



OIL TRANSPORTING
JOINT STOCK COMPANY
"TRANSNEFT"

**CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2014**



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

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Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors OAO AK Transneft

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO AK Transneft (the "Company") and its subsidiaries (the "Group") as at 30 June 2014, and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and six-month periods then ended, changes in equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Audited entity: OAO AK Transneft

Registered by Moscow Registration Chamber on 26 August 1993,
Registration No. 026.800

Registered in the Unified State Register of Legal Entities/Entered in
the Unified State Register of Legal Entities on 24 July 2002 by
Department of Ministry of Taxes and Duties, Registration No.
1027700049486, Certificate series 77 No. 007893052.

119180, Moscow, ul. Bolshaya Polyanka, 57

Independent auditor: ZAO KPMG, a company incorporated under the
Laws of the Russian Federation, a part of the KPMG Europe LLP group,
and a member firm of the KPMG network of independent member
firms affiliated with KPMG International Cooperative ("KPMG
International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992,
Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August
2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the
Ministry for Taxes and Duties of the Russian Federation, Registration
No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of
Russia". The Principal Registration Number of the Entry in the State
Register of Auditors and Audit Organisations: No.10301000804.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2014 and for the three and six-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.



Kim A.A.,

Director (power of attorney dated 01 October 2013 No. 72/13)

ZAO KPMG

28 August 2014

Moscow, Russian Federation





OAO AK TRANSNEFT
 CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
 AS AT 30 JUNE 2014
 (in millions of Russian roubles, if not stated otherwise)

ASSETS

Non-current assets	Notes	30 June 2014	31 December 2013
Intangible assets		3,485	3,624
Property, plant and equipment	5	1,599,065	1,527,720
Available-for-sale financial assets		231	217
Investments in associates and jointly controlled entities		32,790	31,583
Receivables and prepayments	8	2,345	2,136
Other financial assets, including derivatives	6	55,796	19,297
Total non-current assets		1,693,712	1,584,577
Current assets			
Inventories	7	32,028	27,883
Receivables and prepayments	8	39,783	44,634
VAT assets	8	52,174	52,170
Current income tax prepayments		1,177	1,587
Other financial assets, including derivatives	6	268,876	301,001
Cash and cash equivalents	9	69,973	104,742
Total current assets		464,011	532,017
Total assets		2,157,723	2,116,594

EQUITY AND LIABILITIES

Equity			
Share capital		308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		1,333,219	1,249,863
Attributable to the shareholders of OAO AK Transneft		1,373,000	1,289,644
Non-controlling interests		26,349	25,395
Total equity		1,399,349	1,315,039
Non-current liabilities			
Loans and borrowings	11	447,330	484,593
Deferred income tax liabilities	12	36,067	45,304
Provisions for liabilities and charges	13	36,079	43,737
Total non-current liabilities		519,476	573,634
Current liabilities			
Trade and other payables, including derivatives	14	132,146	128,358
Current income tax payable		5,585	3,598
Loans and borrowings	11	101,167	95,965
Total current liabilities		238,898	227,921
Total liabilities		758,374	801,555
Total equity and liabilities		2,157,723	2,116,594

Approved on 28 August 2014 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 21 are an integral part of these consolidated interim condensed financial statements



