



**CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017**



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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors

Transneft

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of Transneft (the "Company") and its subsidiaries (the "Group") as at 30 June 2017 and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and six month periods then ended, and the related consolidated interim condensed statements of changes in equity and cash flows for the six month period then ended, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Audited entity: Transneft.

Registration No. in the Unified State Register of Legal Entities
1027700049486.

Moscow, Russia.

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

Registration No. in the Unified State Register of Legal Entities
1027700125628.

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 11603053203.



Transneft

Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Information

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2017 and for the three- and six month periods then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Kim A.A.

Director

JSC "KPMG"

Moscow, Russia

25 August 2017





TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 JUNE 2017
(in millions of Russian roubles, if not stated otherwise)

	Notes	30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Intangible assets		8,628	8,987
Property, plant and equipment	5	2,216,123	2,146,419
Available-for-sale financial assets		252	252
Investments in associates and jointly controlled entities	7	82,114	41,299
Receivables and prepayments, VAT assets	10	1,381	1,443
Other financial assets	8	23,999	32,738
Total non-current assets		2,332,497	2,231,138
Current assets			
Inventories	9	33,870	30,930
Receivables and prepayments	10	32,474	36,162
VAT assets		57,736	37,725
Current income tax prepayments		1,057	3,493
Financial assets at fair value through profit or loss	6	49,948	44,302
Other financial assets	8	279,637	308,409
Cash and cash equivalents	11	75,805	74,586
Total current assets		530,527	535,607
Total assets		2,863,024	2,766,745
EQUITY AND LIABILITIES			
Equity			
Share capital		308	308
Share premium reserve	13	58,544	52,553
Merger reserve		(13,080)	(13,080)
Prepaid share reserve		-	5,991
Retained earnings		1,751,347	1,668,788
Attributable to the shareholders of Transneft		1,797,119	1,714,560
Non-controlling interests		1,816	1,795
Total equity		1,798,935	1,716,355
Non-current liabilities			
Loans and borrowings	12	625,690	592,505
Deferred income tax liabilities	14	45,493	46,416
Provisions for liabilities and charges	15	125,726	117,620
Trade and other payables	16	3,027	2,361
Total non-current liabilities		799,936	758,902
Current liabilities			
Trade and other payables	16	174,368	181,870
Current income tax payable		439	571
Loans and borrowings	12	89,346	109,047
Total current liabilities		264,153	291,488
Total liabilities		1,064,089	1,050,390
Total equity and liabilities		2,863,024	2,766,745

Approved on 25 August 2017 by:

N.P. Tokarev



President

The accompanying notes set out on pages 9 to 22 are an integral part of these consolidated interim condensed financial statements



TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Revenue	17	219,179	438,250	213,401	417,406
Operating expenses net of amortisation and depreciation	18	(113,868)	(222,772)	(111,124)	(208,135)
Operating profit net of amortisation and depreciation		105,311	215,478	102,277	209,271
Amortisation and depreciation		(38,451)	(75,830)	(32,705)	(67,600)
Operating profit		66,860	139,648	69,572	141,671
Other income/(expenses), net		3,076	7,100	(2,966)	(1,944)
Share of (loss)/ profit from associates and jointly controlled entities	7	(7,789)	9,476	4,460	11,265
Profit before income tax and finance income/(costs)		62,147	156,224	71,066	150,992
Finance income	19	24,137	66,028	68,997	180,538
Finance costs	19	(38,908)	(75,048)	(65,827)	(163,703)
Profit before income tax		47,376	147,204	74,236	167,827
Income tax expense	14	(13,004)	(33,325)	(15,283)	(33,306)
Profit for the reporting period		34,372	113,879	58,953	134,521
Other comprehensive income/(loss), net of income tax <i>Items that may be reclassified to profit or loss:</i>					
Currency translation differences, net of income tax		60	34	(42)	8
<i>Total items that may be reclassified to profit or loss, net of income tax</i>		60	34	(42)	8
<i>Items that will not be reclassified to profit or loss:</i>					
Remeasurement of net defined benefit plan obligation, net of income tax	15	(84)	(727)	(454)	(1,066)
<i>Total items that will not be reclassified to profit or loss, net of income tax</i>		(84)	(727)	(454)	(1,066)
Total other comprehensive loss for the reporting period, net of income tax		(24)	(693)	(496)	(1,058)
Total comprehensive income for the reporting period		34,348	113,186	58,457	133,463
Profit attributable to					
Shareholders of Transneft		34,408	113,858	58,960	134,576
Non-controlling interests		(36)	21	(7)	(55)
Total comprehensive income attributable to					
Shareholders of Transneft		34,384	113,165	58,464	133,518
Non-controlling interests		(36)	21	(7)	(55)

The accompanying notes set out on pages 9 to 22 are an integral part of these consolidated interim condensed financial statements



TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(in millions of Russian roubles, if not stated otherwise)

	Notes	Six months ended 30 June 2017	Six months ended 30 June 2016
Cash flows from operating activities			
Cash receipts from customers		464,350	428,055
Cash paid to suppliers and employees, and taxes other than income tax		(309,838)	(290,784)
Interest paid		(16,834)	(18,688)
Income tax paid		(31,855)	(25,438)
Income tax refund		252	300
Refund of insurance contributions, VAT and other taxes refund		25,543	26,033
Other cash flows used in operating activities		(382)	(1,596)
Net cash from operating activities		131,236	117,882
Cash flows from investing activities			
Purchase of property, plant and equipment		(152,367)	(153,844)
Proceeds from sale of property, plant and equipment		795	1,323
Interest received		10,110	8,875
Purchase of notes and placement of funds on deposit accounts		(211,078)	(242,394)
Proceeds from sale of debt securities and closure of deposit accounts		235,351	306,815
Acquisition of shares of associates and jointly controlled entities	7	(60,000)	(12,497)
Dividends received and other proceeds from associates and jointly controlled entities	7	28,338	958
Repayment and issuance of loans		(1,931)	(2,448)
Cash inflows as a result of disposal of entities		-	2,632
Other cash flows used in investing activities		(461)	(217)
Net cash used in investing activities		(151,243)	(90,797)
Cash flows from financing activities			
Repayment of loans and borrowings		(60,940)	(34,008)
Proceeds from loans and borrowings		82,232	22,252
Acquisition of non-controlling interests		-	(16)
Other cash flows from/ (used in) financing activities		27	(9,302)
Net cash from / (used in) financing activities		21,319	(21,074)
Effects of exchange rate changes on cash and cash equivalents		(93)	(11,850)
Net increase/(decrease) in cash and cash equivalents		1,219	(5,839)
Cash and cash equivalents at the beginning of the reporting period	11	74,586	92,713
Cash and cash equivalents at the end of the reporting period	11	75,805	86,874

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TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(in millions of Russian roubles, if not stated otherwise)

	Attributable to the owners of Transneft						Non-controlling interests	Total equity
	Share capital	Share premium reserve	Merger reserve	Prepaid share reserve	Retained earnings	Total		
Balance at 1 January 2016	308	52,553	(13,080)	-	1,446,470	1,486,251	1,705	1,487,956
Profit for the reporting period	-	-	-	-	134,576	134,576	(55)	134,521
Remeasurement of net defined benefit plan obligation, net of income tax	-	-	-	-	(1,066)	(1,066)	-	(1,066)
Currency translation differences, net of income tax	-	-	-	-	8	8	-	8
Total comprehensive income for the reporting period	-	-	-	-	133,518	133,518	(55)	133,463
Transactions with owners of the Company								
Distributions								
Dividends (Note 13)								
- ordinary shares	-	-	-	-	(11,521)	(11,521)	-	(11,521)
- preferred shares	-	-	-	-	(1,280)	(1,280)	-	(1,280)
Total distributions	-	-	-	-	(12,801)	(12,801)	-	(12,801)
Changes in ownership interests								
Acquisition of non-controlling interests without a change in control	-	-	-	-	(48)	(48)	32	(16)
Total changes in ownership interests	-	-	-	-	(48)	(48)	32	(16)
Total transactions with owners of the Company	-	-	-	-	(12,849)	(12,849)	32	(12,817)
Balance at 30 June 2016	308	52,553	(13,080)	-	1,567,139	1,606,920	1,682	1,608,602
Balance at 1 January 2017	308	52,553	(13,080)	5,991	1,668,788	1,714,560	1,795	1,716,355
Profit for the reporting period	-	-	-	-	113,858	113,858	21	113,879
Remeasurement of net defined benefit plan obligation, net of income tax	-	-	-	-	(727)	(727)	-	(727)
Currency translation differences, net of income tax	-	-	-	-	34	34	-	34
Total comprehensive income for the reporting period	-	-	-	-	113,165	113,165	21	113,186
Transactions with owners of the Company								
Contributions and distributions								
Placement of ordinary certified non-documentary shares (Note 13)	-	5,991	-	(5,991)	-	-	-	-
Dividends (Note 13)								
- ordinary shares	-	-	-	-	(23,926)	(23,926)	-	(23,926)
- preferred shares	-	-	-	-	(6,680)	(6,680)	-	(6,680)
Total contributions and distributions	-	5,991	-	(5,991)	(30,606)	(30,606)	-	(30,606)
Total transactions with owners of the Company	-	5,991	-	(5,991)	(30,606)	(30,606)	-	(30,606)
Balance at 30 June 2017	308	58,544	(13,080)	-	1,751,347	1,797,119	1,816	1,798,935

The accompanying notes set out on pages 9 to 22 are an integral part of these consolidated interim condensed financial statements



1 NATURE OF OPERATIONS

Public Joint Stock Company “Transneft” (hereinafter named the “Company”) was incorporated by the Resolution of the Council of Ministers - Russian Government dated 14 August 1993 № 810. The Company's registered office is located in Moscow, Russian Federation.

