OAO AK TRANSNEFT
CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010

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

1. We have prepared the consolidated financial statements for year ended 31 December 2010 which give a true and fair view of the financial position of the OAO AK Transneft (the "Company") and its subsidiaries (the "Group") at the end of the year and of the results of operations and cash flows for the year then ended. Management of the Group is responsible for ensuring that the Group entities keep accounting records which disclose with reasonable accuracy the financial position of each entity and which enable them to ensure that the consolidated financial statements comply with International Financial Reporting Standards and that their statutory accounting reports comply with Russian laws and regulations. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

2. Management believes that, in preparing the consolidated financial statements set out on pages 5 to 46 the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Financial Reporting Standards have been followed.

3. The consolidated financial statements, which are based on the statutory consolidated accounting reports for the year ended 31 December 2010, approved by management in April 2011, have been converted in accordance with International Financial Reporting Standards.

N.P. Tokarev
President
31 May 2011

OAO AK Transneft
ul. Bolshaya Polyanka, 57
119180 Moscow
Russian Federation

Independent Auditor's Report

To the Shareholders and Board of Directors of OAO AK Transneft:

1 We have audited the accompanying consolidated financial statements of OAO AK Transneft and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

31 May 2011
Moscow, Russian Federation

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

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Intangible assets		1,539	1,275
Property, plant and equipment	6	1,214,355	997,400
Available-for-sale investments	7	336	419
Investment in associates and jointly controlled entities	8,22	4,835	2,151
VAT assets	11	14,888	1,194
Receivables and prepayments	11	534	322
Total non-current assets		**1,236,487**	**1,002,761**
Current assets			
Inventories	10	17,272	12,900
Receivables and prepayments	11	26,508	17,612
VAT assets	11	33,412	61,812
Current income tax prepayments		3,242	5,388
Other financial assets	9	51,061	35,616
Cash and cash equivalents	12	283,653	283,658
Total current assets		**415,148**	**416,986**
Total assets		**1,651,635**	**1,419,747**
EQUITY AND LIABILITIES			
Equity			
Share capital	13	308	308
Share premium reserve	13	52,553	52,553
Merger reserve	13	(13,080)	(13,080)
Retained earnings		732,864	615,171
Attributable to the owners of OAO AK Transneft		**772,645**	**654,952**
Non-controlling interest	14	33,792	26,444
Total equity		**806,437**	**681,396**
Non-current liabilities			
Borrowings and finance lease obligations	15	573,148	541,952
Deferred income tax liabilities	16	37,303	30,505
Provisions for liabilities and charges	17	123,579	86,782
Total non-current liabilities		**734,030**	**659,239**
Current liabilities			
Trade and other payables	18	97,966	63,955
Current income tax payable		2,547	3,821
Borrowings and finance lease obligations	15	10,655	11,336
Total current liabilities		**111,168**	**79,112**
Total liabilities		**845,198**	**738,351**
Total equity and liabilities		**1,651,635**	**1,419,747**

Approved on 31 May 2011 by:

N.P. Tokarev — President

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

The accompanying notes set out on pages 9 to 46 are an integral part of these consolidated financial statements

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

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	19	447,532	351,051
Operating expenses	20	(280,036)	(181,455)
Operating profit		**167,496**	**169,596**
Financial items:			
Exchange gains		65,004	66,987
Exchange loss		(64,878)	(66,854)
Interest income	21	6,764	2,531
Interest expense	21	(20,873)	(17,038)
Total net financial items		**(13,983)**	**(14,374)**
Share of result from investments in associates and jointly controlled entities		4,568	953
Profit before income tax		**158,081**	**156,175**
Current income tax expense		(25,799)	(28,449)
Deferred income tax expense		(6,800)	(5,910)
Income tax expense	16	**(32,599)**	**(34,359)**
Profit for the period		**125,482**	**121,816**
Other comprehensive income after tax			
Currency translation differences		(21)	16
Fair value gains on available-for-sale investments, net of tax		70	35
Total comprehensive income for the period		**125,531**	**121,867**
Profit attributable to:			
Shareholders of OAO AK Transneft		119,190	120,407
Non-controlling interest	14	6,292	1,409
Total comprehensive income attributable to:			
Shareholders of OAO AK Transneft		119,239	120,458
Non-controlling interest		6,292	1,409

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

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities			
Cash receipts from customers		498,967	405,163
Cash paid to suppliers and employees, and taxes other than profit tax		(311,844)	(234,088)
Interest paid		(35,112)	(22,736)
Income tax paid		(24,860)	(27,400)
Tax refunds: VAT and other taxes		74,193	43,997
Other cash used in operating activities		(6,879)	(1,760)
Net cash from operating activities		**194,465**	**163,176**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(225,119)	(203,273)
Proceeds from sales of property, plant and equipment		1,249	1,022
Interest and dividends received		14,686	6,704
Purchase (repayments) of notes		(12,461)	(36,079)
Other cash proceed/ (used) in investing activities		906	2,321
Net cash used in investing activities		**(220,739)**	**(229,305)**
Cash flows from financing activities			
Proceeds from long and short-term Borrowings		32,370	471,851
Repayment of long and short-term Borrowings		(861)	(180,940)
Payment of finance lease obligations		(757)	(3,268)
Dividends paid		(1,417)	(322)
Net cash from financing activities		**29,335**	**287,321**
Effects of exchange rate changes on cash and cash equivalents		**(3,066)**	**1,901**
Net increase in cash and cash equivalents		**(5)**	**223,093**
Cash and cash equivalents at the beginning of the period	12	283,658	60,565
Cash and cash equivalents at the end of the period	12	**283,653**	**283,658**

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

	Attributable to the owners of OAO AK Transneft						
	Share capital	Share premium	Merger reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009	**308**	**52,553**	**(13,080)**	**495,081**	**534,862**	**25,035**	**559,897**
Profit for the period	-	-	-	120,407	120,407	1,409	121,816
Fair value gain on available-for sale investments, net of tax	-	-	-	35	35	-	35
Currency translation differences, net of tax	-	-	-	16	16	-	16
Total comprehensive income for the period	**-**	**-**	**-**	**120,458**	**120,458**	**1,409**	**121,867**
Dividends							
- preference shares				(368)	(368)	-	(368)
Balance at 31 December 2009	**308**	**52,553**	**(13,080)**	**615,171**	**654,952**	**26,444**	**681,396**
Balance at 1 January 2010	**308**	**52,553**	**(13,080)**	**615,171**	**654,952**	**26,444**	**681,396**
Profit for the period	-	-	-	119,190	119,190	6,292	125,482
Fair value gain on available-for sale investments, net of tax	-	-	-	70	70	-	70
Currency translation differences, net of tax	-	-	-	(21)	(21)	-	(21)
Total comprehensive income for the period	**-**	**-**	**-**	**119,239**	**119,239**	**6,292**	**125,531**
Additional emission of shares by a subsidiary	-	-	-	-	-	1,593	1,593
Dividends							
- ordinary shares	-	-	-	(1,157)	(1,157)	(537)	(1,694)
- preference shares	-	-	-	(389)	(389)	-	(389)
Balance at 31 December 2010	**308**	**52,553**	**(13,080)**	**732,864**	**772,645**	**33,792**	**806,437**

