TRANSNEFT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

CONTENT

KPMG

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 Condensed Consolidated Interim Financial Information

To the Shareholders and Board of Directors

Transneft

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Transneft (the “Company”) and its subsidiaries (the “Group”) as at 30 September 2018, and the related condensed consolidated interim statements of profit or loss and other comprehensive income for the three– and nine-month periods ended 30 September 2018 and the related condensed consolidated interim statements of changes in equity and cash flows for the nine-month period ended 30 September 2018, and notes to the condensed consolidated interim financial information (the “condensed consolidated interim financial information”). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this condensed consolidated interim 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 condensed consolidated interim 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. 11603053203.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information as at 30 September 2018, and for the three- and nine-month periods ended 30 September 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Vakhidov N.U.

JSC "KPMG"

Moscow, Russia

28 November 2018

TRANSNEFT
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT 30 SEPTEMBER 2018
(in millions of Russian roubles, if not stated otherwise)

	Notes	30 September 2018	31 December 2017
ASSETS			
Non-current assets			
Intangible assets	7	106,667	8,966
Property, plant and equipment	5	2,442,114	2,268,663
Available-for-sale financial assets		-	251
Investments in associates and jointly controlled entities	7	116,290	126,769
Financial assets at fair value through profit or loss	6	16,615	-
Receivables and prepayments, VAT assets	10	2,804	2,083
Financial assets at amortised cost	8	10,273	23,096
Total non-current assets		**2,694,763**	**2,429,828**
Current assets			
Inventories	9	39,317	30,662
Receivables and prepayments	10	42,120	42,400
VAT assets		44,052	35,316
Current income tax prepayments		1,359	5,697
Financial assets at fair value through profit or loss	6	62,086	58,859
Financial assets at amortised cost	8	140,884	208,768
Cash and cash equivalents	11	89,190	76,162
Total current assets		**419,008**	**457,864**
Total assets		**3,113,771**	**2,887,692**
EQUITY AND LIABILITIES			
Equity			
Share capital		308	308
Share premium reserve	13	93,592	58,544
Merger reserve	7	(6,072)	(13,080)
Retained earnings		1,894,054	1,803,206
Attributable to the shareholders of Transneft		**1,981,882**	**1,848,978**
Non-controlling interest		8,264	1,776
Total equity		**1,990,146**	**1,850,754**
Non-current liabilities			
Loans and borrowings	12	588,215	579,180
Deferred income tax liabilities	14	45,206	47,120
Provisions for liabilities and charges	15	135,541	126,725
Trade and other payables	16	58,208	3,458
Total non-current liabilities		**827,170**	**756,483**
Current liabilities			
Loans and borrowings	12	129,090	109,730
Provisions for liabilities and charges	15	27,753	41,468
Trade and other payables	16	139,161	129,021
Current income tax payable		451	236
Total current liabilities		**296,455**	**280,455**
Total liabilities		**1,123,625**	**1,036,938**
Total equity and liabilities		**3,113,771**	**2,887,692**

Approved on 28 November 2018 by:

M.S. Grishanin First Vice-President

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

The accompanying notes set out on pages 9 to 29 are an integral part of these condensed consolidated interim financial statements

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

	Notes	Three months ended 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2017
Revenue	17	252,706	716,012	219,552	657,802
Operating expenses net of depreciation and amortisation	18	(146,129)	(401,109)	(117,613)	(340,385)
Operating profit net of depreciation and amortisation		**106,577**	**314,903**	**101,939**	**317,417**
Depreciation and amortisation		(45,346)	(132,306)	(38,567)	(114,397)
Operating profit		**61,231**	**182,597**	**63,372**	**203,020**
Other income		29,160	33,078	774	7,874
Share of profit from associates and jointly controlled entities		6,327	6,294	5,299	14,775
Profit before income tax and finance income/ (costs)		**96,718**	**221,969**	**69,445**	**225,669**
Finance income	19	27,757	82,986	18,927	84,955
Finance costs	19	(31,668)	(96,486)	(24,300)	(99,348)
Profit before income tax		**92,807**	**208,469**	**64,072**	**211,276**
Income tax expense	14	(13,881)	(37,473)	(11,106)	(44,431)
Profit for the reporting period		**78,926**	**170,996**	**52,966**	**166,845**
Other comprehensive income/ (loss), net of income tax					
Items that may be reclassified to profit or loss					
Currency translation differences, net of income tax		669	1,751	5	39
Total items that may be reclassified to profit or loss, net of income tax		*669*	*1,751*	*5*	*39*
Items that will not be reclassified to profit or loss					
Remeasurement of net defined benefit plan obligation, net of income tax	15	1,905	794	(80)	(807)
Total items that will not be reclassified to profit or loss, net of income tax		*1,905*	*794*	*(80)*	*(807)*
Total other comprehensive income/(loss) for the reporting period, net of income tax		**2,574**	**2,545**	**(75)**	**(768)**
Total comprehensive income for the reporting period		**81,500**	**173,541**	**52,891**	**166,077**
Profit attributable to					
Shareholders of Transneft		78,967	171,112	53,020	166,878
Non-controlling interest		(41)	(116)	(54)	(33)
Total comprehensive income attributable to					
Shareholders of Transneft		81,541	173,657	52,945	166,110
Non-controlling interest		(41)	(116)	(54)	(33)

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

	Notes	Nine months ended 30 September 2018	Nine months ended 30 September 2017
Cash flows from operating activities			
Cash receipts from customers		759,628	694,304
Cash paid to suppliers and employees, and taxes other than income tax		(523,465)	(460,770)
Interest paid		(42,803)	(34,276)
Income tax paid		(31,997)	(40,902)
Refund of insurance contributions, VAT and other taxes refund		66,255	47,403
Other cash flows used in operating activities		(4,495)	(2,487)
Net cash flows from operating activities		**223,123**	**203,272**
Cash flows from investing activities			
Purchase of property, plant and equipment		(192,710)	(222,391)
Proceeds from sale of property, plant and equipment		562	987
Interest received		16,253	16,176
Acquisition of debt, equity securities and placement of funds on deposit accounts		(272,533)	(287,872)
Proceeds from sale of debt, equity securities and closure of deposit accounts		349,663	387,438
Cash received from changes in the Group's structure	7	5,353	-
Acquisition of shares in subsidiaries	7	(17,301)	-
Acquisition of shares in associates and jointly controlled entities		(155)	(60,000)
Dividends received and other cash proceeds from associates and jointly controlled entities		2,025	28,399
Granting and return of borrowings		(1,979)	(2,328)
Other cash flows used in investing activities		(42)	(840)
Net cash flows used in investing activities		**(110,864)**	**(140,431)**
Cash flows from financing activities			
Repayment of loans and borrowings		(342,680)	(119,882)
Proceeds from loans and borrowings		287,228	132,271
Purchase of treasure shares		-	(1,106)
Dividends paid out	13	(54,927)	(30,555)
Other cash flows used in financing activities		(3)	(39)
Net cash flows used in financing activities		**(110,382)**	**(19,311)**
Effects of exchange rate changes on cash and cash equivalents		**11,151**	**(399)**
Net increase in cash and cash equivalents		**13,028**	**43,131**
Cash and cash equivalents at the beginning of the reporting period	11	**76,162**	**74,586**
Cash and cash equivalents at the end of the reporting period	11	**89,190**	**117,717**

