



**CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 September 2017 and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and nine-month period ended 30 September 2017, and the related consolidated interim condensed statements of changes in equity and cash flows for the nine month-period ended 30 September 2017, 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. 11602653203.



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 September 2017 and for the three- and nine month-period ended 30 September 2017 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



27 November 2017



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

	Notes	30 September 2017	31 December 2016
ASSETS			
Non-current assets			
Intangible assets		8,472	8,987
Property, plant and equipment	5	2,254,023	2,146,419
Available-for-sale financial assets		251	252
Investments in associates and jointly controlled entities	7	87,362	41,299
Receivables and prepayments, VAT assets	10	1,363	1,443
Other financial assets	8	21,177	32,738
Total non-current assets		2,372,648	2,231,138
Current assets			
Inventories	9	32,784	30,930
Receivables and prepayments	10	31,412	36,162
VAT assets		55,346	37,725
Current income tax prepayments		648	3,493
Financial assets at fair value through profit or loss	6	56,240	44,302
Other financial assets	8	198,360	308,409
Cash and cash equivalents	11	117,717	74,586
Total current assets		492,507	535,607
Total assets		2,865,155	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)
Treasury shares	13	(1,106)	-
Prepaid share reserve	13	-	5,991
Retained earnings		1,776,740	1,668,788
Attributable to the shareholders of Transneft		1,821,406	1,714,560
Non-controlling interests		1,762	1,795
Total equity		1,823,168	1,716,355
Non-current liabilities			
Loans and borrowings	12	550,457	592,505
Deferred income tax liabilities	14	45,655	46,416
Provisions for liabilities and charges	15	127,912	117,620
Trade and other payables	16	2,701	2,361
Total non-current liabilities		726,725	758,902
Current liabilities			
Trade and other payables	16	168,292	181,870
Current income tax payable		1,642	571
Loans and borrowings	12	145,328	109,047
Total current liabilities		315,262	291,488
Total liabilities		1,041,987	1,050,390
Total equity and liabilities		2,865,155	2,766,745

Approved on 24 November 2017 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 2017
(in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 30 September 2017	Nine months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2016
Revenue	17	219,552	657,802	211,642	629,048
Operating expenses net of amortisation and depreciation	18	(117,613)	(340,385)	(111,933)	(320,082)
Operating profit net of amortisation and depreciation		101,939	317,417	99,709	308,966
Amortisation and depreciation		(38,567)	(114,397)	(35,264)	(102,864)
Operating profit		63,372	203,020	64,445	206,102
Other income/ (expenses), net		774	7,874	421	(1,509)
Share of profit from associates and jointly controlled entities	7	5,299	14,775	3,480	14,745
Profit before income tax and finance income/ (costs)		69,445	225,669	68,346	219,338
Finance income	19	18,927	84,955	57,261	236,935
Finance costs	19	(24,300)	(99,348)	(62,430)	(225,269)
Profit before income tax		64,072	211,276	63,177	231,004
Income tax expense	14	(11,106)	(44,431)	(15,134)	(48,440)
Profit for the reporting period		52,966	166,845	48,043	182,564
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		5	39	-	8
<i>Total items that may be reclassified to profit or loss, net of income tax</i>		5	39	-	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	(80)	(807)	(295)	(1,361)
<i>Total items that will not be reclassified to profit or loss, net of income tax</i>		(80)	(807)	(295)	(1,361)
Total other comprehensive loss for the reporting period, net of income tax		(75)	(768)	(295)	(1,353)
Total comprehensive income for the reporting period		52,891	166,077	47,748	181,211
Profit attributable to					
Shareholders of Transneft		53,020	166,878	48,036	182,612
Non-controlling interests		(54)	(33)	7	(48)
Total comprehensive income attributable to					
Shareholders of Transneft		52,945	166,110	47,741	181,259
Non-controlling interests		(54)	(33)	7	(48)

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 CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(in millions of Russian roubles, if not stated otherwise)