Approved on 31 May 2011 by:

N.P. Tokarev — President

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The accompanying notes set out on pages 9 to 46 are an integral part of these financial statements

1 NATURE OF OPERATIONS

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

The Company and its subsidiaries (the "Group") operate the oil pipeline system in the Russian Federation totalling 50,177 km at 31 December 2010 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 18,790 km as at 31 December 2010. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the year ended 31 December 2010, the Group transported 466 million tonnes of crude oil to domestic and export markets (year ended 31 December 2009 – 457 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 30 million tonnes of oil products (28 million tonnes for year ended 31 December 2009).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

3 BASIS OF PRESENTATION

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

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

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 (“CBR”) was 30.4769 and 30.2442 as at 31 December 2010 and 31 December 2009, respectively. The official euro (“EUR”) to Russian Rouble (“RR”) exchange rates as determined by the Central Bank of the Russian Federation was 40.3331 and 43.3883 as at 31 December 2010 and 31 December 2009, respectively.

The following new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation 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 should 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.

3 BASIS OF PRESENTATION (continued)

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. IFRIC 18 did not have an impact on these financial statements.

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 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interest”) even if this results in the non-controlling interests having a deficit balance (the previous standard required 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 has to be measured at its fair value. IAS 27 did not have an impact on these 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 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are 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 revised IFRS 3 did not have a material impact on these financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard is not relevant to the Group’s operations.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The revised standard is not relevant to the Group’s operations.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (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. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these financial statements.

3 BASIS OF PRESENTATION (continued)

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 for the year 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. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Investments in associates and joined control entities

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

Property, plant and equipment

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

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

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

Renewals and improvements are capitalised and the assets replaced are retired. Maintenance, repairs, and minor renewals are expensed as incurred. Gains and losses arising from the retirements or other disposals of property, plant and equipment are included in profit 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 recognised at cost, and any disposals are written off at weighted average carrying value of linefill.

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

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

The prepayments which relate to PPE and inventory for construction are included in the category Assets under construction including prepayments.

Leased assets

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

Inventories

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The fair values of financial assets and liabilities with a maturity date less than year 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:

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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 in the consolidated statement of comprehensive income.

Cash and cash equivalents

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

VAT assets

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

Borrowings

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

Capitalisation of borrowing costs

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

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

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

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 and loss in the statement of comprehensive income except if it is recognised directly in comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in comprehensive income.

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

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

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

State pension fund

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

Provisions (including dismantlement)

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

Provisions are reassessed at each 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.

Pension provision

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

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

Environmental provision

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Revenue recognition

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

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

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

Share capital and dividends

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

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

New accounting developments

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (issued in November 2009, effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect the interpretation to have any material effect on its financial statements.

Classification of Rights Issues - Amendment to IAS 32, Financial Instruments: Disclosure (issued in October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendment to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 9, Financial Instruments part 1: Classification and Measurement. (IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010). Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13 issued by the IASB in 2010 are generally applicable for annual periods beginning after 1 January 2011. The Group is currently assessing the effect on those amendments on future financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The revised standard is not relevant to the Group's operations.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The revised standard is not relevant to the Group’s operations.

New standards issued in May 2011 that are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 10 “Consolidated financial statements” replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation − special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11 “Joint arrangements” replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Ventures”. Changes in the definitions have reduced the “types” of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12 “Disclosure of interest in other entities” applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity; it replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet this objective, there is a new requirement to disclosure significant judgments and assumptions in determining whether an entity controls, jointly controls or significantly influences its interests in other entities.

As a consequence of above changes IAS 27 is renamed “Separate financial statements”. It continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged.

IFRS 13 “Fair value measurement” aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The Group is currently assessing the impact of the new standards on the consolidated financial statements.

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

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

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

Useful lives of property, plant and equipment

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

Should the useful life of the oil pipeline increase by 10 years, the profit for the year ended 31 December 2010 would be RR 4,309 higher (the year ended 31 December 2009: RR 2,489) as a result of decrease of depreciation expenses.

Dismantlement provision

Provisions are established for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometer of removal according to an estimated plan of replacement over the long term.

The calculation of oil pipelines provision is based on the assumption that dismantlement activities are expected to cover the same number of kilometres each year over the useful life of the network. The calculation of oil products pipelines provision is based on the assumption of accomplishment of approved long-term programs for capital repair of oil products pipeline and that dismantlement activity which are expected to cover the same number of kilometres each year over the useful life of the network. The cost of dismantlement is added to the cost of property, plant and equipment and depreciated over the useful economic life of the pipeline network.

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 17), expenses and assets.

Should the average current cost per kilometre of oil pipeline removal increase/(decrease) by 10%, the profit for the period in year ended 31 December 2010 would be RR 894 lower/(higher) (the year ended 31 December 2009: RR 837).

Should the useful life of the oil pipeline increase by 10 years, the profit for the year ended 31 December 2010 would be RR 1,770 higher (the year ended 31 December 2009: RR 1,681) as a result of decrease of depreciation and interest expenses.

Should the discount rate applied in calculation of dismantlement provision increase/(decrease) by 1%, dismantlement provision would (decrease)/increase by (RR 14,794) / RR 18,230 as at 31 December 2010 ((RR 9,565) / RR 11,835 as at 31 December 2009).

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.

Capitalisation of borrowing costs

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

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

Should the interest rate under the RR bonds be less by 5%, the amount of foreign exchange loss capitalised and profit for the year ended 31 December 2010 would not differ.

