



PJSC GAZPROM

**IFRS CONSOLIDATED  
FINANCIAL STATEMENTS  
WITH INDEPENDENT  
AUDITOR'S REPORT**

31 December 2016

Moscow | 2017



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## Independent auditor's report

To the Shareholders and the Board of Directors  
of PJCS Gazprom

### **Opinion**

We have audited the accompanying consolidated financial statements of PJSC Gazprom and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended December 31, 2016, and notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory information.

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

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with Independence Rules for Auditors and Audit Firms and Code of Professional Ethics of Auditors, that correspond to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Key Audit Matters**

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

### **Revenue recognition**

We focused on revenue recognition in our audit because of broad geographic segments of the streams of revenue with significantly different terms underlying revenue recognition, including price determination and the procedure for price change, and identification of risks and rewards.

We assessed the consistency in the application of the revenue recognition accounting policy against various types of revenue and geographic segments. Our audit procedures with respect to material misstatement risk included, specifically, test of controls and application of substantive procedures with respect to the sales transactions. Based on the results of our audit procedures, we found the position of the Group's management on the revenue recognition to be appropriate.

Special emphasis was laid on the analysis and testing of estimated liabilities associated with adjusted gas prices under long-term agreements and existing controls in this area. The amount of the projected adjustments depends of the effective terms and conditions of the contracts and the results of the negotiations between the Group and the specific customers. Based on the results of the analysis, we found that the amount of the estimated liability recognised as at the end of the reporting period is the best indication of costs required to settle the existing liability.

Information about the approaches to revenue recognition is presented in Note 5 "Summary of significant accounting policies" to the consolidated financial statements, information about sales, including information across geographic segments, is presented in Note 26 "Sales" to the consolidated financial statements.

### **Impairment assessment of non-current assets**

We consider this area to be one of the most significant audit areas in view of high significance of the non-current assets, a high level of subjectivity of the underlying assumptions as well as the judgements and estimates made by the management used to conduct the impairment analysis. Furthermore, significant cut in prices for energy resources, change in demand and depreciation of the Russian Ruble might result in the impairment of the Group's assets.

We assessed significant assumptions underlying the impairment test procedures with respect to various cash-generating units. The significant assumptions, specifically, included discount rates, forecast prices for energy resources and exchange rates, and evaluation of volumes of extraction and sale. This analysis revealed that the significant assumptions applied by the Group's management in calculating the recoverable amount of the assets as at the end of the reporting period are within the acceptable range and are well in line with current economic environment.

Special emphasis was laid on testing impairment of the assets deployed under the projects the completion of which could not be assessed with a reasonable degree of reliability. Professional judgement about future cash flows which might be generated by such projects is one of the areas of increased attention of the auditor. In view of existing uncertainty associated with the implementation of the projects, we share the view of the management on the recognition and impairment of assets which do not have alternative use.

Special emphasis was also laid on the assessment of the assets under construction. We conducted a thorough analysis of the facilities where no active works had been done for long. The management of the Group decided to recognise impairment allowance with respect to such assets. In our opinion, this decision is well in line with the current expectations about possible economic rewards from these assets.

Information about the non-current assets and the conducted impairment test is disclosed in Note 13 “Property, plant and equipment” to the consolidated financial statements.

### **Impairment of accounts receivable**

One of high-risk audit areas is the evaluation of sufficiency of impairment allowance for accounts receivable. We assessed the assumptions and professional judgement applied by the Group, including critical assessment of the information used by the Group to make projections of the ability of its customers to repay their debts. We also applied procedures to test controls over the recognition and repayment of the receivables.

Given current political and economic environment in Ukraine, we paid greater attention to the evaluation of the impairment allowance for accounts receivable with respect to NJSC Naftogaz of Ukraine. As at the end of the reporting period, a allowance was made for the entire amount of the receivables due from NJSC Naftogaz of Ukraine.

Based on the results of the procedures applied, we found the criteria and assumptions applied by the management to accrue doubtful receivables allowance to be appropriate.

Information about the accounts receivable and the impairment allowance for accounts receivable is disclosed in Note 10 “Accounts receivable and prepayments” and Note 16 “Long-term accounts receivable and prepayments” to the consolidated financial statements.

**Estimated and contingent liabilities in respect of litigations**

Evaluation, recognition and disclosure of information about estimated and contingent liabilities in respect of litigations require plenty of professional judgement. We consider this area to be one of most significance in our audit due to the significant amounts subject to contestation and essential difficulties associated with the assessment issue. The Group is a party to a number of significant litigations, including litigations with the Ukrainian party:

- proceedings on the claim of NJSC Naftogaz of Ukraine, dated 16 June 2014, seeking, specifically, a retroactive revision of the price, cancellation of a contractual provision for the supply of natural gas which prevents the re-export of natural gas outside Ukraine;
- proceedings on the claim of NJSC Naftogaz of Ukraine, dated 13 October 2014, seeking, specifically, to enforce PJSC Gazprom to reimburse NJSC Naftogaz of Ukraine for the volumes of gas not supplied for transit purpose;
- proceedings on the claim of the Antimonopoly Committee of Ukraine, dated 25 January 2016, that made a ruling to impose a fine on PJSC Gazprom for violating economic competition.

Procedures we applied included analysis of the rulings delivered by the court of various jurisdictions, discussions of significant matters with the Group's staff, including staff responsible for providing judicial and legal support to the Group in its activities, evaluation and testing of terms underlying the recognition of estimated liabilities and disclosure of contingencies.

Based on the results of the procedures applied, we found the criteria and estimates applied by the management to be acceptable and the disclosures to be consistent and appropriate.

Information about estimated liabilities is disclosed in Note 24 "Provisions for liabilities and charges", information about contingencies is disclosed in Note 37 "Operating risks" to the consolidated financial statements.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in Management's report of PJSC Gazprom for 2016 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, Annual report of PJSC Gazprom for 2016 and Quarterly issuer's report of PJSC Gazprom for the second quarter of 2017, which are expected to be made available to us after the date of this auditor's report.

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

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

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

When we read Annual report of PJSC Gazprom for 2016 and Quarterly issuer's report of PJSC Gazprom for the second quarter of 2017, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors' Audit Committee.

## **Responsibilities of Management and the Board of Directors' Audit Committee for the Consolidated Financial Statements**

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

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

Management and the Board of Directors' Audit Committee are responsible for overseeing the Group's financial reporting process (within the functions of control over ensuring the completeness, accuracy and reliability of the PJSC Gazprom's financial statements).

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

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

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



- a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors' Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors' Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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

President of FBK LLC



Engagement partner



S.M. Shapiguzov  
(by virtue of the Charter,  
Audit Qualification Certificate 01-  
001230, ORNZ 21606043397)

K.S. Shirikova, ACCA  
(Audit Qualification Certificate  
dd.9 July 2012, No. 01-000712, ORNZ  
20501042062)

Date of Independent auditor's report  
April 27, 2017

#### **Audited entity**

Public Joint Stock Company (PJSC Gazprom).

#### **Place of business:**

16, Nametkina str., Moscow, Russian Federation 117997.

#### **Official registration:**

State registration certificate No. 002.726, issued by Moscow Registration Chamber on 25 February 1993.

The registration entry was made in the Unified State Register of Legal Entities on 2 August 2002 under principal state registration number 1027700070518.

#### **Independent auditor**

Limited Liability Company "Accountants and business advisors" (FBK, LLC).

#### **Place of business:**

44/1, 2AB, Myasnitskaya St, Moscow, Russian Federation, 101990.

#### **Official registration:**

State registration certificate series YZ 3 No. 484.583 RP, issued by Moscow Registration Chamber on 15 November 1993.

The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under principal state registration number 1027700058286.

#### **Membership in self-regulatory organisation of auditors:**

Self-regulatory organization of auditors Association "Sodruzhestvo".

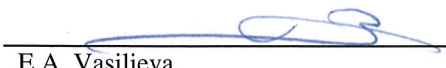
#### **Number in the register of auditors of the self-regulatory organisation of auditors:**

Certificate of membership in the Self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, ORNZ 11506030481.

**PJSC GAZPROM**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF 31 DECEMBER 2016**  
(in millions of Russian Rubles)

Notes	31 December	
	2016	2015
<b>Assets</b>		
<b>Current assets</b>		
8 Cash and cash equivalents	896,728	1,359,095
Restricted cash	3,471	1,815
9 Short-term financial assets	11,481	12,570
10 Accounts receivable and prepayments	1,084,967	1,114,207
11 Inventories	711,199	804,364
VAT recoverable	195,033	229,626
12 Other current assets	<u>331,467</u>	<u>472,045</u>
	<b>3,234,346</b>	<b>3,993,722</b>
<b>Non-current assets</b>		
13 Property, plant and equipment	11,502,747	11,003,881
14 Goodwill	105,330	107,467
15 Investments in associates and joint ventures	730,149	808,246
16 Long-term accounts receivable and prepayments	710,747	599,848
17 Available-for-sale long-term financial assets	294,345	235,607
12 Other non-current assets	<u>341,274</u>	<u>303,269</u>
	<b>13,684,592</b>	<b>13,058,318</b>
<b>Total assets</b>	<b>16,918,938</b>	<b>17,052,040</b>
<b>Liabilities and equity</b>		
<b>Current liabilities</b>		
18 Accounts payable, accruals and provisions for liabilities and charges	1,197,005	1,298,006
Current profit tax payable	62,479	11,929
19 Other taxes payable	215,244	168,394
20 Short-term borrowings, promissory notes and current portion of long-term borrowings	<u>447,080</u>	<u>646,372</u>
	<b>1,921,808</b>	<b>2,124,701</b>
<b>Non-current liabilities</b>		
21 Long-term borrowings, promissory notes	2,382,543	2,795,843
24 Provisions for liabilities and charges	406,234	435,438
22 Deferred tax liabilities	688,503	618,404
Other non-current liabilities	<u>78,011</u>	<u>163,032</u>
	<b>3,555,291</b>	<b>4,012,717</b>
<b>Total liabilities</b>	<b>5,477,099</b>	<b>6,137,418</b>
<b>Equity</b>		
25 Share capital	325,194	325,194
25 Treasury shares	(235,919)	(103,919)
25 Retained earnings and other reserves	<u>11,005,256</u>	<u>10,368,311</u>
	<b>11,094,531</b>	<b>10,589,586</b>
33 Non-controlling interest	<u>347,308</u>	<u>325,036</u>
<b>Total equity</b>	<b>11,441,839</b>	<b>10,914,622</b>
<b>Total liabilities and equity</b>	<b>16,918,938</b>	<b>17,052,040</b>

  
A.B. Miller  
Chairman of the Management Committee  
27 April 2017


  
E.A. Vasilieva  
Chief Accountant  
27 April 2017

The accompanying notes on pages 14 to 78 are an integral part of these consolidated financial statements.

**PJSC GAZPROM**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(in millions of Russian Rubles)

Notes		Year ended 31 December	
		2016	2015
26	Sales	6,111,051	6,073,318
	Net gain from trading activity	3,382	3,704
27	Operating expenses	(5,244,983)	(4,635,502)
27	Charge for impairment and other provisions	(143,870)	(213,219)
	<b>Operating profit</b>	<b>725,580</b>	<b>1,228,301</b>
28	Finance income	1,018,997	990,346
28	Finance expense	(543,370)	(1,409,087)
15	Share of net income of associates and joint ventures	82,872	106,560
	Gain on disposal of available-for-sale financial assets	1,059	9,121
	<b>Profit before profit tax</b>	<b>1,285,138</b>	<b>925,241</b>
	Current profit tax expense	(218,113)	(102,223)
	Deferred profit tax expense	(69,921)	(17,819)
22	Profit tax	(288,034)	(120,042)
	<b>Profit for the year</b>	<b>997,104</b>	<b>805,199</b>
	<b>Other comprehensive income (loss):</b>		
	Items that will not be reclassified to profit or loss:		
24	Remeasurements of post-employment benefit obligations	33,118	(169,059)
	<b>Total items that will not be reclassified to profit or loss</b>	<b>33,118</b>	<b>(169,059)</b>
	Items that may be reclassified subsequently to profit or loss:		
	Gain arising from change in fair value of available-for-sale financial assets, net of tax	62,133	43,172
	Share of other comprehensive (loss) income of associates and joint ventures	(6,397)	28,699
	Translation differences	(297,703)	282,924
	Gain (loss) from cash flow hedges, net of tax	49,196	(22,862)
	<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>(192,771)</b>	<b>331,933</b>
	<b>Other comprehensive (loss) income for the year, net of tax</b>	<b>(159,653)</b>	<b>162,874</b>
	<b>Total comprehensive income for the year</b>	<b>837,451</b>	<b>968,073</b>
	<b>Profit for the year attributable to:</b>		
	Owners of PJSC Gazprom	951,637	787,056
33	Non-controlling interest	45,467	18,143
		<b>997,104</b>	<b>805,199</b>
	<b>Total comprehensive income for the year attributable to:</b>		
	Owners of PJSC Gazprom	806,903	938,591
	Non-controlling interest	30,548	29,482
		<b>837,451</b>	<b>968,073</b>
	<b>Basic and diluted earnings per share for profit</b>		
30	<b>attributable to the owners of PJSC Gazprom (in Russian Rubles)</b>	<b>42.19</b>	<b>34.29</b>

  
A.B. Miller  
Chairman of the Management Committee  
27 April 2017

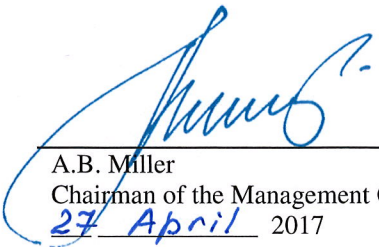
  
E.A. Vasilieva  
Chief Accountant  
27 April 2017


The accompanying notes on pages 14 to 78 are an integral part of these consolidated financial statements.



**PJSC GAZPROM**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(in millions of Russian Rubles)

Notes		Year ended 31 December	
		2016	2015
	<b>Cash flows from operating activities</b>		
31	<b>Net cash from operating activities</b>	<b>1,571,323</b>	<b>2,030,927</b>
	<b>Cash flows from investing activities</b>		
13	Capital expenditures	(1,369,052)	(1,641,024)
13, 28	Interest paid and capitalised	(132,477)	(128,211)
	Net change in loans issued	(9,627)	(25,063)
34	Acquisition of subsidiaries, net of cash acquired	(1,113)	24,551
15	Investments in associates and joint ventures	(3,359)	(1,554)
	Interest received	119,460	54,243
	Change in available-for-sale long-term financial assets	13,451	(27,396)
15	Proceeds from associates and joint ventures	62,461	79,469
	Proceeds from the sale of associates	22,801	-
	Long-term bank deposits placement	(142,374)	-
	Repayment of long-term bank deposits	85	20,609
	Other	(6,221)	(19,780)
	<b>Net cash used in investing activities</b>	<b>(1,445,965)</b>	<b>(1,664,156)</b>
	<b>Cash flows from financing activities</b>		
21	Proceeds from long-term borrowings	548,623	574,924
21	Repayment of long-term borrowings (including current portion of long-term borrowings)	(653,092)	(467,831)
20	Proceeds from short-term borrowings	124,783	62,401
20	Repayment of short-term borrowings	(110,291)	(97,141)
25	Dividends paid	(186,337)	(170,702)
28	Interest paid	(50,835)	(40,100)
25, 35	Acquisition of treasury shares	(132,000)	-
	Acquisition of non-controlling interest in subsidiaries	(124)	(126)
	Issue of shares acquired by non-controlling interests	450	-
	Change in restricted cash	(1,656)	270
	<b>Net cash used in financing activities</b>	<b>(460,479)</b>	<b>(138,305)</b>
	Effect of foreign exchange rate changes on cash and cash equivalents	(127,246)	92,438
	<b>(Decrease) increase in cash and cash equivalents</b>	<b>(462,367)</b>	<b>320,904</b>
8	Cash and cash equivalents at the beginning of the reporting year	1,359,095	1,038,191
8	<b>Cash and cash equivalents at the end of the reporting year</b>	<b>896,728</b>	<b>1,359,095</b>

  
A.B. Miller  
Chairman of the Management Committee  
27 April 2017


  
E.A. Vasilieva  
Chief Accountant  
27 April 2017

The accompanying notes on pages 14 to 78 are an integral part of these consolidated financial statements.

