The oil product transportation segment has certain assets located on the territory of Latvia, Ukraine and Belarus. The carrying value of these assets is not significant.

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

	Three months ended 31 March 2009	Three months ended 31 March 2008
Russian Federation	82,656	61,972
Other countries	2,534	1,651
	85,190	**63,623**

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

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

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

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

23 SEGMENT INFORMATION (continued)

Company	Three months ended 31 March 2009	Three months ended 31 March 2008
Companies under common control of the Government of the Russian Federation	22,660	17,916
OAO Lukoil	12,724	10,060
OAO Surgutneftegaz	12,383	10,100
OAO TNK-BP Holding	11,055	8,722
	58,822	**48,798**

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

24 EVENTS AFTER THE REPORTING PERIOD

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 credit agreement date. Interest on the credit agreement is payable once every six months until 1 January 2011 and on a monthly basis after 1 January 2011. After the balance sheet date by the date of signing these financial statements, the Group received USD 5.0 billion under the facility agreement; the remaining loan portion will be drawn down over the period 2009-2010. The proceeds will be used to for the construction of the Eastern Siberia-Pacific Ocean pipeline system including the section of the pipeline to Skovorodino which and borders the People's Republic of China.

In February 2009 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. To ensure the fulfillment of 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 2009, the Company placed nonconvertible interest bearing documentary bonds in totalling RR 35,000 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.

In June 2009, the shareholders of the Company approved the payment of dividends for 2008 in the amount of RR 368 (preferred shares – RR 368) at the annual general meeting of shareholders. The whole amount of dividends is expected to be paid before 31 December 2009.