	Notes	Nine months ended 30 September 2017	Nine months ended 30 September 2016
Cash flows from operating activities			
Cash receipts from customers		694,304	651,424
Cash paid to suppliers and employees, and taxes other than income tax		(460,770)	(445,361)
Interest paid		(34,276)	(34,905)
Income tax paid		(41,183)	(39,651)
Income tax refund		281	498
Refund of insurance contributions, VAT and other taxes refund		47,403	56,442
Other cash flows used in operating activities		(2,487)	(3,301)
Net cash from operating activities		203,272	185,146
Cash flows from investing activities			
Purchase of property, plant and equipment		(222,391)	(233,341)
Proceeds from sale of property, plant and equipment		987	1,638
Interest received		16,176	15,120
Purchase of notes and placement of funds on deposit accounts		(287,872)	(349,870)
Proceeds from sale of debt securities and closure of deposit accounts		387,438	426,578
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	28,399	1,122
Repayment and issuance of loans		(2,328)	(7,021)
Cash inflows as a result of disposal of entities		-	2,636
Other cash flows used in investing activities		(840)	(394)
Net cash used in investing activities		(140,431)	(156,029)
Cash flows from financing activities			
Repayment of loans and borrowings		(119,882)	(88,119)
Proceeds from loans and borrowings		132,271	64,202
Purchase of treasury shares	13	(1,106)	-
Dividends paid	13	(30,555)	(12,796)
Acquisition of non-controlling interests		-	(19)
Other cash flows used in financing activities		(39)	(9,562)
Net cash used in financing activities		(19,311)	(46,294)
Effects of exchange rate changes on cash and cash equivalents		(399)	(11,979)
Net increase/ (decrease) in cash and cash equivalents		43,131	(29,156)
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	117,717	63,557

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 CHANGES IN EQUITY (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(in millions of Russian roubles, if not stated otherwise)

	Notes	Attributable to the owners of Transneft						Non-controlling interests	Total equity	
		Share capital	Share premium reserve	Merger reserve	Treasury shares	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		-	-	-	-	-	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
Transactions with owners of the Company										
Distributions										
Dividends	13	-	-	-	-	-	(11,521)	(11,521)	-	(11,521)
- 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		-	-	-	-	-	(58)	(58)	39	(19)
Total changes in ownership interests		-	-	-	-	-	(58)	(58)	39	(19)
Total transactions with owners of the Company		-	-	-	-	-	(12,859)	(12,859)	39	(12,820)
Balance at 30 September 2016		308	52,553	(13,080)	-	-	1,614,870	1,654,651	1,696	1,656,347
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		-	-	-	-	-	166,878	166,878	(33)	166,845
Remeasurement of net defined benefit plan obligation, net of income tax		-	-	-	-	-	(807)	(807)	-	(807)
Currency translation differences, net of income tax		-	-	-	-	-	39	39	-	39
Total comprehensive income for the reporting period		-	-	-	-	-	166,110	166,110	(33)	166,077
Transactions with owners of the Company										
Contributions and distributions										
Placement of ordinary certified non-documentary shares	13	-	5,991	-	-	(5,991)	-	-	-	-
Purchase of treasury shares	13	-	-	-	(1,106)	-	-	(1,106)	-	(1,106)
Dividends	13	-	-	-	-	-	-	-	-	-
- ordinary shares		-	-	-	-	-	(45,508)	(45,508)	-	(45,508)
- preferred shares		-	-	-	-	-	(12,650)	(12,650)	-	(12,650)
Total contributions and distributions		-	5,991	-	(1,106)	(5,991)	(58,158)	(59,264)	-	(59,264)
Total transactions with owners of the Company		-	5,991	-	(1,106)	(5,991)	(58,158)	(59,264)	-	(59,264)
Balance at 30 September 2017		308	58,544	(13,080)	(1,106)	-	1,776,740	1,821,406	1,762	1,823,168

The accompanying notes set out on pages 9 to 23 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 was 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 52,122 km as at 30 September 2017 and the oil products pipeline system in the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan totalling 15,988 km as at 30 September 2017. Its associate OOO LatRosTrans operates an interconnected oil products pipeline system in the Republic of Latvia.

