



PUBLIC JOINT STOCK
COMPANY «TRANSNEFT»

**CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2016**



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

CONTENT

page

Auditors' Report on Review of Consolidated Interim Condensed Financial Information	3
Consolidated Interim Condensed Statement of Financial Position	5
Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income	6
Consolidated Interim Condensed Statement of Cash Flows	7
Consolidated Interim Condensed Statement of Changes in Equity	8
Notes to the Consolidated Interim Condensed Financial Statements:	9
1. Nature of operations	9
2. Economic environment in the Russian Federation	
3. Basis of presentation	
4. Summary of significant accounting policies	10
5. Property, plant and equipment	
6. Financial assets at fair value through profit or loss	11
7. Investments in associates and jointly controlled entities	12
8. Disposal of subsidiaries	
9. Other financial assets	13
10. Inventories	
11. Receivables and prepayments, VAT assets	14
12. Cash and cash equivalents	
13. Dividends	
14. Loans and borrowings	15
15. Deferred tax liabilities and income tax expense	
16. Provisions for liabilities and charges	16
17. Trade and other payables, including derivatives	
18. Revenue	
19. Operating expenses	17
20. Net finance income	
21. Contingent liabilities and other risks	18
22. Related parties	19
23. Segment information	20
24. Events after the reporting date	22



JSC "KPMG"
10 Presnenskaya Naberezhnaya
Moscow, Russia 123112
Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Auditors' Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors

Transneft (*formerly* OAO AK Transneft)

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of Transneft (the "Company") and its subsidiaries (the "Group") as at 30 June 2016 and the related consolidated interim condensed statements of profit or loss and other comprehensive income for the three- and six month periods then ended and the related consolidated interim condensed statements of changes in equity and cash flows for the six-month period, 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 "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.



Transneft

Auditors' Report on Review of Consolidated Interim Condensed Financial Information

Page 2

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 30 June 2016 and for the three- and six-month periods then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Kim A.A.

Director, (power of attorney dated 16 March 2015 No. 11/15)

JSC "KPMG"



26 August 2016

Moscow, Russian Federation



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

ASSETS			
	Notes	30 June 2016	31 December 2015
Non-current assets			
Intangible assets		7,909	9,081
Property, plant and equipment	5	2,013,123	1,923,466
Available-for-sale financial assets		250	265
Investments in associates and jointly controlled entities	7	34,346	13,766
Receivables and prepayments, VAT assets	11	1,462	1,409
Other financial assets	9	40,666	70,222
Total non-current assets		2,097,756	2,018,209
Current assets			
Inventories	10	39,299	35,071
Receivables and prepayments	11	38,196	37,606
VAT assets		73,645	35,821
Current income tax prepayments		539	10,141
Financial assets at fair value through profit or loss	6	42,259	37,872
Other financial assets	9	314,660	391,690
Cash and cash equivalents	12	86,874	92,713
Total current assets		595,472	640,914
Total assets		2,693,228	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		1,567,139	1,446,470
Attributable to the shareholders of Transneft		1,606,920	1,486,251
Non-controlling interests		1,682	1,705
Total equity		1,608,602	1,487,956
Non-current liabilities			
Loans and borrowings	14	689,358	783,509
Deferred income tax liabilities	15	27,166	33,376
Provisions for liabilities and charges	16	110,145	101,209
Trade and other payables, including derivatives	17	-	12,622
Total non-current liabilities		826,669	930,716
Current liabilities			
Trade and other payables, including derivatives	17	168,543	158,507
Current income tax payable		4,931	450
Loans and borrowings	14	84,483	81,494
Total current liabilities		257,957	240,451
Total liabilities		1,084,626	1,171,167
Total equity and liabilities		2,693,228	2,659,123

Approved on 26 August 2016 by:

N.P. Tokarev



President

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



TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (UNAUDITED) FOR THE SIX MONTHS ENDED
30 JUNE 2016

