



PUBLIC JOINT STOCK
COMPANY «TRANSNEFT»

**CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016**



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

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Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors

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 September 2016 and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and nine-month periods then ended and the related consolidated interim condensed statements of changes in equity and cash flows for the nine-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.

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

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

57, ul. Bolshaya Polyanka, Moscow, 119180.

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.

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

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

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



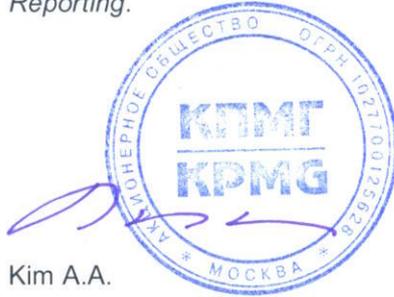
Transneft

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 September 2016 and for the three- and nine-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, (power of attorney dated 16 March 2015 No. 11/15)

JSC "KPMG"

30 November 2016

Moscow, Russian Federation



TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 SEPTEMBER 2016
(in millions of Russian roubles, if not stated otherwise)

ASSETS			
	Notes	30 September 2016	31 December 2015
Non-current assets			
Intangible assets		7,516	9,081
Property, plant and equipment	5	2,072,497	1,923,466
Available-for-sale financial assets		252	265
Investments in associates and jointly controlled entities	7	36,676	13,766
Receivables and prepayments, VAT assets	11	4,948	1,409
Other financial assets	9	40,347	70,222
Total non-current assets		2,162,236	2,018,209
Current assets			
Inventories	10	35,048	35,071
Receivables and prepayments	11	35,899	37,606
VAT assets		64,203	35,821
Current income tax prepayments		924	10,141
Financial assets at fair value through profit or loss	6	46,584	37,872
Other financial assets	9	296,357	391,690
Cash and cash equivalents	12	63,557	92,713
Total current assets		542,572	640,914
Total assets		2,704,808	2,659,123
EQUITY AND LIABILITIES			
Equity			
Share capital		308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		1,614,870	1,446,470
Attributable to the shareholders of Transneft		1,654,651	1,486,251
Non-controlling interests		1,696	1,705
Total equity		1,656,347	1,487,956
Non-current liabilities			
Loans and borrowings	14	656,957	783,509
Deferred income tax liabilities	15	28,767	33,376
Provisions for liabilities and charges	16	113,893	101,209
Trade and other payables, including derivatives	17	-	12,622
Total non-current liabilities		799,617	930,716
Current liabilities			
Trade and other payables, including derivatives	17	153,443	158,507
Current income tax payable		4,494	450
Loans and borrowings		90,907	81,494
Total current liabilities		248,844	240,451
Total liabilities		1,048,461	1,171,167
Total equity and liabilities		2,704,808	2,659,123

Approved on 30 November 2016 by

N.P. Tokarev



President

The accompanying notes set out on pages 9 to 23 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 NINE MONTHS ENDED
30 SEPTEMBER 2016

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

	Notes	Three months ended 30 September 2016	Nine months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2015
Revenue	18	211,642	629,048	202,972	610,016
Operating expenses net of amortisation and depreciation	19	(111,933)	(320,082)	(107,369)	(320,412)
Operating profit net of amortisation and depreciation		99,709	308,966	95,603	289,604
Amortisation and depreciation		(35,264)	(102,864)	(29,035)	(88,188)
Operating profit		64,445	206,102	66,568	201,416
Other income/(expenses)		421	(1,509)	(1,110)	1,784
Share of profit/(loss) from associates and jointly controlled entities		3,480	14,745	(1,740)	1,619
Profit before income tax and finance income/(costs)		68,346	219,338	63,718	204,819
Finance income	20	57,261	236,935	101,312	452,237
Finance costs	20	(62,430)	(225,269)	(148,337)	(492,996)
Profit before income tax		63,177	231,004	16,693	164,060
Income tax expense	15	(15,134)	(48,440)	(2,005)	(29,597)
Profit for the reporting period		48,043	182,564	14,688	134,463
Other comprehensive (loss)/ income, net of income tax					
<i>Items that may be reclassified to profit or loss</i>					
Currency translation differences, net of income tax		-	8	82	(301)
<i>Total items that may be reclassified to profit or loss, net of income tax</i>		-	8	82	(301)
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurement of net defined benefit plan obligation, net of income tax	16	(295)	(1,361)	117	(2,099)
<i>Total items that will not be reclassified to profit or loss, net of income tax</i>		(295)	(1,361)	117	(2,099)
Total other comprehensive (loss)/income for the reporting period, net of income tax		(295)	(1,353)	199	(2,400)
Total comprehensive income for the reporting period		47,748	181,211	14,887	132,063
Profit attributable to					
Shareholders of Transneft		48,036	182,612	14,648	134,283
Non-controlling interests		7	(48)	40	180
Total comprehensive income attributable to					
Shareholders of Transneft		47,741	181,259	14,847	131,883
Non-controlling interests		7	(48)	40	180