(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 2010						
Cost	109,575	691,560	397,385	76,372	115,261	1,390,153
Accumulated depreciation and impairment	(28,891)	(215,519)	(148,343)	-	-	(392,753)
Net book value at 1 January 2010	**80,684**	**476,041**	**249,042**	**76,372**	**115,261**	**997,400**
Depreciation	(3,569)	(30,336)	(39,511)	-	-	(73,416)
Additions (including prepayments)	-	-	-	1,170	261,821	262,991
Transfers from assets under construction	11,989	30,204	62,180	-	(104,373)	-
Transfers to assets under construction	-	-	(2,091)	-	2,091	-
Change in provision for impairement of property, plant and equipment	-	83	-	-	-	83
Net change in dismantlement provision (see Note 17)	-	27,759	-	-	2,201	29,960
Disposals/retirements at cost	(366)	(1,511)	(5,712)	(411)	-	(8,000)
Accumulated depreciation on disposals/retirements and impairment	153	1,262	3,922	-	-	5,337
Net book value at 31 December 2010	**88,891**	**503,502**	**267,830**	**77,131**	**277,001**	**1,214,355**
At 31 December 2010						
Cost	121,198	748,012	451,762	77,131	277,001	1,675,104
Accumulated depreciation and impairment	(32,307)	(244,510)	(183,932)	-	-	(460,749)
Net book value at 31 December 2010	**88,891**	**503,502**	**267,830**	**77,131**	**277,001**	**1,214,355**

(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 2009						
Cost	91,434	511,064	265,627	65,533	225,467	1,159,125
Accumulated depreciation and impairment	(26,427)	(194,048)	(129,520)	-	-	(349,995)
Net book value at 1 January 2009	**65,007**	**317,016**	**136,107**	**65,533**	**225,467**	**809,130**
Depreciation	(2,618)	(21,453)	(24,850)	-	-	(48,921)
Additions (including prepayments)	-	-	-	11,816	222,541	234,357
Transfers from assets under construction	18,600	175,718	138,050	-	(332,368)	-
Net change in dismantlement provision (see Note 17)	-	5,324	-	-	(379)	4,945
Additional impairment provision	-	(392)	-	-	-	(392)
Disposals/retirements at cost	(459)	(546)	(6,292)	(977)	-	(8,274)
Accumulated depreciation on disposals/retirements and impairment	154	374	6,027	-	-	6,555
Net book value at 31 December 2009	**80,684**	**476,041**	**249,042**	**76,372**	**115,261**	**997,400**
At 31 December 2009						
Cost	109,575	691,560	397,385	76,372	115,261	1,390,153
Accumulated depreciation and impairment	(28,891)	(215,519)	(148,343)	-	-	(392,753)
Net book value at 31 December 2009	**80,684**	**476,041**	**249,042**	**76,372**	**115,261**	**997,400**

Property, plant and equipment and assets under construction as at 31 December 2010 are presented net of impairment provision of RR 4,387 (as at 31 December 2009 – net of impairment provision of RR 4,470), against specific pipeline assets and machinery.

Losses from disposal of fixed assets in the amount of RR 2,659 and RR 391 for the year ended 31 December 2010 and 31 December 2009 respectively, are included in other expenses in the consolidated statement of comprehensive income.

Linefill represents 29,456 thousand tonnes of crude oil and 1,116 thousand tonnes of oil products as at 31 December 2010 (as at 31 December 2009 – 29,400 thousand tonnes of crude oil and 1,159 thousand tonnes of oil products) (see Note 4).

During the year ended 31 December 2010, borrowing costs in the amount of RR 13,991 were capitalised as part of cost of assets under construction (RR 15,546 for year ended 31 December 2009).

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

7 AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2010	31 December 2009
Marketable securities	113	133
Investments in other Russian companies	223	286
	336	**419**

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

8 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Carrying amount of investment in associates and jointly controlled entities in amount of RR 4,835 as at 31 December 2010 (RR 2,151 - at 31 December 2009) are shown net of impairment provision of RR 1,689 as at 31 December 2010 (RR 1,803 - at 31 December 2009) (the amount of provision in Latvian lat was LVL 29,729 at 31 December 2010 and LVL 29,729 at 31 December 2009, difference was caused only by foreign exchange rate changes).

Summarised financial information of associates and jointly controlled entities at 31 December 2010 and 2009 was as follows:

	31 December 2010	31 December 2009
Assets	27,647	6,249
Liabilities	(16,463)	(4,322)
	2010	**2009**
Revenue	43,988	31,564
Profit for the year	6,481	3,763

9 OTHER FINANCIAL ASSETS

As at 31 December 2010 other financial assets mainly include:

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

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

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

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

Deposits in Russian rubles for a total amount of RR 2,575 with maturity date in the first quarter of 2011 (RR 0 as at 31 December 2009).

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

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

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

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

10 INVENTORIES

	31 December 2010	31 December 2009
Materials and supplies	10,012	7,803
Sundry goods for resale	7,042	5,035
Other items	218	62
	17,272	**12,900**

Materials and supplies are presented net of provisions for obsolescence of RR 364 as at 31 December 2010 (as at 31 December 2009 – RR 489). 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 1 as at 31 December 2010 (as at 31 December 2009 – RR 42).

11 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	31 December 2010	31 December 2009
Non-financial assets		
Other long-term receivables	534	322
Total long-term receivables	**534**	**322**

	31 December 2010	31 December 2009
Short-term receivables		
Financial assets		
Trade receivables	1,811	1,905
Other receivables	11,210	8,024
less: provision for doubtful debts	(3,265)	(3,255)
Total financial assets	**9,756**	**6,674**
Non-financial assets		
Prepayments and advances and other non-financial assets	16,752	10,938
Total receivables	**26,508**	**17,612**

As at 31 December 2010 and 31 December 2009 other accounts receivable include advances issued for capital construction which are currently subject to legal proceedings due to non-fulfilment of works under the contract, interest receivable related to temporarily available cash balances with banks and receivables related to insurance.The provision for doubtful debt on other receivable primarily consists of amounts provided against advances issued for capital construction which is currently subject to legal proceedings due to non-fulfilment of works under the contract.

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

	2010		2009	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January	40	3,215	34	3,620
Reversal of provision	(35)	(54)	(8)	(526)
Accrued provision	11	88	14	121
As at 31 December	16	3,249	40	3,215

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

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

11 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS (continued)

overdue balances not included in the provision for accounts receivable as at 31 December 2010 and 2009:

Overdue period	31 December 2010		31 December 2009	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Less than 90 days	78	216	189	119
More than 90 days but less than 365 days	109	205	89	87
Over 365 days	63	371	80	143
	250	792	358	349

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

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

	RUR	USD	Other	Total
31 December 2010				
trade receivables	1,689	92	14	1,795
other receivables	7,511	395	55	7,961
	9,200	487	69	9,756
31 December 2009				
trade receivables	1,812	48	5	1,865
other receivables	4,692	114	3	4,809
	6,504	162	8	6,674

VAT assets

	31 December 2010	31 December 2009
Recoverable VAT related to construction projects	17,893	44,425
Recoverable VAT related to ordinary activity	30,407	18,581
	48,300	63,006
Less: short-term VAT	(33,412)	(61,812)
Long-term VAT	**14,888**	**1,194**

12 CASH AND CASH EQUIVALENTS

	31 December 2010	31 December 2009
Balances in Russian roubles	199,701	96,137
Balances in US dollars	75,700	165,576
Balances in Euro	8,157	21,929
Balances in other currencies	95	16
	283,653	**283,658**

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain established requirements. As at 31 December 2010 and 31 December 2009, a significant portion of cash was placed with State controlled financial institutions (more than 48% and 70% correspondingly) (see Note 25).