In July 2016 according to amendments made to the Civil Code of the Russian Federation, to the Unified state register of legal entities the name of the Company has been changed to Public Joint Stock Company “Transneft” (Transneft).

The Company and its subsidiaries (hereinafter - the "Group") operate the oil pipeline system in the Russian Federation totalling 52,695 km as at 30 June 2017 and the oil products pipeline system in the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan totalling 15,418 km as at 30 June 2017. Its associate OOO LatRosTrans operates an interconnected system in the Republic of Latvia.

During the six months ended 30 June 2017, the Group transported 237.4 million tonnes of crude oil to domestic and export markets (as for the six months ended 30 June 2016 – 238.8 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period. The volume of transported oil products as for the six months ended 30 June 2017 amounted to 16.6 million tonnes (17.2 million tonnes as for the six months ended 30 June 2016).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. Because the legal, tax and regulatory frameworks continue to develop and change the risk of ambiguous interpretations of their requirements exist.

The imposition of economic sanctions on Russian individuals and legal entities including the Company by the European Union, the United States of America and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions are difficult to determine.

The consolidated interim condensed financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

3 BASIS OF PRESENTATION

The consolidated interim condensed financial statements are prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) and should be read together with the consolidated financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”).

Certain comparative amounts have been adjusted in accordance with the current reporting period's presentation to ensure comparability.

The functional currency of each of the Group's entities included in the consolidated interim condensed financial statements is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its principal subsidiaries (including UP Zapad-Transnefteproduct), and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rouble (“RUB”).

The official US dollar (“USD”) to Russian Rouble (“RUB”) exchange rates as determined by the Central Bank of the Russian Federation (“CBR”) was 59.0855 and 60.6569 as at 30 June 2017 and 31 December 2016, respectively.



4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016 except for amendments relating to standards which have become effective after 1 January 2017. The adoption of these standards did not influence the consolidated financial position as well as results of the Group.

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

5 PROPERTY, PLANT AND EQUIPMENT

	Buildings and facilities	Pipelines and tanks	Machinery and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2017						
Cost	196,539	1,339,231	1,136,478	121,354	406,560	3,200,162
Accumulated depreciation and impairment	(53,465)	(476,208)	(524,070)	-	-	(1,053,743)
Net book value at 1 January 2017	143,074	863,023	612,408	121,354	406,560	2,146,419
Depreciation	(3,521)	(23,327)	(47,026)	-	-	(73,874)
Additions (including prepayments)	-	-	-	1,881	143,402	145,283
Transfers from assets under construction	3,700	28,876	37,431	-	(70,007)	-
Change in impairment provision	-	(821)	-	-	-	(821)
Disposals: cost	(263)	(2,734)	(3,844)	(671)	-	(7,512)
Disposals: accumulated depreciation and impairment	85	2,714	3,829	-	-	6,628
Net book value at 30 June 2017	143,075	867,731	602,798	122,564	479,955	2,216,123
At 30 June 2017						
Cost	199,976	1,364,552	1,170,065	122,564	479,955	3,337,112
Accumulated depreciation and impairment	(56,901)	(496,821)	(567,267)	-	-	(1,120,989)
Net book value at 30 June 2017	143,075	867,731	602,798	122,564	479,955	2,216,123



5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings and facilities	Pipelines and tanks	Machinery and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2016						
Cost	170,115	1,146,055	920,949	115,586	511,636	2,864,341
Accumulated depreciation and impairment	(48,102)	(438,636)	(454,137)	-	-	(940,875)
Net book value at 1 January 2016	122,013	707,419	466,812	115,586	511,636	1,923,466
Depreciation	(2,409)	(25,230)	(39,568)	-	-	(67,207)
Additions (including prepayments)	-	-	-	1,979	156,455	158,434
Disposal of subsidiaries, cost	1,515	22,130	16,642	-	(40,287)	-
Transfers from assets under construction	-	38	-	-	-	38
Disposals: cost	(444)	(448)	(2,411)	(919)	-	(4,222)
Disposals: accumulated depreciation and impairment	37	212	2,365	-	-	2,614
Net book value at 30 June 2016	120,712	704,121	443,840	116,646	627,804	2,013,123
At 30 June 2016						
Cost	171,186	1,167,775	935,180	116,646	627,804	3,018,591
Accumulated depreciation and impairment	(50,474)	(463,654)	(491,340)	-	-	(1,005,468)
Net book value at 30 June 2016	120,712	704,121	443,840	116,646	627,804	2,013,123

Linefill represents RUB 102,036 of crude oil and RUB 20,528 of oil products as at 30 June 2017 (as at 30 June 2016 – RUB 96,487 of crude oil and RUB 20,159 of oil products respectively).

