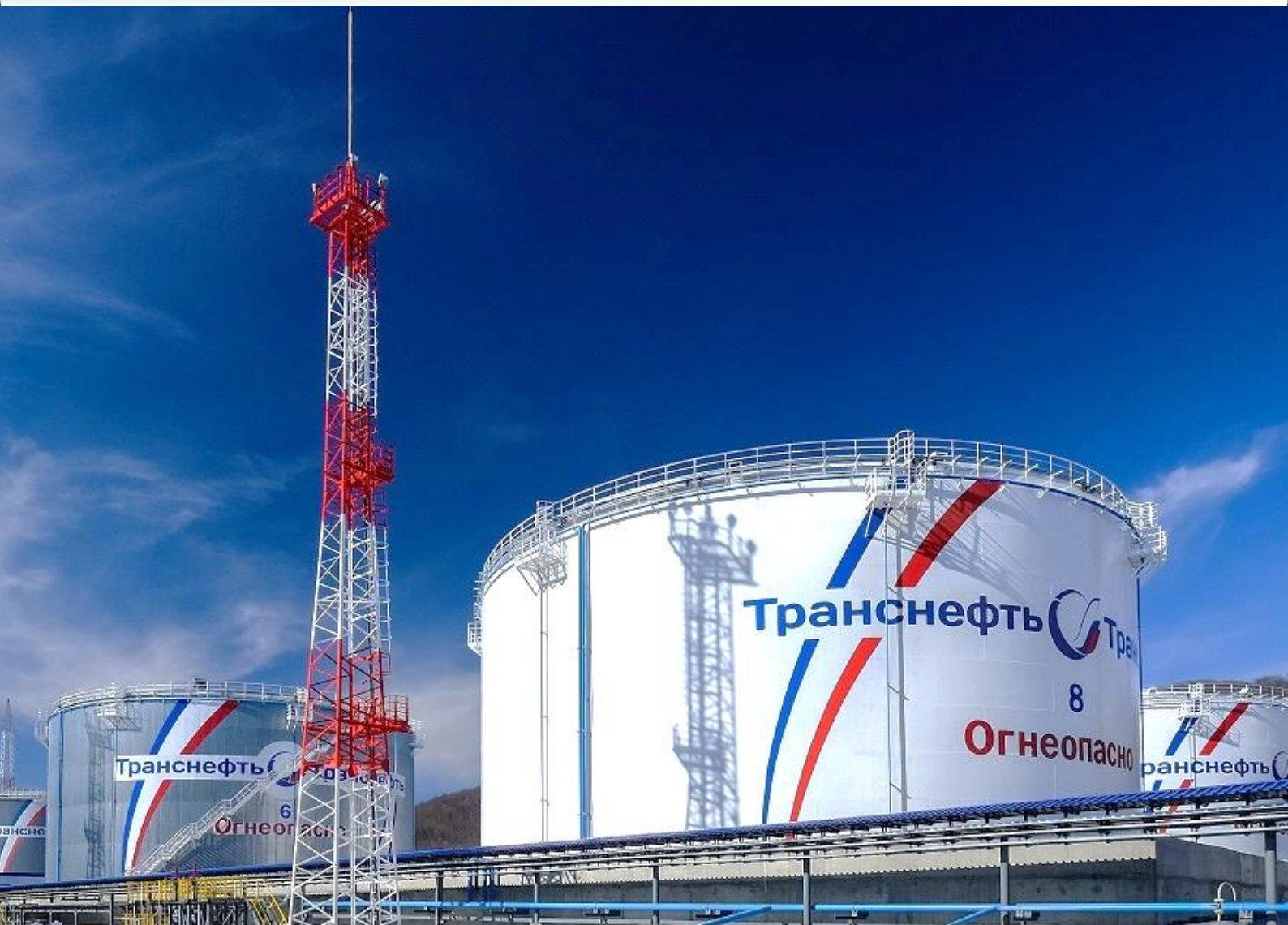




**CONSOLIDATED INTERIM CONDENSED
FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2017**



CONTENT

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



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

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

To the Shareholders and Board of Directors

Transneft

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of Transneft (the "Company") and its subsidiaries (the "Group") as at 31 March 2017 and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the consolidated interim condensed financial information (the "consolidated interim condensed financial information"). Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Audited entity: Transneft.
Registration No. in the Unified State Register of Legal Entities
1027700049486.
Moscow, Russia

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

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

Member of the Self-regulated organization of auditors "Russian Union of auditors" (Association). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 1160305203



Transneft

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

Page 2

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 31 March 2017 and for the three-month period then ended is not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Kim A.A.

