TRANSNEFT

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENT

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Independent Auditors' Report

To the Shareholders and Board of Directors

Transneft

Opinion

We have audited the consolidated financial statements of Transneft (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards is further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in associates and jointly controlled entities	
Please refer to the Note 7 in the consolidated financial statements.	
The key audit matter	***How the matter was addressed in our audit***
As of the reporting date the Group has significant investments, which are accounted for by the equity method, and which has been tested for impairment. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas that our audit is concentrated on.	— Our audit procedures included analysing the budget upon which the forecasts are based and considering principles and accuracy of the data used in the discounted cash flow model. We used our own internal valuation specialists to assess methodology used by the Group. — Our internal valuation specialists compared the Group's assumptions to externally derived data (inflation, exchange rates and tax rate) as well as to our own assessments in relation to key inputs (terminal growth rate, expenses growth due to inflation and discount rate). — We compared the recoverable amount of Group's investment to investee's market capitalization (where investee shares are publicly traded).

Other Information

Management is responsible for the other information. The other information comprises the *Management's discussion and analysis of the Group's financial position and results of its operations,* but does not include the consolidated financial statements and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the *Annual report for 2016*, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Kim A.A.

JSC "KPMG"

Moscow, Russia

20 March 2017

АКЦИОНЕРНОЕ ОБЩЕСТВО ОГРН 1027700125628 * МОСКВА *
КПМГ
KPMG

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

ASSETS			
Non-current assets	**Notes**	**31 December 2016**	**31 December 2015**
Intangible assets		8,987	9,081
Property, plant and equipment	6	2,146,419	1,923,466
Available-for-sale financial assets		252	265
Investments in associates and jointly controlled entities	7	41,299	13,766
Receivables and prepayments, VAT assets	12	1,443	1,409
Other financial assets	10	32,738	70,222
Total non-current assets		**2,231,138**	**2,018,209**
Current assets			
Inventories	11	30,930	35,071
Receivables and prepayments	12	36,162	37,606
VAT assets		37,725	35,821
Current income tax prepayments		3,493	10,141
Financial assets at fair value through profit or loss	8	44,302	37,872
Other financial assets	10	308,409	391,690
Cash and cash equivalents	13	74,586	92,713
Total current assets		**535,607**	**640,914**
Total assets		**2,766,745**	**2,659,123**

EQUITY AND LIABILITIES			
Equity			
Share capital	14	308	308
Share premium reserve	14	52,553	52,553
Merger reserve	14	(13,080)	(13,080)
Prepaid share reserve	14	5,991	-
Retained earnings		1,668,788	1,446,470
Attributable to the shareholders of Transneft		**1,714,560**	**1,486,251**
Non-controlling interests	15	1,795	1,705
Total equity		**1,716,355**	**1,487,956**
Non-current liabilities			
Loans and borrowings	16	592,505	783,509
Deferred income tax liabilities	17	46,416	33,376
Provisions for liabilities and charges	18	117,620	101,209
Trade and other payables, including derivatives	19	-	12,622
Total non-current liabilities		**756,541**	**930,716**
Current liabilities			
Trade and other payables, including derivatives	19	184,231	158,507
Current income tax payable		571	450
Loans and borrowings	16	109,047	81,494
Total current liabilities		**293,849**	**240,451**
Total liabilities		**1,050,390**	**1,171,167**
Total equity and liabilities		**2,766,745**	**2,659,123**

Approved on 20 March 2017 by:

N.P. Tokarev President

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ТРАНСНЕФТЬ» РОССИЙСКАЯ ФЕДЕРАЦИЯ Г. МОСКВА

The accompanying notes set out on pages 11 to 48 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Revenue	20	848,134	815,652
Operating expenses net of amortisation and depreciation	21	(439,917)	(442,370)
Operating profit net of amortisation and depreciation		**408,217**	**373,282**
Amortisation and depreciation		(128,523)	(118,767)
Operating profit		**279,694**	**254,515**
Other expenses		(7,456)	(17,631)
Share of profit/(loss) from associates and jointly controlled entities	7	19,519	(4,119)
Profit before income tax and finance income/(costs)		**291,757**	**232,765**
Finance income	22	290,870	542,902
Finance costs	22	(281,205)	(610,114)
Profit before income tax		**301,422**	**165,553**
Income tax expense	17	(68,515)	(22,126)
Profit for the reporting year		**232,907**	**143,427**
Other comprehensive income/(loss), net of income tax			
Items that may be reclassified to profit or loss			
Currency translation differences, net of income tax		(110)	(57)
Total items that may be reclassified to profit or loss, net of income tax		*(110)*	*(57)*
Items that will not be reclassified to profit or loss			
Remeasurement of net defined benefit plan obligation, net of income tax	18	2,431	(5,431)
Total items that will not be reclassified to profit or loss, net of income tax		*2,431*	*(5,431)*
Total other comprehensive income/(loss) for the reporting year, net of income tax		**2,321**	**(5,488)**
Total comprehensive income for the reporting year		**235,228**	**137,939**
Profit attributable to			
Shareholders of Transneft		232,856	143,378
Non-controlling interests		51	49
Total comprehensive income attributable to			
Shareholders of Transneft		235,177	137,890
Non-controlling interests		51	49

Approved on 20 March 2017 by:

N.P. Tokarev President

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ТРАНСНЕФТЬ» * РОССИЙСКАЯ ФЕДЕРАЦИЯ, г. МОСКВА *

The accompanying notes set out on pages 11 to 48 are an integral part of these consolidated financial statements

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

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Cash receipts from customers		894,316	867,198
Cash paid to suppliers and employees, and taxes other than income tax		(583,057)	(563,402)
Interest paid		(46,246)	(44,746)
Income tax paid		(49,078)	(39,904)
Income tax refund		597	1,267
VAT and other taxes refund		105,582	111,431
Other cash flows used in operating activities		(4,544)	(2,607)
Net cash from operating activities		**317,570**	**329,237**
Cash flows from investing activities			
Purchase of property, plant and equipment		(321,603)	(323,924)
Proceeds from sale of property, plant and equipment		1,645	937
Interest and dividends received		24,178	37,609
Purchase of notes and placement of funds on deposit accounts		(562,015)	(658,861)
Proceeds from sale of debt securities and closure of deposit accounts		623,954	735,675
Acquisition of subsidiaries		-	(470)
Acquisition of shares of associates and jointly controlled entities	7	(12,497)	(358)
Issuance of loans		(6,568)	(2,798)
Cash inflows as a result of disposal of entities	9	2,636	-
Other cash flows (used in)/ from investing activities		(438)	1,416
Net cash used in investing activities		**(250,708)**	**(210,774)**
Cash flows from financing activities			
Repayment of loans and borrowings		(129,358)	(72,747)
Proceeds from loans and borrowings		79,207	10,026
Dividends paid out	14	(12,796)	(2,941)
Acquisition of non-controlling interest		(19)	(15,606)
Other cash used in financing activities		(9,544)	(68,238)
Net cash used in financing activities		**(72,510)**	**(149,506)**
Effects of exchange rate changes on cash and cash equivalents		**(12,479)**	**29,894**
Cash on accounts where operations were ceased		**-**	**(19,198)**
Net decrease in cash and cash equivalents		**(18,127)**	**(20,347)**
Cash and cash equivalents at the beginning of the year	13	**92,713**	**113,060**
Cash and cash equivalents at the end of the year	13	**74,586**	**92,713**

Approved on 20 March 2017 by:

N.P. Tokarev President

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО РОССИЙСКАЯ ФЕДЕРАЦИЯ, г. МОСКВА * «ТРАНСНЕФТЬ» *

The accompanying notes set out on pages 11 to 48 are an integral part of these consolidated financial statements

TRANSNEFT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

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

	Attributable to the owners of Transneft							
	Share capital	Share premium reserve	Merger reserve	Prepaid share reserve	Retained earnings	Total	Non-controlling interests	Total equity
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 year	-	-	-	-	143,378	143,378	49	143,427
Remeasurement of net defined benefit plan obligation, net of income tax	-	-	-	-	(5,431)	(5,431)	-	(5,431)
Currency translation differences, net of income tax	-	-	-	-	(57)	(57)	-	(57)
Total comprehensive income for the reporting year	-	-	-	-	137,890	137,890	49	137,939
Transactions with owners of the Company								
Distributions								
Dividends (Note 14)								
- ordinary shares	-	-	-	-	(1,768)	(1,768)	-	(1,768)
- preferred shares	-	-	-	-	(1,178)	(1,178)	-	(1,178)
Total distributions	-	-	-	-	(2,946)	(2,946)	-	(2,946)
Changes in ownership interests								
Changes in the Group's structure	-	-	-	-	-	-	(294)	(294)
Acquisition of non-controlling interests without a change in control	-	-	-	-	8,921	8,921	(24,527)	(15,606)
Total changes in ownership interests	-	-	-	-	8,921	8,921	(24,821)	(15,900)
Total transactions with owners of the Company	-	-	-	-	5,975	5,975	(24,821)	(18,846)
Balance at 31 December 2015	308	52,553	(13,080)	-	1,446,470	1,486,251	1,705	1,487,956
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 year	-	-	-	-	232,856	232,856	51	232,907
Remeasurement of net defined benefit plan obligation, net of income tax	-	-	-	-	2,431	2,431	-	2,431
Currency translation differences, net of income tax	-	-	-	-	(110)	(110)	-	(110)
Total comprehensive income for the reporting year	-	-	-	-	235,177	235,177	51	235,228
Transactions with owners of the Company								
Distributions and contributions								
Prepayment for shares (Note 14)	-	-	-	5,991	-	5,991	-	5,991
Dividends (Note 14)								
- ordinary shares	-	-	-	-	(11,521)	(11,521)	-	(11,521)
- preferred shares	-	-	-	-	(1,280)	(1,280)	-	(1,280)
Total distributions and contributions	-	-	-	5,991	(12,801)	(6,810)	-	(6,810)
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	-	-	-	5,991	(12,859)	(6,868)	39	(6,829)
Balance at 31 December 2016	308	52,553	(13,080)	5,991	1,668,788	1,714,560	1,795	1,716,355

Approved on 20 March 2017 by:

N.P. Tokarev President

ПУБЛИЧНОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ТРАНСНЕФТЬ» РОССИЙСКАЯ ФЕДЕРАЦИЯ, г. МОСКВА

The accompanying notes set out on pages 11 to 48 are an integral part of these consolidated 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 14.08.1993 № 810. The Company's registered office is located in Moscow, Russian Federation.

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

The Company and its subsidiaries (hereinafter - the "Group") operate the oil pipeline system in the Russian Federation totalling 52,840 km at 31 December 2016 and the oil products pipeline system in the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan totalling 16,241 km as at 31 December 2016. Its associate OOO LatRosTrans operates an interconnected system in the Republic of Latvia.

During the year ended 31 December 2016, the Group transported 483 million tonnes of crude oil to domestic and export markets (as for the year ended 31 December 2015 – 481 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 33.1 million tonnes of oil products (32.2 million tonnes as for the year ended 31 December 2015).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

The imposition of economic sanctions on Russian individuals and legal entities including the Company by the European Union, the United States of America 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 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 financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS") .

The principal accounting policies have been consistently applied in the preparation of these consolidated financial statements to all periods presented, unless otherwise stated (see Note 4). The consolidated financial statements of the Group are prepared under the historical cost convention except as described in Notes 4 and 5.

