



OIL TRANSPORTING  
JOINT STOCK COMPANY  
"TRANSNEFT"

**CONSOLIDATED INTERIM CONDENSED  
FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE THREE MONTHS ENDED 31 MARCH 2016**



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

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## **Auditors' Report on Review of Consolidated Interim Condensed Financial Information**

To the Shareholders and Board of Directors

ОАО АК Транснефт

### **Introduction**

We have reviewed the accompanying consolidated interim condensed statement of financial position of ОАО АК Транснефт (the "Company") and its subsidiaries (the "Group") as at 31 March 2016, and the 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: ОАО АК Транснефт.

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

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

57, ul. Bolshaya Polyanka, Moscow, 119180.

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

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

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

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.



**ОАО АК Transneft**

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### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial information as at 31 March 2016 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, (power of attorney dated 16 March 2015 No. 11/15)

JSC "KPMG"

31 May 2016

Moscow, Russian Federation



OAO AK TRANSNEFT  
CONSOLIDATED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)  
AS AT 31 MARCH 2016  
(in millions of Russian roubles, if not stated otherwise)

## ASSETS

Non-current assets	Notes	31 March 2016	31 December 2015
Intangible assets		8,732	9,081
Property, plant and equipment	5	1,964,530	1,923,466
Available-for-sale financial assets		255	265
Investments in associates and jointly controlled entities		30,964	13,766
Receivables and prepayments, VAT assets	11	1,533	1,409
Other financial assets	9	45,970	70,222
<b>Total non-current assets</b>		<b>2,051,984</b>	<b>2,018,209</b>
<b>Current assets</b>			
Inventories	10	37,250	35,071
Receivables and prepayments	11	36,654	37,606
VAT assets	11	61,427	35,821
Current income tax prepayments		718	10,141
Financial assets at fair value through profit and loss	6	38,842	37,872
Other financial assets	9	342,097	391,690
Cash and cash equivalents	12	110,146	92,713
<b>Total current assets</b>		<b>627,134</b>	<b>640,914</b>
<b>Total assets</b>		<b>2,679,118</b>	<b>2,659,123</b>

## EQUITY AND LIABILITIES

Equity			
Share capital		308	308
Share premium reserve		52,553	52,553
Merger reserve		(13,080)	(13,080)
Retained earnings		1,521,524	1,446,470
<b>Attributable to the shareholders of OAO AK Transneft</b>		<b>1,561,305</b>	<b>1,486,251</b>
Non-controlling interests		1,657	1,705
<b>Total equity</b>		<b>1,562,962</b>	<b>1,487,956</b>

Non-current liabilities			
Loans and borrowings	13	713,036	783,509
Deferred income tax liabilities	14	30,158	33,376
Provisions for liabilities and charges	15	104,414	101,209
Trade and other payables, including derivatives	16	8,400	12,622
<b>Total non-current liabilities</b>		<b>856,008</b>	<b>930,716</b>

Current liabilities			
Trade and other payables, including derivatives	16	161,552	158,507
Current income tax payable		8,954	450
Loans and borrowings	13	89,642	81,494
<b>Total current liabilities</b>		<b>260,148</b>	<b>240,451</b>
<b>Total liabilities</b>		<b>1,116,156</b>	<b>1,171,167</b>
<b>Total equity and liabilities</b>		<b>2,679,118</b>	<b>2,659,123</b>

Approved on May 2016 by:

N.P. Tokarev

President

The accompanying notes set out on pages 9 to 21 are an integral part of these consolidated interim condensed financial statements



OAO AK TRANSNEFT  
CONSOLIDATED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED  
31 MARCH 2016