**PJSC GAZPROM**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**  
(in millions of Russian Rubles)

Notes		Attributable to the owners of PJSC Gazprom					Non-controlling interest	Total equity
		Number of shares out-standing (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total		
	<b>Balance as of 31 December 2014</b>	<b>23.0</b>	<b>325,194</b>	<b>(103,919)</b>	<b>9,595,283</b>	<b>9,816,558</b>	<b>303,463</b>	<b>10,120,021</b>
33	Profit for the year	-	-	-	787,056	787,056	18,143	805,199
24, 33	Other comprehensive income (loss): Remeasurements of post-employment benefit obligations	-	-	-	(168,899)	(168,899)	(160)	(169,059)
33	Gain (loss) arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	43,179	43,179	(7)	43,172
	Share of other comprehensive income of associates and joint ventures	-	-	-	28,699	28,699	-	28,699
25, 33	Translation differences	-	-	-	271,015	271,015	11,909	282,924
33	Loss from cash flow hedges, net of tax	-	-	-	(22,459)	(22,459)	(403)	(22,862)
	<b>Total comprehensive income for the year ended 31 December 2015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>938,591</b>	<b>938,591</b>	<b>29,482</b>	<b>968,073</b>
33	Change in non-controlling interest in subsidiaries	-	-	-	(281)	(281)	(1,535)	(1,816)
25	Return of social assets to governmental authorities	-	-	-	(35)	(35)	-	(35)
25, 33	Dividends declared	-	-	-	(165,247)	(165,247)	(6,374)	(171,621)
	<b>Balance as of 31 December 2015</b>	<b>23.0</b>	<b>325,194</b>	<b>(103,919)</b>	<b>10,368,311</b>	<b>10,589,586</b>	<b>325,036</b>	<b>10,914,622</b>
33	Profit for the year	-	-	-	951,637	951,637	45,467	997,104
24, 33	Other comprehensive income (loss): Remeasurements of post-employment benefit obligations	-	-	-	33,110	33,110	8	33,118
33	Gain arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	62,132	62,132	1	62,133
	Share of other comprehensive loss of associates and joint ventures	-	-	-	(6,397)	(6,397)	-	(6,397)
25, 33	Translation differences	-	-	-	(281,414)	(281,414)	(16,289)	(297,703)
33	Gain from cash flow hedges, net of tax	-	-	-	47,835	47,835	1,361	49,196
	<b>Total comprehensive income for the year ended 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>806,903</b>	<b>806,903</b>	<b>30,548</b>	<b>837,451</b>
33	Change in non-controlling interest in subsidiaries	-	-	-	4,437	4,437	3,451	7,888
25	Return of social assets to governmental authorities	-	-	-	(23)	(23)	-	(23)
25, 35	Treasury shares	(0.9)	-	(132,000)	-	(132,000)	-	(132,000)
25, 33	Dividends declared	-	-	-	(174,372)	(174,372)	(11,727)	(186,099)
	<b>Balance as of 31 December 2016</b>	<b>22.1</b>	<b>325,194</b>	<b>(235,919)</b>	<b>11,005,256</b>	<b>11,094,531</b>	<b>347,308</b>	<b>11,441,839</b>

  
A.B. Miller  
Chairman of the Management Committee  
27 April 2017

  
E.A. Vasilieva  
Chief Accountant  
27 April 2017

The accompanying notes on pages 14 to 78 are an integral part of these consolidated financial statements.

**PJSC GAZPROM**  
**NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2016**  
**(in millions of Russian Rubles)**

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**1 NATURE OF OPERATIONS**

Public Joint Stock Company Gazprom (PJSC Gazprom) and its subsidiaries (the “Group” or “Gazprom Group”) operate one of the largest gas pipeline systems in the world, are responsible for the major part of gas production and high pressure gas transportation in the Russian Federation. The Group is a major supplier of gas to European countries. The Group is also engaged in oil production, refining activities, electric and heat energy generation. The Government of the Russian Federation is the ultimate controlling party of PJSC Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50 % in PJSC Gazprom.

The Group is involved in the following principal activities:

- exploration and production of gas;
- transportation of gas;
- sales of gas within the Russian Federation and abroad;
- gas storage;
- production of crude oil and gas condensate;
- processing of oil, gas condensate and other hydrocarbons, and sales of refined products;
- electric and heat energy generation and sales.

Other activities include production of other goods, works and services.

The weighted average number of employees during 2016 and 2015 was 456 thousand and 449 thousand, respectively.

**2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION**

The economy of the Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic instability, situation in Ukraine, the current situation with sanctions, uncertainty and volatility of the financial and trade markets and other risks have had and may continue to have effects on the Russian economy.

The official Russian Ruble (“RUB”) to US Dollar (“USD”) foreign exchange rates as determined by the Central Bank of the Russian Federation were as follows:

- as of 31 December 2016 – 60.6569;
- as of 31 December 2015 – 72.8827 (as of 31 December 2014 – 56.2584).

The official RUB to Euro (“EUR”) foreign exchange rates as determined by the Central Bank of the Russian Federation were as follows:

- as of 31 December 2016 – 63.8111;
- as of 31 December 2015 – 79.6972 (as of 31 December 2014 – 68.3427).

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group’s business in the current business and economic environment. The future economic and regulatory situation and its impact on the Group’s operations may differ from management’s current expectations.

**3 BASIS OF PRESENTATION**

These consolidated financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards (“IFRS”), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board and effective in the reporting period.

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments as described in Note 5. The principal accounting policies applied in the

**PJSC GAZPROM**  
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**(in millions of Russian Rubles)**

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**3 BASIS OF PRESENTATION (continued)**

preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

**4 SCOPE OF CONSOLIDATION**

As described in Note 5, these consolidated financial statements include consolidated subsidiaries, associates, joint ventures and operation of the Group. Significant changes in the Group's structure in 2016 and 2015 are described below.

***Asset swap with Wintershall Holding GmbH***

On 30 September 2015 PJSC Gazprom and Wintershall Holding GmbH completed the asset swap which was initially agreed in December 2013. The Swap Agreement has retroactive economic effect starting from 1 April 2013.

According to the Swap Agreement 25.01 % of interest in the capital of LLC Achim Development and 9 % of ordinary shares, one class A preference share and one class B preference share of JSC Achim Trading which were recognised under other non-current assets in the consolidated financial statements of the Group have been transferred to Wintershall Holding GmbH in return for the 100 % of the interest in WIBG GmbH (formerly Wintershall Erdgas Beteiligungs GmbH) and for 50 % of the interest in Wintershall Noordzee B.V. and Wintershall Services B.V. WIBG GmbH holds an equity interest of 50.02 % and 50 % in W & G Beteiligungs-GmbH & Co. KG and in WIEH GmbH (formerly WIEH GmbH & Co. KG), respectively.

The compensation payments from Wintershall Holding GmbH amounted to EUR 29 million (at the exchange rate as of 30 September 2015 - RUB 2,170 million).

Prior to the swap transaction the Group held an equity interest of 49.98 % in W & G Beteiligungs-GmbH & Co. KG<sup>1</sup> and of 50 % in WIEH GmbH. These subgroups were accounted for using the equity method. In addition at the acquisition date the Group held an equity interest of 33.33 % in WINGAS Storage UK Ltd., in which W & G Beteiligungs-GmbH & Co. KG held an equity interest of 50 %.

In substance, the Group acquired the remaining shares in the natural gas trading and storage companies W & G Beteiligungs-GmbH & Co. KG and WIEH GmbH and in their subsidiaries. Consequently as of 30 September 2015 the Group obtained control over these companies.

The acquired 50 % interests in Wintershall Noordzee B.V. and Wintershall Services B.V. are accounted for using the equity method since the acquisition date (see Note 34).

***Acquisition of Shtokman Development AG***

In July 2015 the Group became an owner of the 100 % of shares of Shtokman Development AG. Before the acquisition date the Group held an equity interest of 75 % in the company and accounted the investment as a joint venture using the equity method. At the acquisition date the investment in Shtokman Development AG was fully impaired. The impairment allowance amounted to RUB 27,378 million.

The Group acquired remaining 25 % of the shares of Shtokman Development AG from Total Shtokman B.V. for 25 thousand Swiss Franc (RUB 2 million) according to the terms of the Shareholder Agreement. The payment was made by the cash (see Note 34).

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies followed by the Group are set out below.

**5.1 Group accounting**

***Subsidiaries***

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has

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<sup>1</sup> In August 2016 W & G Beteiligungs-GmbH & Co. KG was merged with WIBG GmbH.



**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (the acquisition date) and are deconsolidated from the date on which control ceases.

All inter-company transactions, balances and unrealized gains and losses on transactions between companies of the Group have been eliminated. Separate disclosure is made for non-controlling interests.

The acquisition method of accounting is used to account for the acquisition of subsidiaries, including those entities and businesses that are under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

An acquirer should recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability which relate to measurement period adjustments are adjusted against goodwill. Changes which arise due to events occurring after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

***Goodwill and non-controlling interest***

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash-generating units or groups of cash-generating units, as appropriate.

Non-controlling interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. The Group treats transactions with non-controlling interest as transactions with equity owners of the Group. In accordance with IFRS 3 Business Combinations, the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any non-controlling interest in the acquiree is stated at the non-controlling interest proportion of the net fair value of those items.

***Joint arrangements***

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement. Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. With regards to joint arrangements, where the Group acts as a joint venture, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

***Associates***

Associates are entities over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint arrangement. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies.

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Associates are accounted for using the equity method. The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interest in each associate is carried in the consolidated balance sheet at the amount that reflects cost, including the goodwill at the acquisition date, the Group's share of profit and losses and its share of post-acquisition movements in reserves recognised in equity. Allowances are recorded for any impairment in value.

Recognition of losses under equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

**5.2 Financial instruments**

Financial instruments carried on the consolidated balance sheet include financial assets, in particular cash and cash equivalents, accounts receivable and other financial assets, as well as financial liabilities, in particular accounts payable, loans and borrowings, promissory notes. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item.

***Accounting for financial guarantee contracts***

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at the fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

***Fair value disclosure***

The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market rate of interest for similar borrower at the reporting date.

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the last trading price on the reporting date.

**5.3 Derivative financial instruments**

The Group uses a variety of derivative financial instruments, including forward and foreign currency option contracts, commodities and securities. The Group's accounting policy provides for the recognition of derivative financial instruments in the consolidated financial statements at fair value. Gains and losses from change in the fair value of the derivative financial instrument are recognised in profit and loss of the consolidated statement of comprehensive income. The fair value of the derivative financial instrument is determined using market information and valuation techniques based on prevailing market interest rates for similar instruments.

As part of its activities, the Group enters into contracts to buy or sell gas, electric power and other commodities at the European liquid trading platforms. This activity provides for a large number of buy/sell transactions completed within short periods, which, coupled with the Group's transportation and storage capacities, aims to generate profit.

Some of these contracts can be settled net in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", because a contract to buy or sell a commodity is settled within a short period for the purpose of generating profit from short-term fluctuations in price or dealer's margin. Such contracts are, therefore, settled not in line with the Group's expected purchase, sale or usage requirements. Consequently, such contracts to buy or sell a non-financial item are regulated by IAS 39 "Financial Instruments: Recognition and Measurement" and are recognised as derivative financial instruments at fair value, with

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

changes in fair value recognised in “Profit (loss) from derivative financial instruments” of the consolidated statement of comprehensive income.

Derivatives embedded into buy/sell contracts are separated from the host contracts and accounted for separately. Derivatives are carried at fair value with gains and losses arising from changes in fair value recognised in profit and loss of the consolidated statement of comprehensive income in the period in which they arise.

**5.4 Hedge accounting**

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument. The Group has designated only cash flow hedges – hedges against the exposure to the variability of cash flow currency exchange rates on highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Any ineffective portion is ultimately recognised in profit and loss. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

The fair value of the hedge item is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

**5.5 Non-derivative financial assets**

The Group classifies its financial assets in the following categories:

- (a) financial assets at fair value through profit or loss;
- (b) available-for-sale financial assets; and
- (c) loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation, which determines the method for measuring financial assets at the subsequent balance sheet date: amortised cost or fair value.

*(a) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at the fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months after the balance sheet date. Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

There were no material financial assets designated at the fair value through profit or loss at inception as of 31 December 2016 and 31 December 2015.

*(b) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the balance sheet date.

Available-for-sale financial assets are measured at the fair value at inception and subsequently. Investments in quoted equity instruments classified as available-for-sale financial assets are measured at quoted market prices as of the reporting date. Investments in equity instruments for which there are no available market quotations are accounted for at the fair value. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with the same instrument or based on a valuation technique whose variables include only data from

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

observable markets. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation techniques based on prevailing market interest rate for similar instruments.

Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income and shown net of income tax in the consolidated statement of comprehensive income. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the consolidated statement of comprehensive income as gains (losses) on disposal of available-for-sale financial assets. Interest income on available-for-sale debt instruments, calculated using the effective interest method, is recognised within the profit and loss section of the consolidated statement of comprehensive income.

*(c) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognised within the profit and loss section of the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

***Impairment of financial assets***

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income to profit or loss for the year. The impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment was recognised. For financial assets measured at amortized cost and available-for-sale financial assets which represent debt instruments, the reversal is recognised in profit or loss. For available-for-sale financial assets which represent equity instruments, the reversal is recognised directly in other comprehensive income. Impairment losses relating to assets recognised at cost cannot be reversed.

The allowance for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the financial asset's original effective interest rate at the date of origination of the receivable. The amount of the allowance is recognised in the consolidated statement of comprehensive income within operating expenses.

**5.6 Options on purchase or sale of financial assets**

Options on purchase or sale of financial assets are presented in the consolidated financial statements at their fair value. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of these options instruments are included within the profit and loss section of the consolidated statement of comprehensive income.

**5.7 Cash and cash equivalents and restricted cash**

Cash comprises cash on hand and balances with banks. Cash equivalents comprise short-term financial assets which are readily converted to cash and have an original maturity of three months or less. Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the consolidated statement of cash flows.

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5.8 Value added tax**

In the Russian Federation the value added tax ("VAT") at a standard rate of 18 % is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT could be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

Export of goods and rendering certain services related to exported goods are subject to 0 % VAT rate upon the submission of confirmation documents to the tax authorities. Input VAT related to operations that are subject to 0 % VAT is recoverable. A limited list of goods, works and services are not subject to VAT. Input VAT related to non-VATable supply of goods, works and services generally is not recoverable and is included in the value of acquired goods, works and services.

VAT related to purchases (input VAT) and also VAT prepayments are recognised in the consolidated balance sheet within other current assets, while VAT related to sales (output VAT) is disclosed separately as a current liability. VAT presented within other non-current assets relates to assets under construction, which is expected to be recovered more than 12 months after the balance sheet date.

**5.9 Mineral extraction tax**

Mineral extraction tax (hereinafter - MET) applied to the extraction of hydrocarbons, including natural fuel gas, gas condensate and oil, is accrued in proportion to the volume of extracted minerals.

The amendments to the Russian Tax Code concerning the MET formula for gas condensate and natural fuel gas came into force as of 1 July 2014, having replaced fixed MET rates.

Since 1 January 2015 MET rate for natural fuel gas is defined as the set of indicators:

- 1) the base rate of RUB 35 per thousand cubic meters of natural fuel gas;
- 2) the base value of a unit of fuel equivalent calculated, based on various macroeconomic indicators, including oil and gas prices;
- 3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon deposits;
- 4) the indicator representing the transportation costs of natural fuel gas.

The MET rate for gas condensate is defined as the set of indicators:

- 1) the base rate of RUB 42 per ton for extracted gas condensate;
- 2) the base value of a unit of fuel equivalent, calculated taking into account various macroeconomic indicators including oil and gas prices;
- 3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon deposits;
- 4) the adjustment coefficient.

A zero MET rate is applied to natural fuel gas and gas condensate extracted in a number of regions of the Russian Federation subject to the stipulations established by the applicable norms and regulations.

In the Russian Federation MET applied to extracted oil is calculated on a monthly basis by way of multiplying an amount of extracted mineral by a fixed tax rate (RUB 919 per ton from 2017 on) adjusted for a coefficient that takes into account dynamics of global oil prices, as well as the indicator which reflect specific aspects of oil extraction. A zero rate is also applied to oil extracted in a number of regions of the Russian Federation subject to the stipulations established by the applicable norms and regulations.

MET is also applied to the extraction of common mineral resources (also under a combined license).

MET is included in operating expenses.

**5.10 Customs duties**

The export of hydrocarbons, including natural gas and crude oil, outside of the Customs union, which includes the Russian Federation, Belarus and Kazakhstan, is subject to export customs duties. According to the Decree of the Government of the Russian Federation No.754 dated 30 August 2013 export of natural gas

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

outside the boundaries of the Customs union is subject to a fixed 30 % export customs duty rate levied on the customs value of the exported natural gas.

According to the Federal Law No.239-FZ dated 3 December 2012, starting from 1 April 2013 under the Resolution of the Russian Government No.276 dated 29 March 2013 export customs duty calculation methodology for oil and oil products was established based on which the Ministry of Economic Development of the Russian Federation determines export customs duty rates for the following calendar month.

Revenues are recognised net of the amount of custom duties.

**5.11 Excise tax**

Effective from 1 January 2015 natural gas is subject to a 30 % excise tax, if provided by international treaties of the Russian Federation. Thus, at the present moment excisable oil products include gasoline, motor oil, diesel fuel and natural gas, while oil and gas condensate do not apply to excisable goods.

Within the Group, excise tax is imposed on the transfers of excisable oil products produced at group-owned refineries under a tolling arrangement to the Group company owning the product. The Group considers the excise tax on refining of oil products on a tolling basis as an operating expense. These taxes are not netted with revenue presented in the consolidated statement of comprehensive income.