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

	Notes	Attributable to the owners of Transneft								
		Share capital	Share premium reserve	Merger reserve	Treasury shares	Prepaid share reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2017		**308**	**52,553**	**(13,080)**		**5,991**	**1,668,788**	**1,714,560**	**1,795**	**1,716,355**
Profit for the reporting period		-	-	-		-	166,878	**166,878**	(33)	**166,845**
Remeasurement of net defined benefit plan obligation, net of income tax		-	-	-		-	(807)	**(807)**	-	**(807)**
Currency translation differences, net of income tax		-	-	-		-	39	**39**	-	**39**
Total comprehensive income for the reporting period		**-**	**-**	**-**		**-**	**166,110**	**166,110**	**(33)**	**166,077**
Transactions with owners										
Placement of ordinary certified non-documentary shares		-	5,991	-		(5,991)	-	**-**	-	**-**
Purchase of treasury shares					(1,106)			**(1,106)**		**(1,106)**
Dividends	13									
- ordinary shares		-	-	-		-	(45,508)	**(45,508)**	-	**(45,508)**
- preferred shares		-	-	-		-	(12,650)	**(12,650)**	-	**(12,650)**
Total transactions with owners		**-**	**5,991**	**-**	**(1,106)**	**(5,991)**	**(58,158)**	**(59,264)**	**-**	**(59,264)**
Balance at 30 September 2017		**308**	**58,544**	**(13,080)**	**(1,106)**	**-**	**1,776,740**	**1,821,406**	**1,762**	**1,823,168**
Balance at 31 December 2017		**308**	**58,544**	**(13,080)**		**-**	**1,803,206**	**1,848,978**	**1,776**	**1,850,754**
Adjustment on initial application of IFRS 15, net of income tax	4	-	-	-		-	(26,408)	**(26,408)**	-	**(26,408)**
Adjustment on initial application of IFRS 9, net of income tax	4	-	-	-		-	(1,474)	**(1,474)**	-	**(1,474)**
Balance at 1 January 2018		**308**	**58,544**	**(13,080)**		**-**	**1,775,324**	**1,821,096**	**1,776**	**1,822,872**
Profit for the reporting period		-	-	-	-	-	171,112	**171,112**	(116)	**170,996**
Remeasurement of net defined benefit plan obligation, net of income tax		-	-	-	-	-	794	**794**	-	**794**
Currency translation differences, net of income tax		-	-	-	-	-	1,751	**1,751**	-	**1,751**
Total comprehensive income for the reporting period		**-**	**-**	**-**	**-**	**-**	**173,657**	**173,657**	**(116)**	**173,541**
Transactions with owners and changes in ownership interests										
Business combination under common control	7, 13	-	35,048	7,008	-	-	-	**42,056**	-	**42,056**
Acquisition of subsidiary with NCI	7	-	-	-	-	-	-	**-**	10,137	**10,137**
Dividends	13									
- ordinary shares		-	-	-	-	-	(43,154)	**(43,154)**	(3,533)	**(46,687)**
- preferred shares		-	-	-	-	-	(11,773)	**(11,773)**	-	**(11,773)**
Total transactions with owners and changes in ownership interests		**-**	**35,048**	**7,008**	**-**	**-**	**(54,927)**	**(12,871)**	**6,604**	**(6,267)**
Balance at 30 September 2018		**308**	**93,592**	**(6,072)**	**-**	**-**	**1,894,054**	**1,981,882**	**8,264**	**1,990,146**

The accompanying notes set out on pages 9 to 29 are an integral part of these condensed consolidated interim financial statements

1 NATURE OF OPERATIONS

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

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

The Company and its subsidiaries (hereinafter - the "Group") as at 30 September 2018 operate the oil pipeline system in the Russian Federation totalling 51,715 km and the oil products pipeline system in the Russian Federation, the Republic of Belarus and the Republic of Kazakhstan totalling 16,652 km. Its associate OOO LatRosTrans operates an interconnected oil products pipeline system in the Republic of Latvia.

During the nine months ended 30 September 2018, the Group transported 357.5 million tonnes of crude oil to domestic and export markets (as for the nine months ended 30 September 2017 – 356.9 million tonnes), which represents a substantial majority of the crude oil produced in the territory of the Russian Federation during that period. The volume of transported oil products as for the nine months ended 30 September 2018 amounted to 30.2 million tonnes (25.0 million tonnes as for the nine months ended 30 September 2017).

In September 2018 the Group acquired control over PJSC NCSP (Note 7). PJSC NCSP and its subsidiaries are established and operate mainly in the territory of the Russian Federation; their main activities include stevedoring and additional port services, as well as, maintenance of sea vessels.

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 condensed consolidated interim 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

These condensed consolidated interim 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 2017 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 condensed consolidated interim 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, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Rouble ("RUB").

The official US dollar ("USD") to Russian Rouble ("RUB") exchange rates as determined by the Central Bank of the Russian Federation ("CBR") were 65,5906 and 57.6002 as at 30 September 2018 and 31 December 2017, 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 2017 except for amendments relating to standards which have become effective after 1 January 2018.

These amendments will also be shown in the consolidated financial statements of the Group for the year ending 31 December 2018.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 Revenue from Contracts with Customers

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

At present, the Group provides the following services: oil and oil products transportation, and export sales of crude oil, stevedoring and additional port services.

The Group also renders services for technological connection to the trunk pipeline system and expansion of the throughput capacity of the trunk pipelines. These services are provided in accordance with contracts for technological connection and agreements for setting of long-term (agreed) tariffs for oil and oil products transportation via active parts of trunk pipelines, respectively. Pipeline facilities constructed under such agreements (contracts) become property of the Group.

Under previously effective IAS 18 *Revenue* revenue from provision of oil and oil products transportation services in accordance with long-term (agreed) tariffs was recognised as revenue from transportation of oil and oil products during the term of these tariffs.