Director

JSC "KPMG"

Moscow, Russia

30 May 2017





TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 31 MARCH 2017
(in millions of Russian roubles, if not stated otherwise)

| | Notes | 31 March 2017 | 31 December 2016 |
|---|-------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | | 9,339 | 8,987 |
| Property, plant and equipment | 5 | 2,166,418 | 2,146,419 |
| Available-for-sale financial assets | | 252 | 252 |
| Investments in associates and jointly controlled entities | 7 | 118,518 | 41,299 |
| Receivables and prepayments, VAT assets | 10 | 1,362 | 1,443 |
| Other financial assets | 8 | 35,285 | 32,738 |
| Total non-current assets | | 2,331,174 | 2,231,138 |
| Current assets | | | |
| Inventories | 9 | 31,614 | 30,930 |
| Receivables and prepayments | 10 | 38,302 | 36,162 |
| VAT assets | | 33,757 | 37,725 |
| Current income tax prepayments | | 655 | 3,493 |
| Financial assets at fair value through profit or loss | 6 | 47,780 | 44,302 |
| Other financial assets | 8 | 221,757 | 308,409 |
| Cash and cash equivalents | 11 | 102,072 | 74,586 |
| Total current assets | | 475,937 | 535,607 |
| Total assets | | 2,807,111 | 2,766,745 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | | 308 | 308 |
| Share premium reserve | | 52,553 | 52,553 |
| Merger reserve | | (13,080) | (13,080) |
| Prepaid share reserve | | 5,991 | 5,991 |
| Retained earnings | | 1,747,569 | 1,668,788 |
| Attributable to the shareholders of Transneft | | 1,793,341 | 1,714,560 |
| Non-controlling interests | | 1,852 | 1,795 |
| Total equity | | 1,795,193 | 1,716,355 |
| Non-current liabilities | | | |
| Loans and borrowings | 12 | 587,081 | 592,505 |
| Deferred income tax liabilities | 13 | 49,995 | 46,416 |
| Provisions for liabilities and charges | 14 | 121,740 | 117,620 |
| Trade and other payables | 15 | 3,254 | 2,361 |
| Total non-current liabilities | | 762,070 | 758,902 |
| Current liabilities | | | |
| Trade and other payables | 15 | 163,696 | 181,870 |
| Current income tax payable | | 3,576 | 571 |
| Loans and borrowings | 12 | 82,576 | 109,047 |
| Total current liabilities | | 249,848 | 291,488 |
| Total liabilities | | 1,011,918 | 1,050,390 |
| Total equity and liabilities | | 2,807,111 | 2,766,745 |

Approved on 30 May 2017 by:

M.S.Grishanin



First Vice-President

The accompanying notes set out on pages 9 to 20 are an integral part of these consolidated interim condensed financial statements



TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED
31 MARCH 2017

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

| | Notes | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|---|-------|-------------------------------------|-------------------------------------|
| Revenue | 16 | 219,071 | 204,005 |
| Operating expenses net of amortisation and depreciation | 17 | (108,904) | (97,011) |
| Operating profit net of amortisation and depreciation | | 110,167 | 106,994 |
| Amortisation and depreciation | | (37,379) | (34,895) |
| Operating profit | | 72,788 | 72,099 |
| Other income | | 4,024 | 1,022 |
| Share of profit from associates and jointly controlled entities | 7 | 17,265 | 6,805 |
| Profit before income tax and finance income/(costs) | | 94,077 | 79,926 |
| Finance income | 18 | 41,891 | 111,541 |
| Finance costs | 18 | (36,140) | (97,876) |
| Profit before income tax | | 99,828 | 93,591 |
| Income tax expense | 13 | (20,321) | (18,023) |
| Profit for the reporting period | | 79,507 | 75,568 |
| Other comprehensive (loss)/ income, net of income tax | | | |
| <i>Items that may be reclassified to profit or loss:</i> | | | |
| Currency translation differences, net of income tax | | (26) | 50 |
| <i>Total items that may be reclassified to profit or loss, net of income tax</i> | | <i>(26)</i> | <i>50</i> |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Remeasurement of net defined benefit plan obligation, net of income tax | 14 | (643) | (612) |
| <i>Total items that will not be reclassified to profit or loss, net of income tax</i> | | <i>(643)</i> | <i>(612)</i> |
| Total other comprehensive loss for the reporting period, net of income tax | | (669) | (562) |
| Total comprehensive income for the reporting period | | 78,838 | 75,006 |
| Profit attributable to | | | |
| Shareholders of Transneft | | 79,450 | 75,616 |
| Non-controlling interests | | 57 | (48) |
| Total comprehensive income attributable to | | | |
| Shareholders of Transneft | | 78,781 | 75,054 |
| Non-controlling interests | | 57 | (48) |

The accompanying notes set out on pages 9 to 20 are an integral part of these consolidated interim condensed financial statements



TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2017
(in millions of Russian roubles, if not stated otherwise)

| | Notes | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|---|-------|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 230,334 | 205,032 |
| Cash paid to suppliers and employees, and taxes other than income tax | | (139,584) | (119,832) |
| Interest paid | | (9,857) | (10,380) |
| Income tax paid | | (10,933) | (3,264) |
| VAT and other taxes refund | | 25,418 | 941 |
| Other cash flows from/ (used in) operating activities | | 595 | (877) |
| Net cash from operating activities | | 95,973 | 71,620 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (74,488) | (77,211) |
| Proceeds from sale of property, plant and equipment | | 120 | 404 |
| Interest and dividends received | | 4,969 | 4,935 |
| Purchase of notes and placement of funds on deposit accounts | | (88,333) | (127,544) |
| Proceeds from sale of debt securities and closure of deposit accounts | | 148,611 | 178,784 |
| Acquisition of shares of associates and jointly controlled entities | 7 | (60,000) | (12,497) |
| Repayment and issuance of loans | | 309 | (2,381) |
| Cash inflows as a result of disposal of entities | | - | 2,358 |
| Other cash flows (used in)/ from investing activities | | (357) | 95 |
| Net cash used in investing activities | | (69,169) | (33,057) |
| Cash flows from financing activities | | | |
| Repayment of loans and borrowings | | (34,044) | (12,550) |
| Proceeds from loans and borrowings | | 35,371 | 10 |
| Other cash flows from financing activities | | 16 | 54 |
| Net cash from / (used in) financing activities | | 1,343 | (12,486) |
| Effects of exchange rate changes on cash and cash equivalents | | (661) | (8,644) |
| Net increase in cash and cash equivalents | | 27,486 | 17,433 |
| Cash and cash equivalents at the beginning of the reporting period | 11 | 74,586 | 92,713 |
| Cash and cash equivalents at the end of the reporting period | 11 | 102,072 | 110,146 |

The accompanying notes set out on pages 9 to 20 are an integral part of these consolidated interim condensed financial statements



TRANSNEFT
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2017
(in millions of Russian roubles, if not stated otherwise)

| | Attributable to the owners of Transneft | | | | | Total | Non-controlling interests | Total equity |
|---|---|-----------------------|-----------------|-----------------------|-------------------|------------------|---------------------------|------------------|
| | Share capital | Share premium reserve | Merger reserve | Prepaid share reserve | Retained earnings | | | |
| Balance at 1 January 2016 | 308 | 52,553 | (13,080) | - | 1,446,470 | 1,486,251 | 1,705 | 1,487,956 |
| Profit for the reporting period | - | - | - | - | 75,616 | 75,616 | (48) | 75,568 |
| Remeasurement of net defined benefit plan obligation, net of income tax | - | - | - | - | (612) | (612) | - | (612) |
| Currency translation differences, net of income tax | - | - | - | - | 50 | 50 | - | 50 |
| Total comprehensive income for the reporting period | - | - | - | - | 75,054 | 75,054 | (48) | 75,006 |
| Balance at 31 March 2016 | 308 | 52,553 | (13,080) | - | 1,521,524 | 1,561,305 | 1,657 | 1,562,962 |
| Balance at 1 January 2017 | 308 | 52,553 | (13,080) | 5,991 | 1,668,788 | 1,714,560 | 1,795 | 1,716,355 |
| Profit for the reporting period | - | - | - | - | 79,450 | 79,450 | 57 | 79,507 |
| Remeasurement of net defined benefit plan obligation, net of income tax | - | - | - | - | (643) | (643) | - | (643) |
| Currency translation differences, net of income tax | - | - | - | - | (26) | (26) | - | (26) |
| Total comprehensive income for the reporting period | - | - | - | - | 78,781 | 78,781 | 57 | 78,838 |
| Balance at 31 March 2017 | 308 | 52,553 | (13,080) | 5,991 | 1,747,569 | 1,793,341 | 1,852 | 1,795,193 |

The accompanying notes set out on pages 9 to 20 are an integral part of these consolidated interim condensed financial statements



1 NATURE OF OPERATIONS

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

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

The Company and its subsidiaries (hereinafter - the "Group") operate the oil pipeline system in the Russian Federation totalling 52,746 km at 31 March 2017 and the oil products pipeline system in the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan totalling 15,632 km as at 31 March 2017. Its associate OOO LatRosTrans operates an interconnected system in the Republic of Latvia.

During the three months ended 31 March 2017, the Group transported 117.7 million tonnes of crude oil to domestic and export markets (as for the three months ended 31 March 2016 – 119.4 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 8.1 million tonnes of oil products (8.4 million tonnes as for the three months ended 31 March 2016).

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

3 BASIS OF PRESENTATION

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

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

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

The official US dollar (“USD”) to Russian Rouble (“RUB”) exchange rates as determined by the Central Bank of the Russian Federation (“CBR”) was 56.3779 and 60.6569 as at 31 March 2017 and 31 December 2016, respectively.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