**5.12 Inventories**

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overhead but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and completion costs.

**5.13 Property, plant and equipment**

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment. Gas and oil exploration and production activities are accounted for in accordance with the successful efforts method. Under the successful efforts method, costs of development and successful exploratory wells are capitalised. Costs of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development. Other exploration costs are expensed as incurred. Exploration costs are classified as research and development expenses within operating expenses.

Major renewals and improvements are capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability. Gains and losses arising from the disposal of property, plant and equipment are included within the profit and loss section of the consolidated statement of comprehensive income as incurred.

Property, plant and equipment include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Interest costs on borrowings are capitalised as part of the cost of assets under construction during the period of time that is required to construct and prepare the asset for its intended use. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the guidelines set by Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers, the World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers, and were estimated by independent reservoir engineers.

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**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Depreciation of assets (other than production licenses) is calculated using the straight-line method over their estimated remaining useful lives, as follows:

	<b><u>Years</u></b>
Pipelines	25-34
Wells	7-40
Machinery and equipment	10-18
Buildings	30-40
Roads	20-40
Social assets	10-40

Depreciation on wells has been calculated on cost using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. The difference between straight line and units-of-production is not material for these consolidated financial statements. Assets under construction are not depreciated until they are placed in service.

The return to a governmental authority of state social assets (such as rest houses, housing, schools and medical facilities) retained by the Group at privatisation is recorded only upon the termination of operating responsibility for the social assets. The Group does not possess ownership rights for the assets, but records them on its consolidated balance sheet up to the return to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. These disposals are considered to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a reduction directly in equity.

**5.14 Impairment of non-current non-financial assets**

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount which is the higher of fair value less costs to sell and value in use. Individual assets are grouped for impairment assessment purposes into the cash-generating units at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

Goodwill acquired in a business combination is assessed for the recoverability of its carrying value annually irrespective of whether there is any indication that impairment exists at the balance sheet date. Goodwill acquired through business combinations is allocated to cash-generating units (or groups of cash-generating units) to which goodwill relates. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the respective cash-generating unit.

The amount of the reduction of the carrying amount of the cash-generating unit to the recoverable value is recorded within the profit and loss section of the consolidated statement of comprehensive income in the period in which the reduction is identified. Impairments, except those relating to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. Impairment losses recognised for goodwill are not reversed in subsequent reporting periods.

**5.15 Borrowings**

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

**5.16 Deferred tax**

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.



**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred income tax is provided on all temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**5.17 Foreign currency transactions**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Russian Rubles, which are the presentation currency of the Group's consolidated financial statements.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official exchange rates prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date are recognised as exchange gains or losses within the profit and loss section of the consolidated statement of comprehensive income.

The balance sheets of foreign subsidiaries, associates and joint arrangements are translated into Rubles at the official exchange rate prevailing at the reporting date. Statements of comprehensive income of foreign entities are translated at average exchange rates for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries and associates are recognised as translation differences and recorded directly in equity.

Exchange restrictions and currency controls exist relating to converting the RUB into other currencies. The RUB is not freely convertible in most countries outside of the Russian Federation.

**5.18 Provisions for liabilities and charges**

Provisions, including provisions for post-employment benefit obligations and for decommissioning and site restoration costs, are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognised immediately based on the present value of the expected future cash outflows arising from the obligations. Initial estimates (and subsequent revisions to the estimates) of the cost of dismantling and removing the property, plant and equipment are capitalized as property, plant and equipment.

**5.19 Equity**

***Treasury shares***

When the Group companies purchase the equity share capital of PJSC Gazprom, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. When such shares are subsequently sold, any consideration received net of income taxes is included in equity. Treasury shares are recorded at weighted average cost. Gains (losses) arising from treasury shares transactions are recognised directly in the consolidated statement of changes in equity, net of associated costs including taxation.

***Dividends***

Dividends are recognised as a liability and deducted from equity in the period when it recommended by the Board of Directors and approved at the General Meeting of Shareholders.

**5.20 Revenue recognition**

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Sales, including gas, refined products, crude oil and gas condensate and electric and heat energy, are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT and other similar compulsory payments. Gas transportation sales are recognised when transportation services have been provided, as evidenced by delivery of gas in accordance with the contract.

Prices for natural gas and tariffs for transportation of gas to final consumers in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS"). Until 21 July 2015, these functions were performed

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

by the Federal Tariff Service (“FTS”). Prices for gas sold to European countries are mainly calculated by a formula based on the number of oil product prices, in accordance with the terms of long-term contracts. Gas prices that are being implemented in countries of the former Soviet Union are defined in various ways, including using formulas similar to those used in contracts with European buyers.

***Net gain (loss) from trading activity***

Contracts to buy or sell commodities, including gas, electric power and other commodities, entered into at the European liquid trading platforms for the purpose of generating profit from short-term fluctuations in price rather than out of the Group’s expected purchase, sale or usage requirements are recognised at fair value. These contracts are considered as derivative financial instruments and regulated by IAS 39 “Financial Instruments: Recognition and Measurement” for valuation as well as for information disclosure purposes. Income and expenses which arise out of a contract are recognised on a net basis in profit and loss within “Net gain (loss) from trading activity” of the consolidated statement of comprehensive income.

**5.21 Interest**

Interest income and expense are recognised within the profit and loss section of the consolidated statement of comprehensive income for all interest bearing financial instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts (using the original effective rate) and interest income is thereafter recognised based on the same effective rate of interest.

**5.22 Research and development**

Research expenditure is recognised as an expense as incurred. Development expenditure is recognised as intangible assets (within other non-current assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

**5.23 Employee benefits**

***Pension and other post-retirement benefits***

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is accrued and charged to staff expenses within operating expenses in the consolidated statement of comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees. The post-employment benefit obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability.

Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise (see Note 24).

Past service costs are recognised immediately through profit or loss when they occur, in the period of a plan amendment.

Plan assets are measured at fair value and are subject to certain limitations (see Note 24). Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included within staff costs in operating expenses. The cost of providing other discretionary post-retirement obligations (including constructive obligations) is charged to the profit and losses of the consolidated statement of comprehensive income as they are earned over the average remaining service lives of employees.

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Social expenses*

The Group incurs employee costs related to the provision of benefits such as health and social infrastructure and services. These amounts principally represent an implicit cost of employing production workers and, accordingly, are charged to operating expenses in the consolidated statement of comprehensive income.

**5.24 Recent accounting pronouncements**

*Application of new IFRSs*

A number of amendments to current IFRSs became effective for the periods beginning on or after 1 January 2016:

- The amendments to IFRS 11 Joint Arrangements (issued in May 2014) on accounting for acquisitions of interests in joint operations that constitutes a business.
- The amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (issued in May 2014) on clarification of acceptable methods of depreciation and amortization.
- The amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (issued in September 2014) eliminate inconsistencies between the requirements dealing with the sale or contribution of assets between an investor and its associate or joint venture.
- The amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures (issued in December 2014) clarify the rules concerning the accounting of investments in investment entities.
- The amendments to IAS 1 Presentation of Financial Statements (issued in December 2014). The standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements.
- Annual Improvements to IFRS, the period 2012-2014.

The Group has reviewed amended standards while preparing these consolidated financial statements. The amended standards have no significant impact on the Group's consolidated financial statements.

***Standards, Interpretations and Amendments to existing Standards that are not yet effective and have not been early adopted by the Group***

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2017. In particular, the Group has not early adopted the standards and amendments:

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed.
- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application IFRS 15 Revenue from Contracts with Customers.

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements to exchange rates that should be used on initial recognition of payment made or received in advance.
- The amendments to IFRS 9 Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 Financial Instruments or continuing to apply IAS 39 Financial Instruments: Recognition and Measurement to all hedging instruments because the standard currently does not address accounting for macro hedging.
- The amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IFRS 4 Insurance Contracts (issued in September 2016 and effective for annual periods beginning on or after 1 January 2018) concern the issues of the application of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments at one time.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the requirements on transfers to, or from, investment properties.

The Group is currently assessing the impact of the amendments on its financial position and results of operations.

**6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as well as disclosures. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from management estimates, and management estimates can be revised in the future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each estimate.

Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are reported below.

**6.1 Consolidation of subsidiaries**

Management judgement is involved in the assessment of control and the consolidation of subsidiaries in the Group's consolidated financial statements taken into account voting rights and contractual arrangements with other shareholders.

**6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)**

**6.2 Tax legislation and uncertain tax positions**

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 37).

The Group's uncertain tax positions (potential tax gains and losses) are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than profit tax are recognised based on management's best estimate of the expenditure required to settle tax obligations at the balance sheet date.

**6.3 Assumptions to determine amount of provisions**

***Impairment allowance for accounts receivable***

The impairment allowance for accounts receivable is based on the Group's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The charges (and releases) for impairment of accounts receivable may be material (see Note 10, 16).

***Impairment of Property, plant and equipment and Goodwill***

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on gas, oil, oil products, electrical power, operating costs, capital investment, hydrocarbon reserves estimates, and macroeconomic factors such as inflation and discount rates.

In addition, judgement is applied in determining the cash-generating units assessed for impairment. For the purposes of the goodwill impairment test, management considers gas production, transportation and distribution activities as part of one Gas cash-generating unit and monitors associated goodwill at this level. The Group's pipelines constitute a unified gas supply system, providing gas supply to customers in the Russian Federation, Former Soviet Union countries and Europe. The interaction of production of gas, transportation and distribution of gas activities provides the basis for capturing the benefits from synergies.

The value in use of assets or cash-generating units related to oil and gas operations are based on their expected production volumes, which include both proved reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future. Impairment charges are disclosed in Notes 13, 14 and 27.

***Accounting for provisions***

Accounting for impairment includes allowances against capital construction projects, financial assets, other non-current assets and inventory obsolescence. Because of the Group's production cycle, the year end carrying values are assessed in light of forward looking plans finalised on or around year end.

Because of the production cycle of the Group, some important decisions about capital construction projects are taken at the end of the fiscal year. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters.

**6.4 Site restoration and environmental costs**

Site restoration costs that may be incurred by the Group at the end of the operating life of certain Group's facilities and properties are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the profit and loss of the consolidated statement of comprehensive income on a straight-line basis over the asset's productive life. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgement. This judgement is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

**6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)**

**6.5 Useful lives of Property, plant and equipment**

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

Were the estimated useful lives to decrease by 10 % or increase by 10 % from management's estimates, the impact on depreciation for the year ended 31 December 2016 would be an increase by RUB 63,429 million or a decrease by RUB 51,896 million (2015: increase by RUB 58,112 million or decrease by RUB 47,546 million).

Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses, which are expected to be productive past their current expiration dates, will be extended at insignificant additional costs. Because of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

**6.6 Fair value estimation for financial instruments**

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy). Contracts that are valued based on non-observable market data belong to Level 3 in accordance with the valuation hierarchy. Management's best estimates based on internally developed models are used for the valuation. Where the valuation technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 39).

The assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

**6.7 Fair value estimation for acquisitions**

In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgement is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets.

The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

**6.8 Accounting for plan assets and pension liabilities**

Pension plan liabilities are estimated using actuarial techniques and assumptions (see Note 24). Actual results may differ from the estimates, and the Group's estimates can be revised in the future based on changes in economic and financial conditions. In addition, certain plan assets included in NPF GAZFOND are estimated using the fair value estimation techniques. Management makes judgements with respect to the selection of valuation model applied, the amount and timing of cash flow forecasts or other assumptions such as discount rates. The recognition of plan assets is limited to the estimated present value of future benefits which are available to the Group in relation to this plan. These benefits are determined using actuarial techniques and assumptions. The impact of the change in the limitation of the plan assets in accordance with IAS 19 Employee Benefits is disclosed in Note 24. The value of plan assets and the limit are subject to revision in the future.

**6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES (continued)**

**6.9 Joint Arrangements**

Upon adopting of IFRS 11 Joint Arrangements the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures, except for its investments in Blue Stream Pipeline Company B.V., Moravia Gas Storage a.s., Podzemno skladište gasa Banatski Dvor d.o.o., Salym Petroleum Development N.V., OJSC Tomskneft VNK, Erdgasspeicher Peissen GmbH, LLC Yuzhno-Priobskiy GPZ, which were determined to be joint operations.

**7 SEGMENT INFORMATION**

The Group operates as a vertically integrated business with substantially all external gas sales generated by the Distribution of gas segment.

The Board of Directors and Management Committee of PJSC Gazprom (the “Governing bodies”) provide general management of the Group, an assessment of the operating results and allocate resources using different internal financial information.

Based on that the following reportable segments within the Group were determined:

- Production of gas – exploration and production of gas;
- Transportation – transportation of gas;
- Distribution of gas – sales of gas within the Russian Federation and abroad;
- Gas storage – storage of extracted and purchased gas in underground gas storages;
- Production of crude oil and gas condensate – exploration and production of oil and gas condensate, sales of crude oil and gas condensate;
- Refining – processing of oil, gas condensate and other hydrocarbons, and sales of refined products;
- Electric and heat energy generation and sales.

Other activities have been included within “All other segments” column.

The inter-segment sales mainly consist of:

- Production of gas – sales of gas to the Distribution of gas and Refining segments;
- Transportation – rendering transportation services to the Distribution of gas segment;
- Distribution of gas – sales of gas to the Transportation segment for own needs and to the Electric and heat energy generation and sales segment;
- Gas storage – sales of gas storage services to the Distribution of gas segment;
- Production of crude oil and gas condensate – sales of oil and gas condensate to the Refining segment for further processing;
- Refining – sales of refined hydrocarbon products to other segments.

Internal transfer prices, mostly for Production of gas, Transport and Gas storage segments, are established by the management of the Group with the objective of providing specific funding requirements of the individual subsidiaries within each segment.

The Governing bodies assess the performance, assets and liabilities of the operating segments based on the internal financial reporting. The effects of certain non-recurring transactions and events, such as business acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the internal financial information to IFRS consolidated financial statements are not included within the operating segments which are reviewed by the Governing bodies on a central basis. Gains and losses on available-for-sale financial assets and financial income and expenses are also not allocated to the operating segments.



**PJSC GAZPROM**  
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(in millions of Russian Rubles)

**7 SEGMENT INFORMATION (continued)**

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>Year ended</b>									
<b>31 December 2016</b>									
<b>Total segment revenues</b>	<b>745,972</b>	<b>1,051,683</b>	<b>3,531,666</b>	<b>53,843</b>	<b>1,005,690</b>	<b>1,506,457</b>	<b>481,716</b>	<b>345,925</b>	<b>8,722,952</b>
Inter-segment sales	723,169	852,712	251,699	48,275	593,732	8,895	-	-	2,478,482
External sales	22,803	198,971	3,279,967	5,568	411,958	1,497,562	481,716	345,925	6,244,470
<b>Segment result</b>	<b>19,089</b>	<b>5,454</b>	<b>125,649</b>	<b>7,247</b>	<b>69,348</b>	<b>85,161</b>	<b>40,762</b>	<b>16,108</b>	<b>368,818</b>
Depreciation	166,614	456,377	19,609	25,226	101,277	50,587	45,826	38,082	903,598
Share of net income (loss) of associates and joint ventures	8,157	26,233	4,577	(2,774)	37,293	5,132	34	4,220	82,872
<b>Year ended</b>									
<b>31 December 2015</b>									
<b>Total segment revenues</b>	<b>707,284</b>	<b>1,063,138</b>	<b>3,636,183</b>	<b>47,144</b>	<b>874,099</b>	<b>1,565,902</b>	<b>424,665</b>	<b>287,411</b>	<b>8,605,826</b>
Inter-segment sales	689,260	869,173	226,950	44,487	613,491	10,311	-	-	2,453,672
External sales	18,024	193,965	3,409,233	2,657	260,608	1,555,591	424,665	287,411	6,152,154
<b>Segment result</b>	<b>11,724</b>	<b>(11,768)</b>	<b>595,837</b>	<b>4,707</b>	<b>89,730</b>	<b>140,160</b>	<b>37,475</b>	<b>(4,214)</b>	<b>863,651</b>
Depreciation	168,631	450,705	12,787	22,854	95,858	36,204	39,575	35,722	862,336
Share of net income (loss) of associates and joint ventures	7,484	18,960	17,594	(1,664)	82,231	3,353	13	(21,411)	106,560

A reconciliation of total reportable segments' results to total profit before profit tax in the consolidated statement of comprehensive income is provided as follows:

Notes	Year ended 31 December	
	2016	2015
Segment result for reportable segments	352,710	867,865
Other segments' result	16,108	(4,214)
<b>Segment result</b>	<b>368,818</b>	<b>863,651</b>
Difference in depreciation <sup>1</sup>	332,034	347,136
(Expense) income associated with pension obligations	(12,992)	2,588
28 Net finance income (expense)	475,627	(418,741)
Gain on disposal of available-for-sale financial assets	1,059	9,121
15 Share of net income of associates and joint ventures	82,872	106,560
27 Derivatives (losses) gains	(9,863)	88
Other	47,583	14,838
<b>Profit before profit tax</b>	<b>1,285,138</b>	<b>925,241</b>

<sup>1</sup> The difference in depreciation relates to adjustments of statutory fixed assets to comply with IFRS, such as reversal of revaluation of fixed assets recorded under Russian statutory accounting or accounting for historical hyperinflation which is not recorded under Russian statutory accounting.

