

**OAO AK TRANSNEFT
IFRS CONSOLIDATED
INTERIM CONDENSED
FINANCIAL STATEMENTS
(UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010**

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Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors of OAO AK Transneft

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of OAO AK Transneft (the "Company") and its subsidiaries (the "Group") as of 30 September 2010, and the related consolidated interim condensed statements of comprehensive income for the three and nine months then ended, and related consolidated condensed interim statements of cash flows and changes in equity for the nine months then ended, and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information set out on pages 4 to 22 in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
31 December 2010

ОАО АК ТРАНСНЕФТ
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION
(UNAUDITED) AS OF 30 SEPTEMBER 2010
(in millions of Russian roubles, if not stated otherwise)

| | Notes | 30 September 2010 | 31 December 2009 |
|--|-------|-------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | | 1,576 | 1,275 |
| Property, plant and equipment | 5 | 1,157,455 | 997,400 |
| Available-for-sale financial assets | | 405 | 419 |
| Investment in associates and jointly controlled entities | | 4,773 | 2,151 |
| VAT assets | 8 | 8,772 | 1,194 |
| Receivables and prepayments | 8 | 410 | 322 |
| Total non-current assets | | 1,173,391 | 1,002,761 |
| Current assets | | | |
| Inventories | 7 | 16,660 | 12,900 |
| Receivables and prepayments | 8 | 22,886 | 17,612 |
| VAT assets | 8 | 32,439 | 61,812 |
| Prepaid income tax | | 2,067 | 5,388 |
| Other financial assets | 6 | 62,644 | 35,616 |
| Cash and cash equivalents | 9 | 244,784 | 283,658 |
| Total current assets | | 381,480 | 416,986 |
| Total assets | | 1,554,871 | 1,419,747 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | | 308 | 308 |
| Share premium reserve | | 52,553 | 52,553 |
| Merger reserve | | (13,080) | (13,080) |
| Retained earnings | | 697,758 | 615,171 |
| Attributable to the owners of ОАО АК Transneft | | 737,539 | 654,952 |
| Non-controlling interest | | 32,649 | 26,444 |
| Total equity | | 770,188 | 681,396 |
| Non-current liabilities | | | |
| Borrowings and finance lease obligations | 11 | 542,486 | 541,952 |
| Deferred income tax liabilities | 12 | 36,131 | 30,505 |
| Provisions for liabilities and charges | 13 | 108,497 | 86,782 |
| Total non-current liabilities | | 687,114 | 659,239 |
| Current liabilities | | | |
| Trade and other payables | 14 | 88,472 | 63,955 |
| Current income tax payable | | 2,250 | 3,821 |
| Borrowings and finance lease obligations | 11 | 6,847 | 11,336 |
| Total current liabilities | | 97,569 | 79,112 |
| Total liabilities | | 784,683 | 738,351 |
| Total equity and liabilities | | 1,554,871 | 1,419,747 |

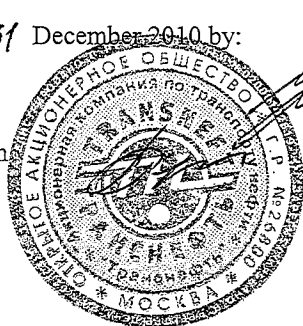
Approved on 31 December 2010 by:

N.P. Tokarev

President

M.V. Russkikh

Acting General director of OOO Transneft Finance,
a specialized organization, which performs the
accounting function for ОАО АК Transneft



The accompanying notes set out on pages 8 to 22 are an integral part of these consolidated interim condensed financial statements

ОАО АК ТРАНСНЕФТ
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010
(in millions of Russian roubles, if not stated otherwise)

| | Notes | Three months ended 30 September 2010 | Nine months ended 30 September 2010 | Three months ended 30 September 2009 | Nine months ended 30 September 2009 |
|--|-------|--|---|--|---|
| Sales | 15 | 113,609 | 321,830 | 89,149 | 255,887 |
| Operating expenses | 16 | (71,380) | (201,824) | (47,125) | (132,723) |
| Net other operating (expenses)/income | | (148) | (1,205) | 2,789 | 4,550 |
| Operating profit | | 42,081 | 118,801 | 44,813 | 127,714 |
| Financial items: | | | | | |
| Exchange gains | | 16,283 | 46,003 | 18,498 | 47,684 |
| Exchange loss | | (16,556) | (46,559) | (10,708) | (47,083) |
| Interest income | 17 | 1,090 | 4,407 | 1,608 | 4,326 |
| Interest expense | 17 | (5,709) | (13,912) | (6,324) | (15,031) |
| Total financial items | | (4,892) | (10,061) | 3,074 | (10,104) |
| Share of gain from investments in associates and jointly controlled entities | | 3,025 | 3,739 | 176 | 589 |
| Profit before income tax | | 40,214 | 112,479 | 48,063 | 118,199 |
| Income tax expense | 12 | (7,370) | (24,319) | (10,359) | (25,872) |
| Profit for the period | | 32,844 | 88,160 | 37,704 | 92,327 |
| Other comprehensive income after tax | | | | | |
| Currency translation differences | | 24 | (13) | (2) | 25 |
| Fair value gains on available-for-sale financial assets | | 13 | 25 | 8 | 26 |
| Total comprehensive income | | 32,881 | 88,172 | 37,710 | 92,378 |
| Profit attributable to: | | | | | |
| Shareholders of ОАО АК Transneft | | 31,650 | 83,548 | 37,260 | 90,893 |
| Non-controlling interest | | 1,194 | 4,612 | 444 | 1,434 |
| Total comprehensive income attributable to: | | | | | |
| Shareholders of ОАО АК Transneft | | 31,687 | 83,560 | 37,266 | 90,944 |
| Non-controlling interest | | 1,194 | 4,612 | 444 | 1,434 |