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

	Notes	Three months ended 31 March 2016	Three months ended 31 March 2015
Revenue	17	204,005	201,477
Operating expenses	18	(131,882)	(129,818)
<b>Operating profit</b>		<b>72,123</b>	<b>71,659</b>
Finance income		111,541	246,117
Finance costs		(97,876)	(242,653)
<b>Net finance income</b>	19	<b>13,665</b>	<b>3,464</b>
Gain on disposal of subsidiaries	8	998	-
Share of profit from associates and jointly controlled entities		6,805	1,443
<b>Profit before income tax</b>		<b>93,591</b>	<b>76,566</b>
Income tax expense	14	(18,023)	(13,178)
<b>Profit for the reporting period</b>		<b>75,568</b>	<b>63,388</b>
<b>Other comprehensive income net of tax</b>			
<i>Items that may be reclassified to profit and loss</i>			
Currency translation differences, net of income tax		50	(148)
<i>Total items that may be reclassified to profit and loss, net of income tax</i>		<i>50</i>	<i>(148)</i>
<i>Items that will not be reclassified to profit and loss</i>			
Remeasurement of net defined benefit plan obligation, net of income tax	15	(612)	(626)
<i>Total items that will not be reclassified to profit and loss, net of income tax</i>		<i>(612)</i>	<i>(626)</i>
<b>Total other comprehensive loss for the reporting period, net of income tax</b>		<b>(562)</b>	<b>(774)</b>
<b>Total comprehensive income for the reporting period</b>		<b>75,006</b>	<b>62,614</b>
<b>Profit attributable to:</b>			
Shareholders of OAO AK Transneft		75,616	63,256
Non-controlling interests		(48)	132
<b>Total comprehensive income attributable to:</b>			
Shareholders of OAO AK Transneft		75,054	62,482
Non-controlling interests		(48)	132

Approved on 31 May 2016 by:

N.P. Tokarev



President

The accompanying notes set out on pages 9 to 21 are an integral part of these consolidated interim condensed financial statements



OAO AK TRANSNEFT  
 CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)  
 FOR THE THREE MONTHS ENDED 31 MARCH 2016  
 (in millions of Russian roubles, if not stated otherwise)

	Notes	Three months ended 31 March 2016	Three months ended 31 March 2015
<b>Cash flows from operating activities</b>			
Cash receipts from customers		205,032	205,701
Cash paid to suppliers, employees and taxes other than income tax		(119,832)	(111,947)
Interest paid		(10,380)	(8,363)
Income tax paid		(3,264)	(2,717)
Income tax refund		39	307
VAT and other taxes refund		902	17,644
Other cash flows used in operating activities		(877)	(58)
<b>Net cash from operating activities</b>		<b>71,620</b>	<b>100,567</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(77,211)	(62,471)
Proceeds from sales of property, plant and equipment		404	168
Interest and dividends received		4,935	8,072
Purchase of notes and placement of funds on deposit accounts		(127,544)	(195,870)
Sale of notes and closure of deposit accounts		178,784	181,193
Acquisition of shares of associates and jointly controlled entities	7	(12,497)	-
Issuance of loans		(2,381)	-
Cash inflows as result of disposal of entities		2,358	-
Other cash flows from / (used in) investing activities		95	(237)
<b>Net cash used in investing activities</b>		<b>(33,057)</b>	<b>(69,145)</b>
<b>Cash flows from financing activities</b>			
Repayment of loans and borrowings		(12,550)	(10,315)
Acquisition of non-controlling interest		-	(7,856)
Proceeds from loans and borrowings		10	-
Other cash flows in financing activities		54	145
<b>Net cash used in financing activities</b>		<b>(12,486)</b>	<b>(18,026)</b>
Effects of exchange rate changes on cash and cash equivalents		(8,644)	2,296
<b>Net increase in cash and cash equivalents</b>		<b>17,433</b>	<b>15,692</b>
Cash and cash equivalents at the beginning of the period	12	92,713	113,060
Cash and cash equivalents at the end of the period	12	110,146	128,752

Approved on 7 May 2016 by:

N.P. Tokarev



President

The accompanying notes set out on pages 9 to 21 are an integral part of these consolidated interim condensed financial statements



**OAO AK TRANSNEFT**  
**CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2016**  
(in millions of Russian roubles, if not stated otherwise)