During the year ended 31 December 2016 the Group changed the disclosure of the consolidated statement of profit or loss and other comprehensive income for more appropriate and clear presentation of results of its operations. As a result of this change Amortisation and depreciation and Other expenses are presented separately from Operating expenses. Other expenses include provisions not related to operating activity, result from disposal of subsidiaries, associates and jointly controlled entities, income from oil and oil products surplus, charity contributions and other expenses.

Certain comparative amounts have been corrected to conform with the current year's presentation.

The functional currency of each of the Group's consolidated entities 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 rate as determined by the Central Bank of the Russian Federation ("CBR") was 60.6569 and 72.8827 as at 31 December 2016 and 31 December 2015, respectively. The official euro ("EUR") to Russian Rouble ("RUB") exchange rate as determined by the Central Bank of the Russian Federation was 63.8111 and 79.6972 as at 31 December 2016 and 31 December 2015, respectively.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests at the reporting date represent the non-controlling shareholders' portion of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the non-controlling interests' portion of movements in equity since the date of the acquisition.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Business combination under common control

Business combinations under common control are accounted for using the predecessor values method from the date of combination. Under this method the acquired entities results are included into the acquirer's financial statements from the date the transaction occurred. The assets and liabilities of the subsidiary transferred under common control are recorded at the predecessor entity’s carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary’s IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity’s original acquisitions is also recorded in consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment to merger reserve within equity.

Investments in associates and jointly controlled entities

Associates are undertakings over which the Group has significant influence, but not control, over the financial and operating policies. Significant influence occurred when the Group has the power to participate in the financial and operational policy decisions of the entity but has no control or joint control over those policies.

Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity, either directly or indirectly, unless lack of ability to exercise significant influence can be demonstrated clearly.

Joint control entities are companies, financial or operating policies of which are controlled by the Group as well as other members of these companies.

Investments in associates and jointly controlled entities are accounted under equity method and are recognised initially at cost. The cost of the investment includes transaction costs. The consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising in translation are recognised in profit or loss, except for differences arising on the translation of available-for-sale equity instruments which are recognised in other comprehensive income.

Property, plant and equipment

Property, plant and equipment are carried at initial historical cost, including, where appropriate, the net present value of the estimated dismantlement or removal cost of the asset at the end of its estimated useful life, less accumulated depreciation and impairment losses. Assets under construction are carried at historical cost and depreciated from the time the asset is available for use. Depreciation is calculated on the straight-line basis to write down the cost of each asset to its estimated residual value over its estimated useful life as follows:

	Years
Buildings and facilities	8-50
Crude oil pipelines and tanks	20-33
Oil product pipelines	50
Other plant and equipment	5-25

Management approves specific plans for prospective dismantlement or decommissioning of sections of pipeline and related facilities, at that time, the estimated useful life of the related asset is revised and the annual depreciation charge is amended if applicable.

Renewals and improvements are capitalised and the assets replaced are retired. Maintenance, repairs, and minor renewals are expensed as incurred. Gains and losses arising from the retirements or other disposals of property, plant and equipment are included in profit (loss) for the year in the consolidated statement of profit or loss and other comprehensive income.

Crude oil and oil products used for technical operation of the pipeline network (“linefill”) owned by the Group is treated as a separate component of the pipeline class of asset and is not depreciated as its residual value exceeds its carrying amount.

Any additions to linefill over the year are recognised at cost, and any disposals are written off at weighted average carrying value of linefill.

Oil surpluses arising from stocktaking are recognised at market value and are recorded in inventory in the consolidated statement of financial position, and income from oil surplus is netted with other expenses which include charity expenses, made from the above specified income received, and recognised in Other expenses in the consolidated statement of profit or loss and other comprehensive income.

Disposals of oil surpluses are accounted for as revenue and included in sales in the consolidated statement of profit or loss and other comprehensive income.

The prepayments which relate to property, plant and equipment and inventory for construction are included in the category Assets under construction including prepayments.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Each lease payment is allocated between the liability and finance charges so as to achieve a constant effective interest rate on the finance balance outstanding. The leased assets which assume the transfer of ownership are depreciated over their useful lives. Other leased assets are depreciated over the shorter of its useful life and the lease term.

Other lease agreements are classified as operating leases and corresponding leased assets are not recognized in the Group’s consolidated statement of financial position.

Inventories

Inventories are valued at the lower of weighted average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-derivative financial instruments

Financial assets and liabilities

Financial assets and liabilities include cash and cash equivalents, available-for-sale financial assets, financial assets through profit or loss, receivables, borrowings, and trade and other payables and other financial assets. These items are initially recognised at fair value adjusted for transaction costs on the date when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised only when the rights to the appropriate benefits under the relevant contract are settled, lost, surrendered, or have expired. Financial liabilities are partially or fully de-recognised only when the obligation specified in the relevant contract is discharged, cancelled, or has expired.

Financial assets at fair value through profit or loss and available-for-sale financial assets are re-measured to fair value at each subsequent reporting date, other financial assets and financial liabilities are carried at amortised cost.

The fair values of financial assets and liabilities with a maturity date less than year from the reporting date, including trade and other receivables and payables, are assumed to approximate their carrying amounts unless there is an indication of impairment at the reporting date. The fair value of all other financial assets and liabilities is based on the amount receivable or payable at the expected settlement date, discounted to net present value using a rate considered appropriate for the asset or liability.

A financial asset not carried at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Besides, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers a decline of 20% to be significant and a period of twelve months to be prolonged.

Impairment of an equity-accounted investee is recognised in the consolidated statement of profit or loss and other comprehensive income.

Available-for-sale financial assets

Fair value of available-for-sale securities is determined using the quoted prices on active market. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the reporting date.

Gains and losses arising from changes in the fair value of the investments classified as available-for-sale are recognised in other comprehensive income. When the investments classified as available-for-sale are sold or impaired, the fair value adjustments accumulated in other comprehensive income are included in the consolidated statement of profit or loss and other comprehensive income as a reclassification adjustment as gains and loss from the investments.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified to held-to-maturity category. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

The Group is not permitted to classify any financial assets as held to maturity during the following two financial years and reclassifies the assets of this category as available-for-sale if the Group during the current financial year has sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than sales or reclassifications that:

- are close to maturity or the financial asset's call date;
- occur after the Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Group's control, is non-recurring and could not have been reasonable anticipated by the Group.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss-category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are recognised at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss for the period.

Interest income on financial assets at fair value through profit and loss calculated based on effective interest method as well as gains or losses on derecognition of these financial assets is recognized in the statement of profit or loss and other comprehensive income in the profit from operations with securities at fair value through profit and loss. Dividend income is recognized in profit or loss for the period when the Group's right to receive payment is established. Changes in fair value are recognized in the profit or loss from operations with securities at fair value through profit or loss in the period when changes occurred.

Loans and receivable

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Those assets are initially measured at fair value plus directly attributable transaction costs. After initial measurement loans and receivables are measured at amortised cost which is calculated based on the effective interest method less provision made for impairment.

A provision for impairment is established when there is an objective evidence that Group will not be able to collect all amounts due according to the original terms of the contract. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for the similar borrowers at the date of origination of the receivables.

The following principal criteria are used to determine whether there is objective evidence that an impairment loss might have occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, call bank deposits, and highly liquid investments, which have original maturities of three months or less at the date of acquisition and which are subject to insignificant risk of fair value change.

Prepayments

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income.

VAT assets

VAT assets relate to VAT incurred on capital construction, operating and export activities, oil transportation to Russian oil-processing plants. VAT is included in current assets if the amount is expected to be recovered within 12 months after the reporting date.

Loans and borrowings

Loans and borrowings are recognised initially at the fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, loans and borrowings are carried at amortised cost, using the effective interest rate method; any difference between the fair value (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

Derivatives

Derivatives are initially recognised at fair value, relevant transaction expenses are recognised as profit or loss when incurred. Following initial recognition derivatives are measured at fair value with appropriate changes recognised directly in profit or loss for the period.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The best evidence of fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). If the Group determines that the fair value on initial recognition differs from the transaction price, the difference between the fair value at initial recognition and the transaction price is accounted for as follows:

(a) in profit or loss if the fair value of the quoted price is confirmed for identical assets or liabilities in an active market (accounted for Level 1) or based on a valuation method, which uses only data from observable markets;

(b) as deferred loss or income to defer recognition of the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes the difference as the deferred gain or loss over the life of the financial instrument, but not later than the time when the estimate of its fair value can be made on fully observable market data, or the date of termination.

The Group has established a system of control in relation to the fair value measurement. Within this framework, the Group regularly checks significant unobservable inputs and valuation adjustments. In estimating the fair value of the asset or liability Group applies, as much as possible, observable market data. Fair value estimates are different levels of the fair value hierarchy depending on the input data used in the relevant assessment methods:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the initial data used to estimate the fair value of the asset or liability can be attributed to different levels of the fair value hierarchy, the fair value generally refers to the level of the hierarchy, which corresponds to the original data of the lowest level, are essential for the entire evaluation.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period in which the change occurred.

Income tax

Income tax has been provided for in the consolidated financial statements in accordance with legislation enacted at the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the profit or loss in the statement of profit or loss and other comprehensive income except if it is recognised directly in other comprehensive income or equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity or comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Deferred income tax is provided for using the balance sheet liability method and is recognised for tax loss carried forward and temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Provisions (including dismantlement provision)

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Provisions are estimated and remeasured at each reporting date, and are included in the consolidated financial statements at their expected net present values using the discount rate appropriate to the liability with consideration to the economic environment of the Russian Federation.

Changes in provisions resulting from the passage of time are reflected as financial items in the consolidated financial statement of profit or loss and other comprehensive income. Changes in provisions resulting from changes in the discount rate and other changes in provisions, related to a change in the expected pattern or estimated cost of settlement of the obligation, are treated as a change in an accounting estimate in the period of the change by adjusting the corresponding asset or expense.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension activities

State pension fund

The Group makes contributions to the State pension fund. Contributions to the State pension fund are recognized as expenses when accrued.

Pension liabilities

In addition to contributions to the State pension fund, the Group sponsors defined benefit plans for the majority of its employees.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to every minimum funding requirements that apply to every plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on the settlement of the plan liabilities.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss in the consolidated statement of profit or loss and other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

The Group operates its pension obligations, which are non-state pension provision (hereinafter - NPO), compulsory pension insurance (hereinafter - OPS), through its subsidiary JSC “NPF “TRANSNEFT”.

Insurance contracts

JSC “NPF “TRANSNEFT” assigns to insurance contracts agreements for provision of NPO in accordance with current pension plans (pension schemes) and agreement for provision of OPS when significant insurance risk is transferred to JSC “NPF “TRANSNEFT”. JSC “NPF “TRANSNEFT” does not apply for additional financing of NPO to employers-investors and for additional insurance contributions to previous insurer in case of unfavorable events such as decline in investments and increase in longevity. JSC “NPF “TRANSNEFT” defines insurance contracts in accordance with IFRS 4 Insurance contracts as a contract under which one party (the insurer or JSC “NPF “TRANSNEFT”) accepts significant insurance risk from another party entered into agreement for pension provision when this risk arises from uncertainty connected with payment of pension and deviation of actual repayments from forecasted mortality tables.

Investment contracts

JSC «NPF «Transneft» recognizes as investment contracts agreements for provision of NPO in accordance with current pension plans (pension schemes) when these contracts contain financial risk without significant insurance risk. All investment contracts contain discretionary participation feature and JSC «NPF «Transneft» recognizes them in accordance with IFRS 4 Insurance Contracts.