Approved on 31 December 2010

N.P. Tokarev

M.V. Russkikh



President

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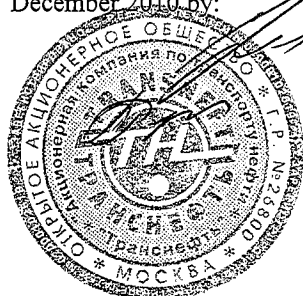
OAO AK TRANSNEFT
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010
(in millions of Russian roubles, if not stated otherwise)

| | Notes | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
|---|----------|---|---|
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 356,370 | 283,730 |
| Cash paid to suppliers and employees, and taxes other than profit tax | | (227,840) | (174,358) |
| Interest paid | | (30,608) | (21,597) |
| Income tax paid | | (18,771) | (16,816) |
| Tax refunds | | 65,829 | 32,178 |
| Other cash used in operating activities | | (7,037) | (1,605) |
| Net cash from operating activities | | 137,943 | 101,532 |
| Cash flows used in investing activities | | | |
| Purchase of property, plant and equipment | | (160,982) | (120,171) |
| Proceeds from sales of property, plant and equipment | | 1,248 | 201 |
| Interest and dividends received | | 10,610 | 4,279 |
| Purchase (repayment) of notes | | (22,095) | (34,733) |
| Other cash proceeded from investing activities | | (1,754) | 1,260 |
| Net cash used in investing activities | | (172,973) | (149,164) |
| Cash flows from financing activities | | | |
| Proceeds from long and short-term borrowings | | - | 310,288 |
| Repayment of long and short-term borrowings | | - | (152,116) |
| Payment of finance lease obligations | | (1,636) | (2,748) |
| Net cash proceeds from financing activities | | (1,636) | 155,424 |
| Cash (decrease) /increase due to deviation of currency exchange rate | | (2,208) | 532 |
| Net (decrease) /increase in cash and cash equivalents | | (38,874) | 108,324 |
| Cash and cash equivalents at the beginning of the period | 9 | 283,658 | 60,565 |
| Cash and cash equivalents at the end of the period | 9 | 244,784 | 168,889 |

Approved on 31 December 2010 by:

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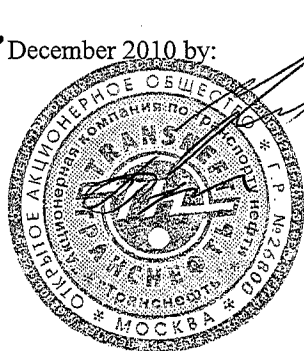
OAO AK TRANSNEFT
IFRS CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010
(in millions of Russian roubles, if not stated otherwise)

| | Attributable to the owners of OAO AK Transneft | | | | | | |
|--|--|---------------|----------------|-------------------|---------|--------------------------|--------------|
| | Share capital | Share premium | Merger reserve | Retained earnings | Total | Non-controlling interest | Total equity |
| Balance at 1 January 2009 | 308 | 52,553 | (13,080) | 495,081 | 534,862 | 25,035 | 559,897 |
| Profit for the period | - | - | - | 90,893 | 90,893 | 1,434 | 92,327 |
| Fair value gain on available-for-sale financial assets, net of tax | - | - | - | 26 | 26 | - | 26 |
| Currency translation differences, net of tax | - | - | - | 25 | 25 | - | 25 |
| Total comprehensive income for the period | - | - | - | 90,944 | 90,944 | 1,434 | 92,378 |
| Dividends | | | | | | | |
| - preference shares | - | - | - | (368) | (368) | - | (368) |
| Balance at 30 September 2009 | 308 | 52,553 | (13,080) | 585,657 | 625,438 | 26,469 | 651,907 |
| Balance at 1 January 2010 | 308 | 52,553 | (13,080) | 615,171 | 654,952 | 26,444 | 681,396 |
| Profit for the period | | | | 83,548 | 83,548 | 4,612 | 88,160 |
| Fair value gain on available-for-sale financial assets, net of tax | - | - | - | 25 | 25 | - | 25 |
| Currency translation differences, net of tax | - | - | - | (13) | (13) | - | (13) |
| Total comprehensive income for the period | - | - | - | 83,560 | 83,560 | 4,612 | 88,172 |
| Additional shares issue of subsidiary | - | - | - | - | - | 1,593 | 1,593 |
| Dividends | | | | | | | |
| - ordinary shares | - | - | - | (584) | (584) | - | (584) |
| - preference shares | - | - | - | (389) | (389) | - | (389) |
| Balance at 30 September 2010 | 308 | 52,553 | (13,080) | 697,758 | 737,539 | 32,649 | 770,188 |