OAO AK TRANSNEFT

CONSOLIDATED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED) FOR THE SIX MONTHS ENDED 30 JUNE 2014

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

	Notes	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Revenue	15	189,799	377,913	185,498	369,369
Operating expenses	16	(130,491)	(253,788)	(121,773)	(239,892)
Operating profit		59,308	124,125	63,725	129,477
Financial items:					
Exchange gains		24,517	65,697	17,620	31,980
Exchange loss		(22,854)	(67,694)	(21,360)	(37,990)
Interest income	17	3,361	7,716	4,398	7,324
Interest expense	17	(8,426)	(16,859)	(9,370)	(18,792)
Net change in fair value of derivatives		5,537	419	(443)	(240)
Total financial items		2,135	(10,721)	(9,155)	(17,718)
Share of profit / (loss) from associates and jointly controlled entities		2,427	2,019	(101)	437
Profit before income tax		63,870	115,423	54,469	112,196
Income tax expense	12	(12,529)	(23,445)	(11,609)	(22,812)
Profit for the period		51,341	91,978	42,860	89,384
Other comprehensive income					
<i>Items that may be reclassified to profit and loss</i>					
Currency translation differences, net of tax		(46)	(96)	(10)	(10)
<i>Total items that may be reclassified to profit and loss, net of tax</i>		<i>(46)</i>	<i>(96)</i>	<i>(10)</i>	<i>(10)</i>
<i>Items that will not be reclassified to profit and loss</i>					
Remeasurement of net defined benefit plan obligation		(327)	329	237	522
<i>Total items that will not be reclassified to profit and loss, net of tax</i>		<i>(327)</i>	<i>329</i>	<i>237</i>	<i>522</i>
Total other comprehensive income for the period, net of tax		(373)	233	227	512
Total comprehensive income for the period		50,968	92,211	43,087	89,896
Profit attributable to:					
Shareholders of OAO AK Transneft		50,825	91,037	41,704	86,902
Non-controlling interests		516	941	1,156	2,482
Total comprehensive income attributable to:					
Shareholders of OAO AK Transneft		50,452	91,257	41,931	87,414
Non-controlling interests		516	954	1,156	2,482
Approved on 28 August 2014 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	





OAO AK TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(in millions of Russian roubles, if not stated otherwise)

Notes	Six months ended 30 June 2014	Six months ended 30 June 2013
Cash flows from operating activities		
	398,182	384,710
Cash receipts from customers		
Cash paid to suppliers and employees, and taxes other than income tax	(272,295)	(254,677)
Interest paid	(13,857)	(13,815)
Income tax paid	(30,782)	(15,385)
Income tax refund	506	6,752
VAT and taxes other than income tax refunds	41,510	71,534
Other cash used in operating activities	(1,261)	(2,910)
Net cash from operating activities	122,003	176,209
Cash flows used in investing activities		
Purchase of property, plant and equipment	(127,589)	(87,600)
Proceeds from sales of property, plant and equipment	354	154
Interest and dividends received	3,884	3,441
Sale of notes and close of deposit accounts	(178,362)	(152,983)
Purchase of notes and placement of funds on deposit accounts	186,818	87,182
Cash received from disposal of subsidiaries	3,007	-
Other cash used in investing activities	(41)	(928)
Net cash used in investing activities	(111,929)	(150,734)
Cash flows from financing activities		
(Repayment of)/proceeds from short-term loans and borrowings	(48,928)	632
Acquisition of non-controlling interest	-	(1,255)
Net cash used in financing activities	(48,928)	(623)
Effects of exchange rate changes on cash and cash equivalents	4,085	3,663
Net (decrease)/increase in cash and cash equivalents	(34,769)	28,515
Cash and cash equivalents at the beginning of the year	9 104,742	84,517
Cash and cash equivalents at the end of the year	9 69,973	113,032

Approved on 28 August 2014 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





OAO AK TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(in millions of Russian roubles, if not stated otherwise)

	Attributable to the owners of OAO AK Transneft					Non-controlling interest	Total equity
	Share capital	Share premium	Merger reserve	Retained earnings	Total		
Balance at 1 January 2013	308	52,553	(13,080)	1,096,088	1,135,869	37,186	1,173,055
Profit for the period	-	-	-	86,902	86,902	2,482	89,384
Defined benefit plan actuarial losses	-	-	-	522	522	-	522
Currency translation differences, net of tax	-	-	-	(10)	(10)	-	(10)
Total comprehensive income for the period	-	-	-	87,414	87,414	2,482	89,896
Dividends paid on							
- ordinary shares				(3,800)	(3,800)	-	(3,800)
- primary shares				(1,065)	(1,065)	-	(1,065)
Balance at 30 June 2013	308	52,553	(13,080)	1,178,637	1,218,418	39,668	1,258,086
Balance at 1 January 2014	308	52,553	(13,080)	1,249,863	1,289,644	25,395	1,315,039
Profit for the period	-	-	-	91,037	91,037	941	91,978
Defined benefit plan actuarial gains	-	-	-	316	316	13	329
Currency translation differences, net of tax	-	-	-	(96)	(96)	-	(96)
Total comprehensive income for the period	-	-	-	91,257	91,257	954	92,211
Dividends paid on							
- ordinary shares	-	-	-	(6,775)	(6,775)	-	(6,775)
- primary shares	-	-	-	(1,126)	(1,126)	-	(1,126)
Balance at 30 June 2014	308	52,553	(13,080)	1,333,219	1,373,000	26,349	1,399,349