Recognition and measurement of pension liabilities

JSC «NPF «Transneft» uses IAS 37 Provisions, Contingent Liabilities and Contingent Assets to measure its obligations under insurance contracts for NPO and investment contracts with discretionary participation feature. In accordance with IAS 37 the amount of provision recognized is the best estimate of expenditure required to settle the present obligation at the end of the reporting period. The provision in accordance with IAS 37 is adjusted to risk and uncertainty. This also responds to IFRS 4 Insurance Contracts requirements.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with IFRS 4 Insurance Contracts JSC «NPF «Transneft» reviews the relevance of liabilities to estimate whether there are enough pension assets to fulfill JSC «NPF «Transneft»'s liabilities under insurance contracts for OPS. The relevance check is based on assumptions for mortality, discount rate in the period of payments and investment returns rate which are the best estimate as at the end of the reporting period.

Deed of Trust agreements

For the investments into financial instruments made by the Group via the Deed of Trust agreements, there is no transfer of risk and benefits related to change in fair value of the investments. Thus, these financial instruments are recognised by the Group.

Site restoration provision

The Group periodically evaluates its obligations under environmental regulations, including as discussed below for the remediation of oil spillage. As obligations are determined, they are recognised as expenses immediately unless they mitigate or prevent future environmental contamination, in which case they are capitalised.

At the date of spillage the Group recognises separately the estimated cost of crude oil spillages, including the cost of the obligation to restore the environment. The Group recognises the estimated recoveries under applicable insurance policies, when it is virtually certain that reimbursement will be received.

Revenue recognition

Revenue from transportation services is recognised when the services are provided as evidenced by the delivery of crude oil or oil products to the owner or the owner's customer in accordance with the contract.

Revenue from oil and oil products sales is recognised upon shipment of goods to the customer, when the goods cease to be under physical control of the Group and risks of ownership have been transferred to the buyer.

Revenue and costs under the construction contract are recognised as revenue and costs, respectively, to the extent the stages under the contract are completed as at the end of the reporting period. The percentage of completion is measured by comparing costs under the contract incurred to fulfil work as at the specific date against the aggregate costs under the contract.

Revenue represents the fair value of consideration received or receivable for the sale of goods and services in the normal course of business, net of discounts and value-added tax. Customs duties are reported separately as income and expenses in the consolidated financial statements.

Capitalisation of borrowing costs

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

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

Capitalisation of borrowing costs includes capitalising foreign exchange differences relating to borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange differences are capitalized as part of qualifying assets to the extent of the interest rate difference between borrowing costs that would be incurred if the entity borrowed funds in Russian roubles, and borrowing costs actually incurred on foreign currency borrowings.

The portion of the foreign exchange movements is estimated based on interest rates on similar borrowing in the Group's functional currency. The foreign exchange gains and losses eligible for capitalisation are assessed on a cumulative basis.

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

The portion of the foreign exchange movements on the USD loan eligible for capitalisation is estimated based on comparison of the interest rates of the coupon yield for the first period on the RUB non-convertible interest-bearing documentary bonds placed by the Group in the period of June-October 2009.

The foreign exchange gain on the borrowing is not attributable to the interest rate differential and therefore is not capitalised.

Foreign currency gains and losses are reported on a gross-up basis as "Finance income" or "Finance costs" in the consolidated statement of profit or loss and other comprehensive income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital and dividends

Ordinary shares and non-redeemable preferred shares with the right to receive discretionary annual fixed dividends are both classified as equity.

Dividends are recognised as a liability and deducted from other comprehensive income on the date on which they are approved at the annual general shareholders meeting. Dividends proposed at any time, and those approved between the reporting date and the date of issuing the consolidated financial statements, are disclosed in the consolidated financial statements.

New accounting standards

A number of new Standards, amendments to Standards and Interpretations become effective for annual periods from 1 January 2017, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The analysis of impact of IFRS 15 has not been completed yet, and preliminary assessment is that the new Standard is not expected to have a significant effect on the consolidated financial statements of the Group.

IFRS 9 Financial Instruments. In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group currently plans to apply IFRS 9 initially on 1 January 2018. The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group has performed a preliminary assessment of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016.

Classification - Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Accordingly, the Group has to classify all of its financial assets in accordance with new categories under IFRS 9 as assets measured at amortised cost and as assets measured at fair value through profit or loss.

Impairment - Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

– 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group's preliminary assessment regarding application of new impairment requirements at 31 December 2016 has not yet been completed. Loans provided to related parties are expected to be mostly impacted by application IFRS 9.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

– The Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.

IFRS 16 Lease. IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The adoption of IFRS 16 is expected to have a significant effect on the consolidated financial statements of the Group relating to recognition of operating leases of land and other properties (Note 24).

The following new or amended standards are not expected to have a significant impact of the Group's consolidated financial statements.

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28);
- Disclosure Initiative (Amendments to IAS 7);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

5 CRITICAL ESTIMATES IN APPLYING ACCOUNTING POLICIES

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation. The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Should the useful life of the oil pipeline increase by 10 years, the profit for the year ended 31 December 2016 would be RUB 9,278 higher (the year ended 31 December 2015: RUB 12,246) as a result of decrease of depreciation expenses.

Impairment testing of investment in associates and jointly controlled entities

Further information is disclosed in Note 7.

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

6 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	(6,012)	(39,755)	(81,163)	-	-	(126,930)
Additions (including prepayments)	-	-	-	6,492	349,055	355,547
Transfers from assets under construction	27,277	198,282	228,572	-	(454,131)	-
Change in impairment provision	61	(1,000)	(244)	-	-	(1,183)
Net change in dismantlement provision (Note 18)	-	(686)	-	-	-	(686)
Disposals: cost	(914)	(3,420)	(12,799)	(724)	-	(17,857)
Disposals: accumulated depreciation and impairment	649	2,183	11,230	-	-	14,062
Net book value at 31 December 2016	**143,074**	**863,023**	**612,408**	**121,354**	**406,560**	**2,146,419**
At 31 December 2016						
Cost	196,539	1,339,231	1,136,478	121,354	406,560	3,200,162
Accumulated depreciation and impairment	(53,465)	(476,208)	(524,070)	-	-	(1,053,743)
Net book value at 31 December 2016	**143,074**	**863,023**	**612,408**	**121,354**	**406,560**	**2,146,419**

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

6 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	(4,861)	(45,786)	(68,270)	-	-	(118,917)
Acquisition of subsidiaries, cost	423	-	13	-	2	438
Acquisition of subsidiaries, accumulated depreciation	-	-	(11)	-	-	(11)
Additions (including prepayments)	-	-	-	5,278	329,787	335,065
Transfers from assets under construction	10,455	67,694	103,434	-	(181,583)	-
Change in impairment provision	(77)	169	(436)	-	-	(344)
Net change in dismantlement provision (Note 18)	-	3,217	-	-	-	3,217
Disposals: cost	(354)	(2,433)	(3,048)	(1,498)	-	(7,333)
Disposals: accumulated depreciation and impairment	216	2,101	2,666	-	-	4,983
Net book value at 31 December 2015	**122,013**	**707,419**	**466,812**	**115,586**	**511,636**	**1,923,466**
At 31 December 2015						
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 31 December 2015	**122,013**	**707,419**	**466,812**	**115,586**	**511,636**	**1,923,466**

Property, plant and equipment and assets under construction are shown net of impairment provision amounting to RUB 3,356 as at 31 December 2016 (RUB 2,173 as at 31 December 2015).

Linefill represents RUB 100,717 of crude oil and RUB 20,637 of oil products as at 31 December 2016 (as at 31 December 2015 – RUB 95,387 of crude oil and RUB 20,199 of oil products).

During the year ended 31 December 2016, borrowing costs in the amount of RUB 2,341 were capitalised as part of cost of assets under construction (for the year ended 31 December 2015 – RUB 3,796) including interests to be capitalised in the amount of RUB 3,437 (for the year ended 31 December 2015 – RUB 1,936) less amount to be excluded from capitalised borrowing costs in the amount of RUB 1,305 (for the year ended 31 December 2015 – RUB 778) as disclosed in Note 22.

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

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 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 31 December 2016 the balance of the loan amounted to USD 397 thousand and was recognised as other financial assets in the consolidated 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
incl. cash and cash equivalents	*2,269*
Non-current assets	6,294
Current liabilities	1,659
incl. current financial liabilities	*1,227*
Non-current liabilities	3,344
incl. non-current financial liabilities	*3,172*
Net assets (100%)	3,764
Share of net assets (50%)	**1,882**
Goodwill	8,639
Carrying value of the investment	**10,521**

The carrying amount of investment in associates and jointly controlled entities in amount of RUB 41,299 as at 31 December 2016 (RUB 13,766 - at 31 December 2015) is shown net of impairment provision of RUB 16,353 as at 31 December 2016 (RUB 16,941 - at 31 December 2015).

Summarised financial information of associates and jointly controlled entities was as follows:

	31 December 2016	**31 December 2015**
Current assets	47,307	23,871
including cash and cash equivalents	*22,341*	*17,273*
Non-current assets	208,176	201,148
Current liabilities	(29,109)	(33,273)
including current financial liabilities	*(12,687)*	*(31,170)*
Non-current liabilities	(117,258)	(127,275)
including non-current financial liabilities	*(81,871)*	*(117,926)*
Total net assets	109,116	64,471
Share in net assets	**32,660**	**13,766**
Goodwill	8,639	-
Carrying value of investment	**41,299**	**13,766**

	Year ended 31 December 2016	**Year ended 31 December 2015**
Revenue	109,559	92,142
Interest expense	6,475	5,545
Current income tax gain/(loss)	12,880	(2,561)
Income / (loss)	38,038	(7,098)
Total comprehensive income / (loss)	38,038	(7,098)
Share of comprehensive income/(loss)	**19,519**	**(4,119)**
Dividends received	**(2,314)**	**(547)**

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

7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The most significant share in the net assets (more than 86% as at 31 December 2016 and 80% as at 31 December 2015), revenue (53% as for the year ended 31 December 2016 and 58% as for the year ended 31 December 2015) and income (about 79% as at 31 December 2016) and loss (about 100% as at 31 December 2015) is attributable to PJSC NCSP (Omirico Ltd.) which the Group holds effective share of 35.57%. The estimated direct share of the Group in PJSC NCSP (10.52%) based on a share price at MICEX amounted to RUB 13,342 (RUB 7,618 – as at 31 December 2015). The main operating activities of PJSC NCSP and its subsidiaries are the provision of stevedore and supporting services of the port as well as servicing of sea ships.

With ongoing volatility in capital market and foreign currency market the Group has tested its investments in OOO NMT and PJSC NCSP for impairment as at 31 December 2016.

The assessment of recoverable amount of investment in PJSC NCSP was based on its value in use with the following assumptions – forecast period of 10 years, discount rate is 13.6%, growth rate at 3.2% after forecast period.

The assessment of recoverable amount of investment in OOO NMT was based on its value in use with the following assumptions – forecast period of 5 years, discount rate is 14.4%, growth rate at 3.4% after forecast period.

As at 31 December 2016 the recoverable amount of investments in PJSC NCSP and OOO NMT was higher than their carrying values thus no impairment loss was recognized.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016	31 December 2015
Corporate bonds	23,557	22,087
Municipal bonds	1,308	3,292
Federal government bonds (OFZ)	18,342	12,262
Corporate Eurobonds	989	231
Securities	106	-
	44,302	**37,872**

Financial assets at fair value through profit or loss are 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 31 December 2016 and 31 December 2015 (77% and 74% accordingly).

Interest rates of the bonds as at 31 December 2016 were in range from 2.0% to 13.9% (as at 31 December 2015 – from 2.0% to 18.5%). Interest rates of the bonds issued by companies which were under control or significant influence of the state as at 31 December 2016 were in range from 2.0% to 13.3% (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.