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

13 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital

	31 December 2010			31 December 2009		
	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 December 2010 and as at 31 December 2009 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

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.

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

Rights attributable to preferred shares

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

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

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

Dividends

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

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

The whole amount of dividends was paid in December 2010.

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

13 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

In June 2009 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2008

	Russian roubles per share	**Total**
Ordinary shares	-	-
Preferred shares	236.78	368
		368

The whole amount of dividends was paid in December 2009.

In 2010 dividends for a total amount of RR 537 were approved at the general shareholders meeting of a subsidiary. The whole amount of dividends was paid in 2010.

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 4,894 for the year ended 31 December 2010 (RR 3,893 for the year ended 31 December 2009).

14 NON-CONTROLLING INTEREST

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

15 BORROWINGS AND FINANCE LEASE OBLIGATIONS

	31 December 2010	**31 December 2009**
Borrowings and loans	583,803	552,940
Finance lease obligations	-	348
Total borrowings and loans	583,803	553,288
Less: current borrowings and loans and current portion of non-current borrowings and loans and finance lease obligations	(10,655)	(11,336)
	573,148	**541,952**
Maturity of non-current borrowings and loans and finance lease obligations		
Due for repayment:		
Between one and five years	236,378	102,997
After five years	336,770	438,955
	573,148	**541,952**

Long-term borrowings include fixed rate Eurobonds with a carrying value of RR 133,378 and fair value of RR 147,431 as at 31 December 2010 (as at 31 December 2009 carrying amount of fixed rate loans was RR 134,714, fair value – RR 142,991). Fair value of Eurobonds was determined with reference to quoted prices. The fair value of the short-term borrowings approximates their carrying amount as at 31 December 2010. Fair value of floating rate loans approximates their carrying amount as at 31 December 2010.

15 BORROWINGS AND FINANCE LEASE OBLIGATIONS (continued)

In March 2007, the Group issued Eurobonds in the amount of USD 1.3 billion (RR 39,619 at CBR exchange rate at 31 December 2010, RR 39,317 at CBR exchange rate at 31 December 2009) at an interest rate of 5.67% per annum due in 7 years.

In June 2007, the Group issued Eurobonds in the amount of USD 0.5 billion (RR 15,238 at CBR exchange rate at 31 December 2010, RR 15,122 at CBR exchange rate at 31 December 2009) at an interest rate of 6.103% per annum due in 5 years.

Also in June 2007, the Group issued Eurobonds in the amount of EUR 0.7 billion (RR 28,233 at CBR exchange rate 31 December 2010, RR 30,372 at CBR exchange rate at 31 December 2009) at an interest rate of 5.381% per annum due in 5 years.

In August 2008, the Group issued Eurobonds in the amount of USD 0.6 billion (RR 18,286 at CBR exchange rate as 31 December 2010, RR 18,147 at CBR exchange rate at 31 December 2009) 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 32,001 at CBR exchange rate as 31 December 2010, RR 31,756 at CBR exchange rate at 31 December 2009) at an interest rate of 8.70% per annum due in 10 years.

The proceeds from all Eurobonds issues are used to finance the construction of the Eastern Siberia – Pacific Ocean pipeline or for the refinancing of current borrowings, obtained for the same purpose.

In February 2009, the Group signed a facility agreement with China Development Bank Corporation for USD 10 billion, at a floating LIBOR-based rate, due in 20 years and repayable by equal installments, starting from the fifth year after the date of the first drawdown. Interest on the credit agreement is payable once every six months until 1 quarter 2011 and on a monthly basis after 1 quarter 2011. In 2009 the Group received USD 9.0 billion and USD 1.0 billion in 2010. The proceeds will be used for the construction of crude oil pipeline infrastructure, including construction of the crude oil pipeline from Scovorodino to the border of the People's Republic of China and general corporate purposes.

In February 2009 as collateral for the above agreement the Company signed a contract for the term of 20 years for the annual supply of 6 mln. tons of crude oil to the People's Republic of China starting from 1 January 2011. For the fulfillment of the obligations, a contract was signed with OAO NK Rosneft in April 2009 for the supply of corresponding volumes of crude oil to the Company.

In June – October 2009, the Company placed nonconvertible interest bearing documentary bonds payable to bearer (series 01-03) in totalling RR 135,000 with a nominal value of one thousand roubles each, due in 10 years. There is an option to redeem the bonds earlier at the request of the bearer and at the discretion of the issuer, but not earlier than 6 years after the placement. The proceeds are used for financing investment programs and can be also used for other general corporate purposes. The bonds have 10 coupon periods of 364 days each. The coupon yield for the first period is set at 11.75% - 13.75% per annum. The coupon yield for the second coupon periods is set at 9.5%- 9.9%. The coupon yield for the second - sixth coupon periods will be determined as a fixed direct REPO, rate of the Central Bank of Russian Federation for the term of one year and effective as at the third day before the beginning of the respective coupon period plus 2% - 2.4% per annum. The coupon yield for the seventh - tenth periods will be determined by the issuer in accordance with the prospectus.

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

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

16 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Deferred tax liabilities and assets consist of the following:

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

	1 January 2009	(Charged)/ credited to profit or loss	(Charged) /credited directly to equity	31 December 2009
Deferred tax liabilities:				
Carrying value of property, plant and equipment in excess of tax base	(41,551)	(7,490)	-	(49,041)
Other	(184)	(150)	(13)	(347)
	(41,735)	**(7,640)**	**(13)**	**(49,388)**
Deferred tax assets:				
Provisions against inventories, receivables and accruals	898	102	-	1,000
Tax loss carry forward	1,882	(177)	-	1,705
Provisions for dismantlement and other expenses	14,373	1,805	-	16,178
	17,153	**1,730**	**-**	**18,883**
Net deferred tax liability	**(24,582)**	**(5,910)**	**(13)**	**(30,505)**

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the statutory rate of 20% for year ended 31 December 2010 and 31 December 2009.