Approved on 30 November 2016 by:

N.P. Tokarev

President

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these consolidated interim condensed financial statements



TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016
(in millions of Russian roubles, if not stated otherwise)

	Notes	Nine months ended 30 September 2016	Nine months ended 30 September 2015
Cash flows from operating activities			
Cash receipts from customers		651,424	635,754
Cash paid to suppliers and employees, and taxes other than income tax		(445,361)	(418,950)
Interest paid		(34,905)	(33,926)
Income tax paid		(39,651)	(36,981)
Income tax refund		498	1,085
VAT and other taxes refund		56,442	67,753
Other cash flows used in operating activities		(3,301)	(3,215)
Net cash from operating activities		185,146	211,520
Cash flows from investing activities			
Purchase of property, plant and equipment		(233,341)	(206,432)
Proceeds from sales of property, plant and equipment		1,638	505
Interest and dividends received		16,242	26,727
Purchase of notes and placement of funds on deposit accounts		(349,870)	(484,693)
Proceeds from sale of debt securities and close of deposit accounts		426,578	594,460
Acquisition of shares of associates and jointly controlled entities	7	(12,497)	(306)
Issuance of loans		(7,021)	(1,031)
Cash inflows as a result of disposal of entities		2,636	-
Other cash flows (used in)/ from investing activities		(394)	1,173
Net cash used in investing activities		(156,029)	(69,597)
Cash flows from financing activities			
Repayment of loans and borrowings		(88,119)	(61,712)
Proceeds from loans and borrowings		64,202	10,005
Dividends paid out		(12,796)	(2,941)
Acquisition of non-controlling interest		(19)	(11,731)
Other cash used in financing activities	17	(9,562)	(68,238)
Net cash used in financing activities		(46,294)	(134,617)
Effects of exchange rate changes on cash and cash equivalents		(11,979)	24,177
Net (decrease)/ increase in cash and cash equivalents		(29,156)	31,483
Cash and cash equivalents at the beginning of the period	12	92,713	113,060
Cash and cash equivalents at the end of the period	12	63,557	144,543

Approved on 30 November 2016 by:

N.P. Tokarev

President



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TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016
(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	Retained earnings	Total		
Balance at 1 January 2015	308	52,553	(13,080)	1,302,605	1,342,386	26,477	1,368,863
Profit for the reporting period	-	-	-	134,283	134,283	180	134,463
Remeasurement of net defined benefit plan obligation, net of income tax	-	-	-	(2,099)	(2,099)	-	(2,099)
Currency translation differences, net of income tax	-	-	-	(301)	(301)	-	(301)
Total comprehensive income for the reporting period	-	-	-	131,883	131,883	180	132,063
Changes in the Group's structure	-	-	-	-	-	(294)	(294)
Purchase of non-controlling interests	-	-	-	8,921	8,921	(24,527)	(15,606)
Dividends (Note 13)	-	-	-	-	-	-	-
- ordinary shares	-	-	-	(1,768)	(1,768)	-	(1,768)
- preferred shares	-	-	-	(1,178)	(1,178)	-	(1,178)
Balance at 30 September 2015	308	52,553	(13,080)	1,440,463	1,480,244	1,836	1,482,080
Balance at 1 January 2016	308	52,553	(13,080)	1,446,470	1,486,251	1,705	1,487,956
Profit/(loss) for the reporting period	-	-	-	182,612	182,612	(48)	182,564
Remeasurement of net defined benefit plan obligation, net of income tax	-	-	-	(1,361)	(1,361)	-	(1,361)
Currency translation differences, net of income tax	-	-	-	8	8	-	8
Total comprehensive income for the reporting period	-	-	-	181,259	181,259	(48)	181,211
Purchase of non-controlling interests	-	-	-	(58)	(58)	39	(19)
Dividends (Note 13)	-	-	-	-	-	-	-
- ordinary shares	-	-	-	(11,521)	(11,521)	-	(11,521)
- preferred shares	-	-	-	(1,280)	(1,280)	-	(1,280)
Balance at 30 September 2016	308	52,553	(13,080)	1,614,870	1,654,651	1,696	1,656,347

Approved on 30 November 2016 by:

N.P. Tokarev



President

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1 NATURE OF OPERATIONS

Public Joint Stock Company “Transneft” was incorporated by the Resolution of the Council of Ministers - Russian Government dated 14.08.1993 № 810. The Company's registered office is at Moscow, Russian Federation.