	Attributable to the owners of OAO AK Transneft					Non-controlling interests	Total equity
	Share capital	Share premium reserve	Merger reserve	Retained earnings	Total		
<b>Balance at 1 January 2015</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>1,302,605</b>	<b>1,342,386</b>	<b>26,477</b>	<b>1,368,863</b>
Profit for the reporting period	-	-	-	63,256	63,256	132	63,388
Remeasurement of net defined benefit plan obligation, net of income tax	-	-	-	(626)	(626)	-	(626)
Currency translation differences, net of tax	-	-	-	(148)	(148)	-	(148)
<b>Total comprehensive income for the reporting period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62,482</b>	<b>62,482</b>	<b>132</b>	<b>62,614</b>
Purchase of non-controlling interests	-	-	-	8,921	8,921	(24,527)	(15,606)
<b>Balance at 31 March 2015</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>1,374,008</b>	<b>1,413,789</b>	<b>2,082</b>	<b>1,415,871</b>
<b>Balance at 1 January 2016</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>1,446,470</b>	<b>1,486,251</b>	<b>1,705</b>	<b>1,487,956</b>
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
<b>Total comprehensive income for the reporting period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>75,054</b>	<b>75,054</b>	<b>(48)</b>	<b>75,006</b>
<b>Balance at 31 March 2016</b>	<b>308</b>	<b>52,553</b>	<b>(13,080)</b>	<b>1,521,524</b>	<b>1,561,305</b>	<b>1,657</b>	<b>1,562,962</b>

Approved on 31 May 2016 by:

N.P. Tokarev



President

The accompanying notes set out on pages 9 to 21 are an integral part of these consolidated interim condensed financial statements





## **1 NATURE OF OPERATIONS**

OAO AK Transneft (hereinafter OAO AK Transneft or the "Company") was incorporated on 14 August 1993 by the Russian Government Resolution No. 810 under Presidential Decree No. 1403 dated 17 November 1992. The Company's registered office is at 119180, Moscow, ul. Bolshaya Polyanka, 57, Russian Federation.

The Company and its subsidiaries (the "Group") operate the oil pipeline system in the Russian Federation totalling as at 31 March 2016 51,605 km and the oil products pipeline system in the Russian Federation and in the Republics of Belarus and Kazakhstan totalling 16,871 km. Its associate OOO LatRosTrans operates an interconnected system in the Latvian Republic.

During the three months ended 31 March 2016, the Group transported 119.4 million tonnes of crude oil to domestic and export markets (120.1 million tonnes as for the three months ended 31 March 2015), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period, and 8.4 million tonnes of oil products (8.1 million tonnes as for the three months ended 31 March 2015).

## **2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION**

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

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

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

## **3 BASIS OF PRESENTATION**

The consolidated interim condensed financial statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") and should be read together with the consolidated financial statements for the year ended 31 December 2015 prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain comparative amounts have been adjusted to confirm 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 rates as determined by the Central Bank of the Russian Federation ("CBR") was 67.6076 and 72.8827 as at 31 March 2016 and 31 December 2015, respectively. The official euro ("EUR") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation was 76.5386 and 79.6972 as at 31 March 2016 and 31 December 2015, respectively.



**OAO AK TRANSNEFT**  
**NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2016**  
(in millions of Russian roubles, if not stated otherwise)

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2015 except for amendments relating to implementation of new standards and interpretations which have become effective after 1 January 2016. The adoption of these standards did not influence the consolidated financial position as well as results of the Group.

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

**5 PROPERTY, PLANT AND EQUIPMENT**

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
<b>At 1 January 2016</b>						
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)
<b>Net book value at 1 January 2016</b>	<b>122,013</b>	<b>707,419</b>	<b>466,812</b>	<b>115,586</b>	<b>511,636</b>	<b>1,923,466</b>
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 at cost	(325)	(139)	(566)	(942)	-	(1,972)
Accumulated depreciation on disposals and impairment	137	95	544	-	-	776
<b>Net book value at 31 March 2016</b>	<b>120,459</b>	<b>703,345</b>	<b>455,336</b>	<b>114,967</b>	<b>570,423</b>	<b>1,964,530</b>
<b>At 31 March 2016</b>						
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)
<b>Net book value at 31 March 2016</b>	<b>120,459</b>	<b>703,345</b>	<b>455,336</b>	<b>114,967</b>	<b>570,423</b>	<b>1,964,530</b>



**OAO AK TRANSNEFT**  
**NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2016**  
(in millions of Russian roubles, if not stated otherwise)