Approved on 31 December 2010 by:

N.P. Tokarev

M.V. Russkikh



President

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

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OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010
(in millions of Russian roubles, if not stated otherwise)

1 NATURE OF OPERATIONS

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

The Company and its subsidiaries (the "Group") operate the oil pipeline system in the Russian Federation totalling 50,110 km at 30 September 2010 and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Ukraine totalling 18,737 km as at 30 September 2010. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic. During the nine months ended 30 September 2010, the Group transported 347.1 million tonnes of crude oil to domestic and export markets (nine months ended 30 September 2009 – 341.8 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 30.8 million tonnes of oil products (28.4 million tonnes for nine months ended 30 September 2009).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

3 BASIS OF PRESENTATION

These consolidated interim condensed financial statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") and should be read together with the consolidated financial statements for the year ended 31 December 2009 prepared in accordance with International Financial Reporting Standards ("IFRS").

The official US dollar ("USD") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 30.4030 and 30.2442 as at 30 September 2010 and 31 December 2009, respectively. The official Euro ("EURO") to Russian Rouble ("RR") exchange rates as determined by the Central Bank of the Russian Federation was 41.3481 and 43.3883 as at 30 September 2010 and 31 December 2009, respectively.

New accounting pronouncements

Implementation of the new standards and interpretations that are mandatory for the Group's accounting periods beginning on 1 January 2010 has not significantly impacted the Group's consolidated interim condensed financial statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning after 1 January 2010 and which the Group has not early adopted. Information concerning the most significant standards and interpretations is disclosed in the consolidated financial statements for the year ended 31 December 2009.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2009.

In addition, the following significant accounting policies and the critical accounting estimates are used in applying accounting on **Capitalisation of borrowing costs**.

Accounting policy

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES (continued)

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

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

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

The portion of the foreign exchange movements are estimated based on interest rates on similar borrowing in the Group's functional currency.

The foreign exchange gains and losses eligible for capitalisation in interim and annual periods are assessed on a cumulative basis.

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

Critical accounting estimates

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

In management's assessment, the foreign exchange gain on these borrowing is not attributable to the interest rate differentials and therefore is not capitalised.

Should the interest rate under the RR bonds be less by 5%, the amount of foreign exchange loss capitalised and profit for the 9 month ended 30 September 2010 would not differ.

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010
(in millions of Russian roubles, if not stated otherwise)

5 PROPERTY, PLANT AND EQUIPMENT

| | Buildings and facilities | Pipelines and tanks | Other plant and equipment | Linefill | Assets under construction including prepayments | Total |
|--|---|--------------------------------|--|-----------------|--|------------------|
| At 1 January 2010 | | | | | | |
| Cost | 109,575 | 691,560 | 397,385 | 76,372 | 115,261 | 1,390,153 |
| Accumulated depreciation and impairment | (28,891) | (215,519) | (148,343) | - | - | (392,753) |
| Net book value at 1 January 2010 | 80,684 | 476,041 | 249,042 | 76,372 | 115,261 | 997,400 |
| Depreciation | (2,466) | (20,332) | (27,613) | - | - | (50,411) |
| Additions (including prepayments) | - | - | - | 1,017 | 194,979 | 195,996 |
| Transfers from assets under construction | 4,134 | 7,589 | 31,900 | - | (43,623) | - |
| Net change in dismantlement provision | - | 14,287 | - | - | 1,709 | 15,996 |
| Disposals/retirements at cost | (215) | (346) | (4,055) | (343) | - | (4,959) |
| Accumulated depreciation and impairment on disposals/retirements | 78 | 250 | 3,105 | - | - | 3,433 |
| Net book value at 30 September 2010 | 82,215 | 477,489 | 252,379 | 77,046 | 268,326 | 1,157,455 |
| At 30 September 2010 | | | | | | |
| Cost | 113,494 | 713,090 | 425,230 | 77,046 | 268,326 | 1,597,186 |
| Accumulated depreciation and impairment | (31,279) | (235,601) | (172,851) | - | - | (439,731) |
| Net book value at 30 September 2010 | 82,215 | 477,489 | 252,379 | 77,046 | 268,326 | 1,157,455 |