Financial instrument	12 months and less	1 to 2 years	2 to 5 years	Over 5 years	Without maturity	Total
Corporate bonds	931	4,120	6,065	12,441	-	23,557
Municipal bonds	126	160	706	316	-	1,308
Government bonds (OFZ)	12,644	254	3,349	2,095	-	18,342
Corporate Eurobonds	70	-	919	-	-	989
Securities	-	-	-	-	106	106
	13,771	**4,534**	**11,039**	**14,852**	**106**	**44,302**

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

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

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

Financial instrument	Level 1	Level 2
31 December 2016		
Corporate bonds	23,557	-
Municipal bonds	1,308	-
Federal government bonds (OFZ)	18,342	-
Corporate Eurobonds	989	-
Securities	106	-
	44,302	**-**
31 December 2015		
Corporate bonds	22,087	-
Municipal bonds	3,292	-
Federal government bonds (OFZ)	12,262	-
Corporate Eurobonds	70	161
	37,711	**161**

9 DISPOSAL OF SUBSIDIARIES

In February 2016 the Group completed the sale of AO Yugo-Zapad transnefteproduct which owned 100% of share capital of DP PrikarpatZapadtrans which assets were located on the territory of Ukraine. The amount of excess of consideration received over the carrying value of net assets disposed of amounted to RUB 998 and was recognised as Other expenses in the consolidated statement of profit or loss and other comprehensive income.

10 OTHER FINANCIAL ASSETS

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	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**

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

10 OTHER FINANCIAL ASSETS (continued)

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
Eurobonds	During the year after the reporting date	USD	389	374
Deposits	During the year after the reporting date	USD	296,323	335,175
		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**

As at 31 December 2016 and 31 December 2015 the significant amount of deposits (93% 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 31 December 2016 were in the range from 0.8% 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 0.8% to 11.0% as at 31 December 2016 (from 1.6% to 20.0% as at 31 December 2015).

Most of issuers of afore-mentioned notes and bonds as at 31 December 2016 and 31 December 2015 were organisations which were controlled or significantly influenced by the state (83% and 38% respectively).

Interest rates under notes and bonds ranged from 3.4% to 8.1% as at 31 December 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 31 December 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.

11 INVENTORIES

	31 December 2016	31 December 2015
Materials and supplies	27,081	26,864
Sundry goods for resale	3,849	8,207
	30,930	**35,071**

Materials and supplies are presented net of provisions for obsolescence which amounted to RUB 24 as at 31 December 2016 (as at 31 December 2015 – RUB 194). Materials are primarily used for repairment and maintenance of pipeline equipment.

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

12 RECEIVABLES AND PREPAYMENTS, VAT ASSETS

Receivables and prepayments

	31 December 2016	31 December 2015
Financial assets		
Other long-term receivables	1,439	1,392
Non-financial assets		
Long-term VAT	4	17
Total long-term receivables	**1,443**	**1,409**

	31 December 2016	31 December 2015
Financial assets		
Trade receivables	22,346	23,525
Other receivables	26,573	24,362
less: provision for impairment	(23,591)	(21,490)
Total financial assets in short-term receivables	**25,328**	**26,397**
Non-financial assets		
Prepayments, advances and other non-financial receivables	10,834	11,209
Total short-term receivables	**36,162**	**37,606**

As at 31 December 2016 other accounts receivable include interest receivable related to temporarily available cash balances with banks as well as receivables related to insurance, agency agreements, prepayment for taxes other than income tax and other receivables.

The provision for impairment of accounts receivable was calculated based on an analysis of collectability. The movement of the provision is shown in the table below:

	2016		2015	
	Trade receivables	Other receivables	Trade receivables	Other receivables
As at 1 January	**495**	**20,995**	**39**	**1,721**
Impairment loss	675	2,622	493	19,808
Amounts written off in trade and other receivables	(15)	(76)	(30)	(122)
Reversal of provision	(448)	(657)	(7)	(412)
As at 31 December	**707**	**22,884**	**495**	**20,995**

Management determines the provision for impairment of accounts receivable based on specific customer identification, customer payment trends, subsequent receipts and settlements and analysis of expected future cash flows.

The provision for impairment of other receivables for the year ended 31 December 2015 was recognized for possible loss on Group's cash balances at banks where licenses were withdrawn by Bank of Russia. These amounts were presented in the consolidated statement of cash flows as Cash on accounts where operations were ceased.

According to the analysis of accounts receivable in respect to the payment dates the Group has the following overdue balances not included in the provision for accounts receivable as at 31 December 2016 and 31 December 2015:

	31 December 2016		31 December 2015	
Outstanding period	Trade receivables	Other receivables	Trade receivables	Other receivables
Less than 90 days	800	465	549	56
More than 90 days but less than 365 days	138	176	351	69
Over 365 days	73	33	331	109
	1,011	**674**	**1,231**	**234**

Management of the Group believes that Group entities will be able to realise the net receivable amount through direct collections or other non-cash settlements, and therefore the recorded value of accounts receivable approximates their fair value.

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

12 RECEIVABLES AND PREPAYMENTS, VAT ASSETS (continued)

Breakdown of accounts receivable by currency is presented in the tables below:

Currency	31 December 2016			31 December 2015		
	Trade receivables	Other receivables	Total receivables	Trade receivables	Other receivables	Total receivables
RUB	8,330	3,531	11,861	10,205	3,039	13,244
USD	12,878	138	13,016	12,025	312	12,337
Other	431	20	451	800	16	816
	21,639	**3,689**	**25,328**	**23,030**	**3,367**	**26,397**

13 CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Balances in RUB	71,388	27,747
Balances in USD	1,786	63,875
Balances in Euro	517	642
Balances in other currencies	895	449
	74,586	**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 31 December 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 (72.3% and 69% correspondingly).

Information concerning the Group's exposure to interest risk and sensibility analysis relating to financial assets and liabilities are disclosed in Note 27.

14 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS

Share capital	31 December 2016			31 December 2015		
	Number of shares	Historical cost	Inflated cost	Number of shares	Historical cost	Inflated cost
Authorised, issued and fully paid shares with par value RUB 1 each						
Ordinary:	5,546,847	5.5	231	5,546,847	5.5	231
Preferred:	1,554,875	1.6	77	1,554,875	1.6	77
	7,101,722	**7.1**	**308**	**7,101,722**	**7.1**	**308**

The carrying value of the share capital as at 31 December 2016 and as at 31 December 2015 differs from historical cost due to the effect of hyperinflation in the Russian Federation prior to 31 December 2002.

The difference of RUB 13,080,359 thousand between the historic IFRS book value of the Company's share in Transnefteproduct Group net assets (amounting to RUB 39,473,636 thousands) and the nominal value of the ordinary shares issued and the share premium (RUB 52,553,995 thousands including share premium of RUB 52,553,113 thousand), has been recorded as merger reserve within equity.

The Russian Federation, through the Federal Agency for the Management of State Property, holds 100% of the ordinary shares of the Company.

In November 2016 the state registration of the additional issue of 21,901 ordinary registered uncertified shares of Transneft with par value of one rouble each was accomplished. Placement of shares will be held at 273,540 roubles per share by closed subscription in favor of the Russian Federation represented by the Federal Agency for the Management of State Property. The placement has not been accomplished as at the reporting date (Note 29).

In December 2016 the Group received certain assets mainly including oil product pipeline, oil pumping complex, complex of refineries and petrochemical plants from the Federal Agency for the Management of State Property as a prepayment for shares. The prepayment for shares was shown in equity as prepaid share reserve. The reserve amounted to RUB 5,991.

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

14 SHARE CAPITAL, RETAINED EARNINGS AND DIVIDENDS (continued)

Rights attributable to preferred shares

Holders of preferred shares are entitled to receive dividends pursuant to the authorization of dividend payment at the general meeting of shareholders of Transneft. The amount of dividends to be paid on preferred shares is established by the Company's Charter as 10 percent of net profits of the standalone (non-consolidated) financial statements of Transneft prepared in accordance with Russian Accounting Standards (RAS) for the most recent financial year.

Shareholders that hold preferred shares in the Company shall be entitled to participate in the general meeting of shareholders with the right to vote on the following issues:

- on the reorganization and liquidation of the Company;
- on the introduction of amendments and addenda to the Charter of the Company which limit the rights of shareholders that hold preferred shares and on the handling of application for delisting of the preferred shares.

In case where no decision on payment of dividends was adopted at an annual general meeting shareholders that hold preferred shares in the Company shall be entitled to participate in the general meeting of shareholders with the right to vote on any issues concerning its competences. This right of shareholders that hold preferred shares is terminated from the time of the first full payment of dividends on the indicated shares.

Dividends

In June 2016 the following dividends were approved at the general shareholders meeting for the year ended 31 December 2015:

	Russian roubles 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 following dividends were approved at the general shareholders meeting for the year ended 31 December 2014:

	Russian roubles 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.

Distributable profits

Standalone financial statements of the Company prepared in accordance with RAS forms a basis for a profit distribution and other appropriations. Net profit of the Company based on the standalone RAS financial statements for the year ended 31 December 2016 amounted to RUB 30,607 (RUB 12,801 for the year ended 31 December 2015).

15 NON-CONTROLLING INTERESTS

In January 2015 the Group acquired from OAO Svyazinvestneftekhim and ZAO Rosnefteflot non-controlling interests of 36% (251,956 ordinary shares with par value at RUB 1) in AO Transneft-Prikamye (previously OAO SZMN) and 25% in OOO Transneft-Terminal.

As a result, the Group's controlling share increased from 64% and 75% to 100%, respectively. As at 31 December 2015 the amount due for the shares was settled in full. The carrying value of net assets in the consolidated financial statements of the Group as at the date of acquisition amounted to RUB 79,401. The Group recognised decrease of non-controlling interests amounting to RUB 24,527 and net increase of retained earnings in the amount of RUB 8,921. The Group's share in other companies is disclosed in Note 23.

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

16 LOANS AND BORROWINGS

	31 December 2016	31 December 2015
Total loans and borrowings	701,552	865,003
Less: current loans and borrowings and current portion of non-current loans and borrowings	(109,047)	(81,494)
	592,505	**783,509**
Maturity of non-current loans and borrowings		
Between one and five years	301,116	374,556
After five years	291,389	408,953
	592,505	**783,509**

Terms and conditions of loans and borrowings were as follows:

Type of loans and borrowings	Date of issue	Mature in	Currency	Interest rate, %	Carrying amount 31 December 2016	Carrying amount 31 December 2015
Eurobonds	August 2008	2018	USD	8.70	63,690	76,527
Non-convertible interest-bearing documentary (series 02*)	October 2009	2019	RUB	Floating, depending on Bank of Russia key rate	35,000	35,000
Non-convertible interest-bearing documentary (series 01*, 03)	May, September 2009	2019	RUB	8.50 - 12.05	58,688	69,102
Non-convertible interest-bearing documentary (series BO-03*)	October 2014	2024	RUB	8.50	195	15,000
Non-convertible interest-bearing documentary (series BO-04*)	July 2015	2025	RUB	11.50	10,000	10,000
Non-convertible interest-bearing documentary (series BO-05*, BO-06)	April, September 2016	2026	RUB	9.30 - 10.10	34,000	-
Non-convertible interest-bearing documentary (series BO-001R-01, BO-001R-02, BO-001R-03)	June-August 2016	2023	RUB	9.45 - 9.90	45,000	-
Non-convertible interest-bearing documentary (series BO-001R-04)	October 2016	2022	RUB	9.30	15,000	-
Loan agreement with China Development Bank Corporation**	February 2009	2027	USD	Floating-LIBOR	431,742	651,895

* these bonds have an optional earlier redemption terms which are set issuing documents.
** equal instalments after 5 years after attraction. During the year ended 31 December 2016 the Group had earlier partly repaid the loan from China Development Bank Corporation.