5 PROPERTY, PLANT AND EQUIPMENT

| | Buildings and facilities | Pipelines and tanks | Machinery and equipment | Linefill | Assets under construction including prepayments | Total |
|--|--------------------------------|------------------------|-------------------------------|----------------|--|------------------|
| At 1 January 2017 | | | | | | |
| Cost | 196,539 | 1,339,231 | 1,136,478 | 121,354 | 406,560 | 3,200,162 |
| Accumulated depreciation and impairment | (53,465) | (476,208) | (524,070) | - | - | (1,053,743) |
| Net book value at 1 January 2017 | 143,074 | 863,023 | 612,408 | 121,354 | 406,560 | 2,146,419 |
| Depreciation | (1,815) | (11,479) | (23,001) | - | - | (36,295) |
| Additions (including prepayments) | - | - | - | 88 | 56,803 | 56,891 |
| Transfers from assets under construction | 1,561 | 13,286 | 11,245 | - | (26,092) | - |
| Change in impairment provision | - | (297) | - | - | - | (297) |
| Disposals: cost | (104) | (557) | (2,002) | (206) | - | (2,869) |
| Disposals: accumulated depreciation and impairment | 32 | 545 | 1,992 | - | - | 2,569 |
| Net book value at 31 March 2017 | 142,748 | 864,521 | 600,642 | 121,236 | 437,271 | 2,166,418 |
| At 31 March 2017 | | | | | | |
| Cost | 197,996 | 1,351,663 | 1,145,721 | 121,236 | 437,271 | 3,253,887 |
| Accumulated depreciation and impairment | (55,248) | (487,142) | (545,079) | - | - | (1,087,469) |
| Net book value at 31 March 2017 | 142,748 | 864,521 | 600,642 | 121,236 | 437,271 | 2,166,418 |



5 PROPERTY, PLANT AND EQUIPMENT (continued)

| | Buildings and facilities | Pipelines and tanks | Machinery and equipment | Linefill | Assets under construction including prepayments | Total |
|--|--------------------------|---------------------|-------------------------|----------------|---|------------------|
| At 1 January 2016 | | | | | | |
| Cost | 170,115 | 1,146,055 | 920,949 | 115,586 | 511,636 | 2,864,341 |
| Accumulated depreciation and impairment | (48,102) | (438,636) | (454,137) | - | - | (940,875) |
| Net book value at 1 January 2016 | 122,013 | 707,419 | 466,812 | 115,586 | 511,636 | 1,923,466 |
| Depreciation | (1,356) | (12,721) | (18,988) | - | - | (33,065) |
| Additions (including prepayments) | - | - | - | 323 | 75,216 | 75,539 |
| Disposal of subsidiaries, cost | (91) | (466) | (704) | - | - | (1,261) |
| Disposal of subsidiaries, accumulated depreciation | 53 | 421 | 573 | - | - | 1,047 |
| Transfers from assets under construction | 28 | 8,736 | 7,665 | - | (16,429) | - |
| Disposals: cost | (325) | (139) | (566) | (942) | - | (1,972) |
| Disposals: accumulated depreciation and impairment | 137 | 95 | 544 | - | - | 776 |
| Net book value at 31 March 2016 | 120,459 | 703,345 | 455,336 | 114,967 | 570,423 | 1,964,530 |
| At 31 March 2016 | | | | | | |
| Cost | 169,727 | 1,154,186 | 927,344 | 114,967 | 570,423 | 2,936,647 |
| Accumulated depreciation and impairment | (49,268) | (450,841) | (472,008) | - | - | (972,117) |
| Net book value at 31 March 2016 | 120,459 | 703,345 | 455,336 | 114,967 | 570,423 | 1,964,530 |

Linefill represents RUB 100,804 of crude oil and RUB 20,432 of oil products as at 31 March 2017 (as at 31 March 2016 – RUB 95,300 of crude oil and RUB 19,667 of oil products respectively).

During the three months ended 31 March 2017, borrowing costs in the amount of RUB 535 were capitalised as part of cost of assets under construction (for the three months ended 31 March 2016 – RUB 656) including interests to be capitalised in the amount of RUB 683 (for the three months ended 31 March 2016 – RUB 835) less amount to be excluded from capitalised borrowing costs in the amount of RUB 148 (for the three months ended 31 March 2016 – RUB 335) as disclosed in Note 18.

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 March 2017 | 31 December 2016 |
|--------------------------------|---------------|------------------|
| Corporate bonds | 16,154 | 23,557 |
| Municipal bonds | 489 | 1,308 |
| Federal government bonds (OFZ) | 30,106 | 18,342 |
| Corporate Eurobonds | 1,011 | 989 |
| Securities | 20 | 106 |
| | 47,780 | 44,302 |

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



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

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 March 2017 and 31 December 2016 (89% and 77% accordingly).

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

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

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

| Financial instrument | | |
|--------------------------------|----------------------|-------------------------|
| Level 1 | 31 March 2017 | 31 December 2016 |
| Corporate bonds | 16,154 | 23,557 |
| Municipal bonds | 489 | 1,308 |
| Federal government bonds (OFZ) | 30,106 | 18,342 |
| Corporate Eurobonds | 1,011 | 989 |
| Securities | 20 | 106 |
| | 47,780 | 44,302 |

7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In March 2017 the Federal Antimonopoly Service (hereinafter – FAS) of Russia found NCSP guilty for breaking the Federal Law 135 – FZ “On Protection of Competition” because of its dominant position which resulted in setting and maintaining high monopoly prices for the transshipment of certain cargoes in the port of Novorossiysk. The FAS of Russia issued an order to transfer to the federal budget the income received from monopolistic activities in the amount of RUB 9.7 billion. NCSP disagreed with the decision and the order, and appealed them in due course. For the period of the trial, the FAS of Russia's prescriptive order was suspended. The management of NCSP believes that there is no violation of the antimonopoly legislation in their actions and assessed the risk associated with the transfer of income to the federal budget and the occurrence of other negative consequences as possible, therefore, at the reporting date, no provisions were accrued. Due to this fact the carrying value of the investment in NCSP was not adjusted in these consolidated interim condensed financial statements.