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

16 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

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

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	**158,081**	**156,175**
Theoretical income tax expense at 20%	31,616	31,235
Increase due to:		
Items not deductible for income tax purposes	983	3,124
Actual income tax expense	**32,599**	**34,359**

The Group has not recognised a deferred tax liability in respect of RR 167,521 as at 31 December 2010 (as at 31 December 2009 - RR 581,173) 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.

Deferred tax assets to be realised within 12 months from 31 December 2010 and 31 December 2009 are expected in the amount of RR 2,141 and RR 2,874, respectively. Deferred tax liabilities expected to be written off within 12 months from 31 December 2010 and 31 December 2009 will be RR 4,293 and RR 5,192 respectively.

17 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2010	31 December 2009
Dismantlement provision	116,202	80,535
Pension provision	7,377	6,247
	123,579	**86,782**

Dismantlement provision

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

Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 7.52% per year (31 December 2009 – 8.49% per year).

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

17 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	2010	2009
At 1 January	80,535	69,233
Provision on additions to property, plant and equipment	2,864	855
Changes in estimates adjusted against property, plant and equipment	27,096	4,090
Utilised in the period	(740)	(611)
Unwinding of the present value discount	6,840	6,968
Reversal of provision	(393)	-
At 31 December	**116,202**	**80,535**

Pension provision

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

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

Movement in defined benefit obligation	2010	2009
At 1 January	6,247	5,772
Interest cost	547	585
Service cost	269	191
Actuarial loss /(gain)	843	(506)
Past service cost	271	737
Benefits paid	(800)	(532)
At 31 December	**7,377**	**6,247**

Service cost, past service cost and actuarial (profit) / loss amounting to RR 1,383 and RR 422 for the year ended 31 December 2010 and 2009, respectively, are included in staff costs in the consolidated statement of comprehensive income, interest expense in the amount of RR 547 and RR 585 for the year ended 31 December 2010 and 2009, respectively, are included in interest expenses.

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

	31 December 2010	31 December 2009	31 December 2008	31 December 2007	31 December 2006
Present value of provision (unfunded)	7,377	6,247	5,772	4,607	3,761
Liability	7,377	6,247	5,772	4,607	3,761
Unrecognised past service (cost)/credit	-	-	-	-	-

Principal actuarial assumptions used (expressed as weighted average):

	31 December 2010	31 December 2009
Average nominal discount rate	7.93%	8.80%
Future salary increases (nominal)	6.00%	7.00%
Expected long-term inflation rate	5.00%	6.00%

As at 31 December 2010, if the future estimated inflation rate had increased by 1%, the amount of the Group pension provisions would have been RR 700 higher.

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

18 TRADE AND OTHER PAYABLES

	31 December 2010	31 December 2009
Trade payables	32,447	17,690
Other payables	6,085	3,542
Total financial payables	38,532	21,232
Advances received for oil and oil product transportation services	28,948	24,295
Accruals	19,814	12,977
VAT output tax payable	9,049	4,087
Other taxes payable	1,623	1,364
Total payables	**97,966**	**63,955**

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

	RUR	USD	EUR	Other	Total
31 December 2010					
trade payables	32,376	56	12	3	32,447
other payables	5,382	341	362	-	6,085
	37,758	**397**	**374**	**3**	**38,532**
31 December 2009					
trade payables	17,634	-	53	3	17,690
other payables	2,735	309	498	-	3,542
	20,369	**309**	**551**	**3**	**21,232**

Trade payables include payables to PPE in amount RR 21,971 as at 31 December 2010 and RR 11,934 as at 31 December 2009.

19 REVENUE

	Year ended 31 December 2010	Year ended 31 December 2009
Revenues from crude oil transportation services		
Domestic tariff	164,253	131,221
Export tariff	221,891	172,887
Total revenues from crude oil transportation services	**386,144**	**304,108**
Revenues from oil products transportation services	30,605	24,221
Revenues from crude oil sales	8,084	3,512
Revenues from oil products sales	5,374	1,834
Revenues from construction contract	3,849	6,127
Revenues from oil compounding	4,053	3,972
Other revenues	9,423	7,277
	447,532	**351,051**

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").

19 REVENUE (continued)

Other amounts included in export tariffs are:

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

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

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

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

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

Oil product transportation services are settled:

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

Revenue under the construction contract is generated through the Company's fulfilment of its contractual obligations under state contract for construction and development of design and working documentation as well as construction and reconstruction of infrastructure facilities (oil pipeline and oil product pipeline) in the framework of investment project "Complex of refineries and petrochemical plants in Nizhnekamsk" in accordance with the Resolution of the Russian Government dated 30 November 2006 No. 1708-r. In 2010 the revenue under the construction contract recognised in the reporting period amounted to RR 3,849 (in 2009 – RR 6,127). The aggregate revenue and losses incurred recognised as at 31 December 2010 were RR 3,849 and nil, respectively (in 2009 – RR 6,127 and nil, respectively). As at 31 December 2010 the amount of advance payments received was nil (in 2009 – 0). There were no deductions as at the end of the reporting period.

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

20 OPERATING EXPENSES

	Year ended 31 December 2010	Year ended 31 December 2009
Operating expenses		
Depreciation	71,969	46,823
Staff costs:		
Salaries and pension expense	70,896	54,876
Social Funds contributions (Unified Social Tax in 2009)	7,648	6,571
Social expenses	3,197	3,336
Energy	31,961	27,741
Transportation of oil using railways	29,593	-
Materials	16,029	12,838
Repairs and maintenance services	11,981	7,941
Cost of crude oil sold	7,659	1,654
Cost of oil products sold	6,730	1,731
Insurance expense	2,114	1,517
Net change in doubtful debt provision	10	(399)
(Reversal) /Reduction of inventory to net realisable value	(41)	(168)
Net change in impairment provision of property, plant and equipment	(83)	392
Business trip expense	4,189	3,718
Taxes other than profit tax:		
Property tax	4,083	2,892
Other taxes	121	112
Other expenses	11,980	9,880
	280,036	**181,455**

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

Social Funds contributions (Unified Social Tax in 2009) include Group expenses in relation to the State Pension Fund, which is a defined contribution plan, for the year ended 31 December 2010 in amount of RR 4,806 (for the year ended 31 December 2009 – RR 4,589).

Salaries and pension expense include Group expenses in relation to the non-state defined contribution plan for the year ended 31 December 2010 in amount of RR 5,768 (for the year ended 31 December 2009 – RR 5,217).