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

	Notes	Three months ended 30 June 2016	Six months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2015
Revenue	18	213,401	417,406	205,567	407,044
Operating expenses	19	(146,795)	(278,677)	(141,001)	(269,302)
Operating profit		66,606	138,729	64,566	137,742
Finance income		68,997	180,538	122,491	367,091
Finance costs		(65,827)	(163,703)	(118,172)	(360,825)
Net finance income	20	3,170	16,835	4,319	6,266
Gain on disposal of subsidiaries	8	-	998	-	-
Share of profit from associates and jointly controlled entities		4,460	11,265	1,916	3,359
Profit before income tax		74,236	167,827	70,801	147,367
Income tax expense	15	(15,283)	(33,306)	(14,414)	(27,592)
Profit for the reporting period		58,953	134,521	56,387	119,775
Other comprehensive loss net of tax					
<i>Items that may be reclassified to profit or loss</i>					
Currency translation differences, net of income tax		(42)	8	(235)	(383)
<i>Total items that may be reclassified to profit or loss, net of income tax</i>		<i>(42)</i>	<i>8</i>	<i>(235)</i>	<i>(383)</i>
<i>Items that will not be reclassified to profit or loss</i>					
Remeasurement of net defined benefit plan obligation, net of income tax	16	(454)	(1,066)	(1,590)	(2,216)
<i>Total items that will not be reclassified to profit or loss, net of income tax</i>		<i>(454)</i>	<i>(1,066)</i>	<i>(1,590)</i>	<i>(2,216)</i>
Total other comprehensive loss for the reporting period, net of income tax		(496)	(1,058)	(1,825)	(2,599)
Total comprehensive income for the reporting period		58,457	133,463	54,562	117,176
Profit attributable to:					
Shareholders of Transneft		58,960	134,576	56,379	119,635
Non-controlling interests		(7)	(55)	8	140
Total comprehensive income attributable to:					
Shareholders of Transneft		58,464	133,518	54,554	117,036
Non-controlling interests		(7)	(55)	8	140

Approved on 26 August 2016 by:

N.P. Tokarev



President

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



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

Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
Cash flows from operating activities		
	428,055	418,781
	(290,784)	(276,494)
	(18,688)	(17,599)
	(25,438)	(24,109)
	300	491
	26,033	43,858
	(1,596)	(2,806)
	117,882	142,122
Cash flows from investing activities		
	(153,844)	(130,636)
	1,323	299
	9,833	15,351
	(242,394)	(284,286)
	306,815	325,605
7	(12,497)	-
	(2,448)	-
	2,632	-
	(217)	773
	(90,797)	(72,894)
Cash flows from financing activities		
	(34,008)	(44,537)
	(16)	(7,856)
	22,252	-
17	(9,302)	-
	(21,074)	(52,393)
	(11,850)	(532)
	(5,839)	16,303
12	92,713	113,060
12	86,874	129,363

Approved on 26 August 2016 by:

N.P. Tokarev



President

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



TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 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	-	-	-	119,635	119,635	140	119,775
Remeasurement of net defined benefit plan obligation, net of income tax	-	-	-	(2,216)	(2,216)	-	(2,216)
Currency translation differences, net of income tax	-	-	-	(383)	(383)	-	(383)
Total comprehensive income for the reporting period	-	-	-	117,036	117,036	140	117,176
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 June 2015	308	52,553	(13,080)	1,425,616	1,465,397	1,796	1,467,193
Balance at 1 January 2016	308	52,553	(13,080)	1,446,470	1,486,251	1,705	1,487,956
Profit for the reporting period	-	-	-	134,576	134,576	(55)	134,521
Remeasurement of net defined benefit plan obligation, net of income tax	-	-	-	(1,066)	(1,066)	-	(1,066)
Currency translation differences, net of income tax	-	-	-	8	8	-	8
Total comprehensive income for the reporting period	-	-	-	133,518	133,518	(55)	133,463
Purchase of non-controlling interests	-	-	-	(48)	(48)	32	(16)
Dividends (Note 13)							
- ordinary shares	-	-	-	(11,521)	(11,521)	-	(11,521)
- preferred shares	-	-	-	(1,280)	(1,280)	-	(1,280)
Balance at 30 June 2016	308	52,553	(13,080)	1,567,139	1,606,920	1,682	1,608,602

Approved on 26 August 2016 by:

N.P. Tokarev



President

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



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 51,578 km at 30 June 2016 and the oil products pipeline system in the Russian Federation, Republic of Belarus and Republic of Kazakhstan totalling 16,050 km as at 30 June 2016. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the six months ended 30 June 2016, the Group transported 238.8 million tonnes of crude oil to domestic and export markets (six months ended 30 June 2015 – 239.5 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 17.2 million tonnes of oil products (16.1 million tonnes for six months ended 30 June 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. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

The ongoing conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. 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 Ruble, 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”).