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

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

| | 31 March 2017 | Date of acquisition |
|--|----------------------|----------------------------|
| Current assets* | 191,550 | 104,515 |
| <i>incl. cash and cash equivalents</i> | 645 | 104,515 |
| Current liabilities | 6 | - |
| Non-current liabilities | 65,427 | - |
| <i>incl. financial liabilities</i> | 65,427 | - |
| Total net assets | 126,117 | 104,515 |
| Share of net assets | 72,402 | 60,000 |
| Carrying value of the share | 72,402 | 60,000 |

*mainly comprising of financial instruments

| | Three months ended 31 March 2017 |
|--|---|
| Income from the Fund's net assets growth | 21,602 |
| Total comprehensive income | 21,602 |
| Share of the total comprehensive income | 12,402 |



8 OTHER FINANCIAL ASSETS

As at 31 March 2017:

| Type of asset | Maturity | Currency | Amount at the issue (purchase) date | Carrying amount |
|------------------------------------|--|----------|--|--------------------|
| Long-term financial assets | | | | |
| Loans granted to related parties | February 2019 – May 2029 | USD | 9,743 | 13,768 |
| | December 2021 – December 2025 | RUB | 3,953 | 3,953 |
| Eurobonds | April 2018 – July 2018 | USD | 11,395 | 10,229 |
| Deposits | April 2018 – May 2018 | USD | 7,413 | 7,330 |
| Other financial assets | - | RUB, USD | 4 | 5 |
| | | | 32,508 | 35,285 |
| Short-term financial assets | | | | |
| Loans granted to related parties | During the year after the reporting date | USD | - | 2,593 |
| | During the year after the reporting date | RUB | - | 57 |
| Eurobonds | During the year after the reporting date | USD | 7,852 | 8,685 |
| Deposits | During the year after the reporting date | USD | 196,191 | 186,799 |
| | During the year after the reporting date | RUB | 22,971 | 23,613 |
| Other financial assets | During the year after the reporting date | RUB | 10 | 10 |
| | | | 227,024 | 221,757 |

As at 31 December 2016:

| Type of asset | Maturity | Currency | Amount at the issue (purchase) date | Carrying amount |
|------------------------------------|--|----------|--|--------------------|
| Long-term financial assets | | | | |
| Loans granted to related parties | February 2019 – May 2029 | USD | 9,713 | 14,783 |
| | December 2021 – December 2025 | RUB | 3,900 | 3,900 |
| Eurobonds | February 2017 – July 2018 | USD | 14,595 | 14,050 |
| Other financial assets | - | RUB, USD | 4 | 5 |
| | | | 28,212 | 32,738 |
| Short-term financial assets | | | | |
| Loans granted to related parties | During the year after the reporting date | USD | 516 | 3,023 |
| | During the year after the reporting date | RUB | - | 43 |
| Eurobonds | During the year after the reporting date | USD | 5,234 | 7,067 |
| Deposits | During the year after the reporting date | USD | 278,343 | 269,996 |
| | During the year after the reporting date | RUB | 27,658 | 28,270 |
| Other financial assets | During the year after the reporting date | RUB | 10 | 10 |
| | | | 311,761 | 308,409 |



8 OTHER FINANCIAL ASSETS (continued)

As at 31 March 2017 and 31 December 2016 the significant amount of deposits (91% and 93% respectively) were placed with banks which were under control or significant influence of the state.

Interest rates of the deposits denominated in the US Dollars and Russian roubles as at 31 March 2017 were in the range from 1.3% to 11.0% (as at 31 December 2016 – from 0.8% to 11.0%). As for the deposits placed with banks controlled by or under significant influence of the state interest rates ranged from 1.3% to 11.0% as at 31 March 2017 (from 0.8% to 11.0% as at 31 December 2016).

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

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

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

9 INVENTORIES

| | 31 March 2017 | 31 December 2016 |
|-------------------------|---------------|------------------|
| Materials and supplies | 27,464 | 27,081 |
| Sundry goods for resale | 4,150 | 3,849 |
| | 31,614 | 30,930 |

Materials and supplies are presented net of provisions for obsolescence which amounted to RUB 32 as at 31 March 2017 (as at 31 December 2016 – RUB 24). Materials are primarily used for repairment and maintenance of pipeline equipment.

