OAO AK TRANSNEFT
CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOR THE YEAR ENDED 31 DECEMBER 2009

CONTENTS

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

1. We have prepared the consolidated financial statements for year ended 31 December 2009 which give a true and fair view of the financial position of the OAO AK Transneft (the "Company") and its subsidiaries (the "Group") at the end of the 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 considers that, in preparing the consolidated financial statements set out on pages 5 to 44 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 2009, approved by management in April 2010, have been converted in accordance with International Financial Reporting Standards.

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N.P. Tokarev
President
31 May 2010

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

INDEPENDENT AUDITOR'S REPORT

To the shareholders and 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 2009, the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 2009, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

1 June 2010
Moscow, Russian Federation

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

	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Intangible assets		1,275	1,281
Property, plant and equipment	6	997,400	809,130
Available-for-sale financial assets	7	419	962
Investment in associates	8,22	2,151	1,062
VAT assets	11	1,194	10,281
Other financial assets		-	1,505
Receivables and prepayments	11	322	357
Total non-current assets		**1,002,761**	**824,578**
Current assets			
Inventories	10	12,900	8,904
Receivables and prepayments	11	17,612	18,725
VAT assets	11	61,812	46,710
Prepaid income tax		5,388	3,647
Other financial assets	9	35,616	-
Cash and cash equivalents	12	283,658	60,565
Total current assets		**416,986**	**138,551**
Total assets		**1,419,747**	**963,129**
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		615,171	495,081
Attributable to the owners of OAO AK Transneft		**654,952**	**534,862**
Minority interest	14	26,444	25,035
Total equity		**681,396**	**559,897**
Non-current liabilities			
Borrowings and finance lease obligations	15	541,952	191,597
Deferred income tax liabilities	16	30,505	24,582
Provisions for liabilities and charges	17	86,782	75,005
Total non-current liabilities		**659,239**	**291,184**
Current liabilities			
Trade and other payables	18	63,955	46,633
Current income tax payable		3,821	1,275
Borrowings and finance lease obligations	15	11,336	64,140
Total current liabilities		**79,112**	**112,048**
Total liabilities		**738,351**	**403,232**
Total equity and liabilities		**1,419,747**	**963,129**

Approved on 31 May 2010 by:

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

The accompanying notes set out on pages 9 to 44 are an integral part of these financial statements

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

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Sales	19	351,051	274,977
Operating expenses	20	(187,049)	(157,484)
Net other operating income	20	5,594	9,238
Operating profit		**169,596**	**126,731**
Financial items:			
Exchange gains		66,987	7,194
Exchange loss		(66,854)	(31,332)
Interest income	21	2,531	2,128
Interest expense	21	(17,038)	(10,150)
Total net financial items		**(14,374)**	**(32,160)**
Share of gain /(loss) from investments in associates		953	(69)
Profit before income tax		**156,175**	**94,502**
Current income tax expense		(28,449)	(29,151)
Deferred income tax (expense) / benefit		(5,910)	7,174
Income tax expense	16	**(34,359)**	**(21,977)**
Profit for the period		**121,816**	**72,525**
Other comprehensive income after tax			
Currency translation differences		16	-
Fair value gains on available-for-sale financial assets, net of tax		35	(458)
Total comprehensive income		**121,867**	**72,067**
Profit attributable to:			
Attributable to:			
Shareholders of OAO AK Transneft		120,407	70,506
Minority interest	14	1,409	2,019
Total comprehensive income attributable to:			
Shareholders of OAO AK Transneft		120,458	70,061
Minority interest		1,409	2,006

Approved on 31 May 2010 by:

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

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Cash flows from operating activities			
Cash receipts from customers		405,163	320,372
Cash paid to suppliers and employees, and taxes other than profit tax		(234,088)	(186,523)
Interest paid		(22,736)	(13,722)
Income tax paid		(27,400)	(33,127)
Tax refunds: VAT and other taxes		43,997	32,956
Other cash used in operating activities		(1,760)	(299)
Net cash from operating activities		**163,176**	**119,657**
Cash flows used in investing activities			
Purchase of property, plant and equipment		(203,273)	(130,021)
Proceeds from sales of property, plant and equipment		1,022	407
Cash on balance sheet of acquired businesses		-	2,826
Interest and dividends received		6,704	2,157
Purchase of promissory notes of other companies		(36,079)	-
Other cash proceed/ (used) in investing activities		2,321	(555)
Net cash used in investing activities		**(229,305)**	**(125,186)**
Cash flows used in financing activities			
Proceeds from long and short-term Borrowings		471,851	164,494
Repayment of long and short-term Borrowings		(180,940)	(118,096)
Payment of finance lease obligations		(3,268)	(4,094)
Dividends paid		(322)	(1,102)
Net cash proceeded from financing activities		**287,321**	**41,202**
Effects of exchange rate changes on cash and cash equivalents		**1,901**	**1,394**
Net increase in cash and cash equivalents		**223,093**	**37,067**
Cash and cash equivalents at the beginning of the period	12	60,565	23,498
Cash and cash equivalents at the end of the period	12	**283,658**	**60,565**

Approved on 31 May 2010 by:

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

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

	Attributable to the owners of OAO AK Transneft						
	Share capital	**Share premium**	**Merger reserve**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2008	**307**	**-**	**-**	**426,185**	**426,492**	**22,447**	**448,939**
Profit for the period	-	-	-	70,506	70,506	2,019	75,525
Fair value loss on available-for sale financial assets	-	-	-	(31)	(31)	-	(31)
Disposal of available-for-sale financial assets	-	-	-	(427)	(427)	-	(427)
Total comprehensive income for the period	**-**	**-**	**-**	**70,048**	**70,048**	**2,019**	**72,067**
Dividends paid							
- preference shares				(402)	(402)	-	(402)
- ordinary shares				(750)	(750)	-	(750)
Business combination	1	52,553	(13,080)	-	39,474	569	40,043
Balance at 31 December 2008	**308**	**52,553**	**(13,080)**	**495,081**	**534,862**	**25,035**	**559,897**
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 financial assets, 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**

Approved on 31 May 2010 by:

N.P. Tokarev — President

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

1 NATURE OF OPERATIONS

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

The Company and its subsidiaries (the "Group") described in Note 22 operates the largest crude oil pipeline system in the world totalling 50,142 km. During the year ended 31 December 2009, the Group transported 457 million tonnes of crude oil to domestic and export markets (year ended 31 December 2008 – 457 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period.

In January 2008, OAO AK Transnefteproduct ("Transnefteproduct") became a wholly owned subsidiary of the Company. Transnefteproduct and its subsidiaries ("Group Transnefteproduct") operates a large oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 18,746 km as at 31 December 2009. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The global economic crisis significantly impacted the Russian economy in 2008-2009, including as follows: instability of commodity markets, high volatility of financial markets which led to increased cost of financing, depreciation of the national currency.

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

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its principal subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR"). The official US dollar ("USD") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation ("CBR") was 30.2442 and 29.3804 as at 31 December 2009 and 31 December 2008, respectively. The official euro ("EUR") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 43.3883 and 41.4411as at 31 December 2009 and 31 December 2008, respectively.

New accounting developments and improvements effective from 1 January 2009.

Adoption of IFRS 8

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

3 BASIS OF PRESENTATION (continued)

Operating segments are defined as components of the Group which earn revenues and incur expenses, for which separate financial information is available and reported regularly to the chief operating decision maker represented by the Management of the Group. Based on this information Management of the Group makes decisions on how to allocate resources and assesses operational and financial performance of the components.
Management of the Group performs analysis by entities, business activities of which are consolidated through two principal reportable segments "Crude oil transportation" and "Oil product transportation".

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

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

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

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

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

Adoption of Amendment to IAS 1 "Presentation of Financial Statements" ("IAS 1") (issued in September 2009) is effective for reporting periods beginning on or after 1 January 2009. The main change in IAS 1 is the replacement of the statement of income by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances. The consolidated financial statements have been prepared under the revised presentation requirements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method;

3 BASIS OF PRESENTATION (continued)

clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on these financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment (issued in February 2008). The amendment requires classification as comprehensive income (expenses) of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in June 2009)**.** The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in January 2008)**.** IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because it does not have customer loyalty.

IFRIC 15, Agreements for the Construction of Real Estate (issued in July 2008)**.** The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have any material impact on these financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, (issued in May 2008)**.** The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, (issued in March 2009)**.** The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, (issued in March 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. (issued in July 2008) The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting

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

3 BASIS OF PRESENTATION (continued)

could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements, Group did not use hedge accounting.

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

Business combination under common control

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

In January 2008 these shares were issued to the Russian Federal Agency for Federal Property Management, the Group's controlling shareholder in return for the acquisition of 100% interest in Transnefteproduct. Under IFRS, the Group accounted for this business combination amongst entities under common control using the predecessor values method. Accordingly, assets and liabilities of the transferred entities were accounted for at the carrying value in the books of Transnefteproduct Group, as recorded in that Group's IFRS consolidated financial statements. Information in respect of the comparative period was not restated.

The difference between the historic IFRS book value of the Company's 100% share in Transnefteproduct's net assets and the share premium and the nominal value of the share capital issued as consideration for the interest was recognised within equity as a merger reserve (see Note 13).

Details of the assets and liabilities acquired are as follows:

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied by the Group in the preparation of the consolidated financial statements for the year ended 31 December 2009, except for changes resulting from amendments to International Financial Reporting Standards discussed above.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

Subsidiaries are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies of the subsidiary. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All inter-company transactions, balances, and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

Investments in associates

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

Business combination under common control

Business combination under common control are accounted for using the predecessor values method from the date of combination. Under this method the acquired entities results are included into the acquirer's financial statements from the date the transaction occurred. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary’s IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity’s original acquisitions is also recorded in 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 pipeline	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 weighed 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Leased assets

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

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Accounts receivable

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

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

Prepayments

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

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss 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. VAT is included in current assets if the amount is expected to be recovered within 12 months after the reporting date.

Borrowings

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

Income taxes

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the profit 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

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

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed.
Instead, in a business combination achieved in stages, the acquirer will have 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. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (issued in November 2008, effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (issued in January 2009, 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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Group is currently assessing the impact of the IFRIC 18 on its consolidated financial statements.

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

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (issued in July 2009, 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 is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (issued in June 2009, 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 Group does not expect the amendments to have any material effect on its financial statements.

Classification of Rights Issues - Amendment to IAS 32 (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.

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

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 : 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 considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (issued in July 2009, 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 amendments will not have any impact on the Group's 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.