In July 2016 according to amendments to the Civil Code of the Russian Federation the name of the Company has been changed to Public Joint Stock Company “Transneft” (Transneft), hereinafter named the “Company”.

The Company and its subsidiaries (hereinafter - the "Group") operate the oil pipeline system in the Russian Federation totalling 51,596 km at 30 September 2016 and the oil products pipeline system in the Russian Federation, Republic of Belarus and Republic of Kazakhstan totalling 15,901 km as at 30 September 2016. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the nine months ended 30 September 2016, the Group transported 360.2 million tonnes of crude oil to domestic and export markets (nine months ended 30 September 2015 – 360.6 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 25.3 million tonnes of oil products (24.0 million tonnes for nine months ended 30 September 2015).

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, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, 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 2015 prepared in accordance with International Financial Reporting Standards (“IFRS”).

During the nine months ended 30 September 2016 the Group changed the disclosure of the consolidated interim condensed statement of profit or loss and other comprehensive income for more appropriate and direct presentation of results of its operations. As a result of this change Amortisation and depreciation and Other expenses are presented separately from Operating expenses. Other expenses include provisions not related to operating activity, result from disposal of subsidiaries, associates and jointly controlled entities, income from oil and oil products surplus, charity contributions and other expenses.

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 63.1581 and 72.8827 as at 30 September 2016 and 31 December 2015, respectively. The official euro (“EUR”) to Russian Rouble (“RUB”) exchange rates as determined by the Central Bank of the Russian Federation was 70.8823 and 79.6972 as at 30 September 2016 and 31 December 2015, 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 2015 except for amendments relating to implementation of new standards and interpretations which have become effective after 1 January 2016. 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	Other plant 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	(7,979)	(39,283)	(55,165)	-	-	(102,427)
Additions (including prepayments)	-	-	-	5,140	247,767	252,907
Transfers from assets under construction	5,091	69,363	68,278	-	(142,732)	-
Change in impairment provision	-	-	243	-	-	243
Disposals: cost	(477)	(1,490)	(5,119)	(587)	-	(7,673)
Disposals: accumulated depreciation and impairment	376	1,150	4,455	-	-	5,981
Net book value at 30 September 2016	119,024	737,159	479,504	120,139	616,671	2,072,497
At 30 September 2016						
Cost	174,729	1,213,928	984,351	120,139	616,671	3,109,818
Accumulated depreciation and impairment	(55,705)	(476,769)	(504,847)	-	-	(1,037,321)
Net book value at 30 September 2016	119,024	737,159	479,504	120,139	616,671	2,072,497



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 2015						
Cost	159,668	1,077,408	820,986	111,806	363,430	2,533,298
Accumulated depreciation and impairment	(43,457)	(394,951)	(388,522)	-	-	(826,930)
Net book value at 1 January 2015	116,211	682,457	432,464	111,806	363,430	1,706,368
Depreciation	(3,862)	(36,413)	(54,999)	-	-	(95,274)
Additions (including prepayments)	-	-	-	3,164	221,982	225,146
Transfers from assets under construction	4,269	30,984	29,274	-	(64,527)	-
Disposals: cost	(42)	(17)	(377)	(1,214)	-	(1,650)
Disposals: accumulated depreciation and impairment	22	10	303	-	-	335
Net book value at 30 September 2015	116,598	677,021	406,665	113,756	520,885	1,834,925
At 30 September 2015						
Cost	163,895	1,108,375	849,883	113,756	520,885	2,756,794
Accumulated depreciation and impairment	(47,297)	(431,354)	(443,218)	-	-	(921,869)
Net book value at 30 September 2015	116,598	677,021	406,665	113,756	520,885	1,834,925

Linefill represents RUB 99,660 of crude oil and RUB 20,479 of oil products as at 30 September 2016 (as at 31 December 2015 – RUB 95,387 of crude oil and RUB 20,199 of oil products).

During the nine months ended 30 September 2016, borrowing costs in the amount of RUB 1,599 were capitalised as part of cost of assets under construction (for the nine months ended 30 September 2015 – RUB 3,056) including interests to be capitalised in the amount of RUB 2,527 (for the nine months ended 30 September 2015 – RUB 1,770) less amount to be excluded from capitalised borrowing costs in the amount of RUB 1,137 (for the nine months ended 30 September 2015 – RUB 425) as disclosed in Note 20.

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2016	31 December 2015
Corporate bonds	25,207	22,087
Municipal bonds	1,884	3,292
Federal government bonds (OFZ)	18,224	12,262
Corporate Eurobonds	1,239	231
Securities	30	-
	46,584	37,872

Financial assets at fair value through profit or loss are financial instruments assigned for trading.