During the nine months ended 30 September 2017, the Group transported 356.9 million tonnes of crude oil to domestic and export markets (as for the nine months ended 30 September 2016 - 360.2 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 nine months ended 30 September 2017 amounted to 25.0 million tonnes (25.3 million tonnes as for the nine months ended 30 September 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”) were 58.0169 and 60.6569 as at 30 September 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 influenced neither the consolidated financial position nor 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 provision	(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	(5,252)	(35,898)	(71,521)	-	-	(112,671)
Additions (including prepayments)	-	-	-	4,238	218,211	222,449
Transfers from assets under construction	6,864	45,803	61,316	-	(113,983)	-
Net change in dismantlement provision	-	(1,264)	-	-	-	(1,264)
Disposals: cost	(416)	(3,264)	(6,428)	(286)	-	(10,394)
Disposals: accumulated depreciation and impairment provision	141	3,233	6,110	-	-	9,484
Net book value at 30 September 2017	144,411	871,633	601,855	125,306	510,788	2,254,023
At 30 September 2017						
Cost	202,987	1,380,506	1,191,366	125,306	510,788	3,410,953
Accumulated depreciation and impairment provision	(58,576)	(508,873)	(589,481)	-	-	(1,156,930)
Net book value at 30 September 2017	144,411	871,633	601,885	125,306	510,788	2,254,023



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 provision	(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)	-
Net change in dismantlement provision	-	-	243	-	-	243
Disposals: cost	(477)	(1,490)	(5,119)	(587)	-	(7,673)
Disposals: accumulated depreciation and impairment provision	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 provision	(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

Linefill represents RUB 102,282 of crude oil and RUB 23,024 of oil products as at 30 September 2017 (as at 30 September 2016 – RUB 99,660 and RUB 20,479 respectively).

During the nine months ended 30 September 2017, borrowing costs in the amount of RUB 5,001 were capitalised as part of cost of assets under construction (for the nine months ended 30 September 2016 – RUB 1,599) including interests to be capitalised in the amount of RUB 5,281 (for the nine months ended 30 September 2016 – RUB 2,527) less amount to be excluded from capitalised borrowing costs in the amount of RUB 280 (for the nine months ended 30 September 2016 – RUB 1,137) as disclosed in Note 19.

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instrument	30 September 2017	31 December 2016
Level 1		
Corporate bonds	23,868	23,557
Municipal bonds	205	1,308
Federal government bonds (OFZ)	31,139	18,342
Corporate Eurobonds	1,015	989
Securities	13	106
	56,240	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 September 2017 and 31 December 2016 (91% and 77% accordingly).

Interest rates of the bonds as at 30 September 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 September 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 September 2017	Date of acquisition
Current assets*	156,575	104,515
<i>incl. cash and cash equivalents</i>	83	104,515
Current liabilities	1,031	-
Non-current liabilities	70,439	-
<i>incl. financial liabilities</i>	70,439	-
Total net assets	85,105	104,515
Share of net assets	48,857	60,000
Carrying value of the share	48,857	60,000

*mainly comprising of financial instruments

	Nine months ended 30 September 2017
Income from the Fund's net assets growth	25,126
Total comprehensive income	25,126
Share of the total comprehensive income	14,424
Cash proceeds from the Fund	(25,567)

A significant share of investments in associates and jointly controlled entities is the investment in PJSC "NCSP" (Omirico Ltd.). In March 2017 the Federal Antimonopoly Service (hereinafter – FAS) of Russia found PJSC "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. PJSC "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, and in September 2017 the court of appeal left the decision unchanged. The carrying value of the investment in PJSC "NCSP" was not adjusted in these consolidated interim condensed financial statements because of this fact.