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:

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 2009 would be RR 4,707 higher (the year ended 31 December 2008: RR 1,783) 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 kilometre of removal according to an estimated plan of replacement over the long term. The provision calculation is based on the assumption that dismantlement activities are expected to cover the same number of kilometres each year over the useful life of the network.

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

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)

Changes in this assumption or assumptions with regard to expected costs, technical change, and discount rate may result in adjustments to the established provisions (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 2009 would be RR 837 lower/higher (the year ended 31 December 2008: RR 1,135).

Should the useful life of the oil pipeline increase by 10 years, the profit for the year ended 31 December 2009 would be RR 1,681 higher (the year ended 31 December 2008: RR 936) as a result of decrease of depreciation and interest expenses.

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

6 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 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**

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

6 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2008						
Cost	63,553	377,943	217,909	51,271	216,649	927,325
Accumulated depreciation and impairment	(19,366)	(166,309)	(108,090)	-	-	(293,765)
Net book value at 1 January 2008	**44,187**	**211,634**	**109,819**	**51,271**	**216,649**	**633,560**
Depreciation	(2,268)	(14,876)	(17,389)	-	-	(34,533)
Additions (including prepayments)	-	-	-	7,073	143,098	150,171
Transfers from assets under construction	15,380	100,817	40,036	-	(156,233)	-
Net change in dismantlement provision (see Note 17)	-	7,461	-	-	(984)	6,477
Additional impairment provision	-	(492)	-	-	-	(492)
Disposals/retirements at cost	(516)	(409)	(2,102)	(464)	-	(3,491)
Accumulated depreciation on disposals/retirements and impairment	172	376	1,894	-	-	2,442
Acquisition at cost through business combinations	13,017	25,252	9,784	7,653	22,937	78,643
Accumulated depreciation acquisition and impairment through business combinations	(4,965)	(12,747)	(5,935)	-	-	(23,647)
Net book value at 31 December 2008	**65,007**	**317,016**	**136,107**	**65,533**	**225,467**	**809,130**
At 31 December 2008						
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 31 December 2008	**65,007**	**317,016**	**136,107**	**65,533**	**225,467**	**809,130**

Property, plant and equipment as at 31 December 2009 is presented net of impairment provision of RR 4,470 (as at 31 December 2008 – net of impairment provision of RR 4,078), against specific pipeline assets and machinery.

Linefill represents 29,400 thousand tonnes of crude oil and 1,159 thousand tonnes of oil products as at 31 December 2009 (as at 31 December 2008 – 27,656 thousand tonnes of crude oil and 1,237 thousand tonnes of oil products) (see Note 4).

During the year ended 31 December 2009, borrowing costs in the amount of RR 15,546 were capitalised as part of cost of assets under construction (RR 14,373 for year ended 31 December 2008).

The Group leased certain units (plant and equipment) under a number of finance lease agreements. As at 31 December 2009 the net book value of leased property, plant and equipment was RR 4,362 (as at 31 December 2008 – RR 7,538).

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

7 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Marketable securities mainly include investments in corporate shares.

	31 December 2009	31 December 2008
Marketable securities	133	82
Investments in other Russian companies	286	880
	419	**962**

8 INVESTMENTS IN ASSOCIATES

Carrying amount of investment in associates in amount of RR 2,151 as at 31 December 2009 (RR 1,062 - at 31 December 2008) are shown net of impairment provision of RR 1,803 as at 31 December 2009 (RR 1,749 - at 31 December 2008) (the amount of provision in Latvian lat was LVL 29,729 at 31 December 2009 and 2008, difference was caused only by foreign exchange rate changes).

Summarised financial information of an associate at 31 December 2009 and 2008 was as follows:

	31 December 2009	31 December 2008
Assets	6,249	2,349
Liabilities	(4,322)	(1,472)
	2009	**2008**
Revenue	31,564	11,695
Profit for the year	3,763	711

9 OTHER FINANCIAL ASSETS

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 2009.

10 INVENTORIES

	31 December 2009	31 December 2008
Materials and supplies	7,803	6,600
Sundry goods for resale	5,035	2,262
Other items	62	42
	12,900	**8,904**

Materials and supplies are presented net of provisions for obsolescence of RR 489 as at 31 December 2009 (as at 31 December 2008 – RR 727). Materials are primarily used in the maintenance of pipeline equipment.

Sundry goods for resale, including oil and oil products, are presented net of impairment provision of RR 42 as at 31 December 2009 (as at 31 December 2008 – RR 2,732).

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

11 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

	31 December 2009	31 December 2008
Non-financial assets		
Other long-term receivables	322	357
Total long-term receivables	**322**	**357**

	31 December 2009	31 December 2008
Short-term receivables		
Financial assets		
Trade receivables	1,905	1,696
Other receivables	8,024	9,618
less: provision for doubtful debts	(3,255)	(3,654)
Total financial assets	**6,674**	**7,303**
Non-financial assets		
Prepayments and advances and other nonfinancial assets	10,938	11,422
Total receivables	**17,612**	**18,725**

As at 31 December 2008 Other short-term receivables primarily include amounts of funds originally transferred to suppliers of capital construction services where the services have not been provided and where the Group has entered into amicable agreements with the suppliers to obtain repayment of the funds provided and advances issued for capital construction which is currently subject to legal proceedings due to non-fulfilment of works under the contract. As at 31 December 2009 these receivables were settled in accordance with agreed schedules. As at 31 December 2009 other accounts receivable mainly include 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:

	2009		2008	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January	34	3,620	16	94
Addition of provision through acquisition	-	-	14	21
Reversal of provision	(8)	(526)	(19)	(39)
Accrued provision	14	121	23	3,544
As at 31 December	40	3,215	34	3,620

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

According to the analysis of accounts receivable in respect to the payment dates the Group has the following overdue balances not included in the provision for accounts receivable as at 31 December 2009 and 2008:

Overdue period	31 December 2009		31 December 2008	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Less than 90 days	189	119	176	67
More than 90 days but less than 365 days	89	87	287	217
Over 365 days	80	143	96	162
	358	349	559	446

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

11 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS (continued)

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 2009				
trade receivables	1,812	48	5	1,865
other receivables	4,692	114	3	4,809
	6,504	162	8	6,674
31 December 2008				
trade receivables	1,535	35	92	1,662
other receivables	5,431	193	17	5,641
	6,966	228	109	7,303

VAT assets

	31 December 2009	31 December 2008
Recoverable VAT related to construction projects	44,425	41,898
Recoverable VAT related to ordinary activity	18,581	15,093
	63,006	56,991
Less: short-term VAT	(61,812)	(46,710)
Long-term VAT	**1,194**	**10,281**

12 CASH AND CASH EQUIVALENTS

	31 December 2009	31 December 2008
Balances in Russian roubles	96,137	41,562
Balances in US dollars	165,576	12,899
Balances in euro	21,929	6,094
Balances in other currencies	16	10
	283,658	**60,565**

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain established requirements. As at 31 December 2009 and 31 December 2008, a significant portion of cash was placed with State controlled financial institutions (more than 70% and 48% correspondingly) (see Note 25). The remaining cash balance mainly was placed with other financial institutions with Standard and Poor's credit ratings not lower than B-.

13 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital

	31 December 2009			31 December 2008		
	Number of shares	**Historical cost**	**Inflated cost**	**Number of shares**	**Historical cost**	**Inflated cost**
Authorised, issued and fully paid shares of par value RR 1 each						
Ordinary:	5,546,847	5.6	231	5,546,847	5.6	231
Preferred:	1,554,875	1.5	77	1,554,875	1.5	77
	7,101,722	**7.1**	**308**	**7,101,722**	**7.1**	**308**

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

13 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

The carrying value of the share capital as at 31 December 2009 and as at 31 December 2008 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

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

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

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

As described in paragraph "business combination under common control" (Note 3) the Group accounted for this transaction as at 31 January 2008.

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

Rights attributable to preferred shares

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

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 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 dividends were paid in full in December 2009.

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

13 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

In July 2008 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2007:

	Russian roubles per share	Total
Ordinary shares	135.22	750
Preferred shares	258.45	402
		1,152

The dividends were paid in full in December 2008.

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 3,893 for the year ended 31 December 2009 (RR 3,682 for the year ended 31 December 2008).

14 MINORITY INTEREST

Minority interest mainly represents the shares in subsidiary entities held by OAO Svayzinvestneftekhim (36% of OAO SZMN) and the Ministry of Land and Property Relations of the Republic of Bashkortostan (24.5% of OAO Uralsibnefteprovod, 13.8% OAO Uraltransnefteproduct) and ZALANA COMPANY LIMITED (49.96% of OAO Energoterminal). For other subsidiaries with minority interest refer to Note 22.

15 BORROWINGS AND FINANCE LEASE OBLIGATIONS

	31 December 2009	31 December 2008
Borrowings and loans	552,940	253,104
Finance lease obligations	348	2,633
Total borrowings and loans	553,288	255,737
Less: current borrowings and loans and current portion of non-current borrowings and loans and finance lease obligations	(11,336)	(64,140)
	541,952	**191,597**
Maturity of non-current borrowings and loans and finance lease obligations		
Due for repayment:		
Between one and five years	102,997	122,551
After five years	438,955	69,046
	541,952	**191,597**

Long-term borrowings include fixed rate loans with a carrying value of RR 134,714 and fair value of RR 142,991 as at 31 December 2009 (as at 31 December 2008 carrying amount of fixed rate loans was RR 190,970, fair value – RR 144,798). Fair value of Eurobonds was determined with reference to quoted prices. The fair value of the short-term borrowings and finance lease obligations approximates their carrying amount as at 31 December 2009. Fair value of floating rate loans approximates their carrying amount as at 31 December 2009.

In October 2007, the Group entered into a further revolving credit facility agreement with Sberbank for up to RR 145,000 to be available until 2014 for the purpose of financing the construction of the Eastern Siberia-Pacific Ocean pipeline. Under this agreement the Group obtained nonrevolving credit lines individually maturing in one or several years. During the year ended 31 December 2009 the Group obtained RR 48,088 of such financing and repaid RR 141,652. Liabilities under this agreement as at 31 December 2009 amounted RR 1 (31 December 2008 – RR 93,565). Interest is payable at a fixed rate and is subject to revision if the

15 BORROWINGS AND FINANCE LEASE OBLIGATIONS (continued)

CBR refinancing rate is in excess of the CBR refinancing rate effective on the date of the credit line agreement by more than 10%. The rates on the above RR loans range from 11% to 18%.