Proceeds from Eurobonds issues were used by the Group to finance investment projects or to refinance current portion of loans and borrowings to finance investment projects.

The loan proceeds from China Development Bank Corporation were used for the construction of crude oil pipeline infrastructure, including construction of the crude oil pipeline from Skovorodino to the border of the People's Republic of China and general corporate purposes.

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

16 LOANS AND BORROWINGS (continued)

The short-term loans and borrowings included non-convertible interest-bearing documentary bonds in the amount of RUB 45,208 with maturity dates in May 2019, October 2019, October 2024 and July 2025 but with optional earlier redemption on demand of bond-holders or by issuer's intention in May, October, April and January of 2017 (Note 29).

Collateral

All borrowings and loans of the Group, except for the loan from China Development Bank Corporation, are unsecured as at 31 December 2016 and 31 December 2015.

In February 2009 as collateral for the loan from China Development Bank Corporation the Company signed a contract for the term of 20 years for the annual supply of 6 mln. tons of crude oil to the People's Republic of China starting from 1 January 2011. For the fulfillment of this obligation, a contract was signed with Rosneft in April 2009 for the supply of corresponding volumes of crude oil to the Company.

Fair value

The fair value of loan from China Development Bank Corporation amounted to RUB 434,565 as at 31 December 2016 (RUB 657,005 as at 31 December 2015). Fair value of loan from China Development Bank Corporation (Level 3) was determined as a result of discounting using estimated market interest rate for similar financing arrangements. These amounts include all future cash outflows associated with the long-term debt repayments, including the current portion and interest. Market interest rates mean the rates of raising long-term debt by companies with a similar credit rating for similar maturities, repayment schedules and similar other main terms.

The fair value of bonds (Level 1) was determined based on market quotations as at 31 December 2016 and 31 December 2015, respectively. The fair value of loan and bonds is presented in the following table:

			Carrying amounts		Fair value	
Type of bonds	Interest rate	Currency	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Non-convertible interest-bearing documentary	Fixed	RUB	162,883	94,102	165,563	95,508
Non-convertible interest-bearing documentary	Floating	RUB	35,000	35,000	34,997	35,000
Eurobonds	Fixed	USD	63,690	76,527	69,922	83,728
Loan agreement with China Development Bank Corporation	Floating according to LIBOR	USD	431,742	651,895	434,565	657,005

17 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

The amounts recognized in the profit or loss

As for the year ended 31 December 2016 and the year ended 31 December 2015 the income tax included:

	Year ended 31 December 2016	Year ended 31 December 2015
Current income tax	55,838	43,149
Deferred income tax		
Origination and reversal of temporary differences	12,677	(21,023)
Deferred income tax loss / (gain)	**12,677**	**(21,023)**
Total income tax expense	**68,515**	**22,126**

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

17 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

Deferred tax liabilities and assets consist of the following:

	1 January 2016	(Charged)/ credited to profit or loss	Credited directly to other comprehensive income	31 December 2016
Deferred tax liabilities:				
Carrying value of property, plant and equipment in excess of tax base	(53,020)	(9,648)	-	(62,668)
Other	(353)	78	(363)	(638)
	(53,373)	**(9,570)**	**(363)**	**(63,306)**
Deferred tax assets:				
Provision for inventories, receivables and accruals	7,067	(1,459)	-	5,608
Tax loss carry-forwards	4,620	(3,021)	-	1,599
Provisions for dismantlement and other expenses	6,912	2,771	-	9,863
Trade and other payables	1,398	(1,398)	-	-
	19,997	**(3,107)**	**-**	**16,890**
Net deferred tax liabilities	**(33,376)**	**(12,677)**	**(363)**	**(46,416)**

	1 January 2015	Credited/ (charged) to profit or loss	Credited directly to other comprehensive income	31 December 2015
Deferred tax liabilities:				
Carrying value of property, plant and equipment in excess of tax base	(60,003)	6,983	-	(53,020)
Changes in the Group's structure	(2,598)	2,598	-	-
Other	(839)	(367)	853	(353)
	(63,440)	**9,214**	**853**	**(53,373)**
Deferred tax assets:				
Provision for inventories, receivables and accruals	1,362	5,705	-	7,067
Tax loss carry-forwards	4,210	410	-	4,620
Provisions for dismantlement and other expenses	2,616	4,296	-	6,912
Trade and other payables	-	1,398	-	1,398
	8,188	**11,809**	**-**	**19,997**
Net deferred tax liabilities	**(55,252)**	**21,023**	**853**	**(33,376)**

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. The tax effect of the movement on these temporary differences is recorded at the statutory rate of 20% for year ended 31 December 2016 and 31 December 2015.

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

17 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE (continued)

The following is a reconciliation of theoretical profit tax expense computed at the statutory tax rate to the profit tax expense:

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before income tax	**301,422**	**165,553**
Theoretical income tax expense at 20%	60,284	33,111
Increase/(decrease) due to:		
Changes in estimation of deferred tax assets	4,160	(13,791)
Changes in the Group's structure	-	(2,598)
Current-year losses for which no deferred tax asset is recognised	111	914
Items not taxable for income tax purposes	(4,605)	(1,266)
Items not deductible for income tax purposes	8,565	5,756
Actual income tax expense	**68,515**	**22,126**

The Group did not recognise deferred tax liability in respect of RUB 369,634 as at 31 December 2016 (as at 31 December 2015 - RUB 290,483) of taxable temporary differences associated with its investments in subsidiaries as the Group is able to control the timing of their reversal and does not believe they will reverse in the foreseeable future.

Since 1 January 2012 Transneft and almost all of its significant subsidiaries merged into the consolidated taxpayers' group for the purpose of calculation and payment of income tax.

18 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December 2016	31 December 2015
Pension provision	99,493	89,641
Dismantlement provision	6,580	5,517
Other provisions	11,547	6,051
	117,620	**101,209**

Provision in accordance with IAS 19

In addition to contributions to State pension fund, the Group sponsors 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 1 to 5 salaries upon retirement, to cover funeral costs and to pay out benefits to pensioners to jubilees and holidays.

Management has assessed the net present value of these obligations, following the guidelines set out in IAS 19 "Employee Benefits". For the calculation of obligations the projected unit method was applied.

Reconciliation of opening and closing present value of the defined benefit obligation is as follows:

Movement in defined benefit obligation	2016	2015
At 1 January	**31,537**	**23,154**
Interest cost	2,961	2,853
Service cost	2,969	2,217
Actuarial (gain)/loss	(2,839)	6,270
Benefits paid	(1,842)	(2,957)
At 31 December	**32,786**	**31,537**

Service cost and adjustments amounting to RUB 2,969 and RUB 2,217 as for the years ended 31 December 2016 and 2015, respectively, are included in staff costs in the consolidated statement of profit or loss and other comprehensive income, interest expense in the amount of RUB 2,961 and RUB 2,853 for the year ended 31 December 2016 and 2015, respectively, are included in interest expenses.

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

18 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Actuarial gains amounting to RUB 2,839 for the year ended 31 December 2016 (actuarial loss amounting to RUB 6,270 for the year ended 31 December 2015) were included in other comprehensive income and total actuarial losses amounted to RUB 1,897 as at 31 December 2016 (accumulated actuarial gains amounted to RUB 4,736 as at 31 December 2015).

Assumptions regarding future mortality are based on published statistics and mortality tables. Assumptions are based on mortality statistics in Russia for 2014. The retirement age in Russia is currently 60 years for men and 55 years for women.

The amounts associated with pension provision recognised in the statement of financial position are as follows:

	31 December 2016	31 December 2015
Pension provision for defined benefit plan recognised in Provisions for liabilities and charges	32,786	31,537

Principal actuarial assumptions used (expressed as weighted average):

	31 December 2016	31 December 2015
Average nominal discount rate	8.56%	9.39%
Future salary increases (nominal)	4.52%	5.26%
Expected long-term inflation rate	3.52%	4.26%

As at 31 December 2016, if the future estimated inflation rate had increased by 1%, the amount of the Group pension provisions would have been RUB 2,667 higher.

As at 31 December 2016, if the average nominal discount rate had decreased by 1%, the amount of the Group pension provisions would have been RUB 2,582 higher.

Pension liabilities through JSC “NPF “Transneft’s” activity

Pension liabilities through JSC “NPF “Transneft’s” activity include liabilities under insurance contracts and investment contracts.

Liabilities under insurance contracts are calculated by discounting expected future pension payments. The amount of the future pension is based on the amount guaranteed by insurance contract with pension indexation from the date of the contract to the reporting date, as well as the forecast of future pension indexation.

Liabilities under investment contracts are amounts of the pension accounts balances of participants as at the reporting date, which are the amounts of accumulated contributions, accrued income from the placement of pension reserves less the amount of payments made to the reporting date.

	31 December 2016	31 December 2015
Pension liabilities – insurance contracts	44,682	37,353
Pension liabilities – investment contracts	22,025	20,751
	66,707	**58,104**

Increase in liabilities under insurance contracts were mainly caused by indexation of corporate non-state lifetime pensions from 1 May 2015 without additional funding by participants.

Dismantlement provision

The Group uses the following assumption in relation to the provision for dismantlement of the existing network of oil and oil product pipelines. The whole oil and oil products pipeline network will be dismantled in the end of its useful life. The Group performs regular diagnostics, maintains periodic upgrades and reconstructions of oil and oil product pipelines, which leads to the extension of its useful life. Thus, the Group cannot make a reliable estimate of the period of the whole oil and oil products pipelines network dismantlement and consequently the amount of dismantlement provision. When the Group adopts a plan on liquidation and dismantlement of certain parts of network, the provision for dismantlement is recognized accordingly.

As at 31 December 2016 in relation to fixed assets included in the Programme for liquidation, adopted by the Group in accordance with established procedure, dismantlement provision was recognized in respect of future costs for liquidation of oil and oil product pipelines including site restoration expenses. The amount of provision is estimated by discounting future expenses at yield-to-maturity rates of federal bonds (OFZ) with relevant maturities; the rates amounted to 8.74% - 8.84% as at 31 December 2016 (10.38% - 10.65% as at 31 December 2015). Liquidation value of fixed assets in use is included in fixed assets and depreciated over the useful life of pipeline. Provision for liquidation of fixed assets, which are decommissioned, was recognized as operating expense. The carrying value of dismantlement provision amounted to RUB 7,936 as at 31 December 2016 (RUB 6,332 as at 31 December 2015) including short-term provision of RUB 1,356 (RUB 815 as at 31 December 2015), which is presented as Accrued expenses within short-term payables.

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

19 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES

	31 December 2016	31 December 2015
Trade payables	73,619	53,776
Other payables	12,204	22,816
Total financial payables	**85,823**	**76,592**
Long-term portion of derivatives	-	(12,622)
Total short-term financial payables	**85,823**	**63,970**
Advances received for oil and oil product transportation services	49,416	52,229
Accrued expenses	33,109	28,826
VAT payable	9,296	8,543
Other taxes payable	6,587	4,939
Total payables	**184,231**	**158,507**

Breakdown of accounts payable and other liabilities including derivatives by currency is presented in the table below:

Currency	31 December 2016			31 December 2015		
	Trade payables	Other payables	Total payables	Trade payables	Other payables	Total payables
RUB	73,432	10,446	83,878	53,293	10,109	63,402
USD	137	1,293	1,430	19	12,707	12,726
Euro	6	441	447	330	-	330
Other	44	24	68	134	-	134
	73,619	**12,204**	**85,823**	**53,776**	**22,816**	**76,592**

Trade payables include payables for purchases of property, plant and equipment in the amount of RUB 51,332 as at 31 December 2016 and RUB 34,440 as at 31 December 2015.