OA O AK TRANSNEFT
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010
(in millions of Russian roubles, if not stated otherwise)

5 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings and facilities | Pipelines and tanks | Other plant and equipment | Linefill | Assets under construction including prepayments | Total |
|--|---|--------------------------------|--|-----------------|--|----------------|
| At 1 January 2009 | | | | | | |
| Cost | 91,434 | 503,016 | 273,675 | 65,533 | 225,467 | 1,159,125 |
| Accumulated depreciation and impairment | (26,427) | (191,886) | (131,682) | - | - | (349,995) |
| Net book value at 1 January 2009 | 65,007 | 311,130 | 141,993 | 65,533 | 225,467 | 809,130 |
| Depreciation | (2,123) | (13,570) | (18,641) | - | - | (34,334) |
| Additions (including prepayments) | - | - | - | 6,981 | 145,191 | 152,172 |
| Transfers from assets under construction | 2,869 | 3,229 | 22,738 | - | (28,836) | - |
| Net change in dismantlement provision | - | 4,149 | - | - | 159 | 4,308 |
| Disposals/retirements at cost | (158) | (71) | (4,855) | (612) | - | (5,696) |
| Accumulated depreciation and impairment on disposals/retirements | 38 | 54 | 4,684 | - | - | 4,776 |
| Net book value at 30 September 2009 | 65,633 | 304,921 | 145,919 | 71,902 | 341,981 | 930,356 |
| At 30 September 2009 | | | | | | |
| Cost | 94,145 | 510,323 | 291,558 | 71,902 | 341,981 | 1,309,909 |
| Accumulated depreciation and impairment | (28,512) | (205,402) | (145,639) | - | - | (379,553) |
| Net book value at 30 September 2009 | 65,633 | 304,921 | 145,919 | 71,902 | 341,981 | 930,356 |

Property, plant and equipment as at 30 September 2010 is presented net of impairment provision of RR 4,405 (as at 31 December 2009 – net of impairment provision of RR 4,470), against specific pipeline assets and machinery.

Linefill represents 29,455 thousand tonnes of crude oil and 1,148 thousand tonnes of oil products as at 30 September 2010 (as at 31 December 2009 – 29,400 thousand tonnes of crude oil and 1,159 thousand tonnes of oil products).

During the nine months ended 30 September 2010, borrowing costs in the amount of RR 11,972 were capitalised as part of cost of assets under construction (for the nine months ended 30 September 2009 – RR 12,999).

6 OTHER FINANCIAL ASSETS

During the nine months ended 30 September 2010 following other financial assets were purchased:

- non-interest-bearing notes which are subject to repayment in the fourth quarter of 2010 – first quarter of 2011 were purchased for a consideration of RR 18,950, nominal value of RR 20,788, carrying value RR 19,532 as at 30 September 2010.
- interest-bearing note which is subject to repayment in the first quarter of 2011. It was purchased for a consideration of USD 50 million (RR 1,555 at the CBR exchange rate effective at the purchase date), carrying value RR 1,520 (at the CBR exchange rate as at 30 September 2010).
- interest-bearing note which is subject to repayment in the third quarter of 2011. It was purchased for a consideration of Euro 40 million (RR 1,565 at the CBR exchange rate effective at the purchase date), carrying value RR 1,654 (at the CBR exchange rate as at 30 September 2010).

ОАО АК ТРАНСНЕФТ
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010
(in millions of Russian roubles, if not stated otherwise)

7 INVENTORIES

| | 30 September 2010 | 31 December 2009 |
|-------------------------|--------------------------|-------------------------|
| Materials and supplies | 10,239 | 7,803 |
| Sundry goods for resale | 6,205 | 5,035 |
| Other items | 216 | 62 |
| | 16,660 | 12,900 |

Materials and supplies are presented net of impairment provision of RR 369 as at 30 September 2010 (as at 31 December 2009 – RR 489).

Sundry goods for resale, including oil and oil products, are presented net of impairment provision of RR 0 as at 30 September 2010 (as at 31 December 2009 – RR 42).