During the six months ended 30 June 2017, borrowing costs in the amount of RUB 3,045 were capitalised as part of cost of assets under construction (for the six months ended 30 June 2016 – RUB 1,029) including interests to be capitalised in the amount of RUB 3,292 (for the six months ended 30 June 2016 – RUB 1,619) less amount to be excluded from capitalised borrowing costs in the amount of RUB 247 (for the six months ended 30 June 2016 – RUB 789) as disclosed in Note 19.

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instrument	30 June 2017	31 December 2016
Level 1		
Corporate bonds	18,409	23,557
Municipal bonds	254	1,308
Federal government bonds (OFZ)	30,225	18,342
Corporate Eurobonds	992	989
Securities	68	106
	49,948	44,302

The analysis of the financial assets at fair value through profit or loss by fair value hierarchy is disclosed in the table above.



6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Financial assets at fair value through profit or loss were presented by financial instruments assigned for trading purposes.

Financial assets at fair value through profit or loss are neither overdue nor impaired.

The bond issuers were mainly presented by companies controlled by or under significant influence of the state as at 30 June 2017 and 31 December 2016 (88% and 77% accordingly).

Interest rates of the bonds as at 30 June 2017 were in range from 2.0% to 12.8% (as at 31 December 2016 – from 2.0% to 13.9%). Interest rates of the bonds issued by companies which were under control or significant influence of the state as at 30 June 2017 were in range from 2.0% to 12.8% (as at 31 December 2016 – from 2.0% to 13.3%).

The Group classified these financial assets as current assets due to its ability to sell the assets before maturity.

7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In March 2017 the Group acquired 57.4% share in the closed combined mutual investment fund Gazprombank - Finansoviy (hereinafter - the “Fund”) for a total consideration of RUB 60 billion. Given the structure of the Fund's ownership and the decision-making procedure for key issues, as well as, existence of a co-investor with a significant share the Group classified the Fund as a jointly controlled entity and accounts for it using the equity method. The main purpose of the Fund is to receive income from investing the assets constituting the Fund.

The summarized information about the financial results and financial position of the Fund is presented below:

	30 June 2017	Date of acquisition
Current assets*	138,921	104,515
<i>incl. cash and cash equivalents</i>	59	104,515
Current liabilities	12	-
Non-current liabilities	73,172	-
<i>incl. financial liabilities</i>	73,172	-
Total net assets	65,737	104,515
Share of net assets	37,739	60,000
Carrying value of the share	37,739	60,000
*mainly comprising of financial instruments		
		Six months ended 30 June 2017
Income from the Fund's net assets growth		5,759
Total comprehensive income		5,759
Share of the total comprehensive income		3,306
Cash proceeds from the Fund		(25,567)

A significant share of investments in associates and jointly controlled entities is the investment in NCSP (Omirico Ltd.). In March 2017 the Federal Antimonopoly Service (hereinafter – FAS) of Russia found NCSP guilty for breaking the Federal Law 135 – FZ “On Protection of Competition” because of its dominant position which resulted in setting and maintaining high monopoly prices for the transshipment of certain cargoes in the port of Novorossiysk. The FAS of Russia issued an order to transfer to the federal budget the income received from monopolistic activities in the amount of RUB 9.7 billion. NCSP disagreed with the decision and the order, and appealed them in due course. In July 2017 the arbitration court invalidated this decision and the order of the FAS of Russia. The carrying value of the investment in NCSP was not adjusted in these consolidated interim condensed financial statements because of this fact.



8 OTHER FINANCIAL ASSETS

As at 30 June 2017:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loans granted to related parties	February 2019 – May 2029	USD	11,868	16,818
	December 2021 – March 2027	RUB	4,092	4,161
Eurobonds	July 2018	USD	66	59
Deposits	July 2018	USD	3,000	2,956
Other financial assets	-	RUB, USD	4	5
			19,030	23,999
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	-	1,558
	During the year after the reporting date	RUB	-	1
Eurobonds	During the year after the reporting date	USD	14,957	14,312
Deposits	During the year after the reporting date	USD	211,967	210,508
	During the year after the reporting date	RUB	52,331	53,248
Other financial assets	During the year after the reporting date	RUB	10	10
			279,265	279,637

As at 31 December 2016:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loans granted to related parties	February 2019 – May 2029	USD	9,713	14,783
	December 2021 – December 2025	RUB	3,900	3,900
Eurobonds	February 2018 – July 2018	USD	14,595	14,050
Other financial assets	-	RUB, USD	4	5
			28,212	32,738
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	516	3,023
	During the year after the reporting date	RUB	-	43
Eurobonds	During the year after the reporting date	USD	5,234	7,067
Deposits	During the year after the reporting date	USD	278,343	269,996
	During the year after the reporting date	RUB	27,658	28,270
Other financial assets	During the year after the reporting date	RUB	10	10
			311,761	308,409



8 OTHER FINANCIAL ASSETS (continued)

As at 30 June 2017 and 31 December 2016 the significant amount of deposits (76% and 93% respectively) were placed with banks which were under control or significant influence of the state.