A reconciliation of reportable segments' external sales to sales in the consolidated statement of comprehensive income is provided as follows:

	Year ended 31 December	
	2016	2015
External sales for reportable segments	5,898,545	5,864,743
External sales for other segments	345,925	287,411
<b>Total external segment sales</b>	<b>6,244,470</b>	<b>6,152,154</b>
Differences in external sales <sup>1</sup>	(133,419)	(78,836)
<b>Total sales per the consolidated statement of comprehensive income</b>	<b>6,111,051</b>	<b>6,073,318</b>

<sup>1</sup> The difference in external sales relates to adjustments of statutory sales to comply with IFRS, such as netting of sales of materials to subcontractors recorded under Russian statutory accounting and other adjustments.

Substantially most of the Group's operating assets are located in the Russian Federation. Segment assets consist primarily of property, plant and equipment, accounts receivable and prepayments, investments in associates and joint ventures and inventories. Cash and cash equivalents, restricted cash, VAT recoverable, goodwill, financial assets and other current and non-current assets are not considered to be segment assets but rather are managed on a central basis.

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**7 SEGMENT INFORMATION (continued)**

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>As of 31 December 2016</b>									
Segment assets	2,479,386	6,596,937	1,557,089	393,482	2,383,892	1,361,161	988,571	937,460	16,697,978
Investments in associates and joint ventures	28,007	131,006	29,701	155	427,432	22,353	1,258	90,237	730,149
Capital additions	231,530	406,828	41,785	35,542	316,823	193,243	63,485	54,926	1,344,162
<b>As of 31 December 2015</b>									
Segment assets	2,357,813	6,119,073	1,677,460	348,857	2,183,335	1,260,557	850,658	885,287	15,683,040
Investments in associates and joint ventures	19,434	152,954	45,580	1,958	467,626	20,124	1,453	99,117	808,246
Capital additions	220,214	420,874	25,962	48,486	324,330	136,299	98,963	69,701	1,344,829

Reportable segments' assets are reconciled to total assets in the consolidated balance sheet as follows:

Notes	31 December	
	2016	2015
Segment assets for reportable segments	15,760,518	14,797,753
Other segments' assets	937,460	885,287
<b>Total segment assets</b>	<b>16,697,978</b>	<b>15,683,040</b>
Differences in property, plant and equipment, net <sup>1</sup>	(2,361,075)	(1,778,015)
13 Loan interest capitalised	623,101	645,109
Decommissioning costs	63,639	74,290
8 Cash and cash equivalents	896,728	1,359,095
Restricted cash	3,471	1,815
9 Short-term financial assets	11,481	12,570
VAT recoverable	195,033	229,626
Other current assets	331,467	472,045
17 Available-for-sale long-term financial assets	294,345	235,607
14 Goodwill	105,330	107,467
Other non-current assets	341,274	303,269
Inter-segment assets	(597,369)	(598,040)
Other	313,535	304,162
<b>Total assets per the consolidated balance sheet</b>	<b>16,918,938</b>	<b>17,052,040</b>

<sup>1</sup> The difference in property, plant and equipment relates to adjustments of statutory fixed assets to comply with IFRS, such as reversal of revaluation of fixed assets recorded under Russian statutory accounting or accounting for historical hyperinflation which is not recorded under Russian statutory accounting.

Segment liabilities mainly comprise operating liabilities. Profit tax payable, deferred tax liabilities, long-term provisions for liabilities and charges, short-term and long-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are managed on a central basis.

Segment liabilities:

	31 December	
	2016	2015
Distribution of gas	608,767	703,268
Transportation	363,691	317,548
Refining	337,711	255,370
Production of gas	168,632	179,935
Production of crude oil and gas condensate	108,619	142,332
Electric and heat energy generation and sales	85,199	78,618
Gas storage	8,401	11,234
Other segments	131,731	220,394
<b>Total segment liabilities</b>	<b>1,812,751</b>	<b>1,908,699</b>

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**7 SEGMENT INFORMATION (continued)**

Reportable segments' liabilities are reconciled to total liabilities in the consolidated balance sheet as follows:

Notes	31 December	
	2016	2015
Segment liabilities for reportable segments	1,681,020	1,688,305
Other segments' liabilities	131,731	220,394
<b>Total segment liabilities</b>	<b>1,812,751</b>	<b>1,908,699</b>
Current profit tax payable	62,479	11,929
20 Short-term borrowings, promissory notes and current portion of long-term borrowings	447,080	646,372
21 Long-term borrowings, promissory notes	2,382,543	2,795,843
24 Provisions for liabilities and charges	406,234	435,438
22 Deferred tax liabilities	688,503	618,404
Other non-current liabilities	78,011	163,032
Dividends	3,029	4,969
Inter-segment liabilities	(597,369)	(598,040)
Other	193,838	150,772
<b>Total liabilities per the consolidated balance sheet</b>	<b>5,477,099</b>	<b>6,137,418</b>

**8 CASH AND CASH EQUIVALENTS**

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand, balances with banks and term deposits with the original maturity of three months or less.

31 December	
2016	2015
Cash on hand and bank balances payable on demand	793,169
Term deposits with original maturity of three months or less	103,559
<b>Total cash and cash equivalents</b>	<b>896,728</b>

The table below analyses credit quality of banks by external credit ratings at which the Group holds cash and cash equivalents. The ratings are shown under Standard & Poor's classification:

31 December	
2016	2015
Cash on hand	940
External credit rating of A-3 and above	190,298
External credit rating of B	558,278
No external credit rating	147,212
<b>Total cash and cash equivalents</b>	<b>896,728</b>

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BB+ as of 31 December 2016 and 31 December 2015, however the outlook has changed from negative to stable.

**9 SHORT-TERM FINANCIAL ASSETS**

31 December	
2016	2015
Financial assets held for trading:	<b>11,363</b>
Bonds	10,976
Equity securities	387
Available-for-sale financial assets:	<b>118</b>
Promissory notes	118
Equity securities	-
Bonds	-
<b>Total short-term financial assets</b>	<b>11,481</b>

Information about credit quality of short-term financial assets (excluding equity securities) is presented in the table below with reference to external credit ratings of related counterparties or financial instruments. The ratings are shown under Standard & Poor's classification:

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**9 SHORT-TERM FINANCIAL ASSETS (continued)**

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
External credit rating of A-3 and above	2,662	2,759
External credit rating of B	6,812	4,384
No external credit rating	<u>1,620</u>	<u>3,092</u>
	<b>11,094</b>	<b>10,235</b>

**10 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>Financial assets</b>		
Trade receivables	731,566	726,156
Short-term loans	142,068	93,409
Other receivables	<u>134,352</u>	<u>187,420</u>
	1,007,986	1,006,985
<b>Non-financial assets</b>		
Advances and prepayments	<u>76,981</u>	<u>107,222</u>
<b>Total accounts receivable and prepayments</b>	<b>1,084,967</b>	<b>1,114,207</b>

The estimated fair value of short-term accounts receivable approximates their carrying value.

Trade receivables are presented net of impairment allowance of RUB 831,164 million and RUB 839,123 million as of 31 December 2016 and 31 December 2015, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million and RUB 5,528 million net of impairment allowance of RUB 188,307 million and RUB 187,228 million as of 31 December 2016 and 31 December 2015, respectively.

Short-term loans are presented net of impairment allowance of RUB 9,264 million and RUB 10,022 million as of 31 December 2016 and 31 December 2015, respectively.

Other receivables are presented net of impairment allowance of RUB 16,950 million and RUB 24,118 million as of 31 December 2016 and 31 December 2015, respectively.

Advances and prepayments are presented net of impairment allowance of RUB 11,074 million and RUB 1,036 million as of 31 December 2016 and 31 December 2015, respectively.

Other receivables are mainly represented by accounts receivable from Russian customers for various types of goods, works, and services.

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Short-term trade accounts receivable neither past due nor impaired	614,543	655,288
Short-term trade accounts receivable impaired and provided for	855,687	850,737
Impairment allowance at the end of the year	(831,164)	(839,123)
Short-term trade accounts receivable past due but not impaired	<u>92,500</u>	<u>59,254</u>
<b>Total short-term trade accounts receivable</b>	<b>731,566</b>	<b>726,156</b>

Management's experience indicates customer payment histories in respect of trade accounts receivable neither past due nor impaired vary by geography. The credit quality of these assets can be analysed as follows:

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Europe and other countries gas, crude oil, gas condensate and refined products receivables	303,516	388,284
Domestic gas, crude oil, gas condensate and refined products receivables	171,165	139,613
Former Soviet Union countries (excluding the Russian Federation) gas, crude oil, gas condensate and refined products receivables	14,504	23,803
Electricity and heat sales receivables	50,661	46,290
Gas transportation services receivables	5,222	3,628
Other trade receivables	<u>69,475</u>	<u>53,670</u>
<b>Total trade receivables neither past due nor impaired</b>	<b>614,543</b>	<b>655,288</b>

As of 31 December 2016 and 31 December 2015, the individually impaired receivables mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the receivables will be ultimately recovered. The ageing analysis of these receivables is as follows:

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**10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)**

Ageing from the due date	Gross book value 31 December		Allowance 31 December		Net book value 31 December	
	2016	2015	2016	2015	2016	2015
Up to 6 months	68,509	77,508	(62,053)	(69,793)	6,456	7,715
From 6 to 12 months	79,045	69,191	(69,938)	(68,101)	9,107	1,090
From 1 to 3 years	330,717	329,384	(322,184)	(326,815)	8,533	2,569
More than 3 years	<u>377,416</u>	<u>374,654</u>	<u>(376,989)</u>	<u>(374,414)</u>	<u>427</u>	<u>240</u>
	<b>855,687</b>	<b>850,737</b>	<b>(831,164)</b>	<b>(839,123)</b>	<b>24,523</b>	<b>11,614</b>

Movements of the Group's allowance for impairment of trade and other receivables are as follows:

	Trade receivables Year ended 31 December		Other receivables Year ended 31 December	
	2016	2015	2016	2015
Impairment allowance at the beginning of the year	839,123	616,919	24,118	26,837
Impairment allowance accrued <sup>1</sup>	130,084	133,531	7,064	2,066
Write-off of receivables during the year <sup>2</sup>	(10,099)	(4,691)	(3,948)	(3,309)
Release of previously created allowance <sup>1</sup>	(24,369)	(31,474)	(8,315)	(1,496)
Foreign exchange rate differences	<u>(103,575)</u>	<u>124,838</u>	<u>(1,969)</u>	<u>20</u>
<b>Impairment allowance at the end of the year</b>	<b>831,164</b>	<b>839,123</b>	<b>16,950</b>	<b>24,118</b>

<sup>1</sup> The accrual and release of allowance for impaired receivables have been included in the line "Charge for impairment and other provisions" in the consolidated statement of comprehensive income.

<sup>2</sup> If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that allowance.

Trade accounts receivable past due but not impaired mainly relate to a number of customers for whom there is no recent history of material default. The ageing analysis of these trade receivables is as follows:

Ageing from the due date	31 December	
	2016	2015
Up to 6 months	57,727	44,858
From 6 to 12 months	21,915	8,518
From 1 to 3 years	4,504	5,856
More than 3 years	<u>8,354</u>	<u>22</u>
	<b>92,500</b>	<b>59,254</b>

**11 INVENTORIES**

	31 December	
	2016	2015
Gas in pipelines and storage	430,720	525,822
Materials and supplies (net of an obsolescence allowance of RUB 3,370 million and RUB 5,498 million as of 31 December 2016 and 31 December 2015, respectively)	169,486	183,776
Goods for resale (net of an obsolescence allowance of RUB 831 million and RUB 1,679 million as of 31 December 2016 and 31 December 2015, respectively)	21,955	17,266
Crude oil and refined products	<u>89,038</u>	<u>77,500</u>
<b>Total inventories</b>	<b>711,199</b>	<b>804,364</b>

**12 OTHER CURRENT AND NON-CURRENT ASSETS**

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RUB 97,869 million and RUB 126,477 million and profit tax in the amount of RUB 12,916 million and RUB 97,218 million as of 31 December 2016 and 31 December 2015, respectively. Other current assets include long-term deposits in the amount of RUB 144,035 million and RUB 126,528 million as of 31 December 2016 and 31 December 2015, respectively.

Included within other non-current assets is VAT recoverable related to assets under construction totalling RUB 35,702 million and RUB 50,494 million and long-term deposits totalling RUB 42,231 million and RUB 5,064 million as of 31 December 2016 and 31 December 2015, respectively. Other non-current assets include net pension assets in the amount of RUB 20,499 million and RUB nil million as of 31 December 2016 and 31 December 2015, respectively (see Note 24).

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**13 PROPERTY, PLANT AND EQUIPMENT**

Notes	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
<b>As of 31 December 2014</b>								
Cost	3,415,966	1,478,790	3,652,413	3,036,673	566,905	94,965	2,110,422	14,356,134
Accumulated depreciation	(1,249,246)	(515,682)	(1,465,882)	(932,067)	(207,452)	(35,596)	-	(4,405,925)
<b>Net book value as of 31 December 2014</b>	<b>2,166,720</b>	<b>963,108</b>	<b>2,186,531</b>	<b>2,104,606</b>	<b>359,453</b>	<b>59,369</b>	<b>2,110,422</b>	<b>9,950,209</b>
Depreciation	(85,564)	(60,517)	(240,979)	(109,983)	(23,341)	(2,625)	-	(523,009)
Additions	1,237	59,096	50,266	36,864	926	257	1,466,103	1,614,749
Acquisition of subsidiaries	-	-	29,709	3,681	-	-	12,110	45,500
Translation differences	5,478	35,665	36,851	12,005	16,943	3	37,701	144,646
Transfers	201,954	76,229	451,227	252,687	13,144	1,972	(997,213)	-
Disposals	(663)	(5,199)	(42,756)	(8,737)	(222)	(874)	(40,281)	(98,732)
Increase for impairment allowance	-	(57,259)	-	-	-	-	(72,223)	(129,482)
<b>Net book value as of 31 December 2015</b>	<b>2,289,162</b>	<b>1,011,123</b>	<b>2,470,849</b>	<b>2,291,123</b>	<b>366,903</b>	<b>58,102</b>	<b>2,516,619</b>	<b>11,003,881</b>
<b>As of 31 December 2015</b>								
Cost	3,623,972	1,587,322	4,177,710	3,333,173	597,696	96,323	2,516,619	15,932,815
Accumulated depreciation	(1,334,810)	(576,199)	(1,706,861)	(1,042,050)	(230,793)	(38,221)	-	(4,928,934)
<b>Net book value as of 31 December 2015</b>	<b>2,289,162</b>	<b>1,011,123</b>	<b>2,470,849</b>	<b>2,291,123</b>	<b>366,903</b>	<b>58,102</b>	<b>2,516,619</b>	<b>11,003,881</b>
Depreciation	(88,376)	(64,499)	(282,495)	(119,411)	(13,466)	(2,614)	-	(570,861)
Additions	48	51,071	20,819	10,862	28,259	199	1,348,489	1,459,747
Acquisition of subsidiaries	-	-	-	-	-	-	-	-
Translation differences	(5,582)	(45,420)	(33,945)	(27,067)	(13,006)	(101)	(52,349)	(177,470)
Transfers	134,715	176,390	449,665	330,898	1,249	1,933	(1,094,850)	-
Disposals	(1,279)	(14,660)	(13,646)	(22,468)	(571)	(3,125)	(77,438)	(133,187)
Increase for impairment allowance	-	(14,763)	-	-	(1,975)	-	(62,625)	(79,363)
<b>Net book value as of 31 December 2016</b>	<b>2,328,688</b>	<b>1,099,242</b>	<b>2,611,247</b>	<b>2,463,937</b>	<b>367,393</b>	<b>54,394</b>	<b>2,577,846</b>	<b>11,502,747</b>
<b>As of 31 December 2016</b>								
Cost	3,751,874	1,739,940	4,600,603	3,625,398	611,652	95,229	2,577,846	17,002,542
Accumulated depreciation	(1,423,186)	(640,698)	(1,989,356)	(1,161,461)	(244,259)	(40,835)	-	(5,499,795)
<b>Net book value as of 31 December 2016</b>	<b>2,328,688</b>	<b>1,099,242</b>	<b>2,611,247</b>	<b>2,463,937</b>	<b>367,393</b>	<b>54,394</b>	<b>2,577,846</b>	<b>11,502,747</b>

At the each balance sheet date management assess whether there is any indication that the recoverable value has declined below the carrying value of property, plant and equipment.