8 RECEIVABLES AND PREPAYMENTS AND VAT ASSETS

Receivables and prepayments

| | 30 September 2010 | 31 December 2009 |
|------------------------------------|--------------------------|-------------------------|
| Non-financial assets | | |
| Other long-term receivables | 410 | 322 |
| Total long-term receivables | 410 | 322 |

| | 30 September 2010 | 31 December 2009 |
|---|--------------------------|-------------------------|
| Short-term receivables | | |
| Financial assets | | |
| Trade receivables | 2,172 | 1,905 |
| Other receivables | 9,246 | 8,024 |
| Less: provision for doubtful debts | (3,212) | (3,255) |
| Total financial assets | 8,206 | 6,674 |

| | | |
|--|---------------|---------------|
| Non-financial assets | | |
| Prepayments and advances and other nonfinancial assets | 14,680 | 10,938 |
| Total receivables | 22,886 | 17,612 |

VAT assets

| | 30 September 2010 | 31 December 2009 |
|--|--------------------------|-------------------------|
| Recoverable VAT related to construction projects | 13,449 | 44,425 |
| Recoverable VAT related to ordinary activity | 27,762 | 18,581 |
| | 41,211 | 63,006 |
| Less: short-term VAT | (32,439) | (61,812) |
| Long-term VAT | 8,772 | 1,194 |

ОАО АК ТРАНСНЕФТ
NOTES TO IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010
(in millions of Russian roubles, if not stated otherwise)

9 CASH AND CASH EQUIVALENTS

| | 30 September 2010 | 31 December 2009 |
|---|--------------------------|-------------------------|
| Balances denominated in Russian roubles | 184,017 | 96,137 |
| Balances denominated in US dollars | 46,369 | 165,576 |
| Balances denominated in Euro | 14,335 | 21,929 |
| Balances denominated in other currency | 63 | 16 |
| | 244,784 | 283,658 |

10 DIVIDENDS

In June 2010, the shareholders of the Company approved the payment of dividends for 2009 in the amount of RR 973 (preferred shares – RR 389, ordinary shares – RR 584) at the annual general meeting of shareholders. The whole amount of dividends should be paid till the end of 2010.

In June 2009, the shareholders of the Company approved the payment of dividends for 2008 in the amount of RR 368 at the annual general meeting of shareholders. The whole amount of dividends was paid till 31 December 2009.

11 BORROWINGS AND FINANCE LEASE OBLIGATIONS

| | 30 September 2010 | 31 December 2009 |
|--|--------------------------|-------------------------|
| Borrowings and loans | 549,209 | 552,940 |
| Finance lease obligations | 124 | 348 |
| Total borrowings and loans | 549,333 | 553,288 |
| Less: current borrowings and loans and current portion of non-current borrowings and loans and finance lease obligations | (6,847) | (11,336) |
| | 542,486 | 541,952 |
| Maturity of non-current borrowings and loans and finance lease obligations | | |
| Between one and five years | 101,936 | 102,997 |
| After five years | 440,550 | 438,955 |
| | 542,486 | 541,952 |

12 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

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

13 PROVISIONS FOR LIABILITIES AND CHARGES

| | 30 September 2010 | 31 December 2009 |
|-------------------------|--------------------------|-------------------------|
| Dismantlement provision | 101,570 | 80,535 |
| Pension provision | 6,927 | 6,247 |
| | 108,497 | 86,782 |

Dismantlement provision

The provision is established for the expected cost of dismantling parts of the existing pipeline network based on the average current cost per kilometre of removal according to an estimated plan of replacement 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

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13 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

is added to the cost of property, plant and equipment and depreciated over the useful economic life of the pipeline network. Additional provisions are made when the total length of the network increases and reductions occur when sections of the pipeline are decommissioned. Other changes are made when the expected pattern or unit cost of dismantlement is changed. The expected costs at the dates of dismantlement have been discounted to net present value using a nominal average rate of 7.15% per year (31 December 2009 – 8.49% per year).

Should the nominal average rate increase/ (decrease) by 1%, dismantlement provision would (decrease)/ increase by RR 13,200 as at 30 September 2010 (RR 9,565 as at 31 December 2009).

Pension provision

Under collective agreements with Group’s employees, an amount ranging from one to five months final salary is payable upon retirement to those who have worked for the Group for more than three years. Also

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

Service cost, past service cost and actuarial (profit) / loss amounting to RR 759 and RR 668 for the nine months ended 30 September 2010 and 2009, respectively, are included in staff costs in the consolidated interim condensed statement of comprehensive income.