Approved on 28 August 2014 by:

N.P. Tokarev

President

M.V. Russikhin

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





1 NATURE OF OPERATIONS

OAO AK Transneft (hereinafter OAO AK Transneft or 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 53,659 km at 30 June 2014 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 19,071 km as at 30 June 2014. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the six months ended 30 June 2014, the Group transported 237.9 million tonnes of crude oil to domestic and export markets (six months ended 30 June 2013 – 237.8 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 15.7 million tonnes of oil products (16.0 million tonnes for six months ended 30 June 2013).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

3 BASIS OF PRESENTATION

The consolidated interim condensed financial statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") and should be read together with the consolidated financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards ("IFRS").

The official US dollar ("USD") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 33.6306 and 32.7292 as at 30 June 2014 and 31 December 2013, respectively. The official Euro ("EURO") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 45.8251 and 44.9699 as at 30 June 2014 and 31 December 2013, respectively.



4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2013 except for amendments relating to implementation of new standards and interpretations which have become effective after 1 January 2014.

The Group has not earlier adopted new standards and interpretations which have been published but have not yet become effective.

The adoption of these standards did not influence the consolidated financial position as well as results of the Group.

5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2014						
Cost	148,479	1,038,640	725,591	102,262	230,474	2,245,446
Accumulated depreciation and impairment	(38,966)	(353,232)	(325,528)	-	-	(717,726)
Net book value at 1 January 2014	109,513	685,408	400,063	102,262	230,474	1,527,720
Depreciation	(2,455)	(22,735)	(32,188)	-	-	(57,378)
Additions (including prepayments)	-	248	-	5,628	131,244	137,120
Transfers from assets under construction	458	3,115	8,308	-	(11,881)	-
Change in impairment provision	-	(10)	-	-	-	(10)
Net change in dismantlement provision	-	(7,999)	-	-	75	(7,924)
Disposals/retirements at cost	(173)	(650)	(1,584)	(269)	-	(2,676)
Accumulated depreciation on disposals/retirements and impairment	94	640	1,479	-	-	2,213
Net book value at 30 June 2014	107,437	658,017	376,078	107,621	349,912	1,599,065
At 30 June 2014						
Cost	148,764	1,033,344	732,315	107,621	349,912	2,371,956
Accumulated depreciation and impairment	(41,327)	(375,327)	(356,237)	-	-	(772,891)
Net book value at 30 June 2014	107,437	658,017	376,078	107,621	349,912	1,599,065



5 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 2013						
Cost	157,566	1,037,518	654,543	100,647	124,206	2,074,480
Accumulated depreciation and impairment	(40,355)	(313,166)	(266,812)	-	-	(620,333)
Net book value at 1 January 2013	117,211	724,352	387,731	100,647	124,206	1,454,147
Depreciation	(2,742)	(20,389)	(28,672)	-	-	(51,803)
Additions (including prepayments)	-	-	-	1,424	96,180	97,604
Transfers from assets under construction	1,215	4,451	7,126	-	(12,792)	-
Net change in dismantlement	-	(11,710)	-	-	22	(11,688)
Disposals/retirements at cost	(374)	(903)	(1,104)	(290)	-	(2,671)
Accumulated depreciation on disposals/retirements and impairment	208	816	962	-	-	1,986
Net book value at 30 June 2013	115,518	696,617	366,043	101,781	207,616	1,487,575
At 30 June 2013						
Cost	158,407	1,029,356	660,565	101,781	207,616	2,157,725
Accumulated depreciation and impairment	(42,889)	(332,739)	(294,522)	-	-	(670,150)
Net book value at 30 June 2013	115,518	696,617	366,043	101,781	207,616	1,487,575

Linefill represents RUB 95,459 of crude oil and RUB 12,162 of oil products as at 30 June 2014 (as at 31 December 2013 – RUB 94,765 of crude oil and RUB 7,497 of oil products).