Certain comparative amounts have been corrected to confirm with the current reporting period's presentation.

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 64.2575 and 72.8827 as at 30 June 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 71.2102 and 79.6972 as at 30 June 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	(2,409)	(25,230)	(39,568)	-	-	(67,207)
Additions (including prepayments)	-	-	-	1,979	156,455	158,434
Transfers from assets under construction	1,515	22,130	16,642	-	(40,287)	-
Change in impairment provision	-	38	-	-	-	38
Disposals: cost	(444)	(448)	(2,411)	(919)	-	(4,222)
Disposals: accumulated depreciation and impairment	37	212	2,365	-	-	2,614
Net book value at 30 June 2016	120,712	704,121	443,840	116,646	627,804	2,013,123
At 30 June 2016						
Cost	171,186	1,167,775	935,180	116,646	627,804	3,018,591
Accumulated depreciation and impairment	(50,474)	(463,654)	(491,340)	-	-	(1,005,468)
Net book value at 30 June 2016	120,712	704,121	443,840	116,646	627,804	2,013,123



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	(2,656)	(22,904)	(35,551)	-	-	(61,111)
Additions (including prepayments)	-	-	-	1,793	133,728	135,521
Transfers from assets under construction	2,703	12,900	19,215	-	(34,818)	-
Change in impairment provision	-	9	-	-	-	9
Disposals: cost	(172)	(253)	(1,089)	(1,100)	-	(2,614)
Disposals: accumulated depreciation and impairment	79	199	1,049	-	-	1,327
Net book value at 30 June 2015	116,165	672,408	416,088	112,499	462,340	1,779,500
At 30 June 2015						
Cost	162,199	1,090,064	839,112	112,499	462,340	2,666,214
Accumulated depreciation and impairment	(46,034)	(417,656)	(423,024)	-	-	(886,714)
Net book value at 30 June 2015	116,165	672,408	416,088	112,499	462,340	1,779,500

Linefill represents RUB 96,487 of crude oil and RUB 20,159 of oil products as at 30 June 2016 (as at 31 December 2015 – RUB 95,387 of crude oil and RUB 20,199 of oil products).

During the six months ended 30 June 2016, borrowing costs in the amount of RUB 1,029 were capitalised as part of cost of assets under construction (for the six months ended 30 June 2015 – RUB 881) including interests to be capitalised in the amount of RUB 1,619 less amount to be excluded from capitalised borrowing costs in the amount of RUB 789 as disclosed in Note 20.

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2016	31 December 2015
Corporate bonds	23,075	22,087
Municipal bonds	1,831	3,292
Government bonds (OFZ)	17,060	12,262
Corporate Eurobonds	281	231
Securities	12	-
	42,259	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.



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

The bond issuers were mainly presented by companies controlled by or under significant influence of the state as at 30 June 2016 and 31 December 2015 (76% and 74% accordingly).

Interest rates of the bonds as at 30 June 2016 were in range from 2.0% to 17.1% (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 June 2016 were in range from 2.0% to 17.1% (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 June 2016		
Corporate bonds	23,075	-
Municipal bonds	1,831	-
Government bonds (OFZ)	17,060	-
Corporate Eurobonds	71	210
Securities	12	-
	42,049	210
31 December 2015		
Corporate bonds	22,087	-
Municipal bonds	3,292	-
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 June 2016 the balance of the loan amounted to USD 12.4 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 SIX MONTHS ENDED 30 JUNE 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 owns 100% of share capital of DP PrikarpatZapadtrans which assets are 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 June 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	6,087	12,014
	December 2021, December 2025	RUB	3,823	3,823
Bonds	July 2017 – July 2018	USD	17,207	17,735
Deposits	December 2017	USD	5,428	7,084
Other financial assets	-	Other	9	10
			32,554	40,666
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	-	2,387
	During the year after the reporting date	RUB	-	18
Bonds	During the year after the reporting date	USD	2,721	4,628
Deposits	During the year after the reporting date	USD	284,453	276,390
		RUB	27,686	29,115
		Other	2,117	2,117
Other financial assets	-	RUB	5	5
			316,982	314,660

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 June 2016 and 31 December 2015 the significant amount of deposits (90% 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 June 2016 were in the range from 0.4% 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 0.4% to 11.0% as at 30 June 2016 (from 1.6% to 20.0% as at 31 December 2015).