Accrued expenses mainly include amounts of unused vacation allowance, provision for the annual bonus of the reporting year.

Information concerning the Group's exposure to currency risk and liquidity risk in relation to trade and other payables is disclosed in Note 27.

Derivatives

In December 2013 in order to reduce costs of servicing corporate bonds the Group entered into the deal with the state-controlled bank and had simultaneously purchased barrier put-option with a delayed condition and sold barrier call-option with a delayed condition (hereinafter – barrier options) for the total amount of USD 1,999 million with the exercise date in September 2015.

The Group classified this contract as a derivative recognised at fair value through profit and loss. Fair value measurement is based on Black-Scholes model, the inputs for which are observable in the market except for assumed volatility measure and the Group classified them to Level 3 in accordance with the fair value hierarchy.

At the date of transaction the excess of fair value of the liability of these derivatives over fair value of the premium receivable under the contract amounted to RUB 563 and was recognised as financial asset through profit and loss.

In September-October 2014 the Group and the afore-mentioned bank entered into an interest rate swap transaction which assumed an exchange of one floating rate to another (float-to-float) based on an amortised nominal amount till 2029. In accordance with the deal the Group would make annual payments to the bank based on 6MLIBOR as at the dates of payment and the bank would make annual payments to the Group based on 6MLIBOR determined annually starting from the date of transaction; exchange of nominal amounts is absent. As part of the transaction the terms of the afore-mentioned transaction with barrier were revised and barrier level was increased, as well as new option contracts were entered into with exercise date in October-December 2014. The fair value of the interest rate swap transaction was estimated as the difference between present value of future net payments between the bank and the Group. Future payments were determined on the basis of 6MLIBOR forward rates provided by the Bloomberg.

The Group classified this transaction as a derivative at fair value with changes recognised in profit or loss. The Group classifies this interest-rate swap to Level 2 in accordance with the fair value hierarchy.

As at 31 December 2015 the liability under barrier options was settled and paid out in full, the amount of cash flow is shown as Other cash used in financing activities in the statement of cash flows. In the consolidated statement of profit or loss and other comprehensive income the loss under this instrument amounted to RUB 4,909 in 2015 (RUB 61,420 – in 2014) and is shown in Loss from operations with derivatives.

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

19 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES (continued)

As at 31 December 2016 interest rate swap liability was settled ahead of schedule and fully repaid by cash, cash settlement for the interest rate swap was presented as Other cash used in financing activities in the consolidated statement of cash flows. Net gain which arose during the reporting period from the settled interest rate swap was disclosed in Note 22.

As at 31 December 2015 the carrying value of the liability under interest rate swap shown as other payables amounted to RUB 12,700.

Should the exchange rate of the US dollar increase / (decrease) by 1 ruble while all other input data remain constant the fair value of the liability at the reporting date would have increased / (decreased) by RUB 174 respectively.

Should the floating 6MLIBOR interest rates increase / (decrease) by 10% the liability as at the reporting date would increase / (decrease) by RUB 1,534 and RUB 1,406 respectively.

20 REVENUE

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue from crude oil transportation services:		
Domestic tariff	245,562	234,360
Export tariff	368,577	324,415
Total revenue from crude oil transportation services	**614,139**	**558,775**
Revenue from crude oil sales	142,299	171,512
Revenue from oil products transportation services	64,485	57,309
Other revenue	27,211	28,056
	848,134	**815,652**

Revenue from crude oil sales for the year ended 31 December 2016 mainly include 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 26).

The Group revenues from crude oil transportation services on the domestic pipeline network comprise:

- revenue from transportation of crude oil to destinations in the Russian Federation and the Custom Union countries, based on distance-related tariffs denominated and payable in RUB and revised periodically after approval by the Federal Tariff Service and Federal Antimonopoly Service ("domestic tariff");
- revenue from transportation of crude oil which is destined for export (outside of the Russian Federation and the Custom Union countries), based on distance-related tariffs denominated in RUB and payable in RUB and revised periodically after approval by the Federal Tariff Service ("export tariff");
- revenue from transportation of transit crude oil from Azerbaijan to export destinations through the territory of the Russian Federation to the Novorossiysk's port in accordance with tariff set by the Federal Tariff Service ("export tariff");
- revenue from transportation of transit crude oil from Kazakhstan, based on the tariffs which are set by the Federal Tariff Agency and paid for in RUB ("export tariff").

Revenue from oil products transportation includes revenue from oil product transportation in the Russian Federation, in the Republic of Belarus and in the Republic of Kazakhstan.

Revenue from domestic transportation of oil products is formed on the basis of tariffs which are set within limits imposed by tariffs approved by Federal Tariff Service and Federal Antimonopoly Service and includes:

- revenue from oil products transportation services in the territory of the Russian Federation and countries of the Customs Union which is based on tariffs set and paid for in RUB;
- revenue from oil products transportation services for export outside the territory of the Russian Federation and countries of the Customs Union at tariffs set and paid for in RUB.

Revenue from oil product transportation in the Republic of Belarus is formed on the basis of tariffs set in US Dollars by the relevant regulatory body of the Republic of Belarus in compliance with the Treaty between the governments of the Russian Federation and the Republic of Belarus on cooperation in operating oil product pipelines, located on the territory of the Republic of Belarus. These services are paid for in USD.

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

20 REVENUE (continued)

Revenue from oil product transportation services in the Republic of Kazakhstan is formed on the basis of tariffs set by Transneft in Kazakh tenge calculated using the amount of expenses needed for normal operation of oil product transporting companies. These services are paid for in RUB at the exchange rate set by CBR at the date of payment.

21 OPERATING EXPENSES NET OF AMORTISATION AND DEPRECIATION

	Year ended 31 December 2016	Year ended 31 December 2015
Salaries	113,223	102,559
Social funds contributions	27,272	25,227
Social expenses	4,144	4,416
Cost of crude oil sold	111,166	122,841
Export custom duties	30,007	42,605
Energy	38,438	34,471
Materials	29,505	24,592
Repairs and maintenance services	15,746	14,382
Property tax and other taxes, except for income tax	21,362	17,005
Insurance	7,059	6,640
Business trip expenses	6,989	6,372
Pension expenses	4,392	5,878
Other expenses	30,614	35,382
Operating expenses net of amortisation and depreciation	**439,917**	**442,370**

Other expenses comprise of income and expenses from disposal of fixed assets, both received and paid penalties, and also other operating income and expenses.

22 FINANCE INCOME AND FINANCE COSTS

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income from cash and cash equivalents	2,458	7,872
Interest income from other financial assets	17,701	27,077
Other interest income	793	605
Total interest income	**20,952**	**35,554**
Less interest income from the temporary investment of borrowings	(1,305)	(778)
Total interest income recognised in the consolidated statement of profit or loss and other comprehensive income	**19,647**	**34,776**
Foreign exchange gain	267,267	506,886
Gain from operations with derivatives	3,388	-
Net income from financial instruments through profit or loss	568	1,240
Total finance income	**290,870**	**542,902**
Interest expense on loans and borrowings	(46,883)	(43,064)
Distribution of pension income on pension liabilities	(6,747)	(4,646)
Other interest expenses	(5,044)	(3,323)
Total interest expenses	**(58,674)**	**(51,033)**
Less capitalised finance expenses	3,437	1,936
Total interest expenses recognised in the consolidated statement of profit or loss and other comprehensive income	**(55,237)**	**(49,097)**
Foreign exchange losses	(225,968)	(555,929)
Loss from operations with derivatives	-	(5,088)
Total finance costs	**(281,205)**	**(610,114)**
Net finance income / (costs)	**9,665**	**(67,212)**

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

23 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

The following are the principal subsidiaries which have been consolidated and associates and jointly controlled entities accounted for using equity method in these consolidated financial statements:

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2016
AO Transneft - Sibir	crude oil and oil products transportation	Russia	100.0
AO Chernomortransneft	crude oil transportation	Russia	100.0
AO Transneft - Druzhba	crude oil transportation	Russia	100.0
AO Transneft - Privolga	crude oil transportation	Russia	100.0
AO Transneft – Zapadnaya Sibir	crude oil and oil products transportation	Russia	100.0
AO Transneft – Verkhnyaya Volga	crude oil and oil products transportation	Russia	100.0
AO Transneft – Tsentralnaya Sibir	crude oil transportation	Russia	100.0
AO Transneft – Sever	crude oil transportation	Russia	100.0
OOO Transneft - Baltika	crude oil and oil products transportation	Russia	100.0
AO Transneft - Ural	crude oil and oil products transportation	Russia	100.0
AO Transneft – Prikamye	crude oil transportation	Russia	100.0
OOO Transneft - Vostok	crude oil transportation	Russia	100.0
OOO Transneft – Dalniy Vostok	crude oil transportation	Russia	100.0
AO Transnefteproduct	wholesale of oil products	Russia	100.0
AO Mostransnefteproduct	oil products transportation	Russia	100.0
AO Sredne-Volzhsky Transnefteproduct	oil products transportation	Russia	100.0
Unitarnoye predpriyatiye Zapad-Transnefteproduct	oil products transportation	Belarus	100.0
AO Transnefteproduct-Samara	oil products transportation	Russia	100.0
AO Transnefteproduct-Zapad	holding of investment	Russia	100.0
OOO Transneft - Port Primorsk	transport processing of cargo	Russia	100.0
OOO Transneft - Port Kozmino	crude oil and oil products transportation	Russia	100.0
OOO Transneft – Port Ust-Luga	oil transshipment	Russia	100.0
AO Transneft - Podvodservice	diagnostics, repair of underwater line	Russia	100.0
AO Giprotruboprovod	provision of technological connection of oil pipeline facilities	Russia	100.0
AO Svyaztransneft	technological connection	Russia	100.0
AO Transneft - Diascan	diagnostics of trunk pipelines	Russia	100.0
OOO Transneft Nadzor	technical and building supervision and control	Russia	100.0
OOO Transneft – TSD	provision of general construction services	Russia	100.0
OOO Transneft-Service	handling of cargo services	Russia	100.0
AO Transneft - Metrologia	metrological support of oil transportation	Russia	100.0
OOO NII Transneft	research activity	Russia	100.0
OOO IPTER	scientific research and development in the field of natural and technical sciences	Russia	100.0
OOO TsUP VSTO	construction services	Russia	100.0
OOO Transneft Finance	accounting services	Russia	100.0
OOO Transneftenergo	electricity sales	Russia	100.0
AO Transneft - Energoterminal	organisation of cargo transportation	Russia	50.04