Interest rates of the deposits denominated in the US Dollars and Russian roubles as at 30 June 2017 were in the range from 0.6% to 9.3% (as at 31 December 2016 – from 0.8% to 11.0%). As for the deposits placed with banks controlled by or under significant influence of the state interest rates ranged from 0.6% to 8.4% as at 30 June 2017 (from 0.8% to 11.0% as at 31 December 2016).

Most issuers of afore-mentioned eurobonds as at 31 March 2017 and 31 December 2016 were organisations which were controlled or under significant influence of the state (82% and 83% respectively).

Interest rates for eurobonds ranged from 3.4% to 8.1% as at 30 June 2017 (ranged from 3.4% to 8.1% as at 31 December 2016). As for the eurobonds issued by companies which were controlled by or were under significant influence of the state interest rates ranged from 5.1% to 8.1% as at 30 June 2017 (ranged from 5.1% to 8.1% as at 31 December 2016).

According to IAS 39 “Financial Instruments: Recognition and Measurement” these eurobonds are classified as investments held till maturity and the Group does not intend to dispose these notes prior to the maturity date.

9 INVENTORIES

	30 June 2017	31 December 2016
Materials and supplies	29,798	27,081
Sundry goods for resale	4,072	3,849
	33,870	30,930

Materials and supplies are presented net of provisions for obsolescence which amounted to RUB 30 as at 30 June 2017 (as at 31 December 2016 – RUB 24). Materials are primarily used for repairs and maintenance of pipeline equipment.

10 RECEIVABLES AND PREPAYMENTS, VAT ASSETS

Receivables and prepayments

	30 June 2017	31 December 2016
Financial assets		
Other long-term receivables	1,378	1,439
Non-financial assets		
Long-term VAT	3	4
Total long-term receivables	1,381	1,443

	30 June 2017	31 December 2016
Financial assets		
Trade receivables	18,387	22,346
Other receivables	27,652	26,573
less: provision for impairment	(27,455)	(23,591)
Total financial assets in short-term receivables	18,584	25,328
Non-financial assets		
Prepayments, advances and other non-financial receivables	13,890	10,834
Total short-term receivables	32,474	36,162

11 CASH AND CASH EQUIVALENTS

	30 June 2017	31 December 2016
Balances in RUB	59,920	71,388
Balances in USD	13,141	1,786
Balances in EUR	519	517
Balances in other currencies	2,225	895
	75,805	74,586

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain established qualifications required by law. As at 30 June 2017 and 31 December 2016, a significant portion of cash (62% and 72% correspondingly) was placed with banks, which are under control or significant influence of the state.



12 LOANS AND BORROWINGS

	30 June 2017	31 December 2016
Loans and borrowings	715,306	701,552
Less: current loans and borrowings, current portion of non-current loans and borrowings	(89,346)	(109,047)
	625,690	592,505
Maturity of non-current loans and borrowings		
Between one and five years	345,276	301,116
After five years	280,414	291,389
	625,690	592,505

The short-term loans and borrowings included non-convertible interest-bearing documentary bonds in the amount of RUB 35,014 with maturity dates in October 2024, May 2019, October 2019, but with optional earlier redemption on demand of bond-holders or by issuer's intention in October of 2017 and in May 2018.

Fair value of the loan from the China Development Bank Corporation (Level 2) was determined by discounting using estimated market interest rate for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar maturities, repayment schedules and similar other main terms.

The fair value of bonds (Level 1) was determined based on market quotations as at 30 June 2017 and 31 December 2016, respectively. The fair value of the loan and bonds is presented in the following table:

Type of bonds	Interest rate	Currency	Carrying amounts		Fair value	
			30 June 2017	31 December 2016	30 June 2017	31 December 2016
Non-convertible interest-bearing documentary	Fixed	RUB	234,689	162,883	238,582	165,563
Non-convertible interest-bearing documentary	Floating	RUB	35,000	35,000	35,081	34,997
Eurobonds	Fixed	USD	62,040	63,690	66,064	69,922
Loan agreement with China Development Bank Corporation	Floating according to LIBOR	USD	368,365	431,742	370,230	434,565

13 EQUITY AND DIVIDENDS

In April 2017 changes to the charter of Transneft were registered according to which the share capital increased by 21,901 ordinary registered uncertified shares and constituted 7,123,623 shares with 1 RUB par value. The difference between par value of additional issue of shares and payment for the shares in the amount of RUB 5,991 was recognised as share premium.