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 September 2016 and 31 December 2015 (76% and 74% accordingly).



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

Interest rates of the bonds as at 30 September 2016 were in range from 2.0% to 13.9% (as at 31 December 2015 – from 2.0% to 18.5%). Interest rates of the bonds issued by companies which were under control or significant influence of the state as at 30 September 2016 were in range from 2.0% to 13.5% (as at 31 December 2015 – from 2.0% to 18.5%).

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

The fair value hierarchy of the financial assets at fair value through profit or loss is presented below:

Financial instrument	Level 1	Level 2
30 September 2016		
Corporate bonds	25,207	-
Municipal bonds	1,884	-
Federal government bonds (OFZ)	18,224	-
Corporate Eurobonds	1,013	226
Securities	30	-
	46,358	226
31 December 2015		
Corporate bonds	22,087	-
Municipal bonds	3,292	-
Federal government bonds (OFZ)	12,262	-
Corporate Eurobonds	70	161
	37,711	161

7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In February 2016 the Group acquired 50% share in the share capital of OOO NMT. The consideration amounted to USD 159 mln (RUB 12,497 at Bank of Russia exchange rate as at the date of payment). The difference between the amount of payment under agreement and value of the investment at the date of valuation was recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income. The Group's effective share of OOO NMT reached 67.79% as a result of the transaction. Taking into account the holding structure and key decision making process, this investment was classified as a jointly controlled entity. OOO NMT is a fuel oil terminal operating in Novorossiysk with maximum capacity of 4 mln. tons per year.

Simultaneously the Group acquired rights of claim for a loan granted to OOO NMT in the amount of USD 20.9 mln with maturity till 2020 and interest rate of 7% per annum. As at 30 September 2016 the balance of the loan amounted to USD 6.8 mln and was recognised as other financial assets in the consolidated interim condensed statement of financial position.

Summarised financial information of OOO NMT as it was presented in its separate financial statements with fair value adjustments made at the date of acquisition of 50% of share capital as well as reconciliation of financial information of OOO NMT with the carrying value of the Group's investment is presented below:

	At acquisition date
Current assets	2,473
<i>incl. cash and cash equivalents</i>	2,269
Non-current assets	6,294
Current liabilities	1,659
<i>incl. current financial liabilities</i>	1,227
Non-current liabilities	3,344
<i>incl. non-current financial liabilities</i>	3,172
Net assets (100%)	3,764
Share of net assets (50%)	1,882
Goodwill	8,639
Carrying value of the investment	10,521



TRANSNEFT
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016
(in millions of Russian roubles, if not stated otherwise)

8 DISPOSAL OF SUBSIDIARIES

In February 2016 the Group completed the sale of AO Yugo-Zapad transnefteproduct which owned 100% of share capital of DP PrikarpatZapadtrans which assets were located on the territory of Ukraine. The amount of excess of consideration received over the carrying value of net assets disposed of amounted to RUB 998.

9 OTHER FINANCIAL ASSETS

As at 30 September 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, March 2020, May 2029	USD	8,929	14,381
	December 2021, December 2025	RUB	3,840	3,840
Bonds	December 2017 - July 2018	USD	14,896	15,050
Deposits	December 2017	USD	5,428	7,068
Other financial assets	-	Other	7	8
			33,100	40,347
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	-	2,535
	During the year after the reporting date	RUB	-	30
Bonds	During the year after the reporting date	USD	4,877	7,126
Deposits	During the year after the reporting date	USD	267,201	255,942
		RUB	29,489	30,716
Other financial assets	During the year after the reporting date	RUB	8	8
			301,575	296,357

As at 31 December 2015:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loans granted to related parties	February 2019	USD	5,221	12,645
	December 2021 - December 2025	RUB	2,801	2,801
Eurobonds	February 2017 - July 2018	USD	19,702	25,105
Deposits	December 2017, October 2018	USD	24,281	29,660
Other financial assets	-	Other	9	11
			52,014	70,222
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	-	2,365
Interest-bearing notes	February 2016 - June 2016	USD	25,254	21,086
Bonds	During the year after the reporting date	USD	389	374
		USD	296,323	335,175
Deposits	During the year after the reporting date	RUB	32,631	32,631
		Other	54	54
Other financial assets	During the year after the reporting date	RUB	5	5
			354,656	391,690



9 OTHER FINANCIAL ASSETS (CONTINUED)

As at 30 September 2016 and 31 December 2015 the significant amount of deposits (96% and 75% 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 September 2016 were in the range from 1.0% to 11.0% (as at 31 December 2015 – from 1.6% to 20.0%). As for the deposits placed with banks controlled by or under significant influence of the state interest rates ranged from 1.0% to 11.0% as at 30 September 2016 (from 1.6% to 20.0% as at 31 December 2015).