Operating assets are shown net of allowance for impairment of RUB 203,476 million and RUB 186,738 million as of 31 December 2016 and 31 December 2015, respectively.

In 2016 the Group conducted an impairment test and recognised an impairment loss in respect of oil assets in Iraq in the amount of RUB 14,763 million and RUB 57,259 million as of 31 December 2016 and 31 December 2015, respectively.

Assets under construction are presented net of allowance for impairment of RUB 167,546 million and RUB 115,175 million as of 31 December 2016 and 31 December 2015, respectively. Charges for impairment allowance of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefits.

Due to the uncertainties regarding the implementation of the project "South Stream" the Group recognised impairment losses in respect of facilities under construction in the amount of RUB 45,978 million and RUB 56,347 million as of 31 December 2016 and 31 December 2015, respectively.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RUB 200 million and RUB 260 million as of 31 December 2016 and 31 December 2015, respectively.

Included in additions above are capitalized borrowing costs of RUB 132,477 million and RUB 218,127 million for the years ended 31 December 2016 and 31 December 2015, respectively.

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**13 PROPERTY, PLANT AND EQUIPMENT (continued)**

Capitalization rates of 5.75 % and 12.62 % were used representing the weighted average borrowing cost including exchange losses on foreign currency borrowings for the years ended 31 December 2016 and 31 December 2015, respectively. Capitalization rates excluding exchange losses on foreign currency borrowings were 5.75 % and 6.79 % for the years ended 31 December 2016 and 31 December 2015, respectively.

The information regarding the Group's exploration and evaluation assets (included within production licenses and assets under construction) is presented below:

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>Exploration and evaluation assets at the beginning of the year</b>	<b>290,945</b>	<b>276,850</b>
Additions	42,303	49,086
Translation differences	(10,165)	14,390
Reclassification	(18,163)	(40,668)
Disposals	(6,432)	(8,713)
<b>Exploration and evaluation assets at the end of the year</b>	<b>298,488</b>	<b>290,945</b>

**14 GOODWILL**

Movements of the Group's goodwill on subsidiaries are as follows:

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>Goodwill at the beginning of the year</b>	107,467	104,221
Additions	-	3,698
Disposals	(2,137)	(452)
<b>Goodwill at the end of the year</b>	<b>105,330</b>	<b>107,467</b>

Goodwill acquired through business combinations has been allocated to the related cash-generating units and segments within the following operations:

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Gas production, transportation and distribution	69,981	70,022
Production of crude oil and gas condensate	32,901	34,997
Electric and heat energy generation and sales	2,448	2,448
<b>Total goodwill</b>	<b>105,330</b>	<b>107,467</b>

As of 31 December 2016 and 31 December 2015 the Group did not identify any indicators for recognising an impairment loss in relation to goodwill.



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**15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

Notes			Carrying value as of		Share of the income (loss) of	
			31 December		associates and joint ventures	
			2016	2015	for the year ended	31 December
					2016	2015
35	Sakhalin Energy Investment Company Ltd.	Associate	185,013	240,831	13,893	61,290
35	OJSC NGK Slavneft and its subsidiaries	Joint venture	129,082	118,704	10,509	5,169
35	LLC Yamal razvitie and its subsidiaries	Joint venture	86,600	72,128	14,472	11,914
	Gazprombank (Joint-stock Company) and its subsidiaries	Associate	77,109	80,800	5,311	(21,221)
35, 36	Nord Stream AG	Joint venture	63,319	69,617	17,307	13,602
	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	40,510	47,154	8,149	4,530
35	JSC Achimgaz	Joint venture	32,043	26,281	10,221	9,437
35, 36	SGT EuRoPol GAZ S.A.	Associate	26,387	33,410	770	514
35	KazRosGaz LLP	Joint venture	14,470	20,960	3,601	10,155
35	Wintershall AG	Associate	14,233	20,727	(2,746)	213
35	CJSC Northgas	Joint venture	11,735	8,726	3,009	3,996
34, 35	Wintershall Noordzee B.V. <sup>1</sup>	Joint venture	6,862	9,994	(1,650)	(194)
35	JSC Latvijas Gaze	Associate	6,588	8,981	993	751
35	Gasum Oy and its subsidiaries <sup>2</sup>		-	10,253	-	1,619
34, 35	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>3</sup>		-	-	-	4,974
	Other (net of allowance for impairment of RUB 10,755 million and RUB 7,373 million as of 31 December 2016 and 31 December 2015, respectively)		<u>36,198</u>	<u>39,680</u>	<u>(967)</u>	<u>(189)</u>
			<b>730,149</b>	<b>808,246</b>	<b>82,872</b>	<b>106,560</b>

<sup>1</sup> In September 2015 the Group acquired the 50 % interests in Wintershall Noordzee B.V. are accounted for using the equity method since the acquisition date (see Note 34).

<sup>2</sup> In January 2016 PJSC Gazprom has sold its equity interest of 25 % in Gasum Oy to the Government of Finland for EUR 251 million.

<sup>3</sup> In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries became the Group subsidiaries (see Note 34).

Movements in the carrying amount of the Group's investment in associates and joint ventures are as follows:

	Year ended 31 December	
	2016	2015
<b>Balance at the beginning of the year</b>	<b>808,246</b>	<b>677,216</b>
Share of net income of associates and joint ventures	82,872	106,560
Distributions from associates and joint ventures	(64,535)	(64,995)
Share of other comprehensive (loss) income of associates and joint ventures	(6,397)	28,699
Translation differences	(83,043)	86,750
Other acquisitions and disposals	<u>(6,994)</u>	<u>(25,984)</u>
<b>Balance at the end of the year</b>	<b>730,149</b>	<b>808,246</b>

The estimated fair values of investments in associates and joint ventures for which there are published price quotations were as follows:

	31 December	
	2016	2015
JSC Latvijas Gaze	7,594	10,552

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**15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)**

**Significant associates and joint ventures**

	Country of primary operations	Country of incorporation	Nature of operations	Percent of ordinary shares held as of 31 December <sup>1</sup>	
				2016	2015
JSC Achimgaz	Russia	Russia	Exploration and production of gas	50	50
Bosphorus Gaz Corporation A.S. <sup>2</sup>	Turkey	Turkey	and gas condensate Gas distribution	71	71
WIGA Transport Beteiligungs- GmbH & Co. KG	Germany	Germany	Gas transportation	50	50
Wintershall AG	Libya	Germany	Production of oil and gas distribution	49	49
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company)	Russia	Russia	Banking	37	37
SGT EuRoPol GAZ S.A.	Poland	Poland	Transportation and gas distribution	48	48
KazRosGaz LLP	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
JSC Latvijas Gaze	Latvia	Latvia	Transportation and gas distribution	34	34
JSV Moldovagaz	Moldova	Moldova	Transportation and gas distribution	50	50
Nord Stream AG <sup>2</sup>	Russia, Germany	Switzerland	Gas transportation	51	51
CJSC Northgas	Russia	Russia	Exploration and sales of gas and gas condensate	50	50
Overgaz Inc. AD	Bulgaria	Bulgaria	Gas distribution	50	50
Panrusgaz Gas Trading Plc	Hungary	Hungary	Gas distribution	40	40
JSC Prometheus Gas	Greece	Greece	Gas distribution, construction	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Oil production, production of LNG	50	50
OJSC NGK Slavneft	Russia	Russia	Production, processing and sales of oil and refined products	50	50
JSC Turusgaz	Turkey	Turkey	Gas distribution	45	45
LLC Yamal razvitie <sup>3</sup>	Russia	Russia	Investment activities, assets management	50	50

<sup>1</sup> Cumulative share of Group companies in charter capital of investees.

<sup>2</sup> Investments in companies continue to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

<sup>3</sup> LLC Yamal razvitie is a holder of 51 % share in LLC SeverEnergiya. In August 2015 with the aim to simplify the ownership structure and achieve parity shareholdings in LLC SeverEnergiya the Group made an additional contribution to equity of LLC Yamal razvitie in the amount of RUB 14,922 million. The payment was performed by converting long-term loans. PJSC NOVATEK made an additional contribution to equity of LLC Yamal razvitie transferring 6.4 % Arctic Russia B.V. shares, as well as RUB 2,512 million by converting long-term loans. As a result the effective Group's share in LLC SeverEnergiya increased from 43.15 % to 44.65 %.

Summarised financial information on the Group's significant associates and joint ventures is presented below.

The values, disclosed in the tables, represent total assets, liabilities, revenues, income (loss) of the Group's significant associates and joint ventures and not the Group's share.

The financial information may be different venture prepared and presented in accordance with IFRS, due to adjustments required in application of equity method of accounting, such as fair value adjustments on identifiable assets and liabilities at the date of acquisition and adjustments on differences in accounting policies.

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**15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)**

	<b>OJSC NGK Slavneft and its subsidiaries</b>	<b>Gazprombank (Joint-stock Company) and its subsidiaries<sup>1</sup></b>	<b>Sakhalin Energy Investment Company Ltd.</b>
<b><u>As of and for the year ended 31 December 2016</u></b>			
Cash and cash equivalents	4,333	570,459	23,400
Other current assets (excluding cash and cash equivalents)	22,505	1,083,850	63,540
Other non-current assets	<u>404,873</u>	<u>3,103,394</u>	<u>919,405</u>
<b>Total assets</b>	<b>431,711</b>	<b>4,757,703</b>	<b>1,006,345</b>
Current financial liabilities (excluding trade payables)	24,614	3,252,183	47,517
Other current liabilities (including trade payables)	47,481	126,121	74,752
Non-current financial liabilities	42,876	984,595	203,553
Other non-current liabilities	<u>54,975</u>	<u>21,826</u>	<u>310,498</u>
<b>Total liabilities</b>	<b>169,946</b>	<b>4,384,725</b>	<b>636,320</b>
<b>Net assets (including non-controlling interest)</b>	<b>261,765</b>	<b>372,978</b>	<b>370,025</b>
Percent of ordinary shares held	50 %	37 %	50 %
<b>Carrying value</b>	<b>129,082</b>	<b>77,109</b>	<b>185,013</b>
Revenue	214,509	213,948	304,810
Depreciation	(40,564)	(45,247)	(146,400)
Interest income	1,652	380,096	1,064
Interest expense	(6,593)	(258,049)	(13,596)
Profit tax expense	<u>(6,224)</u>	<u>(24,403)</u>	<u>(27,502)</u>
<b>Profit for the year</b>	<b>22,269</b>	<b>31,151</b>	<b>57,670</b>
<b>Other comprehensive (loss) income for the year</b>	<b>(403)</b>	<b>(18,585)</b>	<b>1,950</b>
<b>Total comprehensive income for the year</b>	<b>21,866</b>	<b>12,566</b>	<b>59,620</b>
<b>Dividends received from associates and joint ventures</b>	<b>-</b>	<b>-</b>	<b>(31,490)</b>
<b><u>As of and for the year ended 31 December 2015</u></b>			
Cash and cash equivalents	8,078	708,846	42,766
Other current assets (excluding cash and cash equivalents)	15,830	2,342,873	74,421
Other non-current assets	<u>378,633</u>	<u>1,948,877</u>	<u>1,191,957</u>
<b>Total assets</b>	<b>402,541</b>	<b>5,000,596</b>	<b>1,309,144</b>
Current financial liabilities (excluding trade payables)	26,986	3,433,715	56,520
Other current liabilities (including trade payables)	41,056	147,348	129,944
Non-current financial liabilities	54,562	973,550	295,369
Other non-current liabilities	<u>48,145</u>	<u>37,134</u>	<u>375,537</u>
<b>Total liabilities</b>	<b>170,749</b>	<b>4,591,747</b>	<b>857,370</b>
<b>Net assets (including non-controlling interest)</b>	<b>231,792</b>	<b>408,849</b>	<b>451,774</b>
Percent of ordinary shares held	50 %	37 %	50 %
<b>Carrying value</b>	<b>118,704</b>	<b>80,800</b>	<b>240,831</b>
Revenue	224,224	201,120	380,823
Depreciation	(40,383)	(40,264)	(114,649)
Interest income	2,074	370,945	1,017
Interest expense	(5,279)	(274,886)	(13,759)
Profit tax (expense) income	<u>(6,486)</u>	<u>5,673</u>	<u>(58,234)</u>
<b>Profit (loss) for the year</b>	<b>11,352</b>	<b>(57,117)</b>	<b>122,579</b>
<b>Other comprehensive (loss) income for the year</b>	<b>(512)</b>	<b>16,763</b>	<b>1,265</b>
<b>Total comprehensive income (loss) for the year</b>	<b>10,840</b>	<b>(40,354)</b>	<b>123,844</b>
<b>Dividends received from associates and joint ventures</b>	<b>-</b>	<b>-</b>	<b>(23,449)</b>

<sup>1</sup> Presented revenue of Gazprombank (Joint-stock Company) and its subsidiaries include revenue of media business, machinery business and other non-banking companies.

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**15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)**

	<b>Assets</b>	<b>Liabilities</b>	<b>Revenues</b>	<b>Profit (loss)</b>
<b>As of and for the year ended 31 December 2016</b>				
Nord Stream AG	416,875	292,719	80,325	31,949
LLC Yamal razvitie and its subsidiaries	387,516	241,054	133,229	30,877
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	227,154	143,680	45,735	19,137
Wintershall AG	72,134	50,551	14,259	(5,641)
JSC Achimgaz	71,778	7,693	27,994	20,441
SGT EuRoPol GAZ S.A.	62,485	7,513	19,196	1,873
CJSC Northgas	56,543	32,136	25,692	6,019
Wintershall Noordzee B.V.	49,008	38,088	11,114	(3,248)
KazRosGaz LLP	46,158	17,220	45,435	7,203
JSC Latvijas Gaze	37,720	12,417	26,170	2,920
<b>As of and for the year ended 31 December 2015</b>				
Nord Stream AG	545,076	406,551	73,769	26,821
LLC Yamal razvitie and its subsidiaries	391,329	275,744	125,450	20,991
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	320,847	178,732	43,328	8,887
Gasum Oy and its subsidiaries	113,612	68,825	61,414	6,284
Wintershall AG	86,850	56,098	8,349	435
SGT EuRoPol GAZ S.A.	83,320	13,715	20,005	1,312
JSC Achimgaz	65,018	11,345	28,798	18,873
CJSC Northgas	54,986	36,597	28,888	8,008
KazRosGaz LLP	48,942	7,025	56,774	20,307
JSC Latvijas Gaze	47,752	11,047	30,717	2,059
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>1</sup>	-	-	692,927	10,402

<sup>1</sup> Revenue and profit of W & G Beteiligungs-GmbH & Co. KG and its subsidiaries are disclosed until the date of obtaining the control of these associates (see Note 34).

**16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Long-term accounts receivable and prepayments	198,242	216,103
Advances for assets under construction	512,505	383,745
<b>Total long-term accounts receivable and prepayments</b>	<b>710,747</b>	<b>599,848</b>

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 16,481 million and RUB 14,621 million as of 31 December 2016 and 31 December 2015, respectively.

As of 31 December 2016 and 31 December 2015 long-term accounts receivable and prepayments with carrying value RUB 198,242 million and RUB 216,103 million have an estimated fair value RUB 193,868 million and RUB 210,757 million, respectively.

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Long-term accounts receivable neither past due nor impaired	194,876	215,549
Long-term accounts receivable impaired and provided for	5,838	6,394
Impairment allowance at the end of the year	(5,837)	(5,859)
Long-term accounts receivable past due but not impaired	3,365	19
<b>Total long-term accounts receivable and prepayments</b>	<b>198,242</b>	<b>216,103</b>

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**16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)**

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Long-term loans	101,600	122,804
Long-term trade receivables	16,292	23,030
Other long-term receivables <sup>1</sup>	<u>76,984</u>	<u>69,715</u>
<b>Total long-term accounts receivable neither past due nor impaired</b>	<b>194,876</b>	<b>215,549</b>

<sup>1</sup> Other long-term accounts receivable includes prepayments in the amount of RUB 20,747 million and RUB 2,977 million as of 31 December 2016 and 31 December 2015, respectively.

Management experience indicates that long-term loans granted mainly for capital construction purposes are of strong credit quality.

Movements of the Group's allowance for impairment of long-term accounts receivable and prepayments are as follows:

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
Impairment allowance at the beginning of the year	5,859	29,147
Impairment allowance accrued <sup>1</sup>	1,732	3,697
Release of previously created allowance <sup>1</sup>	(856)	(28,053)
Foreign exchange rate differences	<u>(898)</u>	<u>1,068</u>
<b>Impairment allowance at the end of the year</b>	<b>5,837</b>	<b>5,859</b>

<sup>1</sup> The accrual and release of provision for impaired receivables have been included in the line "Charge for impairment and other provisions" in the consolidated statement of comprehensive income.

**17 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS**

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Equity securities <sup>1</sup>	294,034	235,436
Debt instruments	<u>311</u>	<u>171</u>
	<b>294,345</b>	<b>235,607</b>

<sup>1</sup> As of 31 December 2016 and 31 December 2015 equity securities include PJSC NOVATEK shares in the amount of RUB 238,817 million and RUB 181,611 million, respectively.