10 RECEIVABLES AND PREPAYMENTS, VAT ASSETS

Receivables and prepayments

| | 31 March 2017 | 31 December 2016 |
|------------------------------------|---------------|------------------|
| Financial assets | | |
| Other long-term receivables | 1,358 | 1,439 |
| Non-financial assets | | |
| Long-term VAT | 4 | 4 |
| Total long-term receivables | 1,362 | 1,443 |

| | 31 March 2017 | 31 December 2016 |
|---|---------------|------------------|
| Financial assets | | |
| Trade receivables | 19,883 | 22,346 |
| Other receivables | 28,937 | 26,573 |
| less: provision for impairment | (23,537) | (23,591) |
| Total financial assets in short-term receivables | 25,283 | 25,328 |
| Non-financial assets | | |
| Prepayments, advances and other non-financial receivables | 13,019 | 10,834 |
| Total short-term receivables | 38,302 | 36,162 |

11 CASH AND CASH EQUIVALENTS

| | 31 March 2017 | 31 December 2016 |
|------------------------------|----------------|------------------|
| Balances in RUB | 86,307 | 71,388 |
| Balances in USD | 14,120 | 1,786 |
| Balances in EUR | 479 | 517 |
| Balances in other currencies | 1,166 | 895 |
| | 102,072 | 74,586 |

In accordance with Russian legislation, the Group selects financial institutions via holding tenders based on certain established qualifications required by law. As at 31 March 2017 and 31 December 2016, a significant portion of cash (95% and 72% correspondingly) was placed with banks, which are under control or significant influence of the state.



12 LOANS AND BORROWINGS

| | 31 March 2017 | 31 December 2016 |
|--|----------------|------------------|
| Loans and borrowings | 669,657 | 701,552 |
| Less: current loans and borrowings, current portion of non-current loans and borrowings | (82,576) | (109,047) |
| | 587,081 | 592,505 |
| Maturity of non-current loans and borrowings | | |
| Between one and five years | 305,213 | 301,116 |
| After five years | 281,868 | 291,389 |
| | 587,081 | 592,505 |

The short-term loans and borrowings included non-convertible interest-bearing documentary bonds in the amount of RUB 35,208 with maturity dates in October 2024, May 2019, October 2019, but with optional earlier redemption on demand of bond-holders or by issuer's intention in April, May and October of 2017 respectively.

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

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

| Type of bonds | Interest rate | Currency | Carrying amounts | | Fair value | |
|--|-----------------------------|----------|------------------|---------------------|------------------|---------------------|
| | | | 31 March 2017 | 31 December 2016 | 31 March 2017 | 31 December 2016 |
| Non-convertible interest-bearing documentary | Fixed | RUB | 187,883 | 162,883 | 191,178 | 165,563 |
| Non-convertible interest-bearing documentary | Floating | RUB | 35,000 | 35,000 | 35,194 | 34,997 |
| Eurobonds | Fixed | USD | 59,197 | 63,690 | 64,454 | 69,922 |
| Loan agreement with China Development Bank Corporation | Floating according to LIBOR | USD | 377,795 | 431,742 | 380,468 | 434,565 |

13 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

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

14 PROVISIONS FOR LIABILITIES AND CHARGES

| | 31 March 2017 | 31 December 2016 |
|-------------------------|----------------|------------------|
| Pension provision | 104,371 | 99,493 |
| Dismantlement provision | 6,675 | 6,580 |
| Other provisions | 10,694 | 11,547 |
| | 121,740 | 117,620 |

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



15 TRADE AND OTHER PAYABLES

| | 31 March 2017 | 31 December 2016 |
|---------------------------------|----------------------|-------------------------|
| Advances received | 3,254 | 2,361 |
| Total long-term payables | 3,254 | 2,361 |

| | 31 March 2017 | 31 December 2016 |
|---|----------------------|-------------------------|
| Trade payables | 45,735 | 73,619 |
| Other payables | 12,254 | 12,204 |
| Total short-term financial payables | 57,989 | 85,823 |
| Advances received for oil and oil product transportation services | 42,593 | 47,055 |
| Accrued expenses | 36,902 | 33,109 |
| VAT payable | 15,021 | 9,296 |
| Other taxes payable | 11,191 | 6,587 |
| Total short-term payables | 163,696 | 181,870 |

16 REVENUE

| | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|---|---|---|
| Revenue from crude oil transportation services: | | |
| Domestic tariff | 66,250 | 60,082 |
| Export tariff | 88,772 | 89,526 |
| Total revenue from crude oil transportation services | 155,022 | 149,608 |
| Revenue from crude oil sales | 38,590 | 30,392 |
| Revenue from oil products transportation services | 18,704 | 18,122 |
| Other revenue | 6,755 | 5,883 |
| | 219,071 | 204,005 |

Revenue from crude oil sales for the three months ended 31 March 2017 and for the three months ended 31 March 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 20).