14 TRADE AND OTHER PAYABLES

| | 30 September 2010 | 31 December 2009 |
|---|--------------------------|-------------------------|
| Trade payables | 37,074 | 17,690 |
| Other payables | 6,905 | 3,542 |
| Dividends payable | 973 | - |
| Total financial payables | 44,952 | 21,232 |
| Advances received for oil and oil product transportation services | 19,369 | 24,295 |
| Accruals | 13,259 | 12,977 |
| VAT output tax payable | 9,042 | 4,087 |
| Other taxes payable | 1,850 | 1,364 |
| Total payables | 88,472 | 63,955 |

15 SALES

| | Three months ended 30 September 2010 | Nine months ended 30 September 2010 | Three months ended 30 September 2009 | Nine months ended 30 September 2009 |
|--|---|--|---|--|
| Revenues from crude oil transportation services | | | | |
| Domestic tariff | 41,784 | 117,553 | 34,842 | 97,123 |
| Export tariff | 56,505 | 163,478 | 43,400 | 128,408 |
| Total revenues from crude oil transportation services | 98,289 | 281,031 | 78,242 | 225,531 |
| Revenues from oil products transportation services | 7,948 | 22,761 | 6,339 | 18,098 |
| Other revenues | 7,372 | 18,038 | 4,568 | 12,258 |
| | 113,609 | 321,830 | 89,149 | 255,887 |

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16 OPERATING EXPENSES

| | Three months ended 30 September 2010 | Nine months ended 30 September 2010 | Three months ended 30 September 2009 | Nine months ended 30 September 2009 |
|--|---|--|---|--|
| Depreciation | 16,907 | 49,827 | 12,387 | 32,805 |
| Staff costs: | | | | |
| Salaries and pension expense | 18,627 | 52,274 | 13,724 | 39,165 |
| Unified Social Fund contributions | 1,765 | 7,020 | 1,549 | 5,715 |
| Social expenses | 1,200 | 2,615 | 1,082 | 2,308 |
| Energy | 8,394 | 23,956 | 6,766 | 20,405 |
| Materials | 4,368 | 11,634 | 3,942 | 9,666 |
| Repairs services and maintenance of relevant technical condition of pipeline | 2,283 | 8,099 | 1,698 | 5,391 |
| Transportation of oil using railways | 7,831 | 22,099 | - | - |
| Other | 10,005 | 24,300 | 5,977 | 17,268 |
| | 71,380 | 201,824 | 47,125 | 132,723 |

17 INTEREST INCOME AND INTEREST EXPENSE

| | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
|---|---|---|
| Interest income on cash and cash equivalents | 9,820 | 4,009 |
| Interest income from available-for-sale investments | 2,267 | 296 |
| Other interest income | 23 | 21 |
| Total interest income | 12,110 | 4,326 |
| less interest income on the temporary investment of borrowings | (7,703) | - |
| Total interest income recognised in profit or loss | 4,407 | 4,326 |
| | | |
| | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
| Interest expense on borrowing cost | 27,919 | 21,467 |
| Provisions for asset retirement obligations: unwinding of the present value discount | 5,130 | 5,255 |
| Leasing unwinding of the present value discount | 118 | 889 |
| Other interest expenses | 420 | 419 |
| Total interest expenses | 33,587 | 28,030 |
| Less capitalised finance costs | (19,675) | (12,999) |
| Total interest expenses recognised in profit or loss | 13,912 | 15,031 |

18 CONTINGENT LIABILITIES

Legal proceedings

The Group is involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group's management, there are no current legal proceedings or claims outstanding at 30 September 2010, which could have a material adverse effect on the results of operations or financial position of the Group.

As at 30 September 2010, input VAT includes RR 696 of VAT charged to the Company by its subsidiaries for August 2007, recovery of which was rejected. The company continues its efforts aimed at VAT recovery.

In October 2010 the Nizhny Novgorod Regional Arbitrazh Court ruled that the Group must pay compensation to ООО Рыбхоз Борок in the amount of RUB 1,187 million for losses incurred due to an oil pipeline accident in March 2007. The Group has filled an appeal to have this ruling overturned and a new judicial order issued in which ООО Рыбхоз Борок's loss may, according to the Company, be estimated as a considerably smaller amount. No provisions have been booked for the Company's potential liability with regards to this matter.

19 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

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

As at 30 September 2010 and 31 December 2009 the Company holds in trust on behalf of the Russian Government 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company, 31% of the shares of the Caspian Pipeline Consortium-R and 31% of the shares of Caspian Pipeline Consortium-K. These interests are not recognised in these consolidated interim condensed financial statements as the Company is acting as an agent 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: purchases of electric energy, transportation of oil and oil products and transactions with banks.