During the six months ended 30 June 2014, borrowing costs in the amount of RUB 1,135 were capitalised as part of cost of assets under construction (for the six months ended 30 June 2013 – RUB 1,022) including interests to be capitalised in the amount of RUB 1,066 less amount to be excluded from capitalised borrowing costs in the amount of RUB 559 as disclosed in Note 17.



OAO AK TRANSNEFT
NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2014
(in millions of Russian roubles, if not stated otherwise)

6 OTHER FINANCIAL ASSETS, INCLUDING DERIVATIVES

As at 30 June 2014:

Type of asset	Maturity	Currency	Amount at the purchase date	Carrying amount
Long-term financial assets				
Loan to Omirico*	January 2016	USD	5,221	5,835
Interest promissory notes	June 2015	USD	2,858	2,838
Bonds	November 2015 – May 2018	USD	3,502	3,406
Deposits	December 2015 – November 2016	USD	44,247	43,153
Other financial assets, including derivatives	-	-	-	564
			55,828	55,796
Short-term financial assets				
Discounted promissory notes (on demand)	July 2014 – June 2015	USD	163,536	163,291
	December 2014	RUB	34,000	37,418
Interest-bearing notes	July 2014 – May 2015	USD	8,798	9,149
	May 2015	RUB	2,500	2,535
	During the year after the reporting date	USD	44,930	44,603
	During the year after the reporting date	RUB	11,198	11,198
Deposits	During the year after the reporting date	Other	394	389
Other financial assets, including derivatives	-	-	-	293
			265,356	268,876

As at 31 December 2013:

Type of asset	Maturity	Currency	Amount at the purchase date	Carrying amount
Long-term financial assets				
Loan to Omirico*	January 2016	USD	5,221	5,679
Discounted promissory notes (on demand)	June 2015	USD	13,257	13,055
Other financial assets, including derivatives	-	-	-	563
			18,478	19,297
Short-term financial assets				
Discounted promissory notes (on demand)	January – November 2014	USD	184,020	192,455
	December 2014	RUB	34,000	36,298
Interest-bearing notes	January – October 2014	USD	19,892	20,737
	May 2014	RUB	2,500	2,500
	During 2014	RUB	126	126
	During 2014	USD	48,939	48,770
Deposits	During 2014	Other	27	25
Other financial assets, including derivatives	-	-	-	90
			289,504	301,001

*Loan with an 5.27% interest rate is repayable in 5 years. The amount of the loan and interest are repayable at the repayment date.



6 OTHER FINANCIAL ASSETS, INCLUDING DERIVATIVES (CONTINUED)

The afore-mentioned notes in significant part were purchased from organisations under control or significant influence of the Government.

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

Derivatives

In February and May 2014 in order to minimise unfavourable consequences from weakening of the USD exchange rate the Group simultaneously purchased in addition put-options and sold call-options for the amount of USD 580 million with exercise date in August-December 2014.

As at 30 June 2014 the carrying value of financial liability from derivatives amounted to RUB 293 (RUB 90 – as at 31 December 2013). The Group classified this contract as a derivative recognised at fair value through profit and loss.

Fair value measurement is based on Black-Scholes model, the inputs for which are observable in the market and the Group classified them to Level 2 in accordance with the fair value hierarchy.

7 INVENTORIES

	30 June 2014	31 December 2013
Materials and supplies	23,164	18,618
Sundry goods for resale	8,864	9,265
	32,028	27,883

Materials and supplies are presented net of provisions for obsolescence of RUB 140 as at 30 June 2014 (as at 31 December 2013 – RUB 143). Materials are primarily used for repairment and maintenance of pipeline equipment.