**5 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	Buildings and facilities	Pipelines and tanks	Other plant and equipment	Linefill	Assets under construction including prepayments	Total
<b>At 1 January 2015</b>						
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)
<b>Net book value at 1 January 2015</b>	<b>116,211</b>	<b>682,457</b>	<b>432,464</b>	<b>111,806</b>	<b>363,430</b>	<b>1,706,368</b>
Depreciation	(1,302)	(11,777)	(17,534)	-	-	(30,613)
Additions (including prepayments)	-	-	-	1,543	59,339	60,882
Transfers from assets under construction	1,818	6,270	12,962	-	(21,050)	-
Disposals at cost	(97)	(59)	(448)	(454)	-	(1,058)
Accumulated depreciation on disposals and impairment	39	58	424	-	-	521
<b>Net book value at 31 March 2015</b>	<b>116,669</b>	<b>676,949</b>	<b>427,868</b>	<b>112,895</b>	<b>401,719</b>	<b>1,736,100</b>
<b>At 31 March 2015</b>						
Cost	161,389	1,083,619	833,500	112,895	401,719	2,593,122
Accumulated depreciation and impairment	(44,720)	(406,670)	(405,632)	-	-	(857,022)
<b>Net book value at 31 March 2015</b>	<b>116,669</b>	<b>676,949</b>	<b>427,868</b>	<b>112,895</b>	<b>401,719</b>	<b>1,736,100</b>

Linefill represents RUB 95,300 of crude oil and RUB 19,667 of oil products as at 31 March 2016 (as at 31 December 2015 – RUB 95,387 of crude oil and RUB 20,199 of oil products).

During the three months ended 31 March 2016, borrowing costs in the amount of RUB 656 were capitalised as part of cost of assets under construction (for the three months ended 31 March 2015 – RUB 1,008) including interests to be capitalised in the amount of RUB 835 less amount to be excluded from capitalised borrowing costs in the amount of RUB 335 as disclosed in Note 19.



**OAO AK TRANSNEFT**  
**NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2016**  
(in millions of Russian roubles, if not stated otherwise)

**6 FINANCIAL ASSETS THROUGH PROFIT AND LOSS**

	<b>31 March 2016</b>	<b>31 December 2015</b>
Corporate bonds	22,988	22,087
Municipal bonds	2,903	3,292
Government bonds (OFZ)	12,662	12,262
Corporate Eurobonds	289	231
	<b>38,842</b>	<b>37,872</b>

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

Financial assets at fair value through profit or loss are neither overdue nor impaired.

The bond issuers were mainly presented by companies controlled by or under significant influence of the state as at 31 March 2016 and 31 December 2015 (78% and 74% accordingly).

Interest rates of the bonds as at 31 March 2016 were in range from 2.0% to 18.5% (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 March 2016 were in range from 2.0% to 18.5% (as at 31 December 2015 – from 2.0% to 18.5%).

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

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

<b>Financial instrument</b>	<b>Level 1</b>	<b>Level 2</b>
<b>31 March 2016</b>		
Corporate bonds	22,988	-
Municipal bonds	2,903	-
Government bonds (OFZ)	12,662	-
Corporate Eurobonds	71	218
	<b>38,624</b>	<b>218</b>
<b>31 December 2015</b>		
Corporate bonds	22,087	-
Municipal bonds	3,292	-
Government bonds (OFZ)	12,262	-
Corporate Eurobonds	70	161
	<b>37,711</b>	<b>161</b>

**7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES**

In February 2016 the Group acquired 50% share in the share capital of OOO NMT. The consideration amounted to USD 159 mln (RUB 12,497 at Bank of Russia exchange rate as at the date of payment). The difference between the amount of payment under agreement and value of the investment at the date of valuation was recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income. The Group's effective share of OOO NMT reached 67.79% as a result of the transaction.

Taking into account the holding structure and key decision making process, this investment was classified as a jointly controlled entity. OOO NMT is a fuel oil terminal operating in Novorossiysk with maximum capacity of 4 mln. tons per year.