Under the previously effective IFRIC 18 *Transfer of Assets from Customers* revenue from the provision of services for technological connection to the trunk pipeline system was recognised as other revenue as costs were incurred for construction of assets financed in accordance with such agreements.

Due to the adoption of the requirements of the new IFRS 15 *Revenue from Contracts with Customers* starting from the financial statements as for the three months ended 31 March 2018 revenue from the provision of oil and oil products transportation services at long-term (agreed) tariffs and revenue from the provision of services for technological connection to the trunk pipeline system are recognised based on the useful life of the facilities financed from cash received under the respective agreements.

In accordance with IFRS 15 *Revenue from Contracts with Customers*, the advance payments received before the period of their recognition as revenue are recognised as contractual liabilities.

The Group adopted IFRS 15 only to agreements which were not yet completed as at 1 January 2018. In relation to agreements already completed at this date exemption provided by the standard was applied allowing not to recalculate such agreements. The Group adopted IFRS 15 retrospectively recognising the combined effect of the first adoption at the date of initial application from 1 January 2018. Thus the Group has not adopted the IFRS 15 requirements to comparative period which was presented in the statements in accordance with IAS 18 and IFRIC 18 (Note 17).

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

Classification - Financial assets

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

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL on initial recognition:

(a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL on initial recognition:

(a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of equity investments that are not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets including all derivative financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group initially measures financial assets (except a trade receivable without a significant financing component that is initially measured at the transaction price) at fair value, increased for an item not measured at FVTPL, by the amount of transaction costs that are directly attributable to its acquisition or issue.

The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, Including any interest or dividend income, are recognised in profit or loss statement.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain and loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income is calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss until the dividends clearly represent a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The adoption of IFRS 9 as at 1 January 2018 for classification of financial assets did not have significant effect on accounting of trade receivables and debt investments and equity investments.

As at 1 January 2018 the Group classified in accordance with IFRS 9 part of loans to related parties amounting to RUB 13,590 to the category measured at fair value through profit or loss as cash flows from these loans are not solely payments of principal and interest of the outstanding balance, which resulted in recognition of fair value loss in the amount of RUB 1,173. Accordingly all gains and losses from changes in the loans fair value will be recognised in profit or loss.

As at 1 January 2018 the Group had equity investments which were classified as available-for-sale under IAS 39. In accordance with the Group's estimate the fair value of these investments does not differ significantly from their carrying value and, therefore, under IFRS 9 the Group classified these investments as measured through profit or loss. Accordingly, all gains and losses from changes in the investments' fair value will be recognised in profit or loss.

Impairment – financial assets and contract assets

In relation to impairment IFRS 9 introduces a new future oriented model of expected credit loss (ECL) which replaces the incurred loss model established by IAS 39.

The effect of adoption of the new impairment model in accordance with IFRS 9 on each category of financial assets is presented below.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other receivables including contract assets

The expected credit losses will be calculated based on actual historical credit loss experience taking into account the economic environment expected by the Group during the receivables lifetime using the matrix approach.

The application of IFRS 9's impairment requirements as at 1 January 2018 resulted in increase of impairment loss recognised under IAS 39 for RUB 503 (including RUB 59 of loans to related parties accounted for at amortised cost).

Debt securities

The Group analysed the changes in credit risk by tracking published external credit ratings.

To determine whether the credit risk has increased significantly as at 1 January 2018 which has not been recognised in published credit ratings the Group considered all quantitative and qualitative information available, including change in bond yields, CDS prices (if available), information from media and legal information about issuers, and additionally performed an analysis based on the Group's experience and an internal expert estimate of credit risk.

The default probabilities during 12 months after the reporting date and term of financial instruments are based on historical data provided by rating agency Standard&Poors for each credit rating, and are checked taking into account current bond yields and current CDS prices. Loss given default applied by the Group is determined based on presumed recovery rate.

Deposits, cash and cash equivalents

As at 1 January 2018 deposits and cash equivalents were mainly held with largest banks which have external credit ratings supplied by rating agency Moody's and other rating agencies and adjusted to the Moody's rating scale from Ba1 to Ba2.

The estimated impairment on deposits and cash and cash equivalents was calculated based on the 12-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its deposits, cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Group used a similar approach for assessment of ECLs for deposits, cash and cash equivalents to those used for debt securities.

The application of IFRS 9 impairment requirements as at 1 January 2018 resulted in an increase in impairment of deposits recognised under IAS 39 by RUB 166.

Classification - Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

The Group's classification of financial liabilities as at 1 January 2018 did not have any material impact on the consolidated financial statements.

Transition

The Group applied IFRS 9 retrospectively; the Group also applied exemption allowing not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the previous carrying amount of financial instruments and their carrying amounts in accordance with IFRS 9 were recognised in the retained earnings and other reserves as at 1 January 2018.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The effect of adoption of IFRS 15 and IFRS 9 on the Group's condensed consolidated interim financial statements as at 1 January 2018 together with the adjustments in accordance with IAS 23, which were recognised in the second quarter of 2018, is disclosed in the table below:

	As at 31 December 2017 as reported	Effect of adoption of IFRS 15	Effect of adoption of IFRS 9	As at 31 December 2017 (recalculated)
Assets				
Property, plant and equipment	2,268,663	5,450	-	2,274,113
Available-for-sale financial assets	251	-	(251)	-
Financial assets at fair value through profit or loss	-	-	12,366	12,366
Financial assets at amortised cost	23,096	-	(13,148)	9,948
Other non-current assets	137,818	-	-	137,818
Total non-current assets	**2,429,828**	**5,450**	**(1,033)**	**2,434,245**
Receivables and prepayments	42,400	1,371	(444)	43,327
Financial assets at fair value through profit or loss	58,859	-	302	59,161
Financial assets at amortised cost	208,768	-	(667)	208,101
Other current assets	147,837	-	-	147,837
Total current assets	**457,864**	**1,371**	**(809)**	**458,426**
Total assets	**2,887,692**	**6,821**	**(1,842)**	**2,892,671**
EQUITY AND LIABILITIES				
Equity				
Retained earnings	1,803,206	(26,408)	(1,474)	1,775,324
Other equity	45,772	-	-	45,772
Attributable to the shareholders of Transneft	**1,848,978**	**(26,408)**	**(1,474)**	**1,821,096**
Non-controlling interest	1,776	-	-	1,776
Total equity	**1,850,754**	**(26,408)**	**(1,474)**	**1,822,872**
Non-current liabilities				
Deferred income tax liabilities	47,120	(6,602)	(368)	40,150
Contract liabilities	-	39,831	-	39,831
Other non-current liabilities	709,363	-	-	709,363
Total non-current liabilities	**756,483**	**33,229**	**(368)**	**789,344**
Total current liabilities	**280,455**	**-**	**-**	**280,455**
Total liabilities	**1,036,938**	**33,229**	**(368)**	**1,069,799**
Total equity and liabilities	**2,887,692**	**6,821**	**(1,842)**	**2,892,671**

The Group was not an early adopter of the new standards, adjustments and interpretations that have been issued but have not yet become effective (Note 17).