Most of issuers of afore-mentioned notes and bonds as at 30 June 2016 and 31 December 2015 were organisations which were controlled or significantly influenced by the state (90% and 38% respectively).

Interest rates under notes and bonds ranged from 3.4% to 8.1% as at 30 June 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 June 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 June 2016	31 December 2015
Materials and supplies	29,477	26,864
Sundry goods for resale	9,822	8,207
	39,299	35,071

Materials and supplies are presented net of provisions for obsolescence which amounted RUB 46 as at 30 June 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 June 2016	31 December 2015
Financial assets		
Other long-term receivables	1,452	1,392
Non-financial assets		
Long-term VAT	10	17
Total long-term receivables	1,462	1,409

	30 June 2016	31 December 2015
Financial assets		
Trade receivables	22,130	23,525
Other receivables	26,967	24,362
less: provision for impairment	(23,148)	(21,490)
Total financial assets in short-term receivables	25,949	26,397

Non-financial assets		
Prepayments and advances and other non-financial receivables	12,247	11,209
Total short-term receivables	38,196	37,606

12 CASH AND CASH EQUIVALENTS

	30 June 2016	31 December 2015
Balances in Russian roubles	24,243	27,747
Balances in US dollars	61,738	63,875
Balances in Euro	272	642
Balances in other currencies	621	449
	86,874	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 June 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 (89% 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 June 2016	31 December 2015
Total loans and borrowings	773,841	865,003
Less: current loans and borrowings and current portion of non-current loans and borrowings	(84,483)	(81,494)
	689,358	783,509
Maturity of non-current loans and borrowings		
Between one and five years	349,499	374,556
After five years	339,859	408,953
	689,358	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 3) was determined as a result of discounting using estimated market interest rates for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar maturities, repayment schedules and similar other main terms.

The fair value of bonds (Level 1) was determined based on market quotations as at 30 June 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 June 2016	31 December 2015	30 June 2016	31 December 2015
Non-convertible interest-bearing documentary	Fixed	RUB	105,883	94,102	105,878	95,508
Non-convertible interest-bearing documentary	Floating	RUB	35,000	35,000	35,000	35,000
Eurobonds	Fixed	USD	67,470	76,527	76,271	83,728
Loan agreement with China Development Bank Corporation	Floating according to LIBOR	USD	553,328	651,895	557,083	657,005



15 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. 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 June 2016	31 December 2015
Pension provision	97,424	89,641
Dismantlement provision	5,622	5,517
Other provisions	7,099	6,051
	110,145	101,209

In addition to contributions to State pension fund, the Group sponsors defined benefit plans for the majority of its employees which assume a regular pension payments upon retirement for employees who have worked for more than five years based on years of service, salary and received awards during working. Under collective agreements with Group's employees, an amount ranging from one to five months final salary is payable upon retirement to those who have worked for the Group for more than three years, recovers funeral costs and payments for anniversaries and significant holidays.

17 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	30 June 2016	31 December 2015
Trade payables	53,669	53,776
Other payables	12,918	22,816
Total financial payables	66,587	76,592
Long-term portion of derivatives	-	(12,622)
Dividends due	12,801	-
Total short-term financial payables	79,388	63,970
Advances received for oil and oil product transportation services	39,650	52,229
Accrued expenses	16,697	28,826
VAT payable	26,747	8,543
Other taxes payable	6,061	4,939
Total payables	168,543	158,507

Derivatives

As at 30 June 2016 interest rate swap liability (Level 2) was settled ahead of schedule and fully repaid by cash, cash settlement for the interest rate swap is 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 / (loss) which arose during the reporting period from the settled interest rate swap were disclosed in Note 20.