Simultaneously the Group acquired rights of claim for loan granted to OOO NMT in the amount of USD 20.9 mln with maturity till 2020 and interest rate of 7% per annum. The loan was recognised as other non-current financial assets in the consolidated interim condensed statement of financial position.



**OAO AK TRANSNEFT**  
**NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**FOR THE THREE MONTHS ENDED 31 MARCH 2016**  
(in millions of Russian roubles, if not stated otherwise)

**7 INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (CONTINUED)**

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:

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

**8 DISPOSAL OF SUBSIDIARIES**

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

**9 OTHER FINANCIAL ASSETS**

As at 31 March 2016:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
<b>Long-term financial assets</b>				
Loan to related parties	February 2019, March 2020	USD	6,352	12,861
	December 2021- December 2025	RUB	3,537	3,537
Eurobonds	April 2017 – July 2018	USD	19,150	22,220
Deposits	December 2017	USD	5,428	7,342
Other financial assets	-	Other	9	10
			<b>34,476</b>	<b>45,970</b>
<b>Short-term financial assets</b>				
Loan to related parties	During the year after the reporting date	USD	-	2,647
Interest-bearing notes	May 2016 – February 2017	USD	10,853	12,852
Eurobonds	During the year after the reporting date	USD	777	1,454
		USD	297,423	293,077
Deposits	During the year after the reporting date	RUB	30,850	32,004
		Other	58	58
Other financial assets	During the year after the reporting date	RUB	5	5
			<b>339,966</b>	<b>342,097</b>



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**9 OTHER FINANCIAL ASSETS (CONTINUED)**

As at 31 December 2015:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
<b>Long-term financial assets</b>				
	February 2019	USD	5,221	12,645
Loans to related parties	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
			<b>52,014</b>	<b>70,222</b>
<b>Short-term financial assets</b>				
Loans 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
			<b>354,656</b>	<b>391,690</b>

As at 31 March 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 March 2016 were in the range from 0.7% to 17.0% (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 0.7% to 15.0% as at 31 March 2016 (from 1.6% to 20.0% as at 31 December 2015).

Most of issuers of afore-mentioned notes and bonds as at 31 March 2016 and 31 December 2015 were organisations which were controlled or significantly influenced by the state (61% and 38% respectively).

Interest rates under notes and bonds ranged from 3.4% to 8.1% as at 31 March 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 March 2016 (ranged from 5.1% to 8.1% as at 31 December 2015).

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

**10 INVENTORIES**

	<b>31 March 2016</b>	<b>31 December 2015</b>
Materials and supplies	27,966	26,864
Sundry goods for resale	9,284	8,207
	<b>37,250</b>	<b>35,071</b>

Materials and supplies are presented net of provisions for obsolescence which amounted RUB 46 as at 31 March 2016 (as at 31 December 2015 – RUB 194). Materials are primarily used for repairment and maintenance of pipeline equipment.



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**11 RECEIVABLES AND PREPAYMENTS, VAT ASSETS**

**Receivables and prepayments**

	<b>31 March 2016</b>	<b>31 December 2015</b>
Financial assets		
Other long-term receivables	1,516	1,392
Non-financial assets		
Long-term VAT	17	17
<b>Total long-term receivables</b>	<b>1,533</b>	<b>1,409</b>
	<b>31 March 2016</b>	<b>31 December 2015</b>
Financial assets		
Trade receivables	21,073	23,525
Other receivables	26,961	24,362
less: provision for impairment	(23,148)	(21,490)
<b>Total financial assets in short-term receivables</b>	<b>24,886</b>	<b>26,397</b>
Non-financial assets		
Prepayments, advances and other non-financial receivables	11,768	11,209
<b>Total short-term receivables</b>	<b>36,654</b>	<b>37,606</b>

**12 CASH AND CASH EQUIVALENTS**

	<b>31 March 2016</b>	<b>31 December 2015</b>
Balances in Russian roubles	23,395	27,747
Balances in US dollars	83,340	63,875
Balances in Euro	679	642
Balances in other currencies	2,732	449
	<b>110,146</b>	<b>92,713</b>

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 2016 and 31 December 2015, a significant portion of cash was placed with banks, which were under control or significant influence of the state (79% and 69% correspondingly).