In March 2007, the Group issued Eurobonds in the amount of USD 1.3 billion (RR 39,317 at CBR exchange rate at 31 December 2009, RR 38,195 at CBR exchange rate at 31 December 2008) at an interest rate of 5.67% per annum due in 7 years.

In June 2007, the Group issued Eurobonds in the amount of USD 0.5 billion (RR 15,122 at CBR exchange rate at 31 December 2009, RR 14,690 at CBR exchange rate at 31 December 2008) at an interest rate of 6.103% per annum due in 5 years.

Also in June 2007, the Group issued Eurobonds in the amount of EUR 0.7 billion (RR 30,372 at CBR exchange rate 31 December 2009, RR 29,009 at CBR exchange rate at 31 December 2008) at an interest rate of 5.381% per annum due in 5 years.

In August 2008, the Group issued Eurobonds in the amount of USD 0.6 billion (RR 18,147 at CBR exchange rate as 31 December 2009, RR 17,628 at CBR exchange rate at 31 December 2008) at an interest rate of 7.70% per annum due in 5 years.

Also in August 2008, the Group issued Eurobonds in the amount of USD 1.05 billion (RR 31,756 at CBR exchange rate as 31 December 2009, RR 30,849 at CBR exchange rate at 31 December 2008) at an interest rate of 8.70% per annum due in 10 years.

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

In 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 January 2011 and on a monthly basis after 1 January 2011. In 2009 the Group received USD 9.0 billion. 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 - 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 2009 and 31 December 2008.

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

15 BORROWINGS AND FINANCE LEASE OBLIGATIONS (continued)

Finance lease obligations

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

	31 December 2009		
	Total minimum lease payments	**Interest**	**Present value of finance lease liability**
Less than one year	449	139	310
Between one and five years	56	18	38
	505	**157**	**348**

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

16 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Deferred tax liabilities and assets consist of the following:

	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)
	(184)	(150)	(13)	(347)
	(41,735)	**(7,640)**	**(13)**	**(49,388)**
Deferred tax assets:				
Provisions against inventories, receivables and accruals	898	102	-	1,000
	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)**

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

16 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

	1 January 2008	Business combina-tions	(Charged)/ credited to profit or loss	(Charged) /credited directly to equity	31 December 2008
Deferred tax liabilities:					
Carrying value of property, plant and equipment in excess of tax base	(44,790)	(2,335)	5,574	-	(41,551)
Other	(133)	(166)	144	(29)	(184)
	(44,923)	**(2,501)**	**5,718**	**(29)**	**(41,735)**
Deferred tax assets:					
Provisions against inventories, receivables and accruals	261	56	581	-	898
Tax loss carry forward	-	-	1,882	-	1,882
Provisions for dismantlement and other expenses	15,271	109	(1,007)	-	14,373
	15,532	**165**	**1,456**	**-**	**17,153**
Net deferred tax liability	**(29,391)**	**(2,336)**	**7,174**	**(29)**	**(24,582)**

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 2009 and 31 December 2008.

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 2009	Year ended 31 December 2008
Profit before income tax	**156,175**	**94,502**
Theoretical income tax expense at 20% (at 24% for 2008)	31,235	22,681
Increase due to:		
Items not deductible for income tax	3,124	4,191
Effect of reduction in tax rate to 20% with effect from 1 January 2009	-	(4,895)
Actual income tax expense	34,359	21,977

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances.

The Group has not recognised a deferred tax liability in respect of RR 581,173 as at 31 December 2009 (as at 31 December 2008 - RR 377,237) of taxable temporary differences associated with its investments in subsidiaries as the Group is able to control the timing of their reversal and does not believe they will reverse in the foreseeable future.

Deferred tax assets to be realised within 12 months from 31 December 2009 and 31 December 2008 are expected in the amount of RR 2,874 and RR 4,059, respectively. Deferred tax liabilities expected to be written off within 12 months from 31 December 2009 and 31 December 2008 will be RR 5,192 and RR 5,150, respectively.

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

17 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2009	**31 December 2008**
Dismantlement provision	80,535	69,233
Pension provision	6,247	5,772
	86,782	**75,005**

Dismantlement provision

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

Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 8.49% per year (31 December 2008 – 10.08% per year).

	2009	**2008**
At 1 January	69,233	58,708
Provision on additions to property, plant and equipment	855	782
Changes in estimates adjusted against property, plant and equipment	4,090	5,695
Utilised in the period	(611)	(2,085)
Unwinding of the present value discount	6,968	5,686
Acquisition through business combinations	-	447
At 31 December	**80,535**	**69,233**

Pension provision

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

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

	2009	**2008**
At 1 January	5,772	4,607
Interest cost	585	322
Service cost	191	271
Actuarial (gain) / loss	(506)	925
Past service cost	737	-
Benefits paid	(532)	(353)
At 31 December	**6 247**	**5,772**

Service cost, past service cost and actuarial (profit) /loss amounting to RR 422 and RR 1,196 for the year ended 31 December 2009 and 2008, respectively, are included in staff costs in the consolidated statement of comprehensive income.