Available-for-sale long-term financial assets are shown net of allowance for impairment of RUB 1,275 million and RUB 2,128 million as of 31 December 2016 and 31 December 2015, respectively.

Debt instruments include promissory notes on Group companies' balances which are assessed by management as of high credit quality.

Movements in available-for-sale long-term financial assets are as follows:

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
Available-for-sale long-term financial assets at the beginning of the year	235,607	201,824
Increase in fair value of long-term available-for-sale financial assets	62,451	49,257
Acquisition of long-term available-for-sale financial assets	1,719	702
Disposal of long-term available-for-sale financial assets	(6,285)	(15,845)
Release (accrual) of impairment of long-term available-for-sale financial assets	<u>853</u>	<u>(331)</u>
<b>Available-for-sale long-term financial assets at the end of the year</b>	<b>294,345</b>	<b>235,607</b>

The maximum exposure to credit risk as of the reporting date is the fair value of the debt securities classified as available-for-sale. The impairment of available-for-sale assets has been performed using the quoted market prices.

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**18 ACCOUNTS PAYABLE AND ACCRUED CHARGES**

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>Financial liabilities</b>		
Accounts payable for acquisition of property, plant and equipment	351,170	337,868
Trade payables	331,774	358,393
Derivative financial instruments	94,414	150,068
Provision under financial guarantees <sup>1</sup>	3,427	61,404
Other payables <sup>2</sup>	<u>296,180</u>	<u>266,265</u>
	1,076,965	1,173,998
<b>Non-financial liabilities</b>		
Advances received	108,921	116,307
Accruals and deferred income	<u>11,119</u>	<u>7,701</u>
	<u>120,040</u>	<u>124,008</u>
<b>Total accounts payable, accruals and provisions for liabilities and charges</b>	<b>1,197,005</b>	<b>1,298,006</b>

<sup>1</sup> As of 31 December 2016 and 31 December 2015 provision under financial guarantees includes accrual related to financial guarantee contract issued to Gazprombank (Joint-stock Company) for Ostchem Holding Limited (see Note 27 and 36).

<sup>2</sup> As of 31 December 2016 and 31 December 2015 other payables include RUB 112,256 million and RUB 102,134 million of accruals for probable price adjustments related to natural gas deliveries made from 2013 to 2016, respectively.

Fair values of these liabilities approximate the carrying values.

**19 OTHER TAXES PAYABLE**

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
VAT	81,859	65,833
MET	65,776	45,721
Property tax	30,615	24,251
Excise tax	18,858	15,794
Other taxes	<u>18,136</u>	<u>16,795</u>
<b>Total other taxes payable</b>	<b>215,244</b>	<b>168,394</b>

**20 SHORT-TERM BORROWINGS, PROMISSORY NOTES AND CURRENT PORTION OF LONG-TERM BORROWINGS**

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Short-term borrowings and promissory notes:		
Borrowings and promissory notes denominated in Russian Rubles	44,352	12,766
Foreign currency denominated borrowings	<u>16,280</u>	<u>39,236</u>
	60,632	52,002
Current portion of long-term borrowings (see Note 21)	<u>386,448</u>	<u>594,370</u>
<b>Total short-term borrowings, promissory notes and current portion of long-term borrowings</b>	<b>447,080</b>	<b>646,372</b>

The weighted average effective interest rates at the balance sheet date were as follows:

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Fixed rate short-term borrowings denominated in Russian Rubles	10.48 %	10.02 %
Fixed rate foreign currency denominated short-term borrowings	7.78 %	9.12 %
Variable rate short-term borrowings denominated in Russian Rubles	11.81 %	13.72 %
Variable rate foreign currency denominated short-term borrowings	2.73 %	2.01 %

Fair values of these liabilities approximate the carrying values.

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**21 LONG-TERM BORROWINGS, PROMISSORY NOTES**

	<b>Currency</b>	<b>Final maturity</b>	<b>31 December 2016</b>	<b>2015</b>
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009 <sup>1</sup>	US Dollar	2019	138,863	166,851
Bank of China Limited, London branch	Euro	2021	126,414	-
Mizuho Bank Ltd. <sup>2</sup>	US Dollar	2019	93,228	156,821
China Construction Bank Corporation, Beijing branch <sup>2</sup>	US Dollar	2020	92,627	111,077
Loan participation notes issued in September 2012 <sup>3</sup>	US Dollar	2022	92,102	110,666
Loan participation notes issued in July 2012 <sup>1</sup>	Euro	2017	92,019	114,928
Loan participation notes issued in November 2013 <sup>3</sup>	US Dollar	2023	91,485	109,925
Loan participation notes issued in October 2007 <sup>1</sup>	Euro	2018	81,035	101,209
Loan participation notes issued in March 2007 <sup>1</sup>	US Dollar	2022	80,480	96,701
Loan participation notes issued in August 2007 <sup>1</sup>	US Dollar	2037	77,893	93,593
Loan participation notes issued in April 2004 <sup>1</sup>	US Dollar	2034	73,886	88,779
Loan participation notes issued in April 2008 <sup>1</sup>	US Dollar	2018	67,930	81,622
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2020	65,512	81,821
Loan participation notes issued in October 2015 <sup>1</sup>	Euro	2018	64,434	80,475
Loan participation notes issued in November 2016 <sup>1</sup>	Euro	2023	63,353	-
Loan participation notes issued in July 2012 <sup>1</sup>	US Dollar	2022	62,008	74,506
Loan participation notes issued in July 2013 <sup>1</sup>	Euro	2018	58,361	72,891
Loan participation notes issued in February 2013 <sup>1</sup>	US Dollar	2028	55,680	66,902
Loan participation notes issued in February 2014 <sup>1</sup>	Euro	2021	49,317	61,595
Loan participation notes issued in February 2013 <sup>1</sup>	US Dollar	2020	49,278	59,210
Loan participation notes issued in April 2013 <sup>3</sup>	Euro	2018	48,817	60,967
PJSC Sberbank	US Dollar	2018	46,099	56,231
	British Pound			
Loan participation notes issued in September 2013 <sup>1</sup>	Sterling	2020	38,593	48,201
Loan participation notes issued in November 2011 <sup>1</sup>	US Dollar	2021	37,353	44,881
Loan participation notes issued in November 2006 <sup>1</sup>	Euro	2017	33,185	41,447
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2025	32,997	41,211
Loan participation notes issued in March 2007 <sup>1</sup>	Euro	2017	32,191	40,205
Loan participation notes issued in October 2013 <sup>1</sup>	Swiss Franc	2019	29,863	36,957
PJSC VTB Bank	Russian Ruble	2021	29,800	-
Loan participation notes issued in March 2016 <sup>1</sup>	Swiss Franc	2018	29,513	-
Loan participation notes issued in November 2016 <sup>1</sup>	Swiss Franc	2021	29,492	-
Alfa-Bank (Joint-stock Company)	US Dollar	2019	24,271	29,160
Commerzbank International S.A.	US Dollar	2018	24,265	43,730
Gazprombank (Joint-stock Company)	US Dollar	2018	21,836	26,238
Gazprombank (Joint-stock Company)	US Dollar	2018	20,017	24,051
PJSC Sberbank	Russian Ruble	2017	19,802	19,802
UniCredit Bank Austria AG	Euro	2021	19,172	-
J.P. Morgan Europe Limited <sup>2</sup>	US Dollar	2018	18,962	36,694
Gazprombank (Joint-stock Company)	US Dollar	2019	18,804	22,594
Banc of America Securities Limited	US Dollar	2018	18,368	22,041
BNP Paribas S.A. <sup>2</sup>	Euro	2022	15,644	22,802
PJSC Sberbank	Euro	2020	15,373	19,203
Russian bonds issued in March 2016 <sup>3</sup>	Russian Ruble	2046	15,344	-
Russian bonds issued in November 2013 <sup>4</sup>	Russian Ruble	2043	15,111	15,246
Russian bonds issued in November 2013 <sup>4</sup>	Russian Ruble	2043	15,111	15,246
PJSC Sberbank	Russian Ruble	2021	15,068	-
PJSC Sberbank	Russian Ruble	2021	15,067	-
UniCredit Bank Austria AG	Euro	2019	14,745	23,940
PJSC VTB Bank	Russian Ruble	2021	14,654	-
PJSC Sberbank	Euro	2017	14,388	17,971
PJSC Sberbank	Russian Ruble	2019	12,511	12,514
PJSC Sberbank	Russian Ruble	2019	12,511	12,514
UniCredit Bank Austria AG	US Dollar	2018	12,135	14,581
Bank of America Securities Limited	Euro	2017	11,541	14,420

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**21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)**

	<b>Currency</b>	<b>Final maturity</b>	<b>31 December 2016</b>	<b>2015</b>
Russian bonds issued in March 2016 <sup>3</sup>	Russian Ruble	2046	10,378	-
Russian bonds issued in February 2011 <sup>3</sup>	Russian Ruble	2021	10,368	10,363
Russian bonds issued in August 2016 <sup>3</sup>	Russian Ruble	2046	10,317	-
Russian bonds issued in February 2013 <sup>5</sup>	Russian Ruble	2017	10,279	10,275
Russian bonds issued in April 2009 <sup>3</sup>	Russian Ruble	2019	10,182	10,177
Russian bonds issued in December 2012 <sup>3</sup>	Russian Ruble	2022	10,075	10,070
Russian bonds issued in June 2016 <sup>3</sup>	Russian Ruble	2046	10,062	-
Citibank International plc <sup>2</sup>	US Dollar	2021	10,042	14,734
PJSC Sberbank	Russian Ruble	2019	10,009	10,011
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	10,000	10,000
HSBC Bank plc	Euro	2022	9,880	14,394
Gazprombank (Joint-stock Company)	Russian Ruble	2022	9,809	6,187
BNP Paribas S.A.	Euro	2023	9,451	13,559
Bank of America Merrill Lynch International Limited	US Dollar	2018	9,157	21,960
Banca Intesa a.d. Beograd	US Dollar	2019	9,114	10,947
PJSC Sberbank	US Dollar	2018	9,113	10,947
PJSC VTB Bank	Russian Ruble	2018	8,250	8,250
PJSC Sberbank	Euro	2022	7,713	-
PJSC Credit Bank of Moscow	US Dollar	2018	7,582	5,831
PJSC Sberbank	Russian Ruble	2025	7,221	7,220
Intesa Sanpaolo S.p.A.	Euro	2019	6,848	11,957
PJSC VTB Bank	Euro	2020	6,761	8,449
PJSC VTB Bank	Russian Ruble	2019	6,510	-
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	6,509	-
GC Vnesheconombank	Russian Ruble	2025	6,500	7,852
PJSC Sberbank	US Dollar	2018	6,493	-
BNP Paribas S.A. <sup>2</sup>	Euro	2022	5,904	8,650
Credit Agricole CIB	Euro	2024	5,691	8,018
PJSC Sberbank	Russian Ruble	2026	5,670	-
Sberbank Serbia a.d.	US Dollar	2019	5,469	6,568
Russian bonds issued in August 2016 <sup>3</sup>	Russian Ruble	2046	5,158	-
PJSC VTB Bank	Russian Ruble	2021	5,151	-
Russian bonds issued in February 2013 <sup>5</sup>	Russian Ruble	2018	5,140	5,137
Russian bonds issued in November 2015 <sup>6</sup>	Russian Ruble	2020	5,061	5,058
Russian bonds issued in November 2015 <sup>6</sup>	Russian Ruble	2020	5,061	5,058
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	5,008	5,011
JSC BANK ROSSIYA	Russian Ruble	2019	4,920	-
Banca Intesa a.d. Beograd	Euro	2018	4,617	5,754
Gazprombank (Joint-stock Company)	Russian Ruble	2017	3,220	9,750
Loan participation notes issued in November 2006 <sup>1</sup>	US Dollar	2016	-	99,054
Loan participation notes issued in November 2011 <sup>1</sup>	US Dollar	2016	-	73,264
JSC Rosselkhozbank	Russian Ruble	2016	-	30,029
Deutsche Bank AG	US Dollar	2016	-	29,690
Intesa Sanpaolo S.p.A.	Euro	2016	-	28,028
Sumitomo Mitsui Banking Corporation Europ Limited <sup>2</sup>	US Dollar	2016	-	25,537
PJSC Promsvyazbank	US Dollar	2016	-	25,509
Sumitomo Mitsui Finance Dublin Limited	US Dollar	2016	-	23,392
Bank of Tokyo-Mitsubishi UFJ Ltd.	US Dollar	2016	-	21,891
Russian bonds issued in February 2013 <sup>5</sup>	Russian Ruble	2016	-	15,410
UniCredit Bank AG <sup>2, 7</sup>	US Dollar	2016	-	14,377
Bank of Tokyo-Mitsubishi UFJ Ltd. <sup>2</sup>	US Dollar	2016	-	13,754
Banc of America Securities Limited	US Dollar	2016	-	13,126
PJSC Sberbank	Russian Ruble	2016	-	12,400
PJSC VTB Bank	US Dollar	2016	-	12,104
UniCredit Bank AG <sup>2, 7</sup>	Euro	2016	-	11,297



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**21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)**

	<b>Currency</b>	<b>Final maturity</b>	<b>31 December</b>	
			<b>2016</b>	<b>2015</b>
Russian bonds issued in February 2011 <sup>3</sup>	Russian Ruble	2016	-	10,259
Russian bonds issued in February 2011 <sup>3</sup>	Russian Ruble	2016	-	10,228
PJSC Sberbank	Russian Ruble	2016	-	8,300
Gazprombank (Joint-stock Company)	US Dollar	2016	-	8,017
Sberbank Serbia a.d.	US Dollar	2016	-	5,483
JSC BANK ROSSIYA	Russian Ruble	2016	-	5,000
UniCredit Bank AG <sup>2, 7</sup>	Russian Ruble	2016	-	1,894
Russian bonds issued in February 2012 <sup>3</sup>	Russian Ruble	2016	-	452
Other long-term borrowings, promissory notes	Various	Various	115,790	127,112
<b>Total long-term borrowings, promissory notes</b>			<b>2,768,991</b>	<b>3,390,213</b>
Less: current portion of long-term borrowings			(386,448)	(594,370)
			<b>2,382,543</b>	<b>2,795,843</b>

<sup>1</sup> Issuer of these bonds is Gaz Capital S.A.

<sup>2</sup> Loans received from consortiums of banks, named lender is the bank-agent.

<sup>3</sup> Issuer of these bonds is PJSC Gazprom Neft.

<sup>4</sup> Issuer of these bonds is PJSC Gazprom.

<sup>5</sup> Issuer of these bonds is Gazprom capital LLC.

<sup>6</sup> Issuer of these bonds is PJSC WGC-2.

<sup>7</sup> Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Long-term borrowings and promissory notes denominated in Russian Rubles (including current portion of RUB 69,489 million and RUB 79,910 million as of 31 December 2016 and 31 December 2015, respectively)	427,014	362,400
denominated in foreign currency (including current portion of RUB 316,959 million and RUB 514,460 million as of 31 December 2016 and 31 December 2015, respectively)	2,341,977	3,027,813
	<b>2,768,991</b>	<b>3,390,213</b>

The analysis of due for repayment of borrowings and promissory notes is presented below.

	<b>31 December</b>	
<b>Due for repayment</b>	<b>2016</b>	<b>2015</b>
Between one and two years	708,355	472,657
Between two and five years	956,731	1,452,110
After five years	717,457	871,076
	<b>2,382,543</b>	<b>2,795,843</b>

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,086,181 million and RUB 2,431,823 million and fair value of RUB 2,209,883 million and RUB 2,480,142 million as of 31 December 2016 and 31 December 2015, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 682,810 million and RUB 958,390 million and fair value is RUB 702,251 million and RUB 948,744 million as of 31 December 2016 and 31 December 2015, respectively.

The weighted average effective interest rates at the balance sheet date were as follows:

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Fixed rate long-term borrowings denominated in Russian Rubles	10.41 %	10.68 %
Fixed rate foreign currency denominated long-term borrowings	5.43 %	5.63 %
Variable rate long-term borrowings denominated in Russian Rubles	9.20 %	15.70 %
Variable rate foreign currency denominated long-term borrowings	3.72 %	3.37 %

As of 31 December 2015 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OJSC Severneftegazprom with the pledge value of RUB 16,968 million and fixed assets with the pledge value of RUB 26,210 million were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this

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**21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)**

agreement. As of 31 December 2015 carrying amount of these fixed assets was RUB 21,654 million. As of 31 December 2016 the Group does not have pledged shares and pledged fixed assets because the agreement was early repaid in August 2016.

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom Neft in August 2016 due in 2046 bondholders can execute the right of early redemption in August 2021 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom Neft in June 2016 due in 2046 bondholders can execute the right of early redemption in June 2019 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RUB 25,000 million issued by PJSC Gazprom Neft in March 2016 due in 2046 bondholders can execute the right of early redemption in March 2021 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom Neft in December 2012 due in 2022 bondholders can execute the right of early redemption in November 2017 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom Neft in February 2011 due in 2021 bondholders can execute the right of early redemption in February 2018 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom Neft in April 2009 due in 2019 bondholders can execute the right of early redemption in April 2018 at par, including interest accrued.