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

5 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Pipelines and tanks	Machinery and equipment	Linefill	Assets under construction including prepayments	Total
At 31 December 2017						
Cost	222,879	1,413,725	1,315,052	126,837	363,458	3,441,951
Accumulated depreciation and impairment provision	(60,513)	(502,265)	(610,510)	-	-	(1,173,288)
Net book value at 31 December 2017	**162,366**	**911,460**	**704,542**	**126,837**	**363,458**	**2,268,663**
Effect of adoption of IFRS 15 (Note 4)	-	-	-	-	5,450	5,450
Net book value at 1 January 2018	**162,366**	**911,460**	**704,542**	**126,837**	**368,908**	**2,274,113**
Depreciation	(6,467)	(39,903)	(86,129)	-	-	(132,499)
Additions (including prepayments)	-	-	-	5,787	206,034	211,821
Transfers from assets under construction	8,048	30,503	65,300	-	(103,851)	-
Net change in dismantlement provision	-	(952)	-	-	-	(952)
Acquisition of subsidiaries	42,403	1,238	41,676	170	5,398	90,885
Disposals: cost	(503)	(2,059)	(6,697)	(652)	-	(9,911)
Disposals: accumulated depreciation and impairment provision	407	1,957	6,293	-	-	8,657
Net book value at 30 September 2018	**206,254**	**902,244**	**724,985**	**132,142**	**476,489**	**2,442,114**
At 30 September 2018						
Cost	272,827	1,442,455	1,415,331	132,142	476,489	3,739,244
Accumulated depreciation and impairment provision	(66,573)	(540,211)	(690,346)	-	-	(1,297,130)
Net book value at 30 September 2018	**206,254**	**902,244**	**724,985**	**132,142**	**476,489**	**2,442,114**

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

5 PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings	Pipelines and tanks	Machinery and equipment	Linefill	Assets under construction including prepayments	Total
At 1 January 2017						
Cost	196,539	1,339,231	1,136,478	121,354	406,560	3,200,162
Accumulated depreciation and impairment provision	(53,465)	(476,208)	(524,070)	-	-	(1,053,743)
Net book value at 1 January 2017	**143,074**	**863,023**	**612,408**	**121,354**	**406,560**	**2,146,419**
Depreciation	(5,252)	(35,898)	(71,521)	-	-	(112,671)
Additions (including prepayments)	-	-	-	4,238	218,211	222,449
Transfers from assets under construction	6,864	45,803	61,316	-	(113,983)	-
Net change in dismantlement provision	-	(1,264)	-	-	-	(1,264)
Disposals: cost	(416)	(3,264)	(6,428)	(286)		(10,394)
Disposals: accumulated depreciation and impairment provision	141	3,233	6,110	-	-	9,484
Net book value at 30 September 2017	**144,411**	**871,633**	**601,885**	**125,306**	**510,788**	**2,254,023**
30 September 2017						
Cost	202,987	1,380,506	1,191,366	125,306	510,788	3,410,953
Accumulated depreciation and impairment provision	(58,576)	(508,873)	(589,481)	-	-	(1,156,930)
Net book value at 30 September 2017	**144,411**	**871,633**	**601,885**	**125,306**	**510,788**	**2,254,023**

Linefill represents RUB 104,187 of crude oil and RUB 27,955 of oil products as at 30 September 2018 (as at 30 September 2017 – RUB 102,282 and RUB 23,024 respectively).

During the nine months ended 30 September 2018, borrowing costs in the amount of RUB 7,380 were capitalised as part of cost of assets under construction (for the nine months ended 30 September 2017 – RUB 5,001) including interests to be capitalised in the amount of RUB 7,380 (for the nine months ended 30 September 2017 – RUB 5,281). Amount to be excluded from capitalised borrowing costs in the reporting period did not arise (for the nine months ended 30 September 2017 – RUB 280) as disclosed in Note 19.

6 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The analysis of the financial assets at fair value through profit or loss by fair value hierarchy is disclosed in the table above.

Level 1

Current financial assets	**30 September 2018**	**31 December 2017**
Corporate bonds	27,421	31,455
Municipal bonds	140	342
Federal government bonds (OFZ)	34,201	26,392
Corporate Eurobonds	-	637
Securities	-	33
	61,762	**58,859**

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

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

Financial assets at fair value through profit or loss were presented by financial instruments assigned for trading purposes. Financial assets at fair value through profit or loss are neither overdue nor impaired.

The bond issuers were mainly presented by companies controlled by or under significant influence of the state as at 30 September 2018 and 31 December 2017 (87% and 88% accordingly).

Interest rates of the bonds as at 30 September 2018 were in range from 2.5% to 10.4% (as at 31 December 2017 – from 2.0% to 12.7%). Interest rates of the bonds issued by companies which were under control or significant influence of the state as at 30 September 2018 were in range from 2.5% to 10.4% (as at 31 December 2017 – from 2.0% to 12.7%).

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

Level 3	30 September 2018			
	Maturity	Currency	Amount at acquisition date	Carrying amount
Long-term financial assets				
Loans to related parties	May 2029	USD	9,085	9,884
	December 2021 – December 2025	RUB	6,438	6,480
Equity investments			-	251
Total long-term financial assets				**16,615**
Short-term financial assets				
Loans to related parties	During a year after the reporting date	RUB	490	324
Total short-term financial assets				**324**
				16,939

The fair value of loans granted to related parties was calculated based on the expected cash flows using average market interest rates for bank loans provided for a comparable term and in the same currency. Should the interest rates increase/ (decrease) by 1% while the other data left unchanged the fair value of the mentioned loans as at the reporting date would (decrease)/ increase by RUB 841 and RUB 925 respectively.

7 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

In March 2018 Transneft became the owner of 100% of shares of CPC Company and CPC Investments Company (Notes 13, 21). The main asset of CPC Investments Company is the loan granted to AO CPC-R for construction of oil pipeline system of the Caspian Pipeline Consortium (hereinafter – CPC). CPC Company is the owner of 7% of ordinary shares of AO CPC-R and AO CPC-K and the relevant quota for the right of use of the oil pipeline system CPC. Thus, Transneft has become indirectly the owner of a 7% control stake in AO CPC-R and AO CPC-K. Taking into account that 24% of ordinary shares of AO CPC-R and AO CPC-K are held in trust by the Company and considering that shareholders and trustees in the boards of AO CPC-R and AO CPC-K from Transneft are presented by the same individuals at the reporting date the Group classified AO CPC-R and AO CPC-K as associates accounted for using the equity method.