Because of the significant revenue decline of OOO NMT during 2017 as compared to the prior year mainly caused by significant decline of cargo turnover and tariffs, the Group tested for impairment its investment in OOO NMT accounted for using equity method, and recognised impairment loss amounting to RUB 9,463 which was included in Share of profit from associates and jointly controlled entities in the consolidated interim condensed statement of profit or loss and other comprehensive income. The estimate of investment's recoverable amount of RUB 2,387 was calculated using its value in use with the following assumptions – forecast period of 4 years, industry specific discount rate of 11.2%, terminal growth rate after forecast period of 1.9%.



8 OTHER FINANCIAL ASSETS

As at 30 September 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	11,846	16,591
	December 2021 - March 2027	RUB	4,491	4,583
Other financial assets	-	RUB	3	3
			16,340	21,177
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	-	1,665
	During the year after the reporting date	RUB	-	16
Eurobonds	During the year after the reporting date	USD	15,023	14,224
Deposits	During the year after the reporting date	USD	143,076	150,563
		RUB	31,266	31,884
Other financial assets	During the year after the reporting date	RUB	8	8
			189,373	198,360

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
		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 September 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 September 2017 were in the range from 0.6% to 8.4% (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 8.3% as at 30 September 2017 (from 0.8% to 11.0% as at 31 December 2016).

Most issuers of afore-mentioned eurobonds as at 30 September 2017 and 31 December 2016 were organisations which were controlled by or under significant influence of the state (76% and 83% respectively).

Interest rates for eurobonds ranged from 3.4% to 8.1% as at 30 September 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 September 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 September 2017	31 December 2016
Materials and supplies	28,365	27,081
Sundry goods for resale	4,419	3,849
	32,784	30,930

Materials and supplies are presented net of provisions for obsolescence which amounted to RUB 912 as at 30 September 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 September 2017	31 December 2016
Financial assets		
Other long-term receivables	1,360	1,439
Non-financial assets		
Long-term VAT	3	4
Total long-term receivables	1,363	1,443

	30 September 2017	31 December 2016
Financial assets		
Trade receivables	19,207	22,346
Other receivables	27,184	26,573
less: provision for impairment	(27,513)	(23,591)
Total financial assets in short-term receivables	18,878	25,328
Non-financial assets		
Prepayments, advances and other non-financial receivables	12,534	10,834
Total short-term receivables	31,412	36,162

11 CASH AND CASH EQUIVALENTS

	30 September 2017	31 December 2016
Balances in RUB	52 304	71,388
Balances in USD	63 481	1,786
Balances in EUR	655	517
Balances in other currencies	1 277	895
	117 717	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 September 2017 and 31 December 2016, a significant portion of cash (64% and 72% correspondingly) was placed with banks, which are under control or significant influence of the state.



12 LOANS AND BORROWINGS

	30 September 2017	31 December 2016
Loans and borrowings	695,785	701,552
Less: current loans and borrowings, current portion of non-current loans and borrowings	(145,328)	(109,047)
	550,457	592,505
Maturity of non-current loans and borrowings		
Between one and five years	312,387	301,116
After five years	238,070	291,389
	550,457	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 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 September 2017 and 31 December 2016, respectively. The fair value of the loans and bonds is presented in the following table:

Type of bonds/ loans	Inter- est rate	Cur- rency	Carrying amounts		Fair value	
			30 September 2017	31 December 2016	30 September 2017	31 December 2016
Non-convertible interest-bearing documentary	Fixed	RUB	234,689	162,883	244,607	165,563
Non-convertible interest-bearing documentary	Floating	RUB	35,000	35,000	35,378	34,997
Eurobonds	Fixed	USD	60,918	63,690	64,491	69,922
Loan agreement with China Development Bank Corporation	Floating according to LIBOR	USD	304,460	431,742	305,846	434,565
Other loans	Fixed	RUB	50,000	-	50,000	-

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 annual general meeting of 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

* including treasury shares

Dividends were paid out in July-August 2017.