8 RECEIVABLES AND PREPAYMENTS

Receivables and prepayments

	30 June 2014	31 December 2013
Financial assets		
Other long-term receivables	2,294	2,084
Non-financial assets		
Long-term VAT	51	52
Total long-term receivables	2,345	2,136

	30 June 2014	31 December 2013
Short-term receivables		
Financial assets		
Trade receivables	19,530	20,233
Other receivables	13,001	15,077
less: provision for doubtful debts	(3,412)	(3,335)
Total financial assets in short-term receivables	29,119	31,975
Non-financial assets		
Prepayments and advances and other non-financial receivables	10,664	12,659
Total receivables	39,783	44,634

VAT assets

	30 June 2014	31 December 2013
Recoverable VAT related to construction projects	4,908	4,689
Recoverable VAT related to ordinary activity	47,317	47,533
Total VAT assets	52,225	52,222
Less: short-term VAT	(52,174)	(52,170)
Long-term VAT	51	52



9 CASH AND CASH EQUIVALENTS

	30 June 2014	31 December 2013
Balances in Russian roubles	18,685	36,129
Balances in US dollars	50,886	67,655
Balances in Euro	365	809
Balances in other currencies	37	149
	69,973	104,742

10 DIVIDENDS

In June 2014 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2013 in the amount of RUB 7,901 (preference shares – RUB 1,126, ordinary shares – RUB 6,775). Dividends are to be paid out not later than 60 days after approval by the shareholders.

In June 2013 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2012 in the amount of RUB 4,865 (preference shares – RUB 1,065, ordinary shares – RUB 3,800). Dividends were paid out in August 2013.

11 LOANS AND BORROWINGS

	30 June 2014	31 December 2013
Total loans and borrowings	548,497	580,558
Less: current loans and borrowings and current portion of non-current loans and borrowings	(101,167)	(95,965)
	447,330	484,593
Maturity of non-current loans and borrowings		
Between one and five years	224,994	257,307
After five years	222,336	227,286
	447,330	484,593

The amount of long-term loans and borrowings contains RUB 100,000 non-convertible interest-bearing documentary bonds which maturing in 2019 but with an option for earlier redemption at the request of bond-holders or at the discretion of the issuer in 2015.

Fair values of current loans and borrowings did not differ significantly from their carrying amounts as at 30 June 2014 and 31 December 2013.

The fair value of obligations in long-term and short-term loans and borrowings is presented in the table below:

Type of bonds	Interest rate	Currency	Carrying amounts		Fair value	
			30 June 2014	31 December 2013	30 June 2014	31 December 2013
Non-convertible interest-bearing documentary	Floating	RUB	135,000	135,000	139,639	141,266
Eurobonds	Fixed	USD	35,312	76,914	42,461	84,959

Fair value of financial liabilities in the above table was measured by referring to market quotations and in accordance with the fair value hierarchy the Group classified them as Level 1.

12 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

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



13 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2014	31 December 2013
Dismantlement provision	22,031	29,234
Pension provision	8,720	8,939
Other provisions	5,328	5,564
	36,079	43,737

Dismantlement provision

The calculation of oil pipeline provision is based on the assumption that dismantlement activities are expected to cover all length of the pipelines at the end of their useful lives. The cost of dismantlement is added to the cost of property, plant and equipment and depreciated over the useful economic life of the pipeline network. Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 8.63% per year (31 December 2013 – 7.90% per year).

Should the discount rate applied in calculation of dismantlement provision increase/(decrease) by 1%, dismantlement provision would (decrease)/increase by RUB (5,164)/RUB 7,060 as at 30 June 2014 (RUB (7,215) / RUB 9,820 as at 31 December 2013).

Pension provision

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

Service cost, past service cost amounting to RUB 177 and RUB 181 for the six months ended 30 June 2014 and 2013, respectively, are included in staff costs in the consolidated interim condensed statement of profit or loss and other comprehensive income, interest expense in the amount of RUB 359 and RUB 353 for the six months ended 30 June 2014 and 2013, respectively, are included in interest expenses.