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

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

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

21 INTEREST INCOME AND INTEREST EXPENSE

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income on cash and cash equivalents	13,516	7,915
Interest income from available-for-sale investments	2,851	823
Other interest income	108	11
Total interest income	**16,475**	**8,749**
less interest income on the temporary investment of borrowings	(9,711)	(6,218)
Total interest income recognised in profit or loss	**6,764**	**2,531**

	Year ended 31 December 2010	Year ended 31 December 2009
Interest expense on borrowing cost	37,046	30,029
Provisions for asset retirement obligations: unwinding of the present value discount	6,840	6,968
Leasing unwinding of the present value discount	157	1,185
Other interest expenses	533	620
Total interest expenses	**44,575**	**38,802**
Less capitalised finance costs	(23,702)	(21,764)
Total interest expenses recognised in profit or loss	**20,873**	**17,038**

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

22 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

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

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2010
Subsidiaries, associates and jointly controlled entities			
“Oil transportation” segment			
OAO Sibnefteprovod	crude oil transportation	Russia	100.0
OAO Chernomortransneft	crude oil transportation	Russia	100.0
OAO MN Druzhba	crude oil transportation	Russia	100.0
OAO Privolzhsknefteprovod	crude oil transportation	Russia	100.0
OAO Transsibneft	crude oil transportation	Russia	100.0
OAO Verkhnevolzhsknefteprovod	crude oil transportation	Russia	100.0
OAO Tsentrsibnefteprovod	crude oil transportation	Russia	100.0
OAO SMN	crude oil transportation	Russia	100.0
OOO Baltnefteprovod	crude oil transportation	Russia	100.0
OAO Uralsibnefteprovod	crude oil transportation	Russia	75.5
OAO SZMN	crude oil transportation	Russia	64.0
OOO Vostoknefteprovod	crude oil transportation	Russia	100.0
OOO Dalnefteprovod	crude oil transportation	Russia	100.0
OAO Giprotruboprovod	project and designed work for oil pipeline	Russia	100.0
OAO Svyaztransneft	technological connection	Russia	100.0
OAO CTD Diascan	diagnostics	Russia	100.0
OAO Volzhsky Podvodnik	diagnostics, repair and maintenance of underwater line	Russia	100.0
ZAO Centre MO	metrological support	Russia	100.0
OOO Spetsmornefteport Primorsk	loading and off-loading	Russia	100.0
OOO TransPress	press	Russia	100.0
OOO TsUP VSTO	constructor of ESPO	Russia	100.0
OOO Transneft Finance	accounting	Russia	100.0
OOO Spetsmornefteport Kozmino	loading of oil and oil products	Russia	100.0
OOO Transneftenergo	electric power transmission	Russia	100.0
OOO Transneft-Servis	port facilities	Russia	100.0
OAO Energoterminal	organisation of cargo	Russia	50.04
OOO DSD	construction of ESPO-2	Russia	100.0
OOO ULBK	construction	Russia	100.0
OAO VOSTOKNEFTETRANS	crude oil railway transportation	Russia	51.0
OOO Transneftstroy	general pipe contractor	Russia	100.0
Fenti Development Limited	financial activity	British Virgin Islands	100.0
ZAO SK Transneft	insurance	Russia	100.0
OOO Transneft-Terminal	organization of compounding of crude oil and oiprodructs	Russia	75,0

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

22 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2010
Subsidiaries, associates and jointly controlled entities **"Oil transportation" segment**			
OOO Rusenergoresurs	wholesale of electric and heat power	Russia	25.0
OOO TK-BA	designing and construction of " Burgas – Alexandroupolis" pipeline	Russia	33.3
ZAO Promsfera	rent	Russia	50.0
OOO Impex-Plus	wholesale agent	Russia	50.0
OOO Tikhoretsk –Nafta	cargo handling	Russia	50.0
ZAO Transneft-Servis	crude oil sea and domestic water transportation	Russia	100.0
OAO Zapoliare	construction and operation pipeline	Russia	100.0
OOO NII TNN	research	Russia	100.0
OOO Primorskiy torgoviy port	cargo handling	Russia	50.0
Subsidiaries and associates, "Oil product transportation" segment			
OAO Mostransnefteproduct	oil product transportation	Russia	100.0
OAO Yugo-Zapad transnefteproduct	oil product transportation	Russia	100.0
OAO Sredne-VolzhskyTransnefteproduct	oil product transportation	Russia	100.0
OAO PeterburgTransnefteproduct	oil product transportation	Russia	100.0
OAO Sibtransnefteproduct	oil product transportation	Russia	100.0
ChUP Zapad-Transnefteproduct	oil product transportation	Belarus	100.0
DP Prikarpatzapadtrans	oil product transportation	Ukraine	100.0
OOO Balttransnefteproduct	oil product transportation	Russia	100.0
OOO Ryazantransnefteproduct	oil product transportation	Russia	100.0
OAO Uraltransnefteproduct	oil product transportation	Russia	86.2
OAO AK Transnefteproduct	oil product transportation	Russia	100.0
OOO ChOP STNP	security	Russia	100.0
OAO Trade House Transnefteproduct	integrated storage	Russia	100.0
OAO Telecomnefteproduct	communication services	Russia	100.0
OAO Podvodspetstransnefteproduct	underwater services of oil product pipelines	Russia	100.0
OAO Institute Nefteproductproect	project and designed work for oil pipeline	Russia	100.0
OOO Sot-Trans	insurance	Russia	100.0
OOO BalttransServis	construction of oil product pipeline	Russia	100.0
SIA LatRosTrans	oil product transportation	Latvia	34.0

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

23 CONTINGENT LIABILITIES, COMMITMENTS AND OTHER RISKS

Legal proceedings

The Group is involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group's management, there are no current legal proceedings or claims outstanding at 31 December 2010, which could have a material adverse effect on the results of operations or financial position of the Group.

As at 31 December 2010, input VAT includes RR 696 of VAT charged to the Company by its subsidiaries for August 2007, recovery of which was rejected. The company continues its efforts aimed at VAT recovery.

In March 2011 the First arbitrary court made a decision to fine the company of the Group and reimburse to OOO «Rybhoz Borok» its losses in the amount of RR 992 which were a result of severe damage to the oil product pipeline which took place in March 2007. In April 2011 the company of the Group appealed to the Federal arbitrary court of Volgo-Vyatskiy federal district with a claim to cancel the above decision and take into consideration a new act in accordance with which the amount of losses incurred by OOO «Rybhoz Borok» may be significantly decreased. Besides, the Group has submitted a request to cease an execution of the above decision. Management of the Group does not assess the unfavorable outcome of this legal proceeding as probable. As the Management of the Group is unable to estimate reliably the ending date of the proceeding and its influence on the consolidated financial statements of the Group, it has not provided for a possible reimbursement of losses to OOO «Rybhoz Borok» in these consolidated financial statements.