**13 LOANS AND BORROWINGS**

	<b>31 March 2016</b>	<b>31 December 2015</b>
Loans and borrowings	802,678	865,003
Less: current loans and borrowings and current portion of non-current loans and borrowings	(89,642)	(81,494)
	<b>713,036</b>	<b>783,509</b>
Maturity of non-current loans and borrowings		
Between one and five years	344,950	374,556
After five years	368,086	408,953
	<b>713,036</b>	<b>783,509</b>

The amount of short-term loans and borrowings contained RUB 35,427 of non-convertible interest-bearing documentary bonds with maturity dates in May 2019, October 2024 and July 2025 but with an option for earlier redemption at the request of bond-holders or at the discretion of the issuer in April, May 2016 and January 2017.

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



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**13 LOANS AND BORROWINGS (CONTINUED)**

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

Type of bonds	Interest rate	Currency	Carrying amounts		Fair value	
			31 March 2016	31 December 2015	31 March 2016	31 December 2015
Non-convertible interest-bearing documentary	Fixed	RUB	94,102	94,102	95,000	95,508
Non-convertible interest-bearing documentary	Floating	RUB	35,000	35,000	35,000	35,000
Eurobonds	Fixed	USD	70,988	76,527	79,065	83,728
Loan agreement with China Development Bank Corporation	Floating according with LIBOR	USD	593,444	651,895	597,584	657,005

**14 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE**

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

**15 PROVISIONS FOR LIABILITIES AND CHARGES**

	31 March 2016	31 December 2015
Pension provision	93,584	89,641
Dismantlement provision	5,593	5,517
Other provisions	5,237	6,051
	<b>104,414</b>	<b>101,209</b>

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

**16 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES**

	31 March 2016	31 December 2015
Trade payables	53,064	53,776
Other payables	21,258	22,816
<b>Total financial payables</b>	<b>74,322</b>	<b>76,592</b>
Long-term portion of derivatives	(8,400)	(12,622)
<b>Total short-term financial payables</b>	<b>65,922</b>	<b>63,970</b>
Advances received for oil and oil product transportation services	40,327	52,229
Accrued expenses	32,498	28,826
VAT payable	16,233	8,543
Other taxes payable	6,572	4,939
<b>Total payables</b>	<b>161,552</b>	<b>158,507</b>





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**16 TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES (CONTINUED)**

**Derivatives**

As at 31 March 2016 the carrying value of the liability for interest rate swap (Level 2) amounted to RUB 8,447 (RUB 12,700 as at 31 December 2015) and was recognised as other payables.

**17 REVENUE**

	Three months ended 31 March 2016	Three months ended 31 March 2015
Revenue from crude oil transportation services:		
Domestic tariff	60,082	56,371
Export tariff	89,526	81,072
<b>Total revenue from crude oil transportation services</b>	<b>149,608</b>	<b>137,443</b>
Revenue from oil products transportation services	18,122	15,169
Revenue from crude oil sales	30,392	43,097
Other revenues	5,883	5,768
	<b>204,005</b>	<b>201,477</b>

Revenues from crude oil sales for the three months ended 31 March 2016 include, mostly, revenues 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 OAO NK Rosneft (see Note 21).

**18 OPERATING EXPENSES**

	Three months ended 31 March 2016	Three months ended 31 March 2015
Amortisation and depreciation	33,944	30,096
Salaries	24,898	22,817
Social funds contributions	7,172	6,458
Social expenses	611	516
Energy	9,694	8,911
Materials	5,139	4,235
Cost of crude oil sold	24,327	29,262
Export custom duties	6,330	12,083
Repairs and maintenance services	1,547	1,915
Property tax and taxes other income	5,290	4,287
Pension expenses	1,311	1,240
Other expenses	11,619	7,998
	<b>131,882</b>	<b>129,818</b>