Actuarial gains amounting to RUB 329 for the six months ended 30 June 2014 (RUB 522 for the six months ended 30 June 2013) are included in other comprehensive income and total actuarial gain amounted to RUB 284 as at 30 June 2014 (total actuarial loss amounted to RUB 46 as at 31 December 2013).

14 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	30 June 2014	31 December 2013
Trade payables	43,298	38,756
Other payables	12,390	9,999
Dividends payable	7,901	-
Total financial payables	63,589	48,755
Advances received for oil and oil product transportation services	38,217	42,013
Accrued expenses	15,104	26,026
VAT payable	11,528	8,808
Other taxes payable	3,708	2,756
Total payables	132,146	128,358

Derivatives

In December 2013 the Group had simultaneously purchased barrier put options with a delayed condition and sold barrier call options with a delayed condition for the total amount of USD 1,999 with the exercise date in September 2015 to reduce costs of servicing corporate bonds.

The Group classified this contract as a derivative recognised at fair value through profit and loss. Fair value measurement is based on Black-Scholes model, the inputs for which are observable in the market except for assumed volatility measure and the Group classified them to Level 3 in accordance with the fair value hierarchy.



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14 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES (CONTINUED)

At the contract date the excess of fair value of the liability of these derivatives over fair value of the premium receivable under the contract amounting to RUB 564 was recognised as other financial asset (Note 6).

As at 30 June 2014 the carrying value of the liability amounted to RUB 1,619 and was disclosed as other payables (RUB 1,836 as at 31 December 2013).

15 REVENUE

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Revenues from crude oil transportation services				
Domestic tariff	54,723	109,838	52,826	104,960
Export tariff	71,308	139,546	73,646	145,486
Total revenues from crude oil transportation services	126,031	249,384	126,472	250,446
Revenues from crude oil sales	46,090	92,389	38,749	79,563
Revenues from oil products transportation services	11,972	24,363	11,191	22,438
Other revenues	5,706	11,777	9,086	16,922
	189,799	377,913	185,498	369,369

Revenues from crude oil sales for the six months ended 30 June 2014 include, mostly, revenues from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement the oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases the oil under the contract signed in April 2009 with OAO NK Rosneft (see Note 19).

16 OPERATING EXPENSES

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Amortisation and depreciation	26,934	54,163	24,195	50,187
Staff costs:				
Salaries and pension expense	23,527	45,255	22,859	43,670
Social Funds contributions	5,527	11,134	5,387	10,940
Social expenses	784	1,300	733	1,248
Cost of crude oil sold	26,405	51,352	21,022	42,962
Export custom duties	19,466	39,278	17,451	36,199
Energy	8,188	16,418	7,179	15,542
Materials	5,178	10,013	5,418	9,481
Repairs and maintenance services	3,407	5,318	3,197	5,298
Taxes	2,893	6,204	2,371	5,206
Other expenses	8,182	13,353	11,961	19,159
	130,491	253,788	121,773	239,892



17 INTEREST INCOME AND INTEREST EXPENSE

Interest income	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Interest income on cash and cash equivalents	850	1,983	1,850	3,415
Interest income from other financial assets	2,702	6,127	3,308	5,378
Other interest income	84	165	173	173
Total interest income	3,636	8,275	5,331	8,966
less interest income on the temporary investment of borrowings	(275)	(559)	(933)	(1,642)
Total interest income recognised in statement of other comprehensive income	3,361	7,716	4,398	7,324
Interest expense	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Interest expense on loans and borrowings	7,794	16,111	8,762	17,257
Provisions for asset retirement obligations: unwinding of the present value discount	581	1,161	1,455	2,896
Other interest expenses	389	653	139	511
Total interest expenses	8,764	17,925	10,356	20,664
Less capitalised finance costs	(338)	(1,066)	(986)	(1,872)
Total interest expenses recognised in the statement of other comprehensive income	8,426	16,859	9,370	18,792

18 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 30 June 2014, which could have a material adverse effect on the results of operations or financial position of the Group.

19 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 as at 30 June 2014 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 30 June 2014 and 31 December 2013 the Company holds in trust on behalf of the Russian Government 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company, 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 interim condensed financial statements as the Company is acting as an agent in shares of the above companies.