The Transneft's receipt of ownership of 100% of shares of CPC Company and CPC Investments Company was recognised as a business combination under common control using predecessor accounting. Respectively, the assets and liabilities of the combined companies CPC Company and CPC Investments Company were recognised in the condensed consolidated interim financial statements at their carrying amounts, which were calculated at the date of acquisition for the IFRS statements. The difference between the carrying value of the Group's share of net assets of these companies and share premium reserve from the placement of ordinary registered uncertified shares of Transneft was recognised as merger reserve.

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

7 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The summarised information about the financial position of CPC Investments Company is presented below:

	At acquisition date
Cash	4,982
Loan granted to AO CPC-R	13,526
Other assets	7
Deferred tax liabilities	(1,337)
Other liabilities	(1)
Total net assets	**17,177**

The summarised information about financial position of AO CPC-R and AO CPC-K is presented below:

	At acquisition date
Current assets	20,101
including cash	*3,381*
Non-current assets	408,126
Current liabilities	(85,897)
including financial liabilities	*(66,485)*
Non-current liabilities	(186,157)
including financial liabilities	*(147,440)*
Total net assets	**156,173**
Share of net assets (7%)	**10,932**
Goodwill in the predecessor's accounting	**13,523**
Carrying value of the share	**24,455**

In September 2018 the Group acquired 50% of the share capital of Omirico Limited which controls indirectly 50.1% of shares in PJSC NCSP, and as a result of the acquisition the Group's share in Omirico Limited increased to 100%. The consideration paid amounted to 750 mln USD (RUB 49,319 as at the exchange rate of the Bank of Russia on the date of payment). As a result of the acquisition, the Group's effectively hold share in PJSC NCSP increased from 37.07% to 63.08%, which allowed the Group to obtain control over PJSC NCSP and its subsidiaries. The Group also obtained control over OOO NMT, 50% of which is held by PJSC NCSP.

The Russian Government holds a golden share in PJSC NCSP which allows the government to veto the shareholders' decisions concerning amendments to the charter, as well as, liquidation, corporate restructuring and significant transactions. The NCSP Group is the leading port operator in Russian that combines stevedore companies carrying out different activities including transshipment of oil and oil products. The Group's main subsidiaries are located in the eastern sector of the Black sea, in the Leningrad and Kaliningrad Regions and are listed below:

	Main activities	Country of incorporation
LLC Primorsk Trade Port (PTP)	Transshipment of oil and oil products	Russia
LLC Novorossiysk Grain Terminal	Grain storage and shipment	Russia
JSC Novoroslesexport	Stevedoring and storage services for timber, containerised cargo, nonferrous metals and perishable goods	Russia
LLC IPP	Transshipment and storage of liquid bulk cargo	Russia
JSC Novorossiysk Ship Repair Yard	Transshipment of ferrous metals, cement and perishable goods	Russia
LLC Baltic Stevedore Company	Stevedoring and storage of containers	Russia
JSC Fleet of Novorossiysk Commercial Sea Port	Tug, towing, bunkering services	Russia
JSC SoyuzFlot Port (SFP)	Pilotage and tug and towing services	Russia

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

7 SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES (continued)

The summarised information about acquired assets and liabilities is presented below:

	Acquisition date
Property, plant and equipment	90,885
Receivables and prepayments	5,426
Inventories	1,909
Cash and cash equivalents	32,018
Other assets	610
Loans and borrowings	(96,049)
Deferred tax liabilities	(3,339)
Payables and other liabilities	(2,859)
Other liabilities	(939)
Total identifiable net assets	**27,662**
Non-controlling interest	(10,137)
Consideration paid	(49,319)
Fair value of the previously held share at the date of acquisition	(66,319)
Goodwill	**98,113**

As at 30 September 2018 and the date of approval of these condensed consolidated interim financial statements the fair value measurement of the assets and liabilities of PJSC NCSP has not been completed, in particular, the fair value measurement of property, plant and equipment, construction in progress, intangible assets and liabilities, recognised in the amount of their preliminary estimate equal to their current carrying value, has not been completed. The difference between the preliminary estimate of the acquisition price and the preliminary estimate of the value of identifiable assets and liabilities was recognised as goodwill in Intangible assets in the condensed consolidated interim statement of financial position. The Group plans to complete the fair value measurement of the said assets within 12 months of the date of acquisition.

The fair value of the previously held by the Group 50% share of Omirico Limited was estimated based on the market price of this deal, while the fair value of the directly held by the Group 10.52% of PJSC NCSP was estimated based on market quotes of the shares of PJSC NCSP. As a result of the provisional remeasurement, the gain amounting to RUB 25.4 billion was recognised in Other income of the condensed consolidated interim financial statements of profit or loss and other comprehensive income.

Had PJSC NCSP been consolidated from 1 January 2018, the consolidated revenue of the Group for the nine months 2018 would have increased by RUB 42.7 billion, and consolidated profit by RUB 10.0 billion. When assessing these figures the Group assumed that the fair value adjustments made at the date of acquisition would have been the same if the acquisition date was 1 January 2018.

The provisional estimate of the non-controlling interest was made based on the proportionate shares of their holders in the recognised identifiable net assets of the Group in accordance with their provisional valuation based on the financial statements of the Group NCSP prepared in accordance with IFRS as at 30 September 2018.

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

8 FINANCIAL ASSETS AT AMORTISED COST

As at 30 September 2018:

Type of asset	Maturity	Currency	Amount at the issue (purchase) date	Carrying amount
Long-term financial assets				
Loans granted to related parties	Shareholders' agreement	USD	9,085	10,271
Other financial assets	-	RUB	2	2
			9,087	**10,273**
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	1,896	2,155
Eurobonds	During the year after the reporting date	USD	124	132
Deposits	During the year after the reporting date	USD	66,450	73,883
		RUB	61,698	63,628
		Other	1,071	1,086
			131,239	**140,884**

As at 31 December 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	13,452	17,842
	December 2021 – March 2027	RUB	5,133	5,252
Other financial assets	-	RUB	2	2
			18,587	**23,096**
Short-term financial assets				
Loans granted to related parties	During the year after the reporting date	USD	-	1,788
		RUB	-	492
Eurobonds	During the year after the reporting date	USD	14,722	13,638
Deposits	During the year after the reporting date	USD	161,576	161,107
		RUB	31,215	31,735
Other financial assets	During the year after the reporting date	RUB	8	8
			207,521	**208,768**

As at 30 September 2018 and 31 December 2017 the significant amount of deposits (95% and 80% respectively) were placed with banks which were under control or significant influence of the state.