In June 2017 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2016:

	Number of shares	RUB per share	Total
Ordinary shares	5,568,748	4,296.48	23,926
Preferred shares	1,554,875	4,296.48	6,680
			30,606

Dividends were paid out in July-August 2017.

In June 2016 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2015:

	Number of shares	RUB per share	Total
Ordinary shares	5,546,847	2,077.08	11,521
Preferred shares	1,554,875	823.31	1,280
			12,801

Dividends were paid out in July-August 2016.



14 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Differences between the recognition criteria of assets and liabilities recognised in the consolidated financial statements in accordance with IFRS and for taxation purposes give rise to temporary differences. In these consolidated interim condensed financial statements income tax expense is recognised to the best estimation of average annual income tax rate expected for a financial year. The income tax expense recognised in one interim period is adjusted in the following interim period of the same financial year in case the estimation of the effective annual income tax rate changes.

15 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2017	31 December 2016
Pension provision	108,135	99,493
Dismantlement provision	6,709	6,580
Other provisions	10,882	11,547
	125,726	117,620

In addition to contributions to State pension fund, the Group sponsors additional defined benefit plans for the majority of its employees. These plans assume regular pension payments to participants during their lifetime for those who have worked for not less than five years based on years of service, salary and received awards during working. Also in accordance with collective agreements with employees the Group has a liability due to those who have worked not less than three years to pay a one-time benefit ranging from one to five salaries upon retirement, to cover funeral costs and to pay out benefits to pensioners to jubilees and holidays.

16 TRADE AND OTHER PAYABLES

	30 June 2017	31 December 2016
Advances received	3,027	2,361
Total long-term payables	3,027	2,361

	30 June 2017	31 December 2016
Trade payables	51,221	73,619
Dividends payable	30,606	-
Other payables	11,080	12,204
Total short-term financial payables	92,907	85,823
Advances received for oil and oil product transportation services	40,452	47,055
Accrued expenses	18,445	33,109
VAT payable	14,299	9,296
Other taxes payable	8,265	6,587
Total short-term payables	174,368	181,870

17 REVENUE

	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Revenue from crude oil transportation services:				
Domestic tariff	67,966	134,216	60,727	120,809
Export tariff	92,478	181,250	93,439	182,965
Total revenue from crude oil transportation services	160,444	315,466	154,166	303,774
Revenue from crude oil sales	32,393	70,983	37,383	67,775
Revenue from oil products transportation services	16,256	34,960	16,018	34,140
Other revenue	10,086	16,841	5,834	11,717
	219,179	438,250	213,401	417,406

Revenue from crude oil sales for the six months ended 30 June 2017 and for the six months ended 30 June 2016 mainly included revenue from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement crude oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases crude oil under the contract signed in April 2009 with Rosneft (see Note 21).



18 OPERATING EXPENSES NET OF AMORTISATION AND DEPRECIATION

	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Salaries	27,677	52,498	28,931	53,829
Insurance contributions	7,225	14,321	7,077	14,249
Social expenses	871	1,485	817	1,428
Cost of crude oil sold	25,560	56,305	30,055	54,382
Export custom duties	6,818	14,520	6,904	13,234
Energy	10,312	21,341	9,213	18,907
Materials	7,333	14,543	6,222	11,361
Repair and maintenance services	3,771	6,050	3,331	4,878
Property tax and other taxes, except for income tax	7,221	14,481	5,062	10,352
Pension expenses	1,630	3,464	1,230	2,541
Insurance expenses	1,539	3,061	1,551	3,148
Other expenses	13,911	20,703	10,731	19,826
Operating expenses net of amortisation and depreciation	113,868	222,772	111,124	208,135

19 FINANCE INCOME AND FINANCE COSTS

	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Interest income from cash and cash equivalents	1,312	2,267	454	953
Interest income from other financial assets	3,747	7,852	4,473	9,385
Other interest income	213	409	169	374
Total interest income	5,272	10,528	5,096	10,712
Less interest income from the temporary investment of borrowings	(99)	(247)	(454)	(789)
Total interest income recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income	5,173	10,281	4,642	9,923
Foreign exchange gain	18,306	55,089	64,247	165,586
Net gain from operations with derivatives	-	-	-	4,252
Net gain from financial instruments through profit or loss	658	658	108	777
Total finance income	24,137	66,028	68,997	180,538



19 FINANCE INCOME AND FINANCE COSTS (continued)

	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Interest expense on loans and borrowings	(12,275)	(23,364)	(11,325)	(23,174)
Distribution of pension income to pension liabilities	(1,879)	(2,955)	(1,674)	(3,407)
Other interest expenses	(957)	(1,992)	(1,004)	(2,060)
Total interest expenses	(15,111)	(28,311)	(14,003)	(28,641)
Less capitalised interest expenses	2,609	3,292	784	1,619
Total interest expenses recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income	(12,502)	(25,019)	(13,219)	(27,022)
Foreign exchange losses	(26,406)	(49,667)	(51,744)	(135,817)
Net loss from financial instruments through profit or loss	-	(362)	(864)	(864)
Total finance costs	(38,908)	(75,048)	(65,827)	(163,703)
Net finance (costs)/ income	(14,771)	(9,020)	3,170	16,835

20 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

During the six months ended 30 June 2017 the Group was involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group's management, there were no current legal proceedings or claims outstanding as at 30 June 2017, which could have a material adverse effect on the results of operations or financial position of the Group.