Most of issuers of afore-mentioned notes and bonds as at 30 September 2016 and 31 December 2015 were organisations which were controlled or significantly influenced by the state (99% and 38% respectively).

Interest rates under notes and bonds ranged from 3.4% to 8.1% as at 30 September 2016 (ranged from 2.0% to 9.1% as at 31 December 2015). As for the notes and bonds 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 September 2016 (ranged from 5.1% to 8.1% as at 31 December 2015).

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

10 INVENTORIES

	30 September 2016	31 December 2015
Materials and supplies	29,640	26,864
Sundry goods for resale	5,408	8,207
	35,048	35,071

Materials and supplies are presented net of provisions for obsolescence which amounted RUB 12 as at 30 September 2016 (as at 31 December 2015 – RUB 194). Materials are primarily used for repairment and maintenance of pipeline equipment.

11 RECEIVABLES AND PREPAYMENTS, VAT ASSETS

Receivables and prepayments

	30 September 2016	31 December 2015
Financial assets		
Trade receivables	3,256	-
Other long-term receivables	1,682	1,392
Non-financial assets		
Long-term VAT	10	17
Total long-term receivables	4,948	1,409

	30 September 2016	31 December 2015
Financial assets		
Trade receivables	18,111	23,525
Other receivables	27,740	24,362
less: provision for impairment	(23,089)	(21,490)
Total financial assets in short-term receivables	22,762	26,397
Non-financial assets		
Prepayments and advances and other non-financial receivables	13,137	11,209
Total short-term receivables	35,899	37,606

12 CASH AND CASH EQUIVALENTS

	30 September 2016	31 December 2015
Balances in Russian roubles	31,392	27,747
Balances in US dollars	30,872	63,875
Balances in Euro	666	642
Balances in other currencies	627	449
	63,557	92,713

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain established qualifications required by law. As at 30 September 2016 and 31 December 2015, a significant portion of cash was placed with banks, which are under common control or significant influence of the state (75% and 69% correspondingly).



13 DIVIDENDS

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

	RUB per share	Total
Ordinary shares	2,077.08	11,521
Preferred shares	823.31	1,280
		12,801

Dividends were paid out in July-August 2016.

In June 2015 the shareholders of the Company approved the payment of dividends for the year ended 31 December 2014:

	RUB per share	Total
Ordinary shares	318.67	1,768
Preferred shares	757.87	1,178
		2,946

Dividends were paid out in July-August 2015.

14 LOANS AND BORROWINGS

	30 September 2016	31 December 2015
Total loans and borrowings	747,864	865,003
Less: current loans and borrowings and current portion of non-current loans and borrowings	(90,907)	(81,494)
	656,957	783,509
Maturity of non-current loans and borrowings		
Between one and five years	332,050	374,556
After five years	324,907	408,953
	656,957	783,509

The amount of short-term loans and borrowings contains RUB 10,208 non-convertible interest-bearing documentary bonds which mature in May 2019, October 2024 and July 2025 but with an option for earlier redemption at the request of bond-holders or at the discretion of the issuer in January, April and May 2017.

Fair value of loan from China Development Bank Corporation (Level 2) was determined as a result of 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 September 2016 and 31 December 2015, respectively. The fair value of loan and bonds is presented in the following table:

Type of bonds	Interest rate	Currency	Carrying amounts		Fair value	
			30 September 2016	31 December 2015	30 September 2016	31 December 2015
Non-convertible interest-bearing documentary	Fixed	RUB	147,883	94,102	149,246	95,508
Non-convertible interest-bearing documentary	Floating	RUB	35,000	35,000	35,000	35,000
Eurobonds	Fixed	USD	66,316	76,527	73,760	83,728
Loan agreement with China Development Bank Corporation	Floating according to LIBOR	USD	491,019	651,895	496,082	657,005



15 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Differences between recognition criterion of assets and liabilities recognised in the consolidated financial statements under IFRS and for income tax purposes give rise to temporary differences. In the consolidated interim condensed financial statements income tax expense is recognised based on the best estimation of the average annual income tax rate expected for the financial year. Accrued income tax expense recognised in an interim period is adjusted in subsequent interim period of the same financial year in a case the estimation of annual effective income tax rate is changed.