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

17 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

	31 December 2009	31 December 2008
Present value of provision (unfunded)	6,247	5,772
Liability	6,247	5,772
Unrecognised past service (cost)/credit	-	-

Principal actuarial assumptions used (expressed as weighted average):

	31 December 2009	31 December 2008
Average nominal discount rate	8.80%	9.67%
Future salary increases (nominal)	7.00%	9.50%
Expected long-term inflation rate	6.00%	6.00%

18 TRADE AND OTHER PAYABLES

	31 December 2009	31 December 2008
Trade payables	17,690	14,057
Other payables	3,542	*1,558*
Total financial payables	21,232	*15,615*
Advances received for oil and oil product transportation services	24,295	17,584
Accruals	12,977	7,769
VAT output tax payable	4,087	4,910
Other taxes payable	1,364	755
Total payables	**63,955**	**46,633**

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

	RUR	USD	EUR	Other	Total
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**
31 December 2008					
trade payables	13,984	25	-	48	14,057
other payables	1,313	216	-	29	1,558
	15,297	**241**	**-**	**77**	**15,615**

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

19 SALES

	Year ended 31 December 2009	Year ended 31 December 2008
Revenues from crude oil transportation services		
Domestic tariff	131,221	106,617
Export tariff	172,887	137,370
Total revenues from crude oil transportation services	**304,108**	**243,987**
Revenues from oil products transportation services	24,221	17,101
Revenues from crude oil sales	3,512	2,142
Revenues from oil products sales	1,834	3,494
Revenues from construction contract	6,127	-
Revenues from oil compounding	3,972	3,062
Other revenues	7,277	5,192
	351,051	**274,977**

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

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

Other amounts included in export tariffs are:

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

Transnefteproduct Group receives revenues from oil products transportation services based on tariffs calculated within tariff limitations set by the Federal Tariff Service. The tariff is determined on condition that shippers’ total costs incurred upon oil products transportation via oil products pipelines should not exceed costs arising in case of oil products transportation by rail only or using a mixed scheme (pipeline and railway) along similar routes. Tariffs for the services on oil products transportation through the territory of the Russian Federation are fixed in the RR per ton and paid in the RR, through the territory of Republic of Belarus and Ukraine - in US dollars per ton and through the territory of Republic of Kazakhstan – in Kazakhstan Tenge per ton. Revenue from the services on oil products transportation through the foreign states territories is paid by the Russian Federation residents in the RR at the CBR exchange rate effective at the date payment; residents of Republic of Belarus, Republic of Kazakhstan and Ukraine - in the national currencies of these states.

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 2009 the revenue under the construction contract recognised in the reporting period amounted to RR 6,127 The aggregate revenue and losses incurred recognised as at 31 December 2009 were RR 6,127 and nil, respectively. As at 31 December 2009 the amount of advance payments received was nil. There were no deductions as of the end of the reporting period.

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

20 OPERATING EXPENSES AND NET OTHER OPERATING INCOME

	Year ended 31 December 2009	Year ended 31 December 2008
Depreciation	46,823	34,067
Staff costs:		
Salaries and pension expense	54,876	40,094
Unified Social Fund contributions	6,571	6,208
Social expenses	3,336	3,087
Energy	27,741	22,452
Materials	12,838	11,999
Cost of crude oil sold	1,654	2,274
Cost of oil products sold	1,731	3,228
Insurance expense	1,517	3,190
Net change in doubtful debt provision	(399)	3,544
(Reversal) /Reduction of inventory to net realisable value	(168)	2,894
Net change in impairment provision of property, plant and equipment	392	492
Repairs and maintenance services	7,941	6,634
Business trip expense	3,718	3,297
Transport expense	1,815	1,839
Taxes other than profit tax:		
Property tax	2,892	1,585
Other taxes	112	379
Other	13,659	10,221
	187,049	**157,484**

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

Unified Social Fund contributions include Group expenses in relation to the State Pension Fund, which is a defined contribution plan, for the year ended 31 December 2009 in amount of RR 4,589 (for the year ended 31 December 2008 – RR 3,972).

Salaries and pension expense include Group expenses in relation to the non-state defined contribution plan for the year ended 31 December 2009 in amount of RR 5,217 (for the year ended 31 December 2008 – RR 3,248).

The following amounts are included in net other operating income:

	Year ended 31 December 2009	Year ended 31 December 2008
Oil surplus	8,569	9,728
Loss on disposal of property, plant and equipment	(391)	(940)
Charitable contribution	(3,164)	(1,004)
Gain on insurance received	580	1,029
Income on available-for-sale investments	-	425
	5,594	**9,238**

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

21 INTEREST INCOME AND INTEREST EXPENSE

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income on cash and cash equivalents	7,915	1,982
Interest income from available-for-sale investments	823	18
Other interest income	11	128
Total interest income	**8,749**	**2,128**
less interest income on the temporary investment of borrowings	(6,218)	-
Total interest income recognised in profit or loss	**2,531**	**2,218**

	Year ended 31 December 2009	Year ended 31 December 2008
Interest expense on borrowing cost	30,029	16,118
Provisions for asset retirement obligations: unwinding of the present value discount	6,968	5,686
Leasing unwinding of the present value discount	1,185	2,160
Other interest expenses	620	559
Total interest expenses	**38,802**	**24,523**
Less capitalised finance costs	(21,764)	(14,373)
Total interest expenses recognised in profit or loss	**17,038**	**10,150**

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

22 SUBSIDIARIES AND ASSOCIATES

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

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2009
Subsidiaries and associates, "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 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
OOO Transneft-Terminal	organization of oil and oil product loading services	Russia	75.0
OAO Energoterminal	organisation of cargo	Russia	50.04
OOO DSD	construction	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
SK Transneft	insurance	Russia	100.0