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Note 25).

**22 PROFIT TAX**

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

Notes	Year ended 31 December	
	2016	2015
Profit before profit tax	1,285,138	925,241
Theoretical tax charge calculated at applicable tax rates	(257,028)	(185,048)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses, including:		
Tax losses for which no deferred tax asset was recognised	(1,659)	(23,092)
Impairment in the "South Stream" project	(395)	(11,269)
24, 27      Provision for post-employment benefit obligations	(10,192)	(7,111)
13          Impairment of assets under construction	(12,525)	(3,176)
Other non-deductible expenses	(26,846)	(19,415)
15      Non-taxable profits of associates and joint ventures	16,574	21,312
Changes in tax policy regarding making of impairment allowance of accounts receivable	-	71,406
Other non-taxable income	4,037	36,351
<b>Profit tax expense</b>	<b>(288,034)</b>	<b>(120,042)</b>

Differences between the recognition criteria in Russian statutory taxation regulations and IFRS give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

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**22 PROFIT TAX (continued)**

	Tax effects of taxable and deductible temporary differences:						
	Property, plant and equipment	Financial assets	Inven- tories	Tax losses carry forward	Retroactive gas price adjustments	Other deductible temporary differences	Total net deferred tax liabilities
<b>31 December 2014</b>	<b>(620,754)</b>	<b>(7,328)</b>	<b>(8,377)</b>	<b>20,121</b>	<b>11,671</b>	<b>10,569</b>	<b>(594,098)</b>
Differences recognition and reversals recognised in profit or loss	(65,316)	10,737	(6,366)	(1,765)	8,929	35,962	(17,819)
Differences recognition and reversals recognised in other comprehensive income	-	(3,032)	-	-	-	(3,455)	(6,487)
<b>31 December 2015</b>	<b>(686,070)</b>	<b>377</b>	<b>(14,743)</b>	<b>18,356</b>	<b>20,600</b>	<b>43,076</b>	<b>(618,404)</b>
Differences recognition and reversals recognised in profit or loss	(64,303)	3,020	3,124	(12,697)	2,157	(1,222)	(69,921)
Differences recognition and reversals recognised in other comprehensive income	-	(1,461)	-	-	-	1,283	(178)
<b>31 December 2016</b>	<b>(750,373)</b>	<b>1,936</b>	<b>(11,619)</b>	<b>5,659</b>	<b>22,757</b>	<b>43,137</b>	<b>(688,503)</b>

Taxable temporary differences recognised for the years ended 31 December 2016 and 31 December 2015 include the effect of depreciation premium on certain property, plant and equipment. As a result a deferred tax liability related to property, plant and equipment was recognised in the amount of RUB 14,742 million and RUB 35,052 million, respectively, with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the years ended 31 December 2016 and 31 December 2015.

The temporary differences associated with undistributed earnings of subsidiaries and associates amount to RUB 694,414 million and RUB 570,402 million as of 31 December 2016 and 31 December 2015, respectively. A deferred tax liability on these temporary differences was not recognised, because management controls the timing of the reversal of the temporary differences and believes that they will not reversed in the foreseeable future.

Effective 1 January 2012, 55 major Russian subsidiaries of PJSC Gazprom formed a consolidated group of taxpayers ("CGT") with PJSC Gazprom acting as the responsible tax payer. During 2013, additional nine Russian subsidiaries of PJSC Gazprom joined the CGT. During 2014, four Russian subsidiaries of PJSC Gazprom left the CGT. During 2015, additional two Russian subsidiaries of PJSC Gazprom joined the CGT. During 2016 there was no change in the CGT. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies within the CGT to the extent those losses and profits are recognised for tax purposes in the reporting year and, thus, are included into the tax base of the CGT. Tax assets recognised on losses prior to the formation of the CGT are written off.

**23 DERIVATIVE FINANCIAL INSTRUMENTS**

The Group has outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

Where appropriate, in order to manage currency risk the Group uses foreign currency derivatives.

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting year. Fair values of derivatives are reflected at their gross value included in other assets and other liabilities in the consolidated balance sheet.

Fair value	31 December	
	2016	2015
<b>Assets</b>		
Commodity contracts	100,021	175,517
Foreign currency derivatives and currency and interest rate swaps	<u>1,565</u>	<u>4,123</u>
	<b>101,586</b>	<b>179,640</b>
<b>Liabilities</b>		
Commodity contracts	100,111	195,267
Foreign currency derivatives and currency and interest rate swaps	46,330	82,719
Other derivatives	<u>3,948</u>	<u>1,322</u>
	<b>150,389</b>	<b>279,308</b>

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**23 DERIVATIVE FINANCIAL INSTRUMENTS (continued)**

Derivative financial instruments are mainly denominated in US dollars, Euros and Pounds sterling.

**24 PROVISIONS FOR LIABILITIES AND CHARGES**

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Provision for post-employment benefit obligations	236,852	233,077
Provision for decommissioning and site restoration costs	161,764	160,648
Other	<u>7,618</u>	<u>41,713</u>
<b>Total provisions for liabilities and charges</b>	<b>406,234</b>	<b>435,438</b>

Provision for decommissioning and site restoration costs changed due to decrease in discount rate from 9.39 % to 8.54 % as of 31 December 2015 and 31 December 2016, respectively, and change in other estimations.

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority employees of the Group. The retirement benefit plan includes benefits of the following types: pension benefits paid to former employees through the non-state pension fund "GAZFOND" ("NPF GAZFOND") and financial aid to pensioners provided by the Group.

The amount of benefits depends on the period of the employees' service (years of service), salary level at retirement, predetermined fixed amount or a combination of these factors.

Principal actuarial assumptions used:

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Discount rate (nominal)	8.5 %	9.5 %
Future salary and pension increases (nominal)	6.0 %	7.0 %
Retirement ages, years	females 55, males 58	females 55, males 58
Turnover ratio p.a.	Age-related curve, 3.8 % pa on average	

Weighted-average duration of obligations is 12 years.

The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old man and 28.5 years for a 55 year old woman in 2016 and 2015.

The amounts associated with post-employment benefit obligations recognised in the consolidated balance sheet are as follows:

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Funded benefits - provided through NPF GAZFOND</b>	<b>Unfunded liabilities - other benefits</b>	<b>Funded benefits - provided through NPF GAZFOND</b>	<b>Unfunded liabilities - other benefits</b>
Present value of benefit obligations	(372,845)	(236,852)	(356,565)	(226,097)
Fair value of plan assets	<u>393,344</u>	<u>-</u>	<u>349,585</u>	<u>-</u>
<b>Net balance asset (liability)</b>	<b>20,499</b>	<b>(236,852)</b>	<b>(6,980)</b>	<b>(226,097)</b>

The net pension assets related to benefits provided by the pension plan NPF GAZFOND in the amount of RUB 20,499 million as of 31 December 2016 are included within other non-current assets.

The net pension liabilities related to benefits provided by the pension plan NPF GAZFOND in the amount of RUB 6,980 million as of 31 December 2015 are included within provisions for liabilities and charges.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2016 and 31 December 2015 are as follows:

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**24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)**

	Funded liabilities - benefits provided through NPF GAZFOND	Fair value of plan asset	Net (asset) liability	Unfunded liabilities—other post-employment benefits
<b>Opening balance as of 31 December 2015</b>	<b>356,565</b>	<b>(349,585)</b>	<b>6,980</b>	<b>226,097</b>
Current service cost	12,496	-	12,496	11,810
Past service cost	1,203	-	1,203	3,713
Net interest expense (income)	<u>33,868</u>	<u>(33,385)</u>	<u>483</u>	<u>21,256</u>
<b>Total expenses included in staff costs</b>	<b>47,567</b>	<b>(33,385)</b>	<b>14,182</b>	<b>36,779</b>
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(719)	-	(719)	(583)
Actuarial losses arising from changes in demographic assumptions	58	-	58	134
Actuarial gains - experience	(17,901)	-	(17,901)	(6,771)
Return on assets excluding amounts included in net interest expense	-	(6,702)	(6,702)	-
Exchange differences	<u>-</u>	<u>-</u>	<u>-</u>	<u>(626)</u>
<b>Total recognised in other comprehensive income</b>	<b>(18,562)</b>	<b>(6,702)</b>	<b>(25,264)</b>	<b>(7,846)</b>
Benefits paid	(12,725)	12,725	-	(18,178)
Contributions by employer	<u>-</u>	<u>(16,397)</u>	<u>(16,397)</u>	<u>-</u>
<b>Closing balance as of 31 December 2016</b>	<b>372,845</b>	<b>(393,344)</b>	<b>(20,499)</b>	<b>236,852</b>

	Funded liabilities - benefits provided through NPF GAZFOND	Fair value of plan asset	Net (asset) liability	Unfunded liabilities—other post-employment benefits
<b>Opening balance as of 31 December 2014</b>	<b>279,485</b>	<b>(391,227)</b>	<b>(111,742)</b>	<b>171,275</b>
Current service cost	11,371	-	11,371	10,020
Past service cost	3,869	-	3,869	871
Net interest expense (income)	<u>34,927</u>	<u>(49,135)</u>	<u>(14,208)</u>	<u>21,416</u>
<b>Total expenses included in staff cost</b>	<b>50,167</b>	<b>(49,135)</b>	<b>1,032</b>	<b>32,307</b>
Remeasurements:				
Actuarial losses arising from changes in financial assumptions	54,041	-	54,041	36,609
Actuarial gains arising from changes in demographic assumptions	(3,433)	-	(3,433)	(3,336)
Actuarial (gains) losses - experience	(12,080)	-	(12,080)	2,574
Return on assets excluding amounts included in net interest expense	-	94,479	94,479	-
Exchange differences	<u>-</u>	<u>-</u>	<u>-</u>	<u>205</u>
<b>Total recognised in other comprehensive loss</b>	<b>38,528</b>	<b>94,479</b>	<b>133,007</b>	<b>36,052</b>
Benefits paid	(11,615)	11,615	-	(15,755)
Contributions by employer	-	(15,317)	(15,317)	-
Business combinations	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,218</u>
<b>Closing balance as of 31 December 2015</b>	<b>356,565</b>	<b>(349,585)</b>	<b>6,980</b>	<b>226,097</b>

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**24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)**

The major categories of plan assets as a fair value and percentage of total plan assets are as follows:

	31 December 2016		31 December 2015	
	Fair value	Percent in plan assets, %	Fair value	Percent in plan assets, %
<b>Quoted plan asset, including</b>	<b>185,271</b>	<b>47.1 %</b>	<b>159,946</b>	<b>45.8 %</b>
Mutual funds	57,579	14.6 %	75,409	21.6 %
Bonds	49,065	12.5 %	51,812	14.8 %
Shares	78,627	20.0 %	32,725	9.4 %
<b>Unquoted plan asset, including</b>	<b>208,073</b>	<b>52.9 %</b>	<b>189,639</b>	<b>54.2 %</b>
Shares	171,949	43.7 %	158,334	45.3 %
Deposits	16,541	4.2 %	13,785	3.9 %
Mutual funds	17,553	4.5 %	12,178	3.5 %
Other securities	2,030	0.5 %	5,342	1.5 %
<b>Total plan assets</b>	<b>393,344</b>	<b>100 %</b>	<b>349,585</b>	<b>100 %</b>

The amount of ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB 38,599 million and RUB 16,702 million as of 31 December 2016 and 31 December 2015, respectively.

Non-quoted equities within plan assets are mostly represented by Gazprombank (Joint-stock Company) shares which are measured at fair value (Level 2) using market approach valuation techniques based on available market data.

For the years ended 31 December 2016 and 31 December 2015 actual return on plan assets was a gain of RUB 40,087 million and loss of RUB 45,344 million primarily caused by the change of the fair value of plan assets.

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2016 is presented below:

	Increase (decrease) of defined benefit obligation	Increase (decrease) of defined benefit obligation, %
Mortality rates lower by 20 %	24,348	4.07 %
Mortality rates higher by 20 %	(20,316)	(3.39 %)
Discount rate lower by 1 pp	59,273	9.90 %
Discount rate higher by 1 pp	(50,155)	(8.38 %)
Benefit growth lower by 1 pp	(51,692)	(8.64 %)
Benefit growth higher by 1 pp	60,179	10.05 %
Staff turnover lower by 1 pp for all ages	28,061	4.69 %
Staff turnover higher by 1 pp for all ages	(24,579)	(4.11 %)
Retirement ages lower by 1 year	25,478	4.26 %
Retirement ages higher by 1 year	(25,709)	(4.29 %)

The Group expects to contribute RUB 37,400 million to the defined benefit plans in 2017.

**Retirement benefit plan parameters and related risks**

As a rule, the above benefits are indexed in line with inflation rate or salary growth for benefits that depend on salary level. All retirement benefit plans of the Group are exposed to inflation risk.

In addition to the inflation risk, the pension plan of the Group is exposed to mortality risk.

**25 EQUITY**

**Share capital**

Share capital authorised, issued and paid totals RUB 325,194 million as of 31 December 2016 and 31 December 2015 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Rubles.

**Dividends**

In 2016 PJSC Gazprom declared and paid dividends in the nominal amount of 7.89 Russian Rubles per share for the year ended 31 December 2015. In 2015 PJSC Gazprom declared and paid dividends in the nominal amount of 7.20 Russian Rubles per share for the year ended 31 December 2014.

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**25 EQUITY (continued)**

**Treasury shares**

As of 31 December 2016 and 31 December 2015 subsidiaries of PJSC Gazprom held 1,573 million and 723 million ordinary shares of PJSC Gazprom, respectively, which are accounted for as treasury shares.

On 15 July 2016 the Group acquired from Vnesheconombank 211 million PJSC Gazprom's ordinary shares and American depositary receipts representing 639 million PJSC Gazprom's ordinary shares.

Shares of PJSC Gazprom held by the subsidiaries represent 6.6 % and 3.1 % of PJSC Gazprom shares as of 31 December 2016 and 31 December 2015, respectively.

The management of the Group controls the voting rights of these shares.

**Retained earnings and other reserves**

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Ruble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 Financial Reporting in Hyperinflation Economies. Also, retained earnings and other reserves include translation differences arising on the translation of the net assets of foreign subsidiaries, associates and joint arrangements in the amount of RUB 617,922 million and RUB 899,336 million as of 31 December 2016 and 31 December 2015, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RUB 35 million and RUB 23 million have been transferred to governmental authorities during the years ended 31 December 2015 and 31 December 2016, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2016 the statutory profit of the parent company was RUB 411,425 million. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

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**SALES**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	819,924	805,615
Former Soviet Union (excluding Russian Federation)	340,437	480,204
Europe and other countries	<u>2,685,551</u>	<u>2,776,860</u>
	3,845,912	4,062,679
Customs duties	(537,059)	(582,023)
Excise tax	(39,258)	(79,881)
Retroactive gas price adjustments <sup>1</sup>	<u>33,175</u>	<u>26,482</u>
Total gas sales	3,302,770	3,427,257
Sales of refined products to customers in:		
Russian Federation	980,352	981,792
Former Soviet Union (excluding the Russian Federation)	88,883	105,335
Europe and other countries	<u>428,327</u>	<u>468,464</u>
Total sales of refined products	1,497,562	1,555,591
Sales of crude oil and gas condensate to customers in:		
Russian Federation	81,302	77,519
Former Soviet Union (excluding the Russian Federation)	23,528	27,580
Europe and other countries	<u>307,128</u>	<u>155,509</u>
Total sales of crude oil and gas condensate	411,958	260,608
Electric and heat energy sales:		
Russian Federation	461,908	403,084
Former Soviet Union (excluding the Russian Federation)	2,458	2,524
Europe and other countries	<u>17,350</u>	<u>19,057</u>
Total electric and heat energy sales	481,716	424,665
Gas transportation sales:		
Russian Federation	192,649	191,648
Former Soviet Union (excluding the Russian Federation)	2,689	2,302
Europe and other countries	<u>3,633</u>	<u>15</u>
Total gas transportation sales	198,971	193,965
Other revenues:		
Russian Federation	174,378	182,594
Former Soviet Union (excluding the Russian Federation)	5,858	6,497
Europe and other countries	<u>37,838</u>	<u>22,141</u>
Total other revenues	218,074	211,232
<b>Total sales</b>	<b>6,111,051</b>	<b>6,073,318</b>

<sup>1</sup> Retroactive gas price adjustments relate to gas deliveries in 2013-2015 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments on sales for the years ended 31 December 2016 and 31 December 2015 was an increase of RUB 33,175 million and RUB 26,482 million, respectively. The effects increasing sales are due to recognition of adjustments increasing gas prices for the past periods and due to reverse of related accruals following agreements reached prior to the issuance of the respective consolidated financial statements.