21 RELATED PARTIES

The Russian Federation represented by the Federal Agency for the Management of State Property owns 100% of the ordinary shares of the Company and conducts control via the Board of Directors that as at 30 June 2017 was comprised of the State representatives (professional attorneys) and Independent Directors. The Government of Russia shall appoint the members of the Federal Antimonopoly Service to make decisions on tariff and rates structure.

As at 30 June 2017 and 31 December 2016 the Company holds in trust on behalf of the Russian Federation 100% of the shares of CPC Investments Company, 100% of the shares of CPC Company (which owns 7% of the shares of CPC-R and 7% of the shares of CPC-K), 24% of the shares of CPC-R and 24% of the shares of CPC-K. The results of their operations are not recognised in these consolidated interim condensed financial statements as the Company is acting as a trustee of the shares of the above companies.

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



21 RELATED PARTIES (continued)

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

	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Revenue from oil transportation services	85,579	167,648	83,600	162,629
Rosneft and its subsidiaries	71,391	135,012	67,692	131,351
PJSC "GAZPROM" and its subsidiaries	8,017	15,832	8,050	16,072
Others	6,171	16,804	7,858	15,206
Revenue from oil products transportation services	9,790	18,676	5,211	12,008
Rosneft and its subsidiaries	8,188	13,595	2,130	4,911
PJSC "GAZPROM" and its subsidiaries	1,602	5,081	3,081	7,097
Purchases of oil (Rosneft)	23,253	51,346	26,353	48,743
Electricity expenses	194	426	179	403
Interest income from other financial assets	1,805	3,605	3,026	5,932

During the six months ended 30 June 2017 and 30 June 2016, the Group had following transactions with associates and jointly controlled entities:

	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Revenue from sales of goods and services	941	1,754	1,226	1,501
Purchases of goods and services	11,790	21,568	9,108	17,678

As at 30 June 2017 and 31 December 2016 the Group had following balances with associates and jointly controlled entities:

	30 June 2017	31 December 2016
Trade and other receivables	9,024	7,520
Trade and other payables	2,590	2,849
Borrowings granted	22,538	21,749
Borrowings received	263	20

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 consist of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Board of Directors of Company are subject to approval by the annual general meeting of shareholders. According to Russian legislation, the Group makes contributions to the pension fund of the Russian Federation to defined contributions plan 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, JSC "NPF "Transneft", and one-time payments programme at the retirement date.

22 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities and operational segments are set by nature of its activity as per management accounting which are based on Russian accounting standards (RAS) information. The following segments were allocated: Oil transportation services, Oil product transportation services and Trading operations for sale of oil and oil products.

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



22 SEGMENT INFORMATION (continued)

Segment information for the six months ended 30 June 2017 and for the six months ended 30 June 2016 was as follows:

Three months ended 30 June 2017	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue	168,067	17,127	31,340	2,645	219,179
Operating expenses net of amortisation and depreciation	(70,067)	(7,673)	(31,547)	(4,581)	(113,868)
Operating profit net of amortisation and depreciation	98,000	9,454	(207)	(1,936)	105,311
Amortisation and depreciation	(47,410)	(3,810)	(2)	12,771	(38,451)
Operating profit	50,590	5,644	(209)	10,835	66,860
Other income	-	-	-	-	3,076
Share of loss from associates and jointly controlled entities	-	-	-	-	(7,789)
Profit before income tax and finance income/(costs)	50,590	5,644	(209)	10,835	62,147
Finance income	-	-	-	-	24,137
Finance costs	-	-	-	-	(38,908)
Profit before income tax	50,590	5,644	(209)	10,835	47,376
Income tax expense	-	-	-	-	(13,004)
Profit for the reporting period	50,590	5,644	(209)	10,835	34,372

Six months ended 30 June 2017	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue	331,183	36,552	67,870	2,645	438,250
Operating expenses net of amortisation and depreciation	(136,744)	(13,681)	(68,169)	(4,178)	(222,772)
Operating profit net of amortisation and depreciation	194,439	22,871	(299)	(1,533)	215,478
Amortisation and depreciation	(94,180)	(7,463)	(5)	25,818	(75,830)
Operating profit	100,259	15,408	(304)	24,285	139,648
Other income	-	-	-	-	7,100
Share of profit from associates and jointly controlled entities	-	-	-	-	9,476
Profit before income tax and finance income/(costs)	100,259	15,408	(304)	24,285	156,224
Finance income	-	-	-	-	66,028
Finance costs	-	-	-	-	(75,048)
Profit before income tax	100,259	15,408	(304)	24,285	147,204
Income tax expense	-	-	-	-	(33,325)
Profit for the reporting period	100,259	15,408	(304)	24,285	113,879