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

22 SUBSIDIARIES AND ASSOCIATES (continued)

	Type of activity	Country of incorporati-on	Percentage (%) of ownership interest at 31 December 2009
Subsidiaries and associates, “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
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 Ryazantransnefteproduct	oil product transportation	Russia	100.0
OAO Severo-Kavkazsky transnefteproduct	oil product transportation	Russia	100.0
OAO Sibtransnefteproduct	oil product transportation	Russia	100.0
ChUP Zapad-Transnefteproduct	oil product transportation	Belarus	100.0
DP Prikarpatzapadtrans	oil product transportation	Ukraine	100.0
OOO Balttransnefteproduct	oil product transportation	Russia	100.0
OAO Uraltransnefteproduct	oil product transportation	Russia	86.2
OAO AK Transnefteproduct	oil product transportation	Russia	100.0
OOO ChOP Spetstransnefteproduct	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 2009, which could have a material adverse effect on the results of operations or financial position of the Group.

As at 31 December 2009 the input VAT includes RR 696 of VAT charged to the Company's by its subsidiaries for August 2007, recovery of which was rejected by the Resolution of the Federal Arbitration Court of the Moscow region ("FAC MR") dated 12 May 2009 No. KA-A40/459-09. As the period for revision of the FAC MR's resolution under the supervision procedure has expired, the Company is currently considering filing an application to the Russian Supreme Arbitration Court for retrial under newly revealed circumstances.

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 2009 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, 31% of the shares of the Caspian Pipeline Consortium-R and 31% of the shares of Caspian Pipeline Consortium–K. The Company held in trust on behalf of the Russian Government 24% of the shares of the Caspian Pipeline Consortium-R, 24% of the shares of the Caspian Pipeline Consortium–K as at 31 December 2008. These interests are not recognised in these consolidated financial statements as the Company is acting as an agent on behalf of the Russian Government.

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

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

	Year ended 31 December 2009	Year ended 31 December 2008
Revenue from oil transportation services	88,916	69,711
Revenue from oil products transportation services	7,216	6,020
Electricity expenses	(1,011)	(1,420)
Interest expenses	(9,494)	(9,717)

	31 December 2009	31 December 2008
Receivables and prepayments	510	770
Cash	202,692	29,083
Advances received for oil transportation services	7,111	5,127
Advances received for oil product transportation services	1,303	1,044
Non-current and current borrowings	1	118,111

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

In the reporting period, the Company placed its nonconvertible interest bearing documentary bonds (series 01, 02 and 03). Under the initial offering the bonds with total nominal value of RR 134,900 were purchased by the state-controlled banks.

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

24 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

During the year ended 31 December 2009 the Group acquired electric energy from associated company Rusenergoresurs on amount RR 26,422. Accounts receivables (incl. advances paid) as at 31 December 2009 amounted RR 1,065, accounts payables as at 31 December 2009 amounted RR 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 mainly 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.

Key management personnel compensations are approved at the general shareholders meeting:

	Year ended 31 December 2009	Year ended 31 December 2008
Salaries and bonuses	761	277
Termination benefits	16	9
Other	25	10
	802	**296**

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

	2009	2008
1 January 2009	**59**	**-**
Issued	41	68
Repaid	71	9
31 December 2009	**29**	**59**
due for repayment during 1 year	13	59
due for repayment after 1 year	16	-

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Transneft, and a one-time payment from the Group at their retirement date. During the year ended 31 December 2009 the Group contributed to NPF Transneft in favour of the key management personnel RR 23 (for 2008 – RR 15).

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK

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

	Loans and receivables	Available-for-sale financial assets
Assets as per balance sheet		
31 December 2009		
Cash and cash equivalents (Note 12)	283,658	-
Available-for-sale financial assets (Note 7)	-	419
Other financial assets (Note 9)	35,616	-
Accounts receivable (trade and other) (Note 11)	6,674	-
	325,948	**419**
31 December 2008		
Cash and cash equivalents (Note 12)	60,565	-
Available-for-sale financial assets (Note 7)	-	962
Other financial assets	1,505	-
Accounts receivable (trade and other) (Note 11)	7,303	-
	69,373	**962**

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

	31 December 2009	31 December 2008
Liabilities as per balance sheet		
Accounts payable (trade and other) (Note 18)	21,232	15,615
Borrowings and finance lease obligations (Note 15)	553,288	255,737
	574,520	**271,352**

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

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

Foreign exchange risk

The Group's overall strategy is to have no significant net exposure in currencies other than the Russian rouble, the US dollar or the EURO. The Group does not use foreign exchange or forward contracts. The Group's foreign exchange exposure mainly arises on US dollar and EURO-denominated borrowings, which the Group obtained in 2007-2009 (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 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 (for the year ended 31 December 2008 if the US dollar had strengthened / weakened by 20% against the Russian rouble, with all other variables held constant, post tax profit and equity would have been – RR 20,752) lower / higher, mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated borrowings less US dollar-denominated cash balances.

As at 31 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 (for the year ended 31 December 2008 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 5,802) lower / higher as a result of foreign exchange losses / gains on translation of EURO-denominated borrowings less EURO-denominated cash balances.

Interest rate risk

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

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

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 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.