16 PROVISIONS FOR LIABILITIES AND CHARGES

	30 September 2016	31 December 2015
Pension provision	100,948	89,641
Dismantlement provision	5,730	5,517
Other provisions	7,215	6,051
	113,893	101,209

Besides contributions to State pension fund, the Group sponsors additional defined benefit plan which assumes regular lifetime payment of corporate nonstate pensions to its participants. The corporate nonstate pension is granted to the majority of its employees who have worked for more than five years and is calculated by reference to years of service, employee salary upon pension assignment and awards received during years of service in the Group. Also under collective agreements with employees the Group has obligations to payment of amount ranging from one to five months final salary upon retirement to those who have worked for the Group for more than three years, to funeral cost reimbursement and to payments for anniversaries and state holidays.

17 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	30 September 2016	31 December 2015
Trade payables	65,426	53,776
Other payables	12,666	22,816
Total financial payables	78,092	76,592
Long-term portion of derivatives	-	(12,622)
Total short-term financial payables	78,092	63,970
Advances received for oil and oil product transportation services	38,349	52,229
Accrued expenses	20,877	28,826
VAT payable	10,168	8,543
Other taxes payable	5,957	4,939
Total payables	153,443	158,507

Derivatives

As at 30 September 2016 interest rate swap liability (Level 2) was settled ahead of schedule and fully repaid by cash, cash settlement for the interest rate swap was presented as Other cash used in financing activities in the Consolidated Interim Condensed Statement of Cash Flows (the carrying value of the liability for interest rate swap amounted to RUB 12,700 as at 31 December 2015). Net gain which arose during the reporting period from the settled interest rate swap was disclosed in Note 20.



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18 REVENUE

	Three months ended 30 September 2016	Nine months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2015
Revenue from crude oil transportation services:				
Domestic tariff	62,198	183,007	60,795	174,224
Export tariff	91,523	274,488	79,416	241,222
Total revenue from crude oil transportation services	153,721	457,495	140,211	415,446
Revenue from crude oil sales	36,119	103,894	43,363	131,545
Revenue from oil products transportation services	15,192	49,332	13,707	42,525
Other revenue	6,610	18,327	5,691	20,500
	211,642	629,048	202,972	610,016

Revenue from crude oil sales for the nine months ended 30 September 2016 and for the nine months ended 30 September 2015 includes, mostly, 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 PAO NK Rosneft (see Note 22).

19 OPERATING EXPENSES NET OF AMORTISATION AND DEPRECIATION

	Three months ended 30 September 2016	Nine months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2015
Salaries	28,850	82,679	26,684	75,547
Social funds contributions	6,512	20,761	6,054	19,070
Social expenses	1,300	2,728	1,900	3,198
Cost of crude oil sold	27,686	82,068	30,148	92,383
Export custom duties	7,962	21,196	11,292	33,595
Energy	6,836	25,743	8,260	25,560
Materials	8,146	19,507	6,082	15,179
Repairs and maintenance services	5,414	10,292	3,911	8,852
Property tax and other taxes, except for income tax	5,202	15,554	4,191	12,676
Pension expenses	703	3,244	896	3,901
Other expenses	13,322	36,310	7,951	30,451
Operating expenses net of amortisation and depreciation	111,933	320,082	107,369	320,412



20 FINANCE INCOME AND FINANCE COSTS

	Three months ended 30 September 2016	Nine months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2015
Interest income from cash and cash equivalents	642	1,595	1,559	6,319
Interest income from other financial assets	4,324	13,709	6,936	21,447
Other interest income	207	581	157	425
Total interest income	5,173	15,885	8,652	28,191
Less interest income from the temporary investment of borrowings	(348)	(1,137)	(264)	(425)
Total interest income recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income	4,825	14,748	8,388	27,766
Foreign exchange gain	52,436	218,022	92,597	423,450
Gain from operations with derivatives	-	3,388	-	-
Net income from financial instruments through profit or loss	-	777	327	1,021
Total finance income	57,261	236,935	101,312	452,237
Interest expense on loans and borrowings	(11,688)	(34,862)	(11,513)	(32,081)
Distribution of pension income on pension liabilities	(1,795)	(5,202)	(2,229)	(5,391)
Other interest expenses	(1,012)	(3,072)	(714)	(2,555)
Total interest expenses	(14,495)	(43,136)	(14,456)	(40,027)
Less capitalised finance expenses	908	2,527	728	1,770
Total interest expenses recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income	(13,587)	(40,609)	(13,728)	(38,257)
Foreign exchange losses	(48,171)	(183,988)	(115,270)	(451,566)
Loss from operations with	-	-	(19,339)	(3,173)
Other finance costs	(672)	(672)	-	-
Total finance costs	(62,430)	(225,269)	(148,337)	(492,996)
Net finance (costs)/ income	(5,169)	11,666	(47,025)	(40,759)

21 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

During the nine months ended 30 September 2016 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 at 30 September 2016, which could have a material adverse effect on the results of operations or financial position of the Group.