22 SEGMENT INFORMATION (continued)

Three months ended 30 June 2016	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue	161,663	16,669	35,070	(1)	213,401
Operating expenses net of amortisation and depreciation	(72,207)	(1,737)	(36,590)	(590)	(111,124)
Operating profit net of amortisation and depreciation	89,456	14,932	(1,520)	(591)	102,277
Amortisation and depreciation	(40,503)	(2,815)	(8)	10,621	(32,705)
Operating profit	48,953	12,117	(1,528)	10,030	69,572
Other expenses	-	-	-	-	(2,966)
Share of profit from associates and jointly controlled entities	-	-	-	-	4,460
Profit before income tax and finance income/(costs)	48,953	12,117	(1,528)	10,030	71,066
Finance income	-	-	-	-	68,997
Finance costs	-	-	-	-	(65,827)
Profit before income tax	48,953	12,117	(1,528)	10,030	74,236
Income tax expense	-	-	-	-	(15,283)
Profit for the reporting period	48,953	12,117	(1,528)	10,030	58,953

Six months ended 30 June 2016	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue	317,556	35,773	64,078	(1)	417,406
Operating expenses net of amortisation and depreciation	(134,109)	(10,917)	(65,683)	2,754	(208,135)
Operating profit net of amortisation and depreciation	183,447	24,856	(1,785)	2,753	209,271
Amortisation and depreciation	(81,075)	(5,925)	(16)	19,416	(67,600)
Operating profit	102,372	18,931	(1,801)	22,169	141,671
Other expenses	-	-	-	-	(1,944)
Share of profit from associates and jointly controlled entities	-	-	-	-	11,265
Profit before income tax and finance income/(costs)	102,372	18,931	(1,801)	22,169	150,992
Finance income	-	-	-	-	180,538
Finance costs	-	-	-	-	(163,703)
Profit before income tax	102,372	18,931	(1,801)	22,169	167,827
Income tax expense	-	-	-	-	(33,306)
Profit for the reporting period	102,372	18,931	(1,801)	22,169	134,521

Adjusting items for segments' revenue in the amount of RUB 2,645 as for the six months ended 30 June 2017 included revenue recognised for connection of assets to the trunk pipeline system due to RAP and IFRS accounting differences.



22 SEGMENT INFORMATION (continued)

Adjusting items for segments' expenses in the amount of RUB 21,640 for the six months ended 30 June 2017 and RUB 22,170 for the six months ended 30 June 2016 include the following adjustments and reclassifications due to RAP and IFRS accounting differences:

	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Dismantlement provision	(526)	(1,051)	(526)	(1,051)
Adjustment to Property, plant and equipment to eliminate RAS revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(13,231)	(26,582)	(9,689)	(19,585)
Pension provision	1,282	1,944	1,069	1,797
Deferred payment obligation	247	(630)	2,024	1,147
Others	4,038	4,679	(2,909)	(4,478)
Total adjusting items for segment's expenses	(8,190)	(21,640)	(10,031)	(22,170)

Geographical information. The Group's most part of assets attributable to reporting segments is primary located in the territory of the Russian Federation which results in the operating activity by each segment being carried out in the territory of the Russian Federation. The Oil products transportation services segment has certain assets located in the territory of the Republic of Belarus and the Republic of Kazakhstan.

Information on revenue allocation by customers' country of incorporation is set out below:

	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Russian Federation	182,572	359,448	173,941	342,533
China	30,110	65,754	33,123	61,776
Other countries	6,497	13,048	6,337	13,097
Total	219,179	438,250	213,401	417,406

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

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

The information about largest customers of the Group in Group's revenue is presented below:

	Three months ended 30 June 2017	Six months ended 30 June 2017	Three months ended 30 June 2016	Six months ended 30 June 2016
Companies under control of the state	96,011	187,618	73,866	159,693
China National United Oil Corporation	30,110	65,754	33,123	61,776
OAQ Surgutneftegaz	26,735	52,468	26,997	53,330
PJSC LUKOIL	22,641	44,803	21,347	42,300
Total	175,497	350,643	155,333	317,099

Sales to the major customers are included in the results of the Oil transportation services, Oil products transportation services and Trading operations for sale of oil and oil products segments.

23 SUBSEQUENT EVENTS

In July 2017 Transneft received a loan in the amount of RUB 50 billion with maturity date in July 2025 and interest rate of 8.2% pa for the working capital financing and repayment of obligations to third parties.

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ЛИСТ А

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