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

18 REVENUE

	Three months ended 30 June 2016	Six months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2015
Revenue from crude oil transportation services:				
Domestic tariff	60,727	120,809	57,058	113,429
Export tariff	93,439	182,965	80,734	161,806
Total revenue from crude oil transportation services	154,166	303,774	137,792	275,235
Revenue from crude oil sales	37,383	67,775	45,085	88,182
Revenue from oil products transportation services	16,018	34,140	13,649	28,818
Other revenue	5,834	11,717	9,041	14,809
	213,401	417,406	205,567	407,044

Revenue from crude oil sales for the six months ended 30 June 2016 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

	Three months ended 30 June 2016	Six months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2015
Amortisation and depreciation	33,656	67,600	29,553	59,153
Salaries	28,931	53,829	26,046	48,863
Social funds contributions	7,077	14,249	6,558	13,016
Social expenses	817	1,428	782	1,298
Cost of crude oil sold	30,055	54,382	32,973	62,235
Export custom duties	6,904	13,234	10,220	22,303
Energy	9,213	18,907	8,389	17,300
Materials	6,222	11,361	4,862	9,097
Repairs and maintenance services	3,331	4,878	3,026	4,941
Taxes	5,062	10,352	4,198	8,485
Pension expenses	1,230	2,541	1,765	3,005
Other expenses	14,297	25,916	12,629	19,606
	146,795	278,677	141,001	269,302



20 NET FINANCE INCOME

	Three months ended 30 June 2016	Six months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2015
Interest income from cash and cash equivalents	454	953	2,028	4,760
Interest income from other financial assets	4,473	9,385	6,908	14,511
Other interest income	169	374	124	268
Total interest income	5,096	10,712	9,060	19,539
Less interest income from the temporary investment of borrowings	(454)	(789)	(111)	(161)
Total interest income recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income	4,642	9,923	8,949	19,378
Foreign exchange gain	64,247	165,586	106,956	330,853
Gain from operations with derivatives	-	4,252	5,820	16,166
Net income from financial instruments through profit or loss	108	777	766	694
Total finance income	68,997	180,538	122,491	367,091
Interest expense on loans and borrowings	(11,325)	(23,174)	(9,490)	(20,568)
Distribution of pension income on pension liabilities	(1,674)	(3,407)	(1,730)	(3,162)
Other interest expenses	(1,004)	(2,060)	(897)	(1,841)
Total interest expenses	(14,003)	(28,641)	(12,117)	(25,571)
Less capitalised finance expenses	784	1,619	548	1,042
Total interest expenses recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income	(13,219)	(27,022)	(11,569)	(24,529)
Foreign exchange losses	(51,744)	(135,817)	(106,603)	(336,296)
Loss from operations with derivatives	(864)	(864)	-	-
Total finance costs	(65,827)	(163,703)	(118,172)	(360,825)
Net finance income	3,170	16,835	4,319	6,266

21 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

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



22 RELATED PARTIES

The Federal Agency for State Property Management on behalf of the Russian Federation owns 100% of the ordinary shares of the Company conducting the control via the Board of Directors that as at the 30 June 2016 comprise 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 of tariff and rates structure.

As at 30 June 2016 and 31 December 2015 the Company holds in trust on behalf of the Russian Government 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company, 7% of the shares of CPC-R and 7% of the shares of CPC-K and also 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 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 June 2016	Six months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2015
Revenue from oil transportation services	75,868	147,685	66,287	130,559
PAO NK Rosneft and its subsidiaries	67,692	131,351	59,021	116,271
PJSC Gazprom and its subsidiaries	8,050	16,072	7,131	14,025
Others	126	262	135	263
Revenue from oil products transportation services	5,211	12,008	5,190	11,798
PAO NK Rosneft and its subsidiaries	2,130	4,911	2,045	5,547
PJSC Gazprom and its subsidiaries	3,081	7,097	3,145	6,251
Purchases of oil (PAO NK Rosneft)	26,353	48,743	26,228	51,551
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	25	659	740	1,483
Electricity expenses	179	403	67	167
Interest income from other financial assets	3,026	5,932	3,859	6,699
Transportation expenses	448	862	346	637

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

	Three months ended 30 June 2016	Six months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2015
Revenue	1,226	1,501	821	1,560
Purchases of goods and services	9,108	17,678	7,633	15,431



22 RELATED PARTIES (CONTINUED)

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

	30 June 2016	31 December 2015
Trade and other receivables	1,738	1,328
Trade and other payables	1,000	443
Loans granted	18,242	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 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 Sales 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 six months ended 30 June 2016 and 30 June 2015 was as follows:

Three months ended 30 June 2016	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue from sales to third parties	161,663	16,669	35,069	-	213,401
Operating expenses including amortisation and depreciation	(113,682)	(4,528)	(34,216)	5,631	(146,795)
Operating profit	47,981	12,141	853	5,631	66,606
Finance income	-	-	-	-	68,997
Finance costs	-	-	-	-	(65,827)
Share of profit from associates and jointly controlled entities	-	-	-	-	4,460
Profit before income tax	47,981	12,141	853	5,631	74,236
Income tax expense	-	-	-	-	(15,283)
Profit for the reporting period	47,981	12,141	853	5,631	58,953



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

23 SEGMENT INFORMATION (CONTINUED)

Six months ended 30 June 2016	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue from sales to third parties	317,555	35,773	64,078	-	417,406
Operating expenses including amortisation and depreciation	(218,695)	(13,763)	(63,498)	17,279	(278,677)
Operating profit	98,860	22,010	580	17,279	138,729
Finance income	-	-	-	-	180,538
Finance costs	-	-	-	-	(163,703)
Gain from disposal of subsidiaries	-	-	-	-	998
Share of profit from associates and jointly controlled entities	-	-	-	-	11,265
Profit before income tax	98,860	22,010	580	17,279	167,827
Income tax expense	-	-	-	-	(33,306)
Profit for the reporting period	98,860	22,010	580	17,279	134,521

Three months ended 30 June 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	144,002	17,373	44,192	-	205,567
Operating expenses including amortisation and depreciation	(96,746)	(6,835)	(42,012)	4,592	(141,001)
Operating profit	47,256	10,538	2,180	4,592	64,566
Finance income	-	-	-	-	122,491
Finance costs	-	-	-	-	(118,172)
Share of profit from associates and jointly controlled entities	-	-	-	-	1,916
Profit before income tax	47,256	10,538	2,180	4,592	70,801
Income tax expense	-	-	-	-	(14,414)
Profit for the reporting period	47,256	10,538	2,180	4,592	56,387

Six months ended 30 June 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	289,814	32,841	87,015	(2,626)	407,044
Operating expenses including amortisation and depreciation	(187,047)	(13,961)	(82,443)	14,149	(269,302)
Operating profit	102,767	18,880	4,572	11,523	137,742
Finance income	-	-	-	-	367,091
Finance costs	-	-	-	-	(360,825)
Share of profit from associates and jointly controlled entities	-	-	-	-	3,359
Profit before income tax	102,767	18,880	4,572	11,523	147,367
Income tax expense	-	-	-	-	(27 592)
Profit for the reporting period	102,767	18,880	4,572	11,523	119,775



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

23 SEGMENT INFORMATION (CONTINUED)

Adjusting items for segment's expenses in the amount of 17,279 RUB for the six months ended 30 June 2016 and 14,149 RUB for the six months ended 30 June 2015 include the following adjustments and reclassifications due to RAP and IFRS accounting differences:

	Three months ended 30 June 2016	Six months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 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"	(9,043)	(18,940)	(9,899)	(18,786)
Pension provision	533	1,261	968	1,849
Deferred payment obligation	2,024	1,147	722	490
Others	855	(747)	3,617	2,298
Total adjusting items for segment's expenses	(5,631)	(17,279)	(4,592)	(14,149)

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 product transportation 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 June 2016	Six months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2015
Russian Federation	173,941	342,533	164,290	321,462
China	33,124	61,776	36,432	74,254
Other countries	6,336	13,097	4,845	11,328
Total	213,401	417,406	205,567	407,044

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 June 2016	Six months ended 30 June 2016	Three months ended 30 June 2015	Six months ended 30 June 2015
Companies under control of the state	81,079	159,693	71,477	142,357
China National United Oil Corporation	33,124	61,776	36,432	74,254
OAO Surgutneftegaz	26,997	53,330	24,493	48,901
PJSC Lukoil	21,347	42,300	21,122	41,976
Total	162,547	317,099	153,524	307,488

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

24 EVENTS AFTER THE REPORTING DATE

In July 2016 through public offering Transneft issued non-convertible interest-bearing documentary bonds for the total amount of RUB 10 billion and coupon rate of 9.65%.

In August 2016 through public offering Transneft issued non-convertible interest-bearing documentary bonds for the total amount of RUB 15 billion and coupon rate of 9.45%.

Cash received from bonds issued were used for partial early repayment of the loan from China Development Bank Corporation.



КПМГ
ООО «КПМГ»

Прошнуровано, сброшюровано
и скреплено печатью 22
лист(а) (два) листа.

[Handwritten signature]