Within the terms of the asset management agreement in the third quarter of 2017 the fiduciary manager acquired 6,178 of preferred shares of the Company which were sold in the fourth quarter of 2017. This operation is shown in the Consolidated interim condensed statement of changes in equity as purchase of treasury shares.



13 EQUITY AND DIVIDENDS (continued)

In August 2017 at the extraordinary general meeting of shareholders the payment of dividends based on the results of the first half of 2017 was approved:

	Number of shares	RUB per share	Total
Ordinary shares	5,568,748	3,875.49	21,582
Preferred shares*	1,554,875	3,875.49	6,026
			27,608

* including treasury shares

Dividends were paid out in October 2017.

In June 2016 the annual general meeting of 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 September 2017	31 December 2016
Pension provision	110,267	99,493
Dismantlement provision	6,295	6,580
Other provisions	11,350	11,547
	127,912	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 September 2017	31 December 2016
Advances received	2,701	2,361
Total long-term payables	2,701	2,361

	30 September 2017	31 December 2016
Trade payables	54,064	73,619
Dividends payable	27,592	-
Other payables	11,170	12,204
Total short-term financial payables	92,826	85,823
Advances received	36,464	47,055
Accrued expenses	22,478	33,109
VAT payable	8,334	9,296
Other taxes payable	8,190	6,587
Total short-term payables	168,292	181,870



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17 REVENUE

	Three months ended 30 September 2017	Nine months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2016
Revenue from crude oil transportation services:				
Domestic tariff	57,404	191,620	62,198	183,007
Export tariff	99,573	280,823	91,523	274,488
Total revenue from crude oil transportation services	156,977	472,443	153,721	457,495
Revenue from crude oil sales	36,100	107,083	36,119	103,894
Revenue from oil products transportation services	15,615	50,575	15,192	49,332
Other revenue	10,860	27,701	6,610	18,327
	219,552	657,802	211,642	629,048

Revenue from crude oil sales for the nine months ended 30 September 2017 and for the nine months ended 30 September 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 September 2017	Nine months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2016
Salaries	29,831	82,329	28,850	82,679
Insurance contributions	7,184	21,505	6,512	20,761
Social expenses	1,266	2,751	1,300	2,728
Cost of crude oil sold	28,865	85,170	27,686	82,068
Export custom duties	7,139	21,659	7,962	21,196
Energy	9,605	30,946	9,665	28,572
Materials	8,459	23,002	8,146	19,507
Repair and maintenance services	5,645	11,695	5,414	10,292
Property tax and other taxes, except for income tax	7,019	21,500	5,202	15,554
Pension expenses	1,067	4,531	703	3,244
Insurance expenses	1,466	4,527	2,114	5,262
Other expenses	10,067	30,770	8,379	28,219
Operating expenses net of amortisation and depreciation	117,613	340,385	111,933	320,082



19 FINANCE INCOME AND FINANCE COSTS

	Three months ended 30 September 2017	Nine months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2016
Interest income from cash and cash equivalents	1,674	3,941	642	1,595
Interest income from other financial assets	3,705	11,557	4,324	13,709
Other interest income	251	660	207	581
Total interest income	5,630	16,158	5,173	15,885
Less interest income from the temporary investment of borrowings	(33)	(280)	(348)	(1,137)
Total interest income recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income	5,597	15,878	4,825	14,748
Foreign exchange gain	13,329	68,418	52,436	218,022
Net gain from operations with derivatives	-	-	-	3,388
Net gain from financial instruments through profit or loss	1	659	-	777
Total finance income	18,927	84,955	57,261	236,935
Interest expense on loans and borrowings	(13,118)	(36,482)	(11,688)	(34,862)
Distribution of pension income to pension liabilities	(826)	(3,781)	(1,795)	(5,202)
Other interest expenses	(1,069)	(3,061)	(1,012)	(3,072)
Total interest expenses	(15,013)	(43,324)	(14,495)	(43,136)
Less capitalised interest expenses	1,989	5,281	908	2,527
Total interest expenses recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income	(13,024)	(38,043)	(13,587)	(40,609)
Foreign exchange losses	(10,972)	(60,639)	(48,171)	(183,988)
Net loss from financial instruments through profit or loss	(304)	(666)	(672)	(672)
Total finance costs	(24,300)	(99,348)	(62,430)	(225,269)
Net finance (costs)/ income	(5,373)	(14,393)	(5,169)	11,666