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 banks, which are under common control or significant influence of the state.



19 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

The Group had the following significant transactions with entities, which are under common control or significant influence of the state:

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Revenue from oil transportation services	62,641	123,048	57,228	100,397
OAO NK Rosneft and its subsidiaries	55,712	109,189	50,661	87,252
OAO Gazprom and its subsidiaries	6,808	13,631	6,441	12,885
Others	121	228	126	260
Revenue from oil products transportation services	4,876	10,990	4,940	8,847
OAO NK Rosneft and its subsidiaries	1,742	4,145	2,002	3,284
OAO Gazprom and its subsidiaries	3,134	6,845	2,938	5,563
Purchases of oil (OAO NK Rosneft)	20,866	42,743	17,539	36,768
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	614	1,300	1,645	3,420
Electricity expenses	68	154	81	201
Interest income from other financial assets	1,004	2,460	2,843	4,737
Transportation expenses	192	434	200	404

Operations with state-controlled entities include taxes which are shown in the consolidated interim condensed statement of financial position and consolidated interim condensed statement of profit and loss and other comprehensive income.

During the six months ended 30 June 2014 and 30 June 2013, Group had following transactions with associates and jointly controlled entities:

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Revenue	508	1,066	538	1,107
Purchases of goods and services	7,685	15,335	7,344	15,232

At the 30 June 2014 and 31 December 2013, Group had following accounts with related parties and associates:

	30 June 2014	31 December 2013
Trade and other receivables	391	1,443
Trade and other payables	1,453	472
Loan issued	5,836	5,679
Loan received	685	663

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.



20 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities. These legal entities are further aggregated into three reportable segments: Oil transportation, Oil product transportation and Sales oil to the People's Republic of China (China). Other activities are united in the Other segments and unallocated items.

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.

Segment information for the three and six months ended 30 June 2014 and 30 June 2013 was as follows:

Three months ended 30 June 2014	Oil transporta- tion services	Oil products transporta- tion services	Oil sales to China	Other segments and unallocated items	Adjust- ments	Total IFRS
Revenue						
Revenue from sales to third parties	126,186	11,972	39,853	11,788	-	189,799
Operating expenses including depreciation	(63,992) (30,494)	(5,319) (1,191)	(40,528) -	(26,203) (243)	5,551 4,994	(130,491) (26,934)
Operating profit	62,194	6,653	(675)	(14,415)	5,551	59,308
Interest income	-	-	-	-	-	3,361
Interest expenses	-	-	-	-	-	(8,426)
Exchange losses, net	-	-	-	-	-	1,663
Net change in the fair value of derivatives	-	-	-	-	-	5,537
Share of profit from associates and jointly controlled entities	-	-	-	-	-	2,427
Profit before income tax	-	-	-	-	-	63,870
Income tax expense	-	-	-	-	-	(12,529)
Profit for the reporting period	-	-	-	-	-	51,341

Six months ended 30 June 2014	Oil transporta- tion services	Oil products transporta- tion services	Oil sales to China	Other segments and unallocated items	Adjust- ments	Total IFRS
Revenue						
Revenue from sales to third parties	249,384	24,363	82,592	21,574	-	377,913
Operating expenses including depreciation	(123,710) (61,175)	(10,244) (2,377)	(82,021) -	(51,857) (551)	14,044 9,940	(253,788) (54,163)
Operating profit	125,674	14,119	571	(30,283)	14,044	124,125
Interest income	-	-	-	-	-	7,716
Interest expenses	-	-	-	-	-	(16,859)
Exchange losses, net	-	-	-	-	-	(1,997)
Net change in the fair value of derivatives	-	-	-	-	-	419
Share of profit from associates and jointly controlled entities	-	-	-	-	-	2,019
Profit before income tax	-	-	-	-	-	115,423
Income tax expense	-	-	-	-	-	(23,445)
Profit for the reporting period	-	-	-	-	-	91,978



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20 SEGMENT INFORMATION (CONTINUED)