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

23 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

	Type of activity	Country of incorporation	Percentage (%) of ownership interest at 31 December 2016
OOO Transneft-Logistika	transportation of cargo	Russia	100.0
OOO Transneftstroy	general building and machinery contractor	Russia	100.0
Fenti Development Limited	financial activity	Switzerland	100.0
OOO Transneft – Media	publishing activity	Russia	100.0
AO Telecomnefteproduct	communication services	Russia	100.0
DP Rovensky Tsekh Elektrosvyazi	communication services	Ukraine	100.0
Unitarnoye predpriyatiye Zapad-Telecomnefteproduct	communication services	Belarus	100.0
AO PROMSFERA	rent of property	Russia	100.0
OOO Tikhoretsk –Nafta	handling of cargo services	Russia	100.0
AO Transneft-Servis	wholesale of oil products	Russia	100.0
AO TNT	crude oil and oil products transportation	Russia	100.0
AO Omega	production of monitoring systems of pipelines	Russia	60.0
OOO TES	transmission of electricity	Russia	100.0
OOO Transneft - Tekhnologii	maintenance of automation means, telemechanization systems and automated process control systems	Russia	100.0
OOO Transneft Telecom	telecommunication services	Russia	100.0
OOO Transneft – Okhrana	security services	Russia	100.0
JSC “NPF “TRANSNEFT”	non-state pension management	Russia	100.0
OOO UK TN Invest	trust management of non-state pension fund assets	Russia	100.0
OOO Transneft-Sintez	production of oil products	Russia	51.0
Equity-accounted investments			
Omirico Ltd.	financial activity	Cyprus	50.0
PJSC NCSP	cargo handling and storage services	Russia	35.57
OOO PTP	technical / surveyor / shipchandler / agent servicing of sea vessels in seaports, cargo transportation by sea transport	Russia	35.57
OOO Nevskaya pipe company	handling of cargo services	Russia	26.0
OOO RUSENERGORESURS	wholesale of electric and heat power	Russia	25.0
OOO TK-BA	designing and construction of “Burgas – Alexandroupolis” pipeline	Russia	33.34
AO TNN	development, production and sales of pumping equipment	Russia	51.0
AO RED	production of electric motors	Russia	51.0
OOO Impex-Plus	production, holding and storage of crude oil and products of its processing	Russia	50.0
OOO LatRosTrans	oil products transportation	Latvia	34.0

24 OPERATING LEASES

The Group leases a number of land plots, mainly, owned by local governments under operating lease.

Land lease payments are determined by lease agreements and are as follows:

	31 December 2016	31 December 2015
Less than one year	1,528	1,251
Between one year and five years	6,110	5,002
After five years	68,739	56,274
Total	**76,377**	**62,527**

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

24 OPERATING LEASES (continued)

The land areas leased by the Group are the territories on which the Group's oil pipelines, oil product pipeline and other assets are located. Most contracts for land lease are long term and concluded for duration up to 49 years with subsequent prolongation. In accordance with contracts for land lease the land title does not pass. After contract term expiration it can be terminated.

The rent paid to the landlord of the land is increased in accordance with the contractual terms at regular intervals, it was determined that substantially all the risks and rewards of owning the land lie within the landlord. As such, the Group determined that the lease agreements are operating lease agreements.

During the year ended 31 December 2016 RUB 491 (2015: RUB 581) was recognised in profit or loss in respect of operating lease.

25 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

During the year ended 31 December 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 31 December 2016, which could have a material adverse effect on the results of operations or financial position of the Group.

26 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION

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 the 31 December 2016 was comprised of the State representatives (professional attorneys) and Independent Directors. The Government of the RF shall appoint the members of the Federal Antimonopoly Service to make decisions on tariff and rates structure.

As at 31 December 2016 and 31 December 2015 the Company holds in trust on behalf of the Russian Federation 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company (which owns 7% of the shares of CPC-R and 7% of the shares of CPC–K), 24% of the shares of the CPC-R and 24% of the shares of CPC–K. These interests are not recognised in these consolidated financial statements as the Company is acting as an agent in the shares of the above companies.

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

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

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue from oil transportation services	327,605	301,420
Rosneft and its subsidiaries	265,898	241,447
PJSC "GAZPROM" and its subsidiaries	31,214	28,810
Others	30,493	31,163
Revenue from oil products transportation services	22,854	20,916
Rosneft and its subsidiaries	10,466	9,341
PJSC "GAZPROM" and its subsidiaries	12,388	11,575
Purchases of oil (Rosneft)	97,387	98,880
Transportation of oil using railways and related services (JSCo "RZD" and its subsidiaries)	768	2,965
Electricity expenses	736	337
Interest income from other financial assets	10,691	10,614
Transportation expenses	1,724	1,391

Operations with derivatives with entities which are under control of the state are disclosed in Note 19.

During the year ended 31 December 2016 and 31 December 2015, Group had following transactions with associates and jointly controlled entities:

	Year ended 31 December 2016	Year ended 31 December 2015
Revenue from sales of goods and services	3,400	2,779
Purchases of goods and services	37,141	31,035

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

26 RELATED PARTIES AND KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

At 31 December 2016 and 31 December 2015 the Group had following accounts with associates and jointly controlled entities:

	31 December 2016	31 December 2015
Trade and other receivables	7,520	1,328
Trade and other payables	2,849	443
Borrowings granted	21,749	17,811
Borrowings received	2	-

Loans issued mainly include loan to Omirico Ltd. with 5.27% interest rate p.a. with principal amount and accrued interest to be paid before or at the date of loan repayment and the carrying value with interest accrued amounting to RUB 13,057 as at 31 December 2016 (RUB 15,010 as at 31 December 2015).

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.

	Year ended 31 December 2016	Year ended 31 December 2015
Salaries and bonuses	1,719	1,558
Termination benefits	28	23
Other	12	16
	1,759	**1,597**

Amounts of loans issued to key management personnel were as follows:

	2016	2015
1 January	**5**	**6**
Granted	25	-
Repaid	(8)	(1)
31 December	**22**	**5**
due for repayment during 1 year	14	1
due for repayment after 1 year	8	4

During the year ended 31 December 2016 the Group contributed to JSC “NPF “TRANSNEFT” in favor of the key management personnel RUB 48 (for 2015 – RUB 131).

Contributions to the JSC “NPF “TRANSNEFT” represent transfer to the fund of the present value of future pension distributions in connection with retirement in accordance with the terms of contracts for non-state pension benefits. These distributions will be made when the right to receive the pension in accordance with established rules of JSC “NPF “TRANSNEFT” vest.

Key management personnel for whom information was disclosed in the consolidated financial statements include members of the Board of Directors and the Board of Transneft, as well as CEOs and their families (including change of management during the reporting periods) of subsidiaries that are considered as the most significant in the implementation of productive activities of the Group.

Total quantity of the persons who have received payments as the key management personnel as for the year ended 31 December 2016 constituted 64 persons (for the year ended 31 December 2015 – 69 persons).

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The accounting policies for financial instruments have been applied to the items below:

	Held-to-maturity investments	Loans and receivables	Financial assets at fair value through profit or loss	Available-for-sale financial assets
Assets as the reporting date				
31 December 2016				
Cash and cash equivalents (Note 13)	-	74,586	-	-
Financial assets at fair value through profit or loss (Note 8)	-	-	44,302	-
Available-for-sale financial assets	-	-	-	252
Other non-current financial assets (Note 10)	14,050	18,688	-	-
Other current financial assets (Note 10)	-	308,409	-	-
Receivables (trade and other) (Note 12)	-	25,328	-	-
	14,050	**427,011**	**44,302**	**252**
31 December 2015				
Cash and cash equivalents (Note 13)	-	92,713	-	-
Financial assets at fair value through profit or loss (Note 8)	-	-	37,872	-
Available-for-sale financial assets	-	-	-	265
Other non-current financial assets (Note 10)	25,105	45,117	-	-
Other current financial assets (Note 10)	-	391,690	-	-
Receivables (trade and other) (Note 12)	-	26,397	-	-
	25,105	**555,917**	**37,872**	**265**

	31 December 2016	31 December 2015
Liabilities at the reporting date		
Financial accounts payable (trade and other) (Note 19)	85,823	76,592
Loans and borrowings (Note 16)	701,552	865,003
	787,375	**941,595**

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, commodity price risk, credit risk, insurance risk and liquidity risk.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set allowed risk limits and appropriate control mechanisms, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Foreign exchange risk

The Group's overall strategy is to mitigate currency risk which arises from use of currencies other than the Russian rouble - the US dollar. Moreover, the Group has an approved policy for managing currency risk as well as policy for management of currency risk arising from operations with derivatives. The Group's foreign exchange exposure mainly arises on USD-denominated loans and borrowings, which the Group obtained in 2007-2010 (see Note 16) and translation of cash balances and other financial assets (Note 10) denominated in US Dollars and Euro. Assets and liabilities of the Group denominated in Euro and Belarusian rouble which give rise to foreign currency exchange exposure are insignificant.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2016, if the US Dollar had strengthened/weakened by 10% against the Russian rouble, with all other variables left constant, after tax profit and equity would have been RUB 14,050 lower/higher (for the year ended 31 December 2015 if the US Dollar had strengthened/weakened by 10% against the Russian rouble, with all other variables held constant (excluding derivatives), after tax profit and equity would have been – RUB 18,308 lower/higher), mainly as a result of foreign exchange losses/(gains) on translation of USD-denominated borrowings and USD-denominated cash balances into Russian roubles.

Interest rate risk

The Group has an approved policy and regulations concerning determination of how much the Group's exposure should be to fixed or variable interest rates. At the time of raising new loans or borrowings management uses its judgment, economic experience and risk assessment to decide whether it believes that a fixed or variable rate would be more favorable to the Group over the expected period until maturity.

Loans and borrowings received at fixed rates expose the Group to fair value interest rate risk. The Group obtains loans from banks at current market interest rates. The interest rate risk is constantly monitored and, if necessary, measures will be taken to decrease the Group's exposure to it. The Group does not account for any of its fixed rate financial assets and liabilities at fair value through profit or loss (except for the assets relating to JSC "NPF "TRANSNEFT"). Therefore, a change in interest rates for these loans and borrowings at the reporting date would not affect profit or equity.

Loans and borrowings received by the Group under variable interest rate expose the Group to the risk of changes in the cash flows under loans and borrowings. As the Group receives bank loans for financing its investment projects, the part of borrowing costs are capitalised. An increase of 1% in interest rates for the year ended 31 December 2016 would have decreased equity and profit or loss for the period before income tax by RUB 3,259 (year ended 31 December 2015 – RUB 2,838). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

To monitor changes in interest rate risk affecting assets of JSC "NPF "TRANSNEFT" the Group performs a sensitivity analysis of its comprehensive income to interest rates change based on the simplified scenario of the symmetric increase or decline in rates by certain amount of basic interest rate points.

Sensitivity analysis for profit or loss before tax and equity due to changes in value of financial instruments at fair value through profit and loss resulting from changes in interest rates (set up as at 31 December 2016 and 31 December 2015 according to the simplified scenario of the parallel shift of the yield curve for 100 basis points increase or decline) may be presented as follows:

	31 December 2016	
	Profit / (loss) before income tax	Net assets to execute liabilities towards participants and insured persons
100 basic points interest rates increase	(2,058)	(2,055)
100 basic points interest rates decline	1,823	1,826

	31 December 2015	
	Profit / (loss) before income tax	Net assets to execute liabilities towards participants and insured persons
100 basic points interest rates increase	(1,359)	(1,359)
100 basic points interest rates decline	1,267	1,267

Commodity price risk

The Group's principle activities include technical maintenance, replacement of the existing pipelines and construction of new pipelines. These require annual purchases of a significant number of metal pipes for replacement and construction of new pipelines.

The Group concluded framework agreements with pipes producers, under which the delivery price and delivery dates are not fixed at the moment of signing these agreements. In addition, the Group has no long-term contracts with oil producing companies (except agreement on crude oil delivery with Rosneft) and refineries and does not use the hedging contracts to manage the risks associated with changes in metal prices and prices for oil and oil product.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Credit risk and compliance with contractual terms and obligations

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

The Group has an approved policy in accordance with which it regularly assesses creditworthiness of banks it deals with and reviews limit for allocation of free cash.