Interest rates of the deposits denominated in USD and RUB as at 30 September 2018 were in the range from 1.3% to 7.3% (as at 31 December 2017 – from 1.0% to 8.1%). As for the deposits placed with banks controlled by or under significant influence of the state interest rates ranged from 1.3% to 7.3% as at 30 September 2018 (from 1.0% to 8.1% as at 31 December 2017).

Most issuers of eurobonds as at 30 September 2018 and 31 December 2017 were organisations which were controlled by or under significant influence of the state (93% and 75% respectively).

Interest rates for eurobonds ranged from 3.9% to 6.6% as at 30 September 2018 (ranged from 3.4% to 8.1% as at 31 December 2017). As for the eurobonds issued by companies which were controlled by or were under significant influence of the state interest rates ranged from 3.9% to 6.6% as at 30 September 2018 (ranged from 3.9% to 8.1% as at 31 December 2017).

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

9 INVENTORIES

	30 September 2018	31 December 2017
Materials and supplies	29,209	26,149
Sundry goods for resale	10,108	4,513
	39,317	**30,662**

Materials and supplies are presented net of provisions for obsolescence which amounted to RUB 499 as at 30 September 2018 (as at 31 December 2017 – RUB 692). Materials are primarily used for repairs and maintenance of pipeline equipment.

10 RECEIVABLES AND PREPAYMENTS, VAT ASSETS

	30 September 2018	31 December 2017
Long-term receivables		
Financial assets		
Other long-term receivables	2,802	2,080
Non-financial assets		
Long-term VAT	2	3
Total long-term receivables	**2,804**	**2,083**
Short-term receivables		
Financial assets		
Trade receivables	29,831	21,963
Other receivables	27,803	36,640
less: provision for impairment	(28,390)	(27,287)
Total financial assets in short-term receivables	**29,244**	**31,316**
Non-financial assets		
Prepayments, advances and other non-financial receivables	12,876	11,084
Total short-term receivables	**42,120**	**42,400**

11 CASH AND CASH EQUIVALENTS

	30 September 2018	31 December 2017
Balances in RUB	56,060	60,584
Balances in USD	32,377	13,549
Balances in EUR	628	817
Balances in other currencies	125	1,212
	89,190	**76,162**

The Group selects banking organisations rendering financial services in accordance with their internal policies, which set minimal requirements for their financial position and rating and procedures for setting limits for operations with them. As at 30 September 2018 and 31 December 2017, a significant portion of cash (85% and 92% correspondingly) was deposited with banks which are under control or significant influence of the state.

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

12 LOANS AND BORROWINGS

	30 September 2018	31 December 2017
Loans and borrowings	717,305	688,910
Less: current loans and borrowings, current portion of non-current loans and borrowings	(129,090)	(109,730)
	588,215	**579,180**
Maturity of non-current loans and borrowings		
Between one and five years	238,205	311,275
After five years	350,010	267,905
	588,215	**579,180**

The fair value of the loans and borrowings is presented in the following table:

Type of loans and borrowings	Mature in	Currency	Interest rate, %	30 September 2018		31 December 2017	
				Carrying value	Fair value	Carrying value	Fair value
Eurobonds	2018	USD	Fixed	-	-	62,585	65,001
Corporate bonds (unsecured)	2019	RUB	Fixed	58,888	60,680	60,663	64,644
Marketable bonds (unsecured)*	2020-2027	RUB	Fixed	232,205	234,595	205,465	214,987
Loan agreement with China Development Bank	2018	USD	Floating LIBOR	-	-	268,117	269,086
Other loans	2023	USD	Floating LIBOR	71,702	73,653	-	-
Other loans and borrowings	2018-2019	USD	Fixed	55,751	55,751	-	-
Other loans and borrowings	2018-2028	RUB	Fixed	298,759	283,478	92,080	92,080

* some bonds have an early redemption option with redemption dates set in the issue documents for the total amount of RUB 51,000 with maturity in April 2026, in August 2026 and in April 2027 but with optional early redemption on demand of bond-holders or at the issuer's discretion in April 2021, September 2022, April 2024, respectively.

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

Cash proceeds from placement of marketable bonds and receipt of loans and borrowings during the reporting period were used for partial earlier repayment of the loan from China Development Bank Corporation and general corporate purposes.

Collateral

As at 30 September 2018 all loans and borrowings of the Group were unsecured.

As at 31 December 2017 all loans and borrowings of the Group, except for the loan from China Development Bank Corporation were unsecured.

In February 2009 as collateral for the loan from China Development Bank Corporation the Company signed a contract for the term of 20 years for the annual supply of 6 mln tons of crude oil to the People's Republic of China starting from 1 January 2011. For the fulfillment of this obligation, a contract was signed with Rosneft in April 2009 for the supply of corresponding volumes of crude oil to the Company (Note 21).

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

13 EQUITY AND DIVIDENDS

In March 2018 125,720 ordinary registered uncertified shares of Transneft with a par value of 1 Rouble each were placed for the price of 278,780 Russian roubles per share by way of a private subscription in favor of the Russian Federation represented by the Federal Agency for the Management of State Property. The payment for the shares was made by 100% of ordinary shares of CPC Company and 100% of ordinary shares of CPC Investments Company (Note 7). The difference between the par value of additional issue of shares and payment for the shares was recognised as share premium in the amount of RUB 35,048.

In May 2018, the changes in the Charter of Transneft were registered. In accordance with these changes, the authorised capital of the Company amounts to 7,249,343 roubles and is divided into 7,249,343 shares with a par value of 1 rouble each, including 5,694,468 ordinary shares and 1,554,875 preferred shares.

In June 2018, the shareholders of the Company resolved at the annual general meeting to pay dividends for the financial year ended 31 December 2017:

	Number of shares	RUB per share	Total
Ordinary shares	5,694,468	7,578.27	43,154
Preferred shares*	1,554,875	7,578.27	11,783
	7,249,343	**7,578.27**	**54,937**

* including treasury shares

Dividends were paid out in July-August 2018.

In June 2017 the shareholders of the Company resolved at the annual general meeting to pay dividends for the financial year ended 31 December 2016:

	Number of shares	RUB per share	Total
Ordinary shares	5,568,748	4,296.48	23,926
Preferred shares*	1,554,875	4,296.48	6,680
	7,123,623	**4,296.48**	**30,606**

* including treasury shares

Dividends were paid out in July-August 2017.

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

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

* including treasury shares

Dividends were paid out in October 2017.