24 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

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

As at 31 December 2010 Company holds in trust on behalf of the Russian Government 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company, 7% of the shares of the Caspian Pipeline Consortium-R and 7% of the shares of Caspian Pipeline Consortium–K and also 24% of the shares of the Caspian Pipeline Consortium-R and 24% of the shares of Caspian Pipeline Consortium–K. These interests are not recognised in these consolidated financial statements as the Company is acting as an agent on behalf of the Russian Government.

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

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

	Year ended 31 December 2010	**Year ended 31 December 2009**
Revenue from oil transportation services	124,792	88,916
Revenue from oil products transportation services	8,109	7,216
Electricity expenses	(737)	(1,011)
Interest expenses	-	(9,494)
Transportation expenses of oil using railways	(25,205)	-
Other income on financial assets	2,764	823

	31 December 2010	**31 December 2009**
Receivables and prepayments	5,445	510
Cash	138,172	202,692
Advances received for oil transportation services	7,632	7,111
Advances received for oil product transportation services	438	1,303
Other financial assets	50,784	35,186
Non-current and current borrowings	1	1

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

24 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

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

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

	31 December 2010	31 December 2009
Revenue	929	926
Purchases of goods and services	34,555	29,554

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

	31 December 2010	31 December 2009
Trade and other receivables	1,456	1,065
Trade and other payable	465	164

Key management personnel compensation

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

	Year ended 31 December 2010	Year ended 31 December 2009
Salaries and bonuses	1,018	761
Termination benefits	12	16
Other	10	25
	1,040	**802**

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

	2010	2009
1 January 2010	**29**	**59**
Issued	15	41
Repaid	(38)	(71)
31 December 2010	**6**	**29**
due for repayment during 1 year	4	13
due for repayment after 1 year	2	16

During the year ended 31 December 2010 the Group contributed to NPF Transneft in favour of the key management personnel RR 35 (for 2009 – RR 23).

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

	Loans and receivables	Available-for-sale investments
Assets as per balance sheet		
31 December 2010		
Cash and cash equivalents (Note 12)	283,653	-
Available-for-sale investments (Note 7)	-	336
Other financial assets (Note 9)	51,061	-
Accounts receivable (trade and other) (Note 11)	9,756	-
	344,470	**336**
31 December 2009		
Cash and cash equivalents (Note 12)	283,658	-
Available-for-sale investments (Note 7)	-	419
Other financial assets	35,616	-
Accounts receivable (trade and other) (Note 11)	6,674	-
	325,948	**419**

	31 December 2010	31 December 2009
Liabilities as per balance sheet		
Accounts payable (trade and other) (Note 18)	38,532	21,232
Borrowings and finance lease obligations (Note 15)	583,803	553,288
	622,335	**574,520**

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

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

Foreign exchange risk

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

As at 31 December 2010, if the US dollar had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been RR 27,293 (for the year ended 31 December 2009 if the US dollar had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been – RR 18,580) lower / higher, mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings and US dollar-denominated cash balances.

As at 31 December 2010, if the EURO had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been RR 1,685 (for the year ended 31 December 2009 if the EURO had strengthened / weakened by 10% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been RR 819) lower / higher as a result of foreign exchange losses / gains on translation of EURO-denominated borrowings and EURO-denominated cash balances.

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

Interest rate risk

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

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

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

Loans and borrowings received by the Group under variable interest rate expose the Company to the risk of changes in the cash flows under loans and borrowings. As the Group receives bank loans for financing its investment projects, the borrowing costs are capitalised. Therefore, changes in the interest rates will not have a significant effect on income and equity.

Commodity price risk

The Group's principle activities include technical maintenance, replacement of the existing pipelines and construction of new pipelines. These require annual purchases of a significant number of metal pipes for replacement and construction of new pipelines. The Group concluded framework agreements with pipes producers, under which the delivery price and delivery dates are not fixed at the moment of signing these agreements. In addition, the Group has no long-term contracts with oil producing companies (except agreement on crude oil delivery with JSC Rosneft) and refineries and does not use the additional contracts to manage the risks associated with changes in metal prices and prices for oil and oil product.

Credit risk

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

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

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

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

Credit rating	31 December 2010
External credit rating Baa1	85,277
External credit rating Baa3	69,311
External credit rating Ba3	37,562
External credit rating B2	48,465
Total	**240,615**

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 December 2010:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Borrowings and loans	583,803	894,219	39,602	87,737	270,013	496,867
Trade and other payables	38,532	38,532	38,532	-	-	-
	622,335	**932,751**	**78,134**	**87,737**	**270,013**	**496,867**

31 December 2009:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Borrowings and loans	552,940	880,206	45,881	42,752	182,648	608,925
Trade and other payables	21,232	21,232	21,232	-	-	-
Finance lease liabilities	348	505	449	47	9	-
	574,520	**901,943**	**67,562**	**42,799**	**182,657**	**608,925**

Fair values

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. The fair value of the trade receivables and payables approximates their carrying amounts at 31 December 2010 and 31 December 2009. The fair values of loans, borrowings are disclosed in Note 15.

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

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.

26 SEGMENT INFORMATION

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

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

Adjusting entries also relate to intersegment transactions (non-current borrowings), those which are material, are as follows: US Dollar denominated loan and interests granted in RR which amounted to RR 9,628 as at 31 December 2010, the loan interest payable of RR 1,113 and related exchange difference of RR 21 (as at 31 December 2009 US Dollar denominated loan granted in RR including interest receivable which amounted to RR 14,589, loan interest payable of RR 845 and related exchange difference of RR 9).