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19 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

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

| | Three months ended 30 September 2010 | Nine months ended 30 September 2010 | Three months ended 30 September 2009 | Nine months ended 30 September 2009 |
|---|---|--|---|--|
| Revenue from oil transportation services | 31,646 | 89,406 | 23,063 | 64,698 |
| Revenue from oil products transportation services | 1,737 | 5,949 | 1,785 | 5,530 |
| Electricity expenses | (84) | (237) | (178) | (335) |
| Transportation of oil using railways and related services | (6,700) | (18,448) | - | - |
| Interest expenses | (6) | (6) | (1,344) | (9,638) |
| Interest income from other financial assets | 797 | 2 224 | 296 | 296 |

| | 30 September 2010 | 31 December 2009 |
|---|-------------------|------------------|
| Receivables and prepayments | 2,334 | 510 |
| Cash | 125,174 | 202,692 |
| Advances received for oil transportation services | 5,209 | 7,111 |
| Advances received for oil product transportation services | 1,302 | 1,303 |
| Non-current and current borrowings | 1 | 1 |
| Other financial assets | 56,611 | 35,186 |

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

During the period ended 30 September 2010 the Group acquired electric energy from associated company Rusenergoresurs on amount RR 23,222. Accounts receivables (incl. advances paid) as at 30 September 2010 amounted RR 231 (as at 31 December 2009 – RR 1,065), accounts payable as at 30 September 2010 amounted RR 267 (as at 31 December 2009 – 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 short-term compensations, including salary, bonuses, other payments and long-term and short-term interest-free loans. Short-term compensations payable to the key management personnel of the Company and subsidiaries consists of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Boards of Directors of Company are subject to approval by the General Meeting of Shareholders. According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Transneft, and one-time payments at the retirement date.

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20 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 analyzed by Management of the Group. These amounts are calculated under RAR.

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

Adjusting entries also relate to intersegment transactions, those which are material, are as follows: US Dollar denominated loan and interests granted in RR which amounted to RR 9,669 as at 30 September 2010, the loan interest payable of RR 872 and related exchange difference of RR 2,185 (as at 31 December 2009 US Dollar denominated loan granted in RR including interest receivable which amounted to RR 14,589, loan interest payable of RR 372 and related exchange difference of RR 1,187).

Segment information for the nine months ended 30 September 2010 and at 30 September 2010 is as follows:

| Nine months ended 30 September 2010 | Oil transportation services | Oil products transportation services | Adjustments | Total IFRS |
|--|------------------------------------|---|--------------------|-------------------|
| External revenue | 282,975 | 24,173 | 14,682 | 321,830 |
| Operating expenses | (180,344) | (14,688) | (6,792) | (201,824) |
| Depreciation and amortisation | (50,463) | (1,987) | 2,623 | (49,827) |
| Interest income | 12,601 | 221 | (8,415) | 4,407 |
| Interest expenses | (19,860) | (872) | 6,820 | (13,912) |
| Share of profit from associates and jointly controlled entities | 1,016 | 45 | 2,678 | 3,739 |
| Profit before income tax | 94,679 | 8,608 | 9,192 | 112,479 |
| Income tax expense | (22,968) | (1,957) | 606 | (24,319) |
| Profit for the year | 71,711 | 6,651 | 9,798 | 88,160 |
| Other segment disclosures | | | | |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | 187,621 | 1,746 | 6,629 | 195,996 |

| Nine months ended 30 September 2009 | Oil transportation services | Oil products transportation services | Adjustments | Total IFRS |
|--|------------------------------------|---|--------------------|-------------------|
| External revenue | 229,298 | 18,379 | 8,210 | 255,887 |
| Operating expenses | (118,522) | (11,043) | (3,158) | (132,723) |
| Depreciation and amortisation | (31,221) | (2,021) | 437 | (32,805) |
| Interest income | 3,993 | 348 | (15) | 4,326 |
| Interest expenses | (7,343) | (1,875) | (5,813) | (15,031) |
| Share of profit from associates | 663 | 17 | (91) | 589 |
| Profit before income tax | 113,268 | 5,629 | (698) | 118,199 |
| Income tax expense | (27,191) | (1,304) | 2,623 | (25,872) |
| Profit for the year | 86,077 | 4,325 | 1,925 | 92,327 |

| | | | | |
|--|---------|-------|-------|---------|
| Other segment disclosures | | | | |
| Additions to non-current assets (other than financial instruments and deferred tax assets) | 145,776 | 1,337 | 3,884 | 150,997 |

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20 SEGMENT INFORMATION (continued)

Segment information as at 30 September 2010 and at 31 December 2009 is as follows:

| 30 September 2010 | Oil transportation services | Oil products transportation services | Adjustments | Total IFRS |
|---|--|---|--------------------|-------------------|
| Investments in associates and jointly controlled entities | 1,323 | 141 | 3,309 | 4,773 |
| Total segment assets | 1,536,306 | 61,537 | (42,972) | 1,554,871 |
| Trade payables and advances received | 51,394 | 4,624 | 425 | 56,443 |
| Non-current borrowings | 542,461 | 8,720 | (8,720) | 542,461 |
| Current borrowings | 7,128 | 950 | (1,330) | 6,748 |
| Total segment liabilities | 672,653 | 17,304 | 94,726 | 784,683 |

| 31 December 2009 | Oil transportation services | Oil products transportation services | Adjustments | Total IFRS |
|--------------------------------------|--|---|--------------------|-------------------|
| Investments in associates | 4,060 | 36 | (1,945) | 2,151 |
| Total segment assets | 1,431,407 | 57,839 | (69,499) | 1,419,747 |
| Trade payables and advances received | 38,173 | 3,433 | 379 | 41,985 |
| Non-current borrowings | 541,914 | 14,215 | (14,215) | 541,914 |
| Current borrowings | 11,026 | 374 | (374) | 11,026 |
| Total segment liabilities | 638,797 | 20,201 | 79,353 | 738,351 |