The Group's policy is generally to transact with its customers on a prepayment basis. Its trade accounts receivable are unsecured. Being the subject of natural monopolies on the Russian transportation market the Group ensures equal access to the oil and oil product pipeline for all Russian oil refining and oil products companies. The majority of the Group's revenue is received under agreements with the major oil companies of the Russian Federation including those controlled by the State. The Group has no material concentrations of credit risk or any material past due accounts receivable.

Credit risk is managed on a Group basis. For certain customers there is no independent rating and therefore the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The credit quality of financial assets that are neither past due nor impaired are assessed with the reference to historical information about counterparties, which are existing customers with no defaults in the past.

The Group's suppliers of assets and services are selected mainly through tenders. The criteria for the bidders include both technical and financial indicators (availability of production facilities, skilled personnel, relevant experience, cost of assets and services etc.) and reliability (financial position, professional and ethical image of the bidders, whether quality control of the assets and services is established) resulting in admission of participants. The tender approach ensures the selection of suppliers with a low risk of failure to discharge their contractual obligations.

Cash and cash equivalents are placed within major banks with credit ratings assigned by Moody's rating agency and other rating agencies adjusted to the Moody's rating scale.

Credit rating	31 December 2016
External credit rating Ba1 – Ba3	70,284
Other	4,302
	74,586

Financial assets at fair value through profit or loss were issued by issuers which had the following credit ratings assigned by Moody's and other credit agencies ratings adjusted to Moody's rating scale.

Credit rating	31 December 2016
External credit rating Aaa-A3	114
External credit rating Baa1 – Baa3	29,362
External credit rating Ba1 – Ba3	14,821
Other	5
	44,302

Other financial assets which were acquired from counterparties with external credit ratings assigned by Moody's and other rating agencies adjusted to the Moody's rating scale are presented in the table below.

Credit rating	31 December 2016
External credit rating Ba1-Ba3	318,966
External credit rating B1-B3	396
Other	21,785
	341,147

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

Risks associated with securities under trust management

The Group is exposed to equity price risk. Management companies which are entered into trust management agreements control operations with equity securities in accordance with approved investment declaration which sets the structure and ratio between debt and equity securities and cash levels which management companies must maintain. The specialized depositary also controls compliance with investment declarations on a daily basis.

To manage other price risk the Group uses periodic estimation of potential losses which can be incurred because of negative market changes as well as sensitivity analysis of profit or loss for the year to changes in share prices in accordance with a symmetrical increase or decline scenario for a certain percentage points.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Sensitivity analysis of net profit to changes in price of shares (computed on positions open as at 31 December 2016 and simplified scenario for 10% decline or increase in all share prices) can be shown as follows:

	31 December 2016
	Profit (loss) before income tax
10% increase in securities' quotes	4,430
10% decline in securities' quotes	(4,430)

Insurance risk

For insurance contracts for payment of benefits under guaranteed pensions where insurance risk is the mortality risk the main factor is the stable improvement of medical services and social conditions which increase life expectancy.

Insurance risk management is performed by permanent observation of actual mortality of participants. Currently the actual mortality rate as well as its changes are consistent with expectations. To fulfill already taken obligations the part of investment returns from allocation of pension reserves including insurance reserve will be used.

The table below shows sensitivity analysis of insurance contract liabilities under non-state pension as at 31 December 2016:

		31 December 2016
Change in obligation in relation to obligation as at reporting date		
Analysis of change in liability in case of change in discount rate	-1 p.p.	10.20%
	+1 p.p.	(8.69)%
Analysis of change in liability in case of change in assumption of indexation of pensions	-1 p.p.	(8.76)%
	+1 p.p.	10.10%
Analysis of change in liability in case of change in assumption of mortality	-10%	5.29%
	+10%	(4.65)%

(*) p.p. – percentage point

Liability adequacy test for insurance contracts under OPS would not result in a deficit in all cases when indexation rate does not exceed discount rate. JSC "NPF "TRANSNEFT" estimated the minimal discount rate (with fixed indexation rate used in calculation as at the reporting date) equal to 5.1% and maximal indexation rate (with discount rate left unchanged at the reporting date) equal to 5.94% when the test will result in zero.

A decline in mortality probability by 56% will lead to a zero result in liability adequacy test relating to insurance contracts under OPS.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management includes maintaining sufficient cash and availability of funding from an adequate amount of committed credit facilities. Group maintains flexibility in funding by maintaining availability under committed credit lines.

Offsetting and similar agreements

The Group may conclude agreements for purchase and sale with same counterparties in the ordinary course of business. Relevant amounts of receivables and payables are not always available for offsetting in the statement of financial position. This is due to the fact that the Group may not have currently legally enforceable right to offset the recognized amounts, since the right of set-off may be valid only when certain events occur in the future. In particular, in accordance with civil law in force in Russia, the obligation may be settled by offsetting uniform requirements, which are due either not specified or determined by the time on demand.

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

27 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

The following are the carrying values of recognised financial instruments under the afore-mentioned contracts:

	Trade and other receivables	Trade and other payables
31 December 2016		
Gross amounts	25,328	85,823
Net amounts shown in the consolidated statement of financial position	25,328	85,823
Amounts relating to recognised financial instruments which cannot be offset	(5,026)	(5,026)
Net amount	**20,302**	**80,797**

	Trade and other receivables	Trade and other payables
31 December 2015		
Gross amounts	26,397	76,592
Net amounts shown in the consolidated statement of financial position	26,397	76,592
Amounts relating to recognised financial instruments which cannot be offset	(4,642)	(4,642)
Net amount	**21,755**	**71,950**

The following are the contractual undiscounted cash flows of financial liabilities, including estimated interest payments:

31 December 2016:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Loans and borrowings	701,552	895,916	155,594	140,634	266,781	332,907
Trade and other payables	85,823	85,823	85,823	-	-	-
	787,375	**981,739**	**241,417**	**140,634**	**266,781**	**332,907**

31 December 2015:

		Contractual cash flows				
	Carrying amount	Total	12 months or less	1-2 years	2-5 years	More than 5 years
Loans and borrowings	865,003	1,094,932	129,337	133,827	356,237	475,531
Trade and other payables	76,592	76,592	76,592	-	-	-
	941,595	**1,171,524**	**205,929**	**133,827**	**356,237**	**475,531**

Fair values

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. The fair value of the receivables and payables approximates their carrying amounts at 31 December 2016 and 31 December 2015. The fair values of loans and borrowings are disclosed in Note 16, of other financial assets in Note 10.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. For this purpose, the Group's capital is considered to be equity attributable to the shareholders of the Company and the long-term and short-term debt (long-term and short term borrowings and trade and other payables). In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, attract new or repay existing loans and borrowings.

Within the framework of capital management for the purpose of maintaining major debt parameters at the optimal level, the Group's management monitors its key financial indicators, such as total debt/EBITDA, total debt/equity and cash from operating activities/total debt; that allows the Group at the maximum available for Russian companies level.

There were no changes in the Group's approach to capital management during the reporting period.

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

28 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 RAS. The following segments were allocated: Oil transportation services, Oil product transportation services and Trading operations for sale of oil and oil products.

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

Segment information for the year ended 31 December 2016 and 31 December 2015 was as follows:

Year ended 31 December 2016	Oil transportation services	Oil products transportation services	Trading operations for sale of oil and oil products	Adjustments	Total IFRS
Revenue	645,950	67,929	134,255	-	848,134
Operating expenses net of amortisation and depreciation	(277,847)	(31,433)	(134,113)	3,476	(439,917)
Operating profit net of amortisation and depreciation	**368,103**	**36,496**	**142**	**3,476**	**408,217**
Amortisation and depreciation	(168,759)	(11,987)	(29)	52,252	(128,523)
Operating profit	**199,344**	**24,509**	**113**	**55,728**	**279,694**
Other expenses	-	-	-	-	(7,456)
Share of profit from associates and jointly controlled entities	-	-	-	-	19,519
Profit before income tax and finance income/(costs)	**199,344**	**24,509**	**113**	**55,728**	**291,757**
Finance income	-	-	-	-	290,870
Finance costs	-	-	-	-	(281,205)
Profit before income tax	**199,344**	**24,509**	**113**	**55,728**	**301,422**
Income tax expense	-	-	-	-	(68,515)
Profit for the reporting year	**199,344**	**24,509**	**113**	**55,728**	**232,907**

Year ended 31 December 2015	Oil transportation services	Oil products transportation services	Trading operations for sale of oil and oil products	Adjustments	Total IFRS
Revenue	588,860	63,078	166,340	(2,626)	815,652
Operating expenses net of amortisation and depreciation	(256,069)	(22,718)	(160,497)	(3,086)	(442,370)
Operating profit net of amortisation and depreciation	**332,791**	**40,360**	**5,843**	**(5,712)**	**373,282**
Amortisation and depreciation	(151,748)	(9,271)	(44)	42,296	(118,767)
Operating profit	**181,043**	**31,089**	**5,799**	**36,584**	**254,515**
Other expenses	-	-	-	-	(17,631)
Share of loss from associates and jointly controlled entities	-	-	-	-	(4,119)
Profit before income tax and finance income/(costs)	**181,043**	**31,089**	**5,799**	**36,584**	**232,765**
Finance income	-	-	-	-	542,902
Finance costs	-	-	-	-	(610,114)
Profit before income tax	**181,043**	**31,089**	**5,799**	**36,584**	**165,553**
Income tax expense	-	-	-	-	(22,126)
Profit for the reporting year	**181,043**	**31,089**	**5,799**	**36,584**	**143,427**

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

28 SEGMENT INFORMATION (CONTINUED)

Adjusting items for segments' expenses in the amount of RUB 55,728 for the year ended 31 December 2016 and RUB 39,210 for the year ended 31 December 2015 include the following adjustments and reclassifications due to RAP and IFRS accounting differences:

	Year ended 31 December 2016	Year ended 31 December 2015
Dismantlement provision	(2,101)	(2,101)
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"	(52,633)	(39,223)
Pension provision	4,088	2,113
Deferred payment obligation	5,680	1,749
Others	(10,762)	(1,748)
Total adjusting items for segment's expenses	**(55,728)**	**(39,210)**

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

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

	Year ended 31 December 2016	Year ended 31 December 2015
Russian Federation	695,972	649,455
China	127,113	143,589
Other countries	25,049	22,608
Total	**848,134**	**815,652**

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

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

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

	Year ended 31 December 2016	Year ended 31 December 2015
Companies under control of the state	350,213	322,336
China National United Oil Corporation	127,113	143,589
OAO Surgutneftegaz	107,874	97,613
PJSC LUKOIL	83,902	82,293
Total	**669,102**	**645,831**

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

29 EVENTS AFTER THE REPORTING DATE

In January 2017 Transneft redeemed under an offer series BO-04 bonds in the amount of RUB 10,000 at 100% par value which accounted for 100% of volume (10 mln of bonds with RUB 1 thousand par value). Obligations under the offer were settled in full and on time.

In February 2017 through public offering Transneft issued non-convertible interest-bearing documentary bonds for the total amount of RUB 15,000 maturing at 2,548 day from the beginning of offering and with a coupon rate of 9.25%.

In February 2017 the placement of ordinary registered uncertified shares of Transneft was accomplished. Information concerning the additional issue of shares is disclosed in Note 14.

Прошнуровано, сброшюровано и скреплено печатью 48 (сорок восемь) листов

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