20 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

During the nine months ended 30 September 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 September 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 September 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 September 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.

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

	Three months ended 30 September 2017	Nine months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2016
Revenue from oil transportation services	83,798	251,446	82,056	244,685
Rosneft and its subsidiaries	68,093	203,105	66,422	197,773
PJSC "GAZPROM" and its subsidiaries	7,632	23,464	7,806	23,878
Others	8,073	24,877	7,828	23,034
Revenue from oil products transportation services	8,777	27,453	4,770	16,778
Rosneft and its subsidiaries	6,236	19,831	1,950	6,861
PJSC "GAZPROM" and its subsidiaries	2,541	7,622	2,820	9,917
Purchases of oil (Rosneft)	27,038	78,384	22,282	71,025
Electricity expenses	204	630	109	512
Interest income from other financial assets	1,564	5,169	2,492	8,424

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

	Three months ended 30 September 2017	Nine months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2016
Revenue from sales of goods and services	714	2,468	1,081	2,582
Purchases of goods and services	13,477	35,045	8,310	25,988

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

	30 September 2017	31 December 2016
Trade and other receivables	8,098	7,520
Trade and other payables	2,366	2,849
Borrowings granted	22,855	21,749
Borrowings received	302	20



21 RELATED PARTIES (continued)

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.

Segment information for the nine months ended 30 September 2017 and for the nine months ended 30 September 2016 was as follows:

Three months ended 30 September 2017	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue	164,282	16,414	35,678	3,178	219,552
Operating expenses net of amortisation and depreciation	(75,979)	(8,307)	(35,618)	2,291	(117,613)
Operating profit net of amortisation and depreciation	88,303	8,107	60	5,469	101,939
Amortisation and depreciation	(47,474)	(3,859)	(2)	12,768	(38,567)
Operating profit	40,829	4,248	58	18,237	63,372
Other income	-	-	-	-	774
Share of profit from associates and jointly controlled entities	-	-	-	-	5,299
Profit before income tax and finance income/(costs)	40,829	4,248	58	18,237	69,445
Finance income	-	-	-	-	18,927
Finance costs	-	-	-	-	(24,300)
Profit before income tax	40,829	4,248	58	18,237	64,072
Income tax expense	-	-	-	-	(11,106)
Profit for the reporting period	40,829	4,248	58	18,237	52,966



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22 SEGMENT INFORMATION (continued)

Nine months ended 30 September 2017	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue	495,465	52,966	103,548	5,823	657,802
Operating expenses net of amortisation and depreciation	(212,723)	(21,988)	(103,787)	(1,887)	(340,385)
Operating profit net of amortisation and depreciation	282,742	30,978	(239)	3,936	317,417
Amortisation and depreciation	(141,654)	(11,322)	(7)	38,586	(114,397)
Operating profit	141,088	19,656	(246)	42,522	203,020
Other income	-	-	-	-	7,874
Share of profit from associates and jointly controlled entities	-	-	-	-	14,775
Profit before income tax and finance income/(costs)	141,088	19,656	(246)	42,522	225,669
Finance income	-	-	-	-	84,955
Finance costs	-	-	-	-	(99,348)
Profit before income tax	141,088	19,656	(246)	42,522	211,276
Income tax expense	-	-	-	-	(44,431)
Profit for the reporting period	141,088	19,656	(246)	42,522	166,845