14 DEFERRED TAX LIABILITIES AND INCOME TAX EXPENSE

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

15 PROVISIONS FOR LIABILITIES AND CHARGES

	30 September 2018	31 December 2017
Pension provision	117,698	107,995
Dismantlement provision	6,821	6,925
Other provisions	11,022	11,805
Total long-term provisions for liabilities and charges	**135,541**	**126,725**
Pension provision	2,891	4,605
Dismantlement provision	1,039	1,469
Provision for employees' payments	21,594	33,101
Other provisions	2,229	2,293
Total short-term provisions for liabilities and charges	**27,753**	**41,468**

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

15 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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 continuously based on years of service, salary and received awards during working. Also in accordance with collective agreements with employees the Group has a liability due to those who have worked not less than three years to pay a one-time benefit ranging from one to five salaries upon retirement, to cover funeral costs and to pay out benefits to pensioners to jubilees and holidays.

16 TRADE AND OTHER PAYABLES

	30 September 2018	31 December 2017
Long-term payables		
Other payables	844	1,200
Total financial payables	**844**	**1,200**
Advances received	-	2,258
Contract liabilities	57,364	-
Total long-term payables	**58,208**	**3,458**
Short-term payables		
Trade payables	53,866	49,070
Other payables	13,300	10,189
Dividends payable	3,617	-
Total financial payables	**70,783**	**59,259**
Advances received	-	51,423
Contract liabilities	41,462	-
VAT payable	16,113	9,881
Other taxes payable	10,803	8,458
Total short-term payables	**139,161**	**129,021**

17 REVENUE

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2018 without IFRS 15 impact	Nine months ended 30 September 2018 without IFRS 15 impact	Three months ended 30 September 2017	Nine months ended 30 September 2017
Revenue from crude oil transportation services:						
Domestic tariff	66,859	195,694	69,812	204,409	57,404	191,620
Export tariff	98,805	288,566	98,905	288,869	99,573	280,823
Total revenue from crude oil transportation services	**165,664**	**484,260**	**168,717**	**493,278**	**156,977**	**472,443**
Revenue from crude oil sales	57,652	150,362	57,652	150,362	36,100	107,083
Revenue from oil products transportation services	19,267	56,076	19,591	57,267	15,615	50,575
Other revenue	10,123	25,314	10,498	35,520	10,860	27,701
	252,706	**716,012**	**256,458**	**736,427**	**219,552**	**657,802**

Revenue from crude oil sales for the nine months ended 30 September 2018 and for the nine months ended 30 September 2017 mainly included revenue from supplying of oil according to the agreement signed by the Company in February 2009. According to the agreement crude oil will be supplied to China during 20 years since 1 January 2011 amounting to 6 million tons of oil per annum. The Group purchases crude oil under the contract signed in April 2009 with Rosneft (Note 21).

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

18 OPERATING EXPENSES NET OF DEPRECIATION AND AMORTISATION

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2017
Salaries	31,878	91,348	29,831	82,329
Insurance contributions	7,832	23,894	7,184	21,505
Social expenses	1,360	2,718	1,266	2,751
Cost of crude oil sold	43,844	115,921	28,865	85,170
Export custom duties	13,654	33,530	7,139	21,659
Energy	10,699	32,364	9,605	30,946
Materials	8,039	22,302	8,459	23,002
Repair and maintenance of relevant technical condition of pipeline	5,867	12,162	5,645	11,695
Property tax and other taxes, except for income tax	9,282	27,394	7,019	21,500
Pension expenses	1,192	5,220	1,067	4,531
Insurance expenses	1,612	4,680	1,466	4,527
Other expenses	10,870	29,576	10,067	30,770
Operating expenses net of depreciation and amortisation	**146,129**	**401,109**	**117,613**	**340,385**

19 FINANCE INCOME AND FINANCE COSTS

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2017
Interest income from cash and cash equivalents	755	4,058	1,674	3,941
Interest income from other financial assets	3,188	10,360	3,705	11,557
Other interest income	744	1,652	251	660
Total interest income	**4,687**	**16,070**	**5,630**	**16,158**
Less interest income from the temporary investment of borrowings	-	-	(33)	(280)
Total interest income recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income	**4,687**	**16,070**	**5,597**	**15,878**
Foreign exchange gain	23,070	66,728	13,329	68,418
Net gain from financial instruments through profit or loss	-	188	1	659
Total finance income	**27,757**	**82,986**	**18,927**	**84,955**

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

19 FINANCE INCOME AND FINANCE COSTS (continued)

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2017
Interest expense on loans and borrowings	(13,650)	(43,963)	(13,118)	(36,482)
Distribution of pension income to pension liabilities	(647)	(3,011)	(826)	(3,781)
Other interest expenses	(3,084)	(8,424)	(1,069)	(3,061)
Total interest expenses	**(17,381)**	**(55,398)**	**(15,013)**	**(43,324)**
Less interest expenses on loans, borrowings and liabilities to be capitalised	3,377	7,380	1,989	5,281
Total interest expenses recognised in the condensed consolidated interim statement of profit or loss and other comprehensive income	**(14,004)**	**(48,018)**	**(13,024)**	**(38,043)**
Foreign exchange losses	(17,138)	(47,837)	(10,972)	(60,639)
Financial instruments ECL	74	(31)	-	-
Net loss from financial instruments through profit or loss	(600)	(600)	(304)	(666)
Total finance costs	**(31,668)**	**(96,486)**	**(24,300)**	**(99,348)**
Net finance costs	**(3,911)**	**(13,500)**	**(5,373)**	**(14,393)**

20 CONTINGENT LIABILITIES AND OTHER RISKS

Legal proceedings

During the nine months ended 30 September 2018 the Group was involved in a number of court proceedings. In the opinion of the Group's management, there were no current legal proceedings or claims outstanding as at 30 September 2018, which could have a material adverse effect on the results of operations or financial position of the Group.

In March 2017 the Federal Antimonopoly Service (hereinafter – FAS) of Russia found PJSC NCSP guilty for breaking the Federal Law 135 – FZ "On Protection of Competition" because of its dominant position which resulted in setting and maintaining high monopoly prices for the transshipment of certain cargos in the port of Novorossiysk. The FAS of Russia issued an order to transfer to the federal budget the income received from monopolistic activities in the amount of RUB 9.7 billion. PJSC NCSP disagreed with the decision and the order, and appealed them in due course. The decision and the order of the FAS Russia were declared invalid by arbitration courts of three instances in 2017-2018. In October 2018, the judicial Board for economic disputes of the Supreme Court of the Russian Federation sent the case for a new trial. PJSC NCSP considers the determination of the judicial Board illegal and unreasonable and appealed it in the order of supervision. As at the date of signing of these condensed consolidated interim financial statements the supervisory appeal of PJSC NCSP was submitted for consideration at the court session of the Presidium of the Supreme Court. As the possibility of payment under litigation cannot be estimated, no provision was recognised.