22 RELATED PARTIES

The Russian Federation represented by the Federal Agency for State Property Management owns 100% of the ordinary shares of the Company and conducts control via the Board of Directors that as at the 30 September 2016 comprised of the State representatives (professional attorneys) and Independent Directors. The Government of the RF shall appoint the members of the Federal Antimonopoly Service to make decisions on tariff and rates structure.

As at 30 September 2016 and 31 December 2015 the Company holds in trust on behalf of the Russian Federation 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company (which owns 7% of the shares of CPC-R and 7% of the shares of CPC-K), 24% of the shares of the CPC-R and 24% of the shares of CPC-K. These interests are not recognised in these consolidated interim condensed financial statements as the Company is acting as an agent in 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 common control or significant influence of the state.

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

	Three months ended 30 September 2016	Nine months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2015
Revenue from oil transportation services	74,357	222,042	69,888	200,447
PAO NK Rosneft and its subsidiaries	66,422	197,773	62,734	179,005
PJSC Gazprom and its subsidiaries	7,806	23,878	7,031	21,056
Others	129	391	123	386
Revenue from oil products transportation services	4,770	16,778	4,259	16,057
PAO NK Rosneft and its subsidiaries	1,950	6,861	1,697	7,244
PJSC Gazprom and its subsidiaries	2,820	9,917	2,562	8,813
Purchases of oil (PAO NK Rosneft)	22,282	71,025	23,147	74,698
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	40	699	742	2,225
Electricity expenses	108	512	236	403
Interest income from other financial assets	2,492	8,424	3,117	9,816
Transportation expenses	433	1,295	359	996

During the nine months ended 30 September 2016 and 30 September 2015, Group had following transactions with associates and jointly controlled entities:

	Three months ended 30 September 2016	Nine months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2015
Revenue	1,081	2,582	579	2,139
Purchases of goods and services	8,310	25,988	7,444	22,875



22 RELATED PARTIES (CONTINUED)

At the 30 September 2016 and 31 December 2015 the Group had following accounts with related parties and associates:

	30 September 2016	31 December 2015
Trade and other receivables	7,358	1,328
Trade and other payables	1,824	443
Borrowings granted	20,786	17,811

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, AO NPF Transneft, and one-time payments programme at the retirement date.

23 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities and operational segments are set by nature of its activity based on management accounting under Russian Accounting Standards (RAS). 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.

Segment information for the three and nine months ended 30 September 2016 and 30 September 2015 was as follows:

Three months ended 30 September 2016	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue from sales to third parties	161,752	16,335	33,555	-	211,642
Operating expenses net of amortisation and depreciation	(65,210)	(13,877)	(34,398)	1,552	(111,933)
Operating profit net of amortisation and depreciation	96,542	2,458	(843)	1,552	99,709
Amortisation and depreciation	(43,446)	(2,979)	(8)	11,169	(35,264)
Operating profit	53,096	(521)	(851)	12,721	64,445
Other income	-	-	-	-	421
Share of profit from associates and jointly controlled entities	-	-	-	-	3,480
Profit before income tax and finance income/(costs)	53,096	(521)	(851)	12,721	68,346
Finance income	-	-	-	-	57,261
Finance costs	-	-	-	-	(62,430)
Profit before income tax	53,096	(521)	(851)	12,721	63,177
Income tax expense	-	-	-	-	(15,134)
Profit for the reporting period	53,096	(521)	(851)	12,721	48,043



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23 SEGMENT INFORMATION (CONTINUED)

Nine months ended 30 September 2016	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue from sales to third parties	479,307	52,108	97,633	-	629,048
Operating expenses net of amortisation and depreciation	(199,195)	(22,422)	(97,880)	(585)	(320,082)
Operating profit net of amortisation and depreciation	280,112	29,686	(247)	(585)	308,966
Amortisation and depreciation	(124,521)	(8,904)	(24)	30,585	(102,864)
Operating profit	155,591	20,782	(271)	30,000	206,102
Other expenses	-	-	-	-	(1,509)
Share of profit from associates and jointly controlled entities	-	-	-	-	14,745
Profit before income tax and finance income/(costs)	155,591	20,782	(271)	30,000	219,338
Finance income	-	-	-	-	236,935
Finance costs	-	-	-	-	(225,269)
Profit before income tax	155,591	20,782	(271)	30,000	231,004
Income tax expense	-	-	-	-	(48,440)
Profit for the reporting period	155,591	20,782	(271)	30,000	182,564