Three months ended 30 June 2013	Oil transporta- tion services	Oil products transporta- tion services	Oil sales to China	Other segments and unallocated items	Adjust- ments	Total IFRS
Revenue						
Revenue from sales to third parties	126,520	11,179	35,270	12,529	-	185,498
Operating expenses	(65,218)	(4,930)	(35,665)	(22,134)	6,174	(121,773)
Including depreciation	(28,505)	(917)	-	(266)	5,493	(24,195)
Operating profit	61,302	6,249	(395)	(9,605)	6,174	63,725
Interest income	-	-	-	-	-	4,398
Interest expenses	-	-	-	-	-	(9,370)
Exchange gains, net	-	-	-	-	-	(3,740)
Net change in the fair value of derivatives	-	-	-	-	-	(443)
Share of loss from associates and jointly controlled entities	-	-	-	-	-	(101)
Profit before income tax	-	-	-	-	-	54,469
Income tax expense	-	-	-	-	-	(11,609)
Profit for the reporting period	-	-	-	-	-	42,860

Six months ended 30 June 2013	Oil transporta- tion services	Oil products transporta- tion services	Oil sales to China	Other segments and unallocated items	Adjust- ments	Total IFRS
Revenue						
Revenue from sales to third parties	250,505	22,426	73,360	23,078	-	369,369
Operating expenses	(123,341)	(9,294)	(72,967)	(47,334)	13,044	(239,892)
including depreciation	(57,808)	(1,832)	-	(480)	9,933	(50,187)
Operating profit	127,164	13,132	393	(24,256)	13,044	129,477
Interest income	-	-	-	-	-	7,324
Interest expenses	-	-	-	-	-	(18,792)
Exchange losses, net	-	-	-	-	-	(6,010)
Net change in the fair value of derivatives	-	-	-	-	-	(240)
Share of profit from associates and jointly controlled entities	-	-	-	-	-	437
Profit before income tax	-	-	-	-	-	112,196
Income tax expense	-	-	-	-	-	(22,812)
Profit for the reporting period	-	-	-	-	-	89,384



20 SEGMENT INFORMATION (CONTINUED)

Adjusting items for segment's expenses in the amount of RUB (14,044) for the six months ended 30 June 2014 and RUB (13,044) for the six months ended 30 June 2013 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Dismantlement provision	(265)	(528)	262	517
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"	(5,299)	(10,620)	(5,291)	(10,459)
Pension liabilities	(435)	(270)	(72)	(252)
Other operating expenses, net	(1,538)	(3,584)	(2,173)	(5,940)
Others	1,986	958	1,100	3,090
Total adjusting items for segment's expenses	(5,551)	(14,044)	(6,174)	(13,044)

Geographical information. The Group's most part of assets attributable to reporting segments is primary located in the territory of the Russian Federation which results in the operating activity by each segment being carried out in the territory of the Russian Federation. Geographical information on revenue from external customers is presented based on the customers' country of incorporation; 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 revenue allocation by customers' country of incorporation is set out below:

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Russian Federation	144,152	283,475	145,207	283,508
China	39,853	82,592	35,270	73,360
Other countries	5,794	11,846	5,021	12,501
Total	189,799	377,913	185,498	369,369

Revenue from external customers in other countries mainly includes revenue from services provided to customers in Kazakhstan.

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

The information about largest customers of the Group is presented below:

	Three months ended 30 June 2014	Six months ended 30 June 2014	Three months ended 30 June 2013	Six months ended 30 June 2013
Companies under control of the state	67,516	134,038	62,168	109,244
China National United Oil Corporation	39,853	82,592	35,270	73,360
OAO Surgutneftegaz	21,684	43,070	22,112	43,949
OAO Lukoil	17,902	35,475	18,228	36,006
OAO TNK-BP Holding*	-	-	-	13,347
Total	146,955	295,175	137,778	275,906

* Revenue from OAO TNK-BP Holding is considered as revenue from the companies under control of the Russian Federation starting from the date when OAO TNK-BP Holding was acquired by OAO NK Rosneft.

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



Ким Х.В.
Директор ЗАО «КПИГ»

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