17 OPERATING EXPENSES NET OF AMORTISATION AND DEPRECIATION

| | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|--|---|---|
| Salaries | 24,821 | 24,898 |
| Insurance contributions | 7,096 | 7,172 |
| Social expenses | 614 | 611 |
| Cost of crude oil sold | 30,745 | 24,327 |
| Export custom duties | 7,702 | 6,330 |
| Energy | 11,029 | 9,694 |
| Materials | 7,210 | 5,139 |
| Repairs and maintenance services | 2,279 | 1,547 |
| Property tax and other taxes, except for income tax | 7,260 | 5,290 |
| Pension expenses | 1,834 | 1,311 |
| Other expenses | 8,314 | 10,692 |
| Operating expenses net of amortisation and depreciation | 108,904 | 97,011 |

**18 FINANCE INCOME AND FINANCE COSTS**

| | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|--|-------------------------------------|-------------------------------------|
| Interest income from cash and cash equivalents | 955 | 499 |
| Interest income from other financial assets | 4,105 | 4,912 |
| Other interest income | 196 | 205 |
| Total interest income | 5,256 | 5,616 |
| Less interest income from the temporary investment of borrowings | (148) | (335) |
| Total interest income recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income | 5,108 | 5,281 |
| Foreign exchange gain | 36,783 | 101,339 |
| Net gain from operations with derivatives | - | 4,252 |
| Net gain from financial instruments through profit or loss | - | 669 |
| Total finance income | 41,891 | 111,541 |
| Interest expense on loans and borrowings | (11,089) | (11,849) |
| Distribution of pension income to pension liabilities | (1,076) | (1,733) |
| Other interest expenses | (1,035) | (1,056) |
| Total interest expenses | (13,200) | (14,638) |
| Less capitalised interest expenses | 683 | 835 |
| Total interest expenses recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income | (12,517) | (13,803) |
| Foreign exchange losses | (23,261) | (84,073) |
| Net loss from financial instruments through profit or loss | (362) | - |
| Total finance costs | (36,140) | (97,876) |
| Net finance income | 5,751 | 13,665 |

19 CONTINGENT LIABILITIES AND OTHER RISKS**Legal proceedings**

During the three months ended 31 March 2017 the Group was involved in a number of court proceedings arising in the ordinary course of business. In the opinion of the Group's management, there were no current legal proceedings or claims outstanding at 31 March 2017, which could have a material adverse effect on the results of operations or financial position of the Group.

20 RELATED PARTIES

The Russian Federation represented by the Federal Agency for the Management of State Property owns 100% of the ordinary shares of the Company and conducts control via the Board of Directors that as at 31 March 2017 was comprised of the State representatives (professional attorneys) and Independent Directors. The Government of Russia shall appoint the members of the Federal Antimonopoly Service to make decisions on tariff and rates structure.

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

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

**20 RELATED PARTIES (continued)**

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

| | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|--|-------------------------------------|-------------------------------------|
| Revenue from oil transportation services | 82,069 | 79,029 |
| Rosneft and its subsidiaries | 63,621 | 63,659 |
| PJSC "GAZPROM" and its subsidiaries | 7,815 | 8,022 |
| Others | 10,633 | 7,348 |
| Revenue from oil products transportation services | 8,886 | 6,797 |
| Rosneft and its subsidiaries | 3,295 | 2,781 |
| PJSC "GAZPROM" and its subsidiaries | 3,479 | 4,016 |
| Others | 2,112 | - |
| Purchases of oil (Rosneft) | 28,093 | 22,390 |
| Transportation of oil using railways and related services (JSCo "RZD" and its subsidiaries) | - | 634 |
| Electricity expenses | 232 | 224 |
| Interest income from other financial assets | 1,800 | 2,906 |
| Transportation expenses | 292 | 414 |

During the three months ended 31 March 2017 and 31 March 2016, the Group had following transactions with associates and jointly controlled entities:

| | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|--|-------------------------------------|-------------------------------------|
| Revenue from sales of goods and services | 813 | 275 |
| Purchases of goods and services | 9,778 | 8,570 |

At 31 March 2017 and 31 December 2016 the Group had following balances with associates and jointly controlled entities:

| | 31 March 2017 | 31 December 2016 |
|-----------------------------|---------------|------------------|
| Trade and other receivables | 7,643 | 7,520 |
| Trade and other payables | 1,888 | 2,849 |
| Borrowings granted | 20,371 | 21,749 |
| Borrowings received | 393 | 20 |

Key management personnel compensation

Key management personnel (the members of the Board of Directors and Management Committee of the Company and general directors of subsidiaries) receive short-term compensations, including salary, bonuses, other payments and long-term and short-term interest-free loans. Short-term compensations payable to the key management personnel of the Company and subsidiaries consist of contractual remuneration for their services in full time executive positions. The remunerations for the members of the Board of Directors of Company are subject to approval by the annual general meeting of shareholders. According to Russian legislation, the Group makes contributions to the pension fund of the Russian Federation to defined contributions plan for all of its employees including key management personnel. Key management personnel also participate in certain post-retirement compensation programs. The programs include pension benefits provided by the non-governmental pension fund, JSC "NPF "Transneft", and one-time payments programme at the retirement date.