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**19 NET FINANCE INCOME**

	Three months ended 31 March 2016	Three months ended 31 March 2015
Interest income from cash and cash equivalents	499	2,732
Interest income from other financial assets	4,912	7,603
Other interest income	205	144
<b>Total interest income</b>	<b>5,616</b>	<b>10,479</b>
less interest income on the temporary investment of borrowings	(335)	(50)
<b>Total interest income recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income</b>	<b>5,281</b>	<b>10,429</b>
Foreign exchange gain	101,339	225,414
Net gain from operations with derivatives	4,252	10,274
Net gain from operations with financial assets through profit or loss	669	-
<b>Total finance income</b>	<b>111,541</b>	<b>246,117</b>
Interest expense on loans and borrowings	(11,849)	(11,078)
Distribution of investment income to pension liabilities	(1,733)	(1,432)
Other interest expenses	(1,056)	(944)
<b>Total interest expenses</b>	<b>(14,638)</b>	<b>(13,454)</b>
Less interest capitalised	835	494
<b>Total interest expenses recognised in the consolidated interim condensed statement of profit or loss and other comprehensive income</b>	<b>(13,803)</b>	<b>(12,960)</b>
Foreign exchange losses	(84,073)	(229,693)
<b>Total finance costs</b>	<b>(97,876)</b>	<b>(242,653)</b>
<b>Net finance income</b>	<b>13,665</b>	<b>3,464</b>

**20 CONTINGENT LIABILITIES AND OTHER RISKS**

**Legal proceedings**

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

**21 RELATED PARTIES**

The Federal Agency for State Property Management on behalf of the Russian Federation owns 100% of the ordinary shares of the Company conducting the control via the Board of Directors that as at 31 March 2016 comprise of the State representatives (professional attorneys) and Independent Directors. The Government of the RF shall appoint the members of the Federal Antimonopoly Service to make decisions of tariff and rates structure.

As at 31 March 2016 and 31 December 2015 the Company holds in trust on behalf of the Russian Government 100% of the shares of the CPC Investments Company, 100% of the shares of the CPC Company, 7% of the shares of the Caspian Pipeline Consortium-R and 7% of the shares of Caspian Pipeline Consortium-K and also 24% of the shares of the Caspian Pipeline Consortium-R and 24% of the shares of Caspian Pipeline Consortium-K. These interests are not recognised in these consolidated interim condensed financial statements as the Company is acting as an agent in shares of the above companies.



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## 21 RELATED PARTIES (CONTINUED)

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, transportation of oil products and transactions with banks, which are under common control or significant influence of the state.

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

	Three months ended 31 March 2016	Three months ended 31 March 2015
Revenue from oil transportation services	71,817	64,272
OAO NK Rosneft and its subsidiaries	63,659	57,250
OAO Gazprom and its subsidiaries	8,022	6,894
Others	136	128
Revenue from oil products transportation services	6,797	6,608
OAO NK Rosneft and its subsidiaries	2,781	3,502
OAO Gazprom and its subsidiaries	4,016	3,106
Purchases of oil (OAO NK Rosneft)	22,390	25,323
Transportation of oil using railways and related services (OAO RZD and its subsidiaries)	634	743
Electricity expenses	224	100
Interest income from other financial assets	2,906	2,840
Transportation expenses	414	291

During the three months ended 31 March 2016 and 31 March 2015, Group had following transactions with associates and jointly controlled entities:

	Three months ended 31 March 2016	Three months ended 31 March 2015
Revenue	275	739
Purchases of goods and services	8,570	7,798

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

	31 March 2016	31 December 2015
Trade and other receivables	353	1,328
Trade and other payables	1,389	443
Loans issued	19,047	17,811

### Key management personnel compensation

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

## 22 SEGMENT INFORMATION

Generally, Management of the Group analyses information by separate legal entities and operational segments are set by nature of its activity based on management accounting under Russian Accounting Standards (RAS). The following segments were allocated: Oil transportation services, Oil product transportation services and Sales of oil and oil products. Adjusting entries used to reconcile this information with information in the consolidated financial statements primarily include adjustments and reclassifications resulting from differences between RAS and IFRS.