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

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

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 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**

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

25 FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

31 December 2008:

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

Fair values

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. The fair value of the trade receivables and payables approximates their carrying amounts at 31 December 2009 and 31 December 2008. The fair value of loans, borrowings and finance lease obligations disclosed in Note 15.

Capital management

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

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

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

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 material of which are as follows: US Dollar denominated loan granted in RR which amounted to RR 14,215 as at 31 December 2009, the loan interest of RR 848 and related exchange difference of RR 1,267 for the year ended 31 December 2009 (as at 31 December 2008 there were no intersegment loans).

(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/(loss) from associates	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	**110,727**	**4,805**	**6,284**	**121,816**
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**
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 for the year ended 31 December 2008 is as follows:

	Oil transportation services	Oil products transportation services	Adjustments	Total IFRS
External revenue	**247,314**	**16,909**	**10,754**	**274,977**
Operating expenses	(122,372)	(11,602)	(23,510)	(157,484)
Depreciation and amortisation	(32,453)	(2,108)	494	(34,067)
Interest income	2,029	83	16	2,128
Interest expenses	(18)	(1,895)	(8,237)	(10,150)
Share of profit/(loss) from associates	764	20	(853)	(69)
Profit/(loss) before income tax	**110,422**	**121**	**(16,041)**	**94,502**
Income tax (expense)/credit	(30,470)	(133)	8,626	(21,977)
Profit/(loss) for the year	**79,952**	**(12)**	**(7,415)**	**72,525**
Investments in associates	482	43	537	1,062
Total segment assets	**854,459**	**60,973**	**47,697**	**963,129**
Trade payables and advances received	28,928	2,422	291	31,641
Non-current borrowings	184,610	16,766	(10,406)	190,970
Current borrowings	44,252	7,605	10,276	62,133
Total segment liabilities	**289,631**	**27,892**	**85,709**	**403,232**
Other segment disclosures:				
Additions to non-current assets (other than financial instruments and deferred tax assets)	139,418	4,628	6,125	150,171

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

26 SEGMENT INFORMATION (continued)

Adjusting items for segment's assets in the amount of RR 69,449 as at 31 December 2009 and RR 47,697 as at 31 December 2008 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 December 2009	31 December 2008
Property, plant and equipment dismantlement provision recognised in cost	54,526	51,933
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"	(101,880)	7,795
Revaluation of linefill required under IAS 29 "Financial reporting in hyper-inflationary economies and other	50,744	51,159
Assets received under finance lease	4,363	7,538
Business combination with Transnefteproduct	(52,554)	(52,554)
Deferred tax assets	(6,150)	(7,238)
Intersegment loans	(14,215)	-
Others	(4,333)	(10,936)
Total unallocated reconciliation adjustments of segment assets	**(69,499)**	**47,697**

Adjusting items for segment's liabilities in the amount of RR 79,353 as at 31 December 2009 and RR 85,709 as at 31 December 2008 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	31 December 2009	31 December 2008
Dismantlement provision	80,535	69,233
Pension liabilities	6,247	5,772
Deferred tax liabilities	4,215	8,971
Lease liabilities	348	2,633
Intersegment loans	(14,215)	-
Others	2,223	(900)
Total unallocated reconciliation adjustments of segment liabilities	**79,353**	**85,709**

Adjustments to income and expenses that form profit before tax are mainly represented by IFRS adjustments to record minority interest, to recognise fixed assets and process oil revaluation results required under IAS 29 "Financial reporting in hyper-inflationary economies, to accrue provision for dismantling and removing of fixed assets, to decapitalise interest costs capitalised earlier under RAR and for IFRS purposes, accruals of DTL for IFRS purposes.

Adjusting items for segment's revenue in the amount of RR 10,685 for year ended 31 December 2009 and RR 10,754 for year ended 31 December 2008 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Year ended 31 December 2009	Year ended 31 December 2008
Reversal of RAR minority interest	11,926	10,921
Intersegment operations	(1,241)	(167)
Total unallocated reconciliation adjustments of segment revenue	**10,685**	**10,754**

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

26 SEGMENT INFORMATION (continued)

Adjusting items for segment's operating expenses in the amount of RR 3,161 for year ended 31 December 2009 and RR 23,510 for year ended 31 December 2008 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

	Year ended 31 December 2009	Year ended 31 December 2008
Reversal of RAR minority interest	10,685	7,896
Reclassification from other PL	2,781	6,001
Dismantlement provision	2,165	2,075
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"	(7,347)	4,478
Intersegment operations	(1,241)	(167)
Bad debt provision	(512)	3,472
Others	(3,370)	(245)
Total unallocated reconciliation adjustments of segment expenses	**3,161**	**23,510**

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. The carrying value of these assets is not significant.

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

	Year ended 31 December 2009	Year ended 31 December 2008
Russian Federation	330,433	262,028
Other countries	20,618	12,949
	351,051	**274,977**

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:

Company	Year ended 31 December 2009	Year ended 31 December 2008
Companies under control of the Government of the Russian Federation	96,132	75,731
OAO Lukoil	50,440	42,045
OAO Surgutneftegaz	50,058	43,072
OAO TNK-BP Holding	46,066	35,838
	242,696	**196,687**

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

27 EVENTS AFTER THE REPORTING PERIOD

In May 2010 the coupon rate for the second coupon period was determined for nonconvertible interest bearing documentary bonds of the 01 series. The interest rate of the second coupon is 9.75% per annum.