21 SEGMENT INFORMATION

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

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



TRANSNEFT
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2017
(in millions of Russian roubles, if not stated otherwise)

21 SEGMENT INFORMATION (continued)

Segment information for the three months ended 31 March 2017 and for the three months ended 31 March 2016 was as follows:

| Three months ended 31 March 2017 | Oil transporta- tion services | Oil products transporta- tion services | Trading operations for sale of oil and oil products | Adjust- ments | Total IFRS |
|--|-------------------------------------|--|---|------------------|----------------|
| Revenue | 163,116 | 19,425 | 36,530 | - | 219,071 |
| Operating expenses net of amortisation and depreciation | (66,677) | (6,008) | (36,622) | 403 | (108,904) |
| Operating profit net of amortisation and depreciation | 96,439 | 13,417 | (92) | 403 | 110,167 |
| Amortisation and depreciation | (46,770) | (3,653) | (3) | 13,047 | (37,379) |
| Operating profit | 49,669 | 9,764 | (95) | 13,450 | 72,788 |
| Other income | - | - | - | - | 4,024 |
| Share of profit from associates and jointly controlled entities | - | - | - | - | 17,265 |
| Profit before income tax and finance income/(costs) | 49,669 | 9,764 | (95) | 13,450 | 94,077 |
| Finance income | - | - | - | - | 41,891 |
| Finance costs | - | - | - | - | (36,140) |
| Profit before income tax | 49,669 | 9,764 | (95) | 13,450 | 99,828 |
| Income tax expense | - | - | - | - | (20,321) |
| Profit for the reporting period | 49,669 | 9,764 | (95) | 13,450 | 79,507 |

| Three months ended 31 March 2016 | Oil transporta- tion services | Oil products transporta- tion services | Trading operations for sale of oil and oil products | Adjust- ments | Total IFRS |
|--|-------------------------------------|--|---|------------------|----------------|
| Revenue | 155,893 | 19,104 | 29,008 | - | 204,005 |
| Operating expenses net of amortisation and depreciation | (61,902) | (9,180) | (29,273) | 3,344 | (97,011) |
| Operating profit net of amortisation and depreciation | 93,991 | 9,924 | (265) | 3,344 | 106,994 |
| Amortisation and depreciation | (40,572) | (3,110) | (8) | 8,795 | (34,895) |
| Operating profit | 53,419 | 6,814 | (273) | 12,139 | 72,099 |
| Other income | - | - | - | - | 1,022 |
| Share of profit from associates and jointly controlled entities | - | - | - | - | 6,805 |
| Profit before income tax and finance income/(costs) | 53,419 | 6,814 | (273) | 12,139 | 79,926 |
| Finance income | - | - | - | - | 111,541 |
| Finance costs | - | - | - | - | (97,876) |
| Profit before income tax | 53,419 | 6,814 | (273) | 12,139 | 93,591 |
| Income tax expense | - | - | - | - | (18,023) |
| Profit for the reporting period | 53,419 | 6,814 | (273) | 12,139 | 75,568 |



21 SEGMENT INFORMATION (continued)

Adjusting items for segments' expenses in the amount of RUB 13,450 for the three months ended 31 March 2017 and RUB 12,139 for the three months ended 31 March 2016 include the following adjustments and reclassifications due to RAP and IFRS accounting differences:

| | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|--|-------------------------------------|-------------------------------------|
| Dismantlement provision | (525) | (525) |
| Adjustment to Property, plant and equipment to eliminate RAS revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies" | (13,351) | (9,896) |
| Pension provision | 662 | 728 |
| Deferred payment obligation | (877) | (877) |
| Others | 641 | (1,569) |
| Total adjusting items for segment's expenses | (13,450) | (12,139) |

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

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

| | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|--------------------|-------------------------------------|-------------------------------------|
| Russian Federation | 176,876 | 168,592 |
| China | 35,644 | 28,653 |
| Other countries | 6,551 | 6,760 |
| Total | 219,071 | 204,005 |

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

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

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

| | Three months ended 31 March 2017 | Three months ended 31 March 2016 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Companies under control of the state | 91,607 | 85,827 |
| China National United Oil Corporation | 35,644 | 28,653 |
| OAO Surgutneftegaz | 25,733 | 26,333 |
| PJSC LUKOIL | 22,162 | 20,953 |
| Total | 175,146 | 161,766 |

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.

22 EVENTS AFTER THE REPORTING DATE

In April 2017 through public offering Transneft issued non-convertible interest-bearing documentary bonds for the total amount of RUB 17 billion with a coupon rate of 8.75%. Cash received from bonds issued was used for partial early repayment of the loan from China Development Bank Corporation.

In May 2017 through public offering Transneft issued non-convertible interest-bearing documentary bonds for the total amount of RUB 30 billion with a coupon rate of 8.75%. Cash received from bonds issued was used for general corporate purposes.

| Three months ended | 31 March 2017 | 31 March 2016 |
|--------------------------|---------------|---------------|
| Revenue from operations | 1,282,718 | 1,282,718 |
| Other operating income | 35,644 | 35,644 |
| Other operating expenses | (6,021) | (6,021) |
| Total | 212,041 | 212,041 |

| Three months ended | 31 March 2017 | 31 March 2016 |
|--------------------------|---------------|---------------|
| Revenue from operations | 1,282,718 | 1,282,718 |
| Other operating income | 35,644 | 35,644 |
| Other operating expenses | (6,021) | (6,021) |
| Total | 212,041 | 212,041 |

Прощуровано, сброшуровано
и скреплено печатью 20
(ЛВАОУ АТБ)

лист 08

[Signature]
Ким А.А.
Директор АО «КПМГ»