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**22 SEGMENT INFORMATION (CONTINUED)**

Segment information for the three months ended 31 March 2016 and 31 March 2015 was as follows:

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 from sales to third parties	155,892	19,104	29,009	-	204,005
Operating expenses	(105,013)	(9,235)	(29,282)	11,648	(131,882)
including amortisation and depreciation	(40,572)	(3,110)	-	9,738	(33,944)
<b>Operating profit</b>	<b>50,879</b>	<b>9,869</b>	<b>(273)</b>	<b>11,648</b>	<b>72,123</b>
Finance income	-	-	-	-	111,541
Finance costs	-	-	-	-	(97,876)
Gain on disposal of subsidiary	-	-	-	-	998
Share of profit from associates and jointly controlled entities	-	-	-	-	6,805
<b>Profit before income tax</b>	<b>50,879</b>	<b>9,869</b>	<b>(273)</b>	<b>11,648</b>	<b>93,591</b>
Income tax expense	-	-	-	-	(18,023)
<b>Profit for the reporting period</b>	<b>50,879</b>	<b>9,869</b>	<b>(273)</b>	<b>11,648</b>	<b>75,568</b>

Three months ended 31 March 2015	Oil transporta- tion services	Oil products transporta- tion services	Trading operations for sale of oil and oil products	Adjust- ments	Total IFRS
Revenue from sales to third parties	145,812	15,468	42,823	(2,626)	201,477
Operating expenses	(90,301)	(7,126)	(40,431)	8,040	(129,818)
including amortisation and depreciation	(37,194)	(2,129)	-	9,227	(30,096)
<b>Operating profit</b>	<b>55,511</b>	<b>8,342</b>	<b>2,392</b>	<b>5,414</b>	<b>71,659</b>
Finance income	-	-	-	-	246,117
Finance costs	-	-	-	-	(242,653)
Share of profit from associates and jointly controlled entities	-	-	-	-	1,443
<b>Profit before income tax</b>	<b>55,511</b>	<b>8,342</b>	<b>2,392</b>	<b>5,414</b>	<b>76,566</b>
Income tax expense	-	-	-	-	(13,178)
<b>Profit for the reporting period</b>	<b>55,511</b>	<b>8,342</b>	<b>2,392</b>	<b>5,414</b>	<b>63,388</b>

Adjusting items for segment's expenses in the amount of 11,648 RUB for the three months ended 31 March 2016 and 8,040 RUB for the three months ended 31 March 2015 include the following adjustments and reclassifications due to RAP and IFRS accounting differences:

	Three months ended 31 March 2016	Three months ended 31 March 2015
Adjustment to Property plant and equipment to eliminate RAR revaluation effect and to record adjustment required under IAS 29 "Financial reporting in hyper-inflationary economies"	(9,896)	(8,887)
Pension provision	728	881
Deferred payment obligation	(877)	(231)
Others	(1 603)	197
<b>Total adjusting items for segment's expenses</b>	<b>(11,648)</b>	<b>(8,040)</b>



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## 22 SEGMENT INFORMATION (CONTINUED)

*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 on 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 2016	Three months ended 31 March 2015
Russian Federation	168,592	157,172
China	28,653	37,822
Other countries	6,760	6,483
<b>Total</b>	<b>204,005</b>	<b>201,477</b>

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 2016	Three months ended 31 March 2015
Companies under control of the state	78,614	70,880
China National United Oil Corporation	28,653	37,822
OAO Surgutneftegaz	26,333	24,408
PAO LUKOIL	20,953	20,854
<b>Total</b>	<b>154,553</b>	<b>153,964</b>

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

## 23 EVENTS AFTER THE REPORTING DATE

In April 2016 OAO AK Transneft acquired RUB 14,805 of BO-03 series bonds under an offer made at 100% of par value which amounted to 98.7% of the issue (15 mln of bonds at RUB 1 thousand par value). Obligations under the offer were settled in full and on time.

In April 2016 through public offering OAO AK Transneft issued non-convertible interest-bearing documentary bonds with an option for earlier redemption at the owners' request for the total amount of RUB 17 billion and coupon rate of 10.1%.

In May 2016 OAO AK Transneft acquired RUB 10,414 of Series O1 bonds under an offer made at 100% par value which amounted to 29.8% of the issue (35 mln. of bonds at RUB 1 thousand par value).

Прошнуровано, сброшуровано  
и скреплено печатью 21  
(двадцать один)  
лист.

*Kim*

Ким А.А.  
Директор АО «КПМ»