21 RELATED PARTIES

The Russian Federation represented by the Federal Agency for the Management of State Property owns 100% of the ordinary shares of the Company and conducts control via the Board of Directors that as at the 30 September 2018 was comprised of the State representatives (professional attorneys) and Independent Directors. The Government of the Russian Federation shall appoint the members of the Federal Antimonopoly Service to make decisions on tariff and their limits.

As at 31 December 2017 the Company held in trust on behalf of the Russian Federation 100% of shares of CPC Investments Company, 100% of shares of CPC Company (which owns 7% of shares of CPC-R and 7% of shares of CPC–K), 24% of ordinary shares of CPC-R and 24% of ordinary shares of CPC–K. Their results were not included in the consolidated financial statements because Transneft acted as a trustee on behalf of shares of the mentioned companies and entities. During the first quarter of 2018 100% of shares of CPC Investments Company and 100% of shares of CPC Company were taken from trust management and transferred into the ownership of Transneft (Notes 7, 13).

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

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

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

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2017
Revenue from oil transportation services	88,609	259,553	83,798	251,446
Rosneft and its subsidiaries	72,938	214,334	68,093	203,105
PJSC “GAZPROM” and its subsidiaries	6,721	20,392	7,632	23,464
Others	8,950	24,827	8,073	24,877
Revenue from oil products transportation services	8,119	23,469	8,777	27,453
Rosneft and its subsidiaries	5,272	15,059	6,236	19,831
PJSC “GAZPROM” and its subsidiaries	2,847	8,410	2,541	7,622
Purchases of oil (Rosneft)	43,756	111,832	27,038	78,384
Electricity expenses	252	787	204	630
Attraction of loans from banks under state control	48,701	261,701	-	-
Finance income	1,939	6,464	1,564	5,169
Finance costs	5,899	16,354	-	-

During the nine months ended 30 September 2018 and 30 September 2017, the Group had following transactions with associates and jointly controlled entities:

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2017
Revenue from sales of goods and services	2,745	6,611	714	2,468
Purchases of goods and services	11,647	34,180	13,477	35,045

As at 30 September 2018 and 31 December 2017 the Group had following balances with associates and jointly controlled entities:

	30 September 2018	31 December 2017
Trade and other receivables	9,111	9,636
Trade and other payables	2,906	1,599
Borrowings granted	29,114	25,374
Borrowings received	39	59

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.

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

22 SEGMENT INFORMATION

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

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

Three months ended 30 September 2018	Oil transportation services	Oil products transportation services	Trading operations for sale of oil and oil products	Adjustments	Total IFRS
Revenue	174,665	20,388	59,388	(1,735)	252,706
Operating expenses net of depreciation and amortisation	(76,361)	(10,890)	(59,774)	896	(146,129)
Operating profit net of depreciation and amortisation	**98,304**	**9,498**	**(386)**	**(839)**	**106,577**
Depreciation and amortisation	(51,488)	(6,775)	(5)	12,922	(45,346)
Operating profit	**46,816**	**2,723**	**(391)**	**12,083**	**61,231**
Other income	-	-	-	-	29,160
Share of profit from associates and jointly controlled entities	-	-	-	-	6,327
Profit before income tax and finance income/(costs)	**46,816**	**2,723**	**(391)**	**12,083**	**96,718**
Finance income	-	-	-	-	27,757
Finance costs	-	-	-	-	(31,668)
Profit before income tax	**46,816**	**2,723**	**(391)**	**12,083**	**92,807**
Income tax expense	-	-	-	-	(13,881)
Profit for the reporting period	**46,816**	**2,723**	**(391)**	**12,083**	**78,926**

Nine months ended 30 September 2018	Oil transportation services	Oil products transportation services	Trading operations for sale of oil and oil products	Adjustments	Total IFRS
Revenue	516,170	60,380	149,540	(10,078)	716,012
Operating expenses net of depreciation and amortisation	(221,169)	(30,009)	(149,487)	(444)	(401,109)
Operating profit net of depreciation and amortisation	**295,001**	**30,371**	**53**	**(10,522)**	**314,903**
Depreciation and amortisation	(153,010)	(19,127)	(8)	39,839	(132,306)
Operating profit	**141,991**	**11,244**	**45**	**29,317**	**182,597**
Other income	-	-	-	-	33,078
Share of profit from associates and jointly controlled entities	-	-	-	-	6,294
Profit before income tax and finance income/(costs)	**141,991**	**11,244**	**45**	**29,317**	**221,969**
Finance income	-	-	-	-	82,986
Finance costs	-	-	-	-	(96,486)
Profit before income tax	**141,991**	**11,244**	**45**	**29,317**	**208,469**
Income tax expense	-	-	-	-	(37,473)
Profit for the reporting period	**141,991**	**11,244**	**45**	**29,317**	**170,996**

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

22 SEGMENT INFORMATION (continued)

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

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

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

22 SEGMENT INFORMATION (continued)

The adjusting items for segments' revenue in the amount of RUB 10,078 as for the nine months ended 30 September 2018 were mainly caused by the adoption of IFRS 15 and included the adjustments of the recognised under RAS revenue for transportation of oil and oil products at long-term (agreed) tariffs and from technological connection to the trunk pipeline system (Notes 4, 17).

The adjusting items for segments' revenue in the amount of RUB 5,823 as for the nine months ended 30 September 2017 included the adjustments of revenue from technological connection to the trunk pipeline system.

The adjusting items for segments' expenses include the following adjustments and reclassifications caused by RAS and IFRS accounting differences:

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2017
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*	(14,555)	(43,572)	(13,091)	(39,673)
Pension provision	1,312	3,193	1,049	2,993
Deferred payment obligation	(914)	(745)	481	(149)
Others	339	1,729	(3,498)	130
Total adjusting items for segment's expenses	**(13,818)**	**(39,395)**	**(15,059)**	**(36,699)**

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 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2017
Russian Federation	189,065	551,783	178,569	538,017
China	57,652	145,878	34,195	99,949
Other countries	5,989	18,351	6,788	19,836
Total	**252,706**	**716,012**	**219,552**	**657,802**

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

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

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

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Three months ended 30 September 2017	Nine months ended 30 September 2017
Companies under control of the state	99,522	287,441	93,172	280,790
China National United Oil Corporation	57,652	145,878	34,195	99,949
PJSC Surgutneftegaz	28,424	82,587	26,490	78,958
PJSC LUKOIL	24,133	70,412	21,502	66,305
Total	**209,731**	**586,318**	**175,359**	**526,002**

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