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

Adjusting items for segment's revenues in the amount of RR 14,682 for the nine months ended 30 September 2010 and RR 8,201 for the nine months ended 30 September 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

| | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
|---|--|--|
| Recovery of non-controlling interest in accordance with RAR | 20,472 | 8,887 |
| Other adjustments and intersegment operations | (5,790) | (677) |
| Total unallocated reconciliation adjustments of segment revenues | 14,682 | 8,210 |

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Adjusting items for segment's expenses in the amount of RR 6,792 for the nine months ended 30 September 2010 and RR 3,158 for the nine months ended 30 September 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

| | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
|--|--|--|
| Recovery of non-controlling interest in accordance with RAR | 15,157 | 7,909 |
| Dismantlement provision | 1,986 | 1,862 |
| 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" | (9,553) | (6,230) |
| Recovery of crude oil impairment provision | - | (413) |
| Financial leasing | 2,172 | (93) |
| Pension liabilities | 269 | (1,008) |
| Intersegment operations | (1,629) | (679) |
| Others | (1,610) | 1,810 |
| Total unallocated reconciliation adjustments of segment expenses | 6,792 | 3,158 |

Adjusting items for segment's assets in the amount of RR 42,972 as at 30 September 2010 and RR 69,499 as at 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

| | 30 September 2010 | 31 December 2009 |
|--|--------------------------|-------------------------|
| Property, plant and equipment dismantlement provision recognized in cost | 71,145 | 54,526 |
| Adjustment to Property, plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies" | (92,530) | (101,880) |
| Revaluation of linefill oil and oil products required under IAS 29 "Financial reporting in hyper-inflationary economies and other | 50,856 | 50,744 |
| Business combination with Transnefteproduct | (52,553) | (52,553) |
| Deferred tax assets | (8,907) | (6,150) |
| Intersegment loans and interest | (9,669) | (14,589) |
| Others | (1,314) | 403 |
| Total unallocated reconciliation adjustments of segment assets | (42,972) | (69,499) |

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20 SEGMENT INFORMATION (continued)

Adjusting items for segment's liabilities in the amount of RR 94,726 as at 30 September 2010 and RR 79,353 as at 31 December 2009 include the following adjustments and reclassifications due to RAR and IFRS accounting differences:

| | 30 September 2010 | 31 December 2009 |
|--|--------------------------|-------------------------|
| Dismantlement provision | 101,570 | 80,535 |
| Pension liabilities | 6,927 | 6,247 |
| Deferred tax liabilities | 327 | 4,215 |
| Lease liabilities | 124 | 348 |
| Intersegment loans and interest | (9,669) | (14,589) |
| Others | (4,553) | 2,597 |
| Total unallocated reconciliation adjustments of segment liabilities | 94,726 | 79,353 |

Geographical information. The Group's two segments primary operate on the territory of the Russian Federation. Revenue from external customers is presented based on the customers domicile (registered office) although the majority of revenues are generated by assets located in the Russian Federation. The oil product transportation segment has certain assets located on the territory of Latvia, Ukraine and Belarus. The carrying value of these assets is not significant.

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

| | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
|--------------------|--|--|
| Russian Federation | 304,896 | 240,634 |
| Other countries | 16,934 | 15,253 |
| | 321,830 | 255,887 |

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:

| | Nine months ended 30 September 2010 | Nine months ended 30 September 2009 |
|---|--|--|
| Companies under control of the Government of the Russian Federation | | |
| Russian Federation | 95,355 | 70,228 |
| OAO Surgutneftegaz | 45,440 | 37,637 |
| OAO Lukoil | 43,513 | 38,137 |
| OAO TNK-BP Holding | 40,403 | 34,339 |
| | 224,711 | 180,341 |

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

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21 SUBSEQUENT EVENTS

In October 2010, the coupon yield for the non-convertible interest-bearing certificated bearer bonds of series 02(second coupon) was 9.50% per annum.

In December 2010, the Group received USD 1.0 billion under the loan agreement with China Development Bank Corporation.

In December 2010, the Board of Directors of the Company approved transactions related to the acquisition of OAO Novorossyiskiy Morskoy Torgovy Port.