Three months ended 30 September 2015	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue from sales to third parties	146,659	14,762	41,551	-	202,972
Operating expenses net of amortisation and depreciation	(61,359)	(5,952)	(41,371)	1,313	(107,369)
Operating profit net of amortisation and depreciation	85,300	8,810	180	1,313	95,603
Amortisation and depreciation	(39,048)	(2,391)	(11)	12,415	(29,035)
Operating profit	46,252	6,419	169	13,728	66,568
Other expenses	-	-	-	-	(1,110)
Share of loss from associates and jointly controlled entities	-	-	-	-	(1,740)
Profit before income tax and finance income/(costs)	46,252	6,419	169	13,728	63,718
Finance income	-	-	-	-	101,312
Finance costs	-	-	-	-	(148,337)
Profit before income tax	46,252	6,419	169	13,728	16,693
Income tax expense	-	-	-	-	(2,005)
Profit for the reporting period	46,252	6,419	169	13,728	14,688



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23 SEGMENT INFORMATION (CONTINUED)

Nine months ended 30 September 2015	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue from sales to third parties	436,473	47,603	128,566	(2,626)	610,016
Operating expenses net of amortisation and depreciation	(176,601)	(15,533)	(123,790)	(4,488)	(320,412)
Operating profit net of amortisation and depreciation	259,872	32,070	4,776	(7,114)	289,604
Amortisation and depreciation	(113,747)	(6,771)	(35)	32,365	(88,188)
Operating profit	146,125	25,299	4,741	25,251	201,416
Other income	-	-	-	-	1,784
Share of profit from associates and jointly controlled entities	-	-	-	-	1,619
Profit before income tax and finance income/(costs)	146,125	25,299	4,741	25,251	204,819
Finance income	-	-	-	-	452,237
Finance costs	-	-	-	-	(492,996)
Profit before income tax	146,125	25,299	4,741	25,251	164,060
Income tax expense	-	-	-	-	(29,597)
Profit for the reporting period	146,125	25,299	4,741	25,251	134,463

Adjusting items for segments' expenses in the amount of 30,000 RUB for the nine months ended 30 September 2016 and 27,877 RUB for the nine months ended 30 September 2015 include the following adjustments and reclassifications due to RAP and IFRS accounting differences:

	Three months ended 30 September 2016	Nine months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2015
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"	(9,560)	(28,500)	(8,961)	(27,747)
Pension provision	917	2,178	451	2,300
Deferred payment obligation	122	1,269	139	629
Others	(4,200)	(4,947)	(5,357)	(3,059)
Total adjusting items for segment's expenses	(12,721)	(30,000)	(13,728)	(27,877)

Geographical information. The Group's most part of assets attributable to reporting segments is primary located in the territory of the Russian Federation which results in the operating activity by each segment being carried out in the territory of the Russian Federation. Geographical information on revenue from external customers is presented based on the customers' country of incorporation; the majority of revenues are generated by assets located in the Russian Federation. The Oil products transportation services segment has certain assets located on the territory of Republic of Belarus and Republic of Kazakhstan.

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

	Three months ended 30 September 2016	Nine months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2015
Russian Federation	175,632	518,165	162,084	483,546
China	30,237	92,013	35,570	109,824
Other countries	5,773	18,870	5,318	16,646
Total	211,642	629,048	202,972	610,016



23 SEGMENT INFORMATION (CONTINUED)

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

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

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

	Three months ended 30 September 2016	Nine months ended 30 September 2016	Three months ended 30 September 2015	Nine months ended 30 September 2015
Companies under control of the state	79,127	238,820	74,146	216,503
China National United Oil Corporation	30,237	92,013	35,570	109,824
OAO Surgutneftegaz	27,190	80,520	24,232	73,133
PJSC Lukoil	20,017	62,317	19,812	61,788
Total	156,571	473,670	153,760	461,248

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.

24 EVENTS AFTER THE REPORTING DATE

In October 2016 through public offering Transneft issued non-convertible interest-bearing documentary bonds for the total amount of RUB 15 billion and coupon rate of 9.30%. Cash received from bonds issued were used for partial early repayment of the loan from China Development Bank Corporation.

In November 2016 the state registration of the additional issue of 21,901 ordinary registered uncertified shares of Transneft with par value of one rouble each was accomplished. Placement of shares will be held within 360 days from the date of registration at 273,540 roubles per share by closed subscription in favor of the Russian Federation represented by the Federal agency for state property management.

Прошнуровано, сброшюровано
и скреплено печатью 23
(двадцать три) листов.



Ким А. А.
Директор АО «КРМГ»