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

	Oil transportation services	**Oil products transportation services**	**Adjustments**	**Total IFRS**
External revenue	**390,125**	**32,819**	**24,588**	**447,532**
Operating expenses	(244,932)	(20,295)	(16,482)	(281,709)
Depreciation and amortisation	(68,349)	(2,663)	(957)	(71,969)
Interest income	16,799	300	(10,335)	6,764
Interest expenses	(24,922)	(1,113)	5,162	(20,873)
Share of profit from associates and jointly controlled entities	4,596	40	(68)	4,568
Profit before income tax	**138,805**	**11,394**	**7,882**	**158,081**
Income tax expense	(31,598)	(2,638)	1,637	(32,599)
Profit for the year	**107,207**	**8,756**	**9,518**	**125,482**
Other segment disclosures				
Additions to non-current assets (other than financial instruments and deferred tax assets)	257,710	180	5,101	262,991

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

26 SEGMENT INFORMATION (continued)

Segment information for the year ended 31 December 2009 is as follows:

	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
External revenue	**315,105**	**25,261**	**10,685**	**351,051**
Operating expenses	(167,343)	(16,544)	(3,162)	(187,049)
Depreciation and amortisation	(43,683)	(2,671)	(469)	(46,823)
Interest income	7,020	470	(4,959)	2,531
Interest expenses	(13,900)	(2,355)	(783)	(17,038)
Share of profit from associates and jointly controlled entities	1,896	15	(958)	953
Profit before income tax	**146,220**	**6,455**	**3,500**	**156,175**
Income tax expense	(35,492)	(1,650)	2,783	(34,359)
Profit for the year	**110,728**	**4,805**	**6,283**	**121,816**
Other segment disclosures				
Additions to non-current assets (other than financial instruments and deferred tax assets)	222,739	1,867	9,751	234,357

Segment information as at 31 December 2010 as follows:

	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
Investments in associates and jointly controlled entities	4,315	136	384	4,835
Total segment assets	**1,620,060**	**62,123**	**(30,548)**	**1,651,635**
Trade payables and advances received	57,369	3,027	998	61,394
Non-current borrowings	573,466	8,227	(8,545)	573,148
Current borrowings	11,269	1,450	(2,064)	10,655
Total segment liabilities	**719,504**	**15,755**	**109,942**	**845,201**

Segment information as at 31 December 2009 as follows:

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

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

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

26 SEGMENT INFORMATION (continued)

Adjusting items for segment's revenues in the amount of RR 24,588for the year ended 31 December 2010 and RR 10,685 for the year ended 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Year ended 31 December 2010	Year ended 31 December 2009
Recovery of non-controlling interest in accordance with RAR	27,182	11,926
Other adjustments and intersegment operations	(2,594)	(1,241)
Total unallocated reconciliation adjustments of segment revenues	**24,588**	**10,685**

Adjusting items for segment's expenses in the amount of RR 16,482 for the year ended 31 December 2010 and RR 3,161 for the year ended 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Year ended 31 December 2010	Year ended 31 December 2009
Recovery of non-controlling interest in accordance with RAR	20,278	11,278
Dismantlement provision	2,596	2,024
Adjustment to Property, plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(8,494)	(7,075)
Financial leasing	2,832	(253)
Pension liabilities	583	(814)
Intersegment operations	(2,232)	(1,241)
Others	919	(758)
Total unallocated reconciliation adjustments of segment expenses	**16,482**	**3,161**

Adjusting items for interest income and interest expenses in the amount of RR 10,335 and RR 5,162 respectively for year ended 31 December 2010 and RR 4,959 and RR 783 respectively for the year ended 31 December 2009 include IFRS adjustments on interest capitalisation.

Adjusting items for segment's assets in the amount of RR 30,548 as at 31 December 2010 and RR 69,499 as at 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 December 2010	31 December 2009
Property, plant and equipment dismantlement provision recognized in cost	83,760	54,526
Adjustment to Property, plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(93,639)	(101,880)
Revaluation of linefill oil and oil products required under IAS 29 "Financial reporting in hyper-inflationary economies and other	50,716	50,744
Business combination with Transnefteproduct	(52,554)	(52,553)
Deferred tax assets	(9,000)	(6,150)
Intersegment loans and interest	(9,677)	(14,589)
Others	(154)	403
Total unallocated reconciliation adjustments of segment assets	**(30,548)**	**(69,499)**

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

26 SEGMENT INFORMATION (continued)

Adjusting items for segment's liabilities in the amount of RR 109,942 as at 31 December 2010 and RR 79,353 as at 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 December 2010	31 December 2009
Dismantlement provision	116,202	80,535
Pension liabilities	7,377	6,247
Deferred tax liabilities	(1,037)	4,215
Lease liabilities	-	348
Intersegment loans and interest	(9,677)	(14,589)
Others	(2,923)	2,597
Total unallocated reconciliation adjustments of segment liabilities	**109,942**	**79,353**

Geographical information. The Group's two segments primary operate on the territory of the Russian Federation. Revenue from external customers is presented based on the customers domicile (registered office) although the majority of revenues are generated by assets located in the Russian Federation. The oil product transportation segment has certain assets located on the territory of Latvia, Ukraine and Belarus.

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

	Year ended 31 December 2010	Year ended 31 December 2009
Russian Federation	424,622	330,433
Other countries	22,910	20,618
	447,532	**351,051**

Revenue from external customers in other countries mainly 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:

	Year ended 31 December 2010	Year ended 31 December 2009
Companies under control of the Government of the Russian Federation	132,901	96,132
OAO Lukoil	62,120	50,440
OAO Surgutneftegaz	58,910	50,058
OAO TNK-BP Holding	54,670	46,066
	308,601	**242,696**

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

27 SUBSEQUENT EVENTS

On Januray 1, 2011 OAO AK Transneft commenced commercial supplies of Russian oil to China by using a delivery point in the "Eastern Siberia-Pacific Ocean" (ESPO) pipeline system. According to the inter-governmental agreement between Russian and China the oil will be supplied based on the contracts between OAO NK Rosneft, OAO AK Transneft and China National Petroleum Corporation during 20 years amounting to 15 million tons of oil per year. The delivery price will be calculated based on market terms and on a monthly basis by using the quotes of the Russian oil in Novorossiysk, Primorsk and Kozmino ports and on the assumption of equality in the qualitative characteristics of the oil shipped to China and Kozmino port.

Following the purchase and sale transaction for the shares of OAO Novorossiysk Sea Trade Port ("NSTP") in January 2011, Transneft Group obtained the effective interest of 25.05% in NSTP. At the same time, NSTP acquired 100% of OOO Primorsk Trade Port, 50% of which was indirectly owned by Transneft Group.

As of the end of 2010, NSTP Group included stevedoring companies OAO Novorossiysk Sea Trade Port, OAO Novorossiysk Grain Terminal, OAO Novorossiysk Ship Repair Yard, OAO Novoroslesexport, OAO IPP, OOO Baltic Stevedoring Company, OOO Chernomorskaya Stevedoring Company and other companies.

In May 2011 the coupon rate for the third coupon period was determined for nonconvertible interest bearing documentary bonds of the 01 series. The interest rate of the second coupon is 10.00% per annum.