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	161,751	16,335	33,555	1	211,642
Operating expenses net of amortisation and depreciation	(65,086)	(11,505)	(32,017)	(3,339)	(111,947)
Operating profit net of amortisation and depreciation	96,665	4,830	1,538	(3,338)	99,695
Amortisation and depreciation	(43,446)	(2,979)	(8)	11,169	(35,264)
Operating profit	53,219	1,851	1,530	7,831	64,431
Other income	-	-	-	-	435
Share of profit from associates and jointly controlled entities	-	-	-	-	3,480
Profit before income tax and finance income/(costs)	53,219	1,851	1,530	7,831	68,346
Finance income	-	-	-	-	56,397
Finance costs	-	-	-	-	(61,566)
Profit before income tax	53,219	1,851	1,530	7,831	63,177
Income tax expense	-	-	-	-	(15,134)
Profit for the reporting period	53,219	1,851	1,530	7,831	48,043



22 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	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

Adjusting items for segments' revenue in the amount of RUB 5,823 as for the nine months ended 30 September 2017 included revenue recognised for connection of assets to the trunk pipeline system due to RAP and IFRS accounting differences.

Adjusting items for segments' expenses in the amount of RUB 36,699 for the nine months ended 30 September 2017 and RUB 30,000 for the nine months ended 30 September 2016 include the following adjustments and reclassifications due to RAP and IFRS accounting differences:

	Three months ended 30 September 2017	Nine months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2016
Dismantlement provision	(525)	(1,576)	(525)	(1,576)
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"	(13,091)	(39,673)	(8,915)	(28,500)
Pension provision	1,049	2,993	381	2,178
Deferred payment obligation	481	(149)	122	1,269
Others	(2,973)	1,706	1,107	(3,371)
Total adjusting items for segment's expenses	(15,059)	(36,699)	(7,830)	(30,000)

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.



22 SEGMENT INFORMATION (continued)

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

	Three months ended 30 September 2017	Nine months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2016
Russian Federation	178,569	538,017	175,632	518,165
China	34,195	99,949	30,237	92,013
Other countries	6,788	19,836	5,773	18,870
Total	219,552	657,802	211,642	629,048

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 in Group's revenue is presented below:

	Three months ended 30 September 2017	Nine months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2016
Companies under control of the state	93,172	280,790	79,127	238,820
China National United Oil Corporation	34,195	99,949	30,237	92,013
OAO Surgutneftegaz	26,490	78,958	27,190	80,520
PJSC LUKOIL	21,502	66,305	20,017	62,317
Total	175,359	526,002	156,571	473,670

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

23 SUBSEQUENT EVENTS

In October 2017 Transneft repaid ahead of schedule non-convertible interest-bearing documentary bonds for the amount of RUB 35 billion.

In October 2017 through public offering Transneft issued non-convertible interest-bearing documentary bonds for the total amount of RUB 25 billion maturing in 2025 and with coupon rate of 7.9%. Cash received from bonds issued were used for partial early repayment of the loan from China Development Bank Corporation and general corporate purposes.

In October 2017 the Board of directors of Transneft defined the offering price for one ordinary registered uncertified share of Transneft as 278,780 Russian roubles and recommended to the General meeting of shareholders to increase the share capital by 125,720 Russian roubles by issue of 125,720 ordinary registered uncertified shares with par value of 1 Rouble. The offering of shares will be held by private subscription in favor of the Russian Federation represented by the Federal Agency for the Management of State Property, the shares issued will be paid by 100% of ordinary shares of CPC Company and 100% of ordinary shares of CPC Investments Company which are owned by the Russian Federation (Note 21).

Прошнуровано, сброшнуровано
и скреплено печатью **23**
(**АВАД УАВ ГРУ**)
лист **А**



Ким А. А.
Директор АО «КПМГ»