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**27 OPERATING EXPENSES**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
Purchased gas and oil	1,157,585	1,048,472
Taxes other than on income	900,397	805,132
Staff costs	641,036	590,981
Transit of gas, oil and refined products	610,275	534,503
Depreciation	571,564	515,200
Materials	288,497	299,182
Cost of goods for resale, including refined products	185,441	193,348
Repairs and maintenance	147,608	161,578
Electricity and heating expenses	98,992	91,822
Foreign exchange rate differences on operating items	52,880	(25,581)
Social expenses	35,516	32,485
Rental expenses	30,152	35,600
Insurance expenses	29,967	27,214
Research and development expenses	28,990	30,588
Transportation services	28,923	32,218
Processing services	15,568	18,810
Derivatives losses (gains)	9,863	(88)
Other	414,638	365,847
	<b>5,247,892</b>	<b>4,757,311</b>
Changes in inventories of finished goods, work in progress and other effects	(2,909)	(121,809)
<b>Total operating expenses</b>	<b>5,244,983</b>	<b>4,635,502</b>

Gas purchase expenses included within purchased gas and oil amounted to RUB 872,892 million and RUB 819,327 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Staff costs include RUB 50,961 million and RUB 35,557 million of expenses associated with post-employment benefit obligations for the years ended 31 December 2016 and 31 December 2015, respectively (see Note 24).

Taxes other than on income consist of:

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
MET	613,662	591,336
Excise tax	144,648	88,580
Property tax	127,053	112,568
Other taxes	15,034	12,648
<b>Total taxes other than on income</b>	<b>900,397</b>	<b>805,132</b>

The charge for impairment and other provisions is presented below.

<b>Notes</b>		<b>Year ended 31 December</b>	
		<b>2016</b>	<b>2015</b>
13	Charge for allowance for impairment of property, plant and equipment	79,363	129,482
	Charge for allowance for accounts receivable	118,815	81,994
	Charge for allowance for investments	(596)	1,454
11	Charge for allowance for inventory obsolescence	(2,976)	289
18, 36	Charge for provision under financial guarantees	(50,736)	-
	<b>Total charge for impairment and other provisions</b>	<b>143,870</b>	<b>213,219</b>

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**28 FINANCE INCOME AND EXPENSE**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
Foreign exchange gains	925,503	878,181
Interest income	<u>93,494</u>	<u>112,165</u>
<b>Total finance income</b>	<b>1,018,997</b>	<b>990,346</b>
Foreign exchange losses	471,814	1,342,230
Interest expense	<u>71,556</u>	<u>66,857</u>
<b>Total finance expense</b>	<b>543,370</b>	<b>1,409,087</b>

Total interest paid amounted to RUB 183,312 million and RUB 168,311 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Foreign exchange gains and losses for the years ended 31 December 2016 and 31 December 2015 were recognised as a result of the change of US Dollar and Euro exchange rates against the Russian Ruble. Gains and losses primarily relate to revaluation of borrowings denominated in foreign currencies.

**29 RECONCILIATION OF PROFIT, DISCLOSED IN CONSOLIDATED STATEMENT OF FINANCIAL RESULTS, PREPARED IN ACCORDANCE WITH RUSSIAN ACCOUNTING RULES (RAR) TO PROFIT DISCLOSED IN IFRS CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>RAR profit for the year per consolidated statutory accounts</b>	<b>666,912</b>	<b>304,804</b>
Effects of IFRS adjustments:		
Classification of revaluation of available-for-sale financial assets	(62,132)	(43,179)
Difference in share of net income of associates and joint ventures	(24,157)	(9,166)
Differences in depreciation of property, plant and equipment	370,692	388,723
Reversal of goodwill amortisation	62,787	62,184
Loan interest and foreign exchange losses capitalized	93,256	177,736
Impairment and other provisions, including provision for pension obligations and unused vacations	(113,994)	(48,406)
Accounting for finance leases	552	887
Write-off of research and development expenses capitalized for RAR purposes	(5,488)	(6,956)
Fair value adjustment on derivatives	70	88
Differences in fixed assets disposal	1,103	(1,975)
Differences in financial results from acquisition of subsidiaries	-	31,674
Other effects	<u>7,503</u>	<u>(51,215)</u>
<b>IFRS profit for the year</b>	<b>997,104</b>	<b>805,199</b>

**30 BASIC AND DILUTED EARNINGS PER SHARE, ATTRIBUTABLE TO THE OWNERS OF PJSC GAZPROM**

Earnings per share attributable to owners of PJSC Gazprom have been calculated by dividing the profit for the year, attributable to the owners of PJSC Gazprom by the annual weighted average number of shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 25).

There were 22.6 billion and 23.0 billion weighted average shares outstanding for the years ended 31 December 2016 and 31 December 2015, respectively.

There are no dilutive financial instruments outstanding in the Group.

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**31 NET CASH PROVIDED BY OPERATING ACTIVITIES**

Notes		Year ended 31 December	
		2016	2015
	<b>Profit before profit tax</b>	<b>1,285,138</b>	<b>925,241</b>
	<b>Adjustments to profit before profit tax for:</b>		
27	Depreciation	571,564	515,200
28	Net finance (income) expense	(475,627)	418,741
15	Share of net income of associates and joint ventures	(82,872)	(106,560)
27	Charge for provisions	194,831	248,776
27	Derivatives losses (gains)	9,863	(88)
	Gain on disposal of available-for-sale financial assets	(1,059)	(9,121)
	Other	(12,393)	(6,952)
	Total effect of adjustments	204,307	1,059,996
	Cash flows from operating activities before working capital changes	1,489,445	1,985,237
	Decrease in non-current assets	3,541	1,088
	Decrease in non-current liabilities	(8,821)	(7,481)
		1,484,165	1,978,844
	<b>Changes in working capital:</b>		
	Increase in accounts receivable and prepayments	(98,791)	(732)
	Decrease (increase) in inventories	96,578	(78,157)
	Decrease in other current assets	159,473	297,491
	Decrease in accounts payable and accrued charges, excluding interest, dividends and capital construction	(33,497)	(67,769)
	Settlements on taxes payable (other than profit tax)	59,923	5,195
	(Increase) decrease in available-for-sale financial assets and financial assets held for trading	(952)	784
	Total effect of working capital changes	182,734	156,812
	Profit tax paid	(95,576)	(104,729)
	<b>Net cash from operating activities</b>	<b>1,571,323</b>	<b>2,030,927</b>

Total taxes and other similar payments paid in cash during 2015-2016:

	Year ended 31 December	
	2016	2015
Customs duties	617,788	693,746
Mineral extraction tax	601,985	599,433
Excise	236,892	219,105
Property tax	120,391	110,123
Insurance contributions to non-budget funds	117,503	108,151
Profit tax	95,576	104,729
Personal income tax	63,000	57,911
VAT	53,771	27,586
Other taxes	59,545	25,880
<b>Total taxes paid</b>	<b>1,966,451</b>	<b>1,946,664</b>

**32 SUBSIDIARIES**

**Significant subsidiaries**

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2016	2015
LLC Aviapredpriyatie Gazprom avia	Russia	100	100
WIBG GmbH <sup>2</sup>	Germany	100	100
OJSC Vostokgazprom	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
CJSC Gazprom Armenia	Armenia	100	100
LLC Gazprom VNIIGAZ	Russia	100	100
JSC Gazprom gazoraspredelenie	Russia	100	100
JSC Gazprom gazoraspredelenie Sever	Russia	73	96
LLC Gazprom geologorazvedka	Russia	100	100
LLC Gazprom georesurs	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100

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**SUBSIDIARIES (continued)**

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2016	2015
Gazprom Global LNG Ltd.	United Kingdom	100	100
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100
LLC Gazprom dobycha Nadym	Russia	100	100
LLC Gazprom dobycha Noyabrsk	Russia	100	100
LLC Gazprom dobycha Orenburg	Russia	100	100
LLC Gazprom dobycha Urengoy	Russia	100	100
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	Russia	100	100
LLC Gazprom dobycha Yamburg	Russia	100	100
LLC Gazprom invest	Russia	100	100
LLC Gazprom invest Vostok	Russia	100	100
LLC Gazprom invest RGK	Russia	100	100
CJSC Gazprom invest Yug	Russia	100	100
LLC Gazprom investholding	Russia	100	100
Gazprom International Germany GmbH	Germany	100	100
LLC Gazprom inform	Russia	100	100
LLC Gazprom komplektatsiya	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
LLC Gazprom mezhregiongaz	Russia	100	100
LLC Gazprom neftekhim Salavat	Russia	100	100
PJSC Gazprom nefte	Russia	96	96
LLC Gazpromneft-Orenburg <sup>3</sup>	Russia	100	100
Gazprom Neft Trading GmbH <sup>3</sup>	Austria	100	100
LLC Gazprom nefte shelf <sup>3</sup>	Russia	100	100
LLC Gazprom pererabotka	Russia	100	100
LLC Gazprom podzemremont Orenburg	Russia	100	100
LLC Gazprom podzemremont Urengoy	Russia	100	100
LLC Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
LLC Gazprom togservis	Russia	100	100
OJSC Gazprom transgaz Belarus	Belorussia	100	100
LLC Gazprom transgaz Volgograd	Russia	100	100
LLC Gazprom transgaz Ekaterinburg	Russia	100	100
LLC Gazprom transgaz Kazan	Russia	100	100
LLC Gazprom transgaz Krasnodar	Russia	100	100
LLC Gazprom transgaz Makhachkala	Russia	100	100
LLC Gazprom transgaz Moskva	Russia	100	100
LLC Gazprom transgaz Nizhny Novgorod	Russia	100	100
LLC Gazprom transgaz Samara	Russia	100	100
LLC Gazprom transgaz Saint-Petersburg	Russia	100	100
LLC Gazprom transgaz Saratov	Russia	100	100
LLC Gazprom transgaz Stavropol	Russia	100	100
LLC Gazprom transgaz Surgut	Russia	100	100
LLC Gazprom transgaz Tomsk	Russia	100	100
LLC Gazprom transgaz Ufa	Russia	100	100
LLC Gazprom transgaz Ukhta	Russia	100	100
LLC Gazprom transgaz Tchaikovsky	Russia	100	100
LLC Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
LLC Gazprom tsentremont	Russia	100	100
LLC Gazprom export	Russia	100	100
LLC Gazprom energo	Russia	100	100
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft-Vostok <sup>3</sup>	Russia	100	100
JSC Gazpromneft - MNPZ <sup>3</sup>	Russia	100	100

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**SUBSIDIARIES (continued)**

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2016	2015
JSC Gazpromneft-Noyabrskneftegaz <sup>3</sup>	Russia	100	100
JSC Gazpromneft-Omsk <sup>3</sup>	Russia	100	100
JSC Gazpromneft-ONPZ <sup>3</sup>	Russia	100	100
JSC Gazpromneft-Severo-Zapad <sup>3</sup>	Russia	100	100
LLC GPN-Finans <sup>3</sup>	Russia	100	100
LLC Gazpromneft-Khantos <sup>3</sup>	Russia	100	100
LLC Gazpromneft-Centr <sup>3</sup>	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
LLC Gazprom flot	Russia	100	100
JSC Daltransgaz	Russia	100	100
LLC Zapolyarneft <sup>3</sup>	Russia	100	100
PJSC Krasnoyarskgazprom	Russia	100	75
PJSC MIPC	Russia	90	90
PJSC Mosenergo	Russia	53	53
Naftna Industrija Srbije a.d. <sup>3</sup>	Serbia	56	56
LLC Novourenogysky GCC	Russia	100	100
PJSC WGC-2	Russia	77	77
CJSC Purgaz	Russia	51	51
OJSC Regiongazholding	Russia	57	57
CJSC Rosshelf	Russia	57	57
South Stream Transport B.V.	-	100	100
OJSC Severneftegazprom <sup>4</sup>	Russia	50	50
LLC Sibmetakhim	Russia	100	100
PJSC Gazprom spetsgazavtotrans	Russia	51	51
PJSC TGC-1	Russia	52	52
JSC Teploset Sankt-Peterburga	Russia	75	75
OJSC Tomskgazprom	Russia	100	100
LLC Faktoring-Finance	Russia	100	90
JSC Tsentrgez	Russia	100	100
JSC Gazprom centrenergogaz	Russia	66	66
JSC Yuzhuralneftegaz <sup>3</sup>	Russia	88	88
LLC Yamalgazinvest	Russia	100	100

<sup>1</sup> Cumulative share of the Group in charter capital of investees.

<sup>2</sup> On 30 September 2015 in accordance with the Swap Agreement with Wintershall Holding GmbH the Group acquired the 100 % of the interest in WIBG GmbH (see Note 34).

<sup>3</sup> Subsidiaries of PJSC Gazpromneft.

<sup>4</sup> Group's portion of voting shares.

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**33 NON-CONTROLLING INTEREST**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
Non-controlling interest at the beginning of the year	<b>325,036</b>	<b>303,463</b>
Non-controlling interest share of net profit of subsidiaries <sup>1</sup>	45,467	18,143
Changes in interest in JSC Gazprom gazoraspredelenie Sever	2,644	-
Changes in interest in PJSC WGC-2	131	136
Changes in the non-controlling interest as a result of other acquisitions and disposals	676	(1,671)
Gain (loss) from cash flow hedges	1,361	(403)
Gain (loss) arising from change in fair value of available-for-sale financial assets	1	(7)
Remeasurements of post-employment benefit obligations	8	(160)
Dividends	(11,727)	(6,374)
Translation differences	<u>(16,289)</u>	<u>11,909</u>
<b>Non-controlling interest at the end of the year</b>	<b>347,308</b>	<b>325,036</b>

<sup>1</sup> Non-controlling interest share of net profit (loss) of subsidiaries includes share in impairment of assets in the amount of RUB 5,365 million and RUB 2,034 million for the years ended 31 December 2016 and 31 December 2015, respectively.

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	<b>Country of primary operation</b>	<b>Percent of share capital held by non-controlling interest<sup>1</sup></b>	<b>Profit attributable to non-controlling interest</b>	<b>Accumulated non-controlling interest in the subsidiary</b>	<b>Dividends paid to non-controlling interest during the year</b>
<b>As of and for the year ended 31 December 2016</b>					
Gazprom нефт Group <sup>2</sup>	Russia	4 %	20,412	114,916	1,377
Naftna Industrija Srbije a.d. Group	Serbia	46 %	4,183	62,044	1,049
Mosenergo Group	Russia	46 %	6,398	88,296	1,039
TGC-1 Group	Russia	48 %	4,088	62,701	452
WGC-2 Group	Russia	19 %	200	29,558	117
<b>As of and for the year ended 31 December 2015</b>					
Gazprom нефт Group <sup>2</sup>	Russia	4 %	9,201	110,396	3,342
Naftna Industrija Srbije a.d. Group	Serbia	46 %	3,262	75,485	1,700
Mosenergo Group	Russia	46 %	4,741	82,529	184
TGC-1 Group	Russia	48 %	3,497	58,941	419
WGC-2 Group	Russia	19 %	472	29,367	167

<sup>1</sup> Effective share held by non-controlling interest in charter capital of investments.

<sup>2</sup> Including non-controlling interest in Naftna Industrija Srbije a.d. Group.

The summarised financial information of these subsidiaries before inter-company eliminations was as follows:

	<b>Gazprom нефт Group</b>	<b>Naftna Industrija Srbije a.d. Group</b>	<b>Mosenergo Group</b>	<b>TGC-1 Group</b>	<b>WGC-2 Group</b>
<b>As of and for the year ended 31 December 2016</b>					
Current assets	396,286	48,388	84,809	24,233	29,375
Non-current assets	2,357,154	195,271	197,654	155,517	220,817
Current liabilities	290,940	35,641	45,264	20,945	49,695
Non-current liabilities	864,337	57,136	32,914	33,552	60,053
Revenue	1,545,608	189,781	191,466	79,228	134,537
Profit for the year	201,763	7,483	13,884	8,453	809
Total comprehensive income for the year	187,873	7,483	13,191	8,065	527
Net cash from (used in):					
operating activities	397,128	22,896	31,690	14,162	24,266
investing activities	(382,981)	(15,894)	(23,668)	(8,949)	(14,064)
financing activities	(86,500)	(4,914)	(3,581)	(3,386)	(13,097)

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**33 NON-CONTROLLING INTEREST (continued)**

	<b>Gazprom neft Group</b>	<b>Naftna Industrija Srbije a.d. Group</b>	<b>Mosenergo Group</b>	<b>TGC-1 Group</b>	<b>WGC-2 Group</b>
<b>As of and for the year ended</b>					
<b>31 December 2015</b>					
Current assets	511,348	56,620	67,777	19,673	34,896
Non-current assets	2,180,933	243,131	193,364	151,250	218,397
Current liabilities	346,534	43,006	23,725	20,617	49,652
Non-current liabilities	938,860	76,400	57,890	32,637	60,493
Revenue	1,467,943	183,022	171,932	69,585	112,465
Profit for the year	80,455	7,071	6,533	6,586	2,961
Total comprehensive income for the year	115,253	7,071	6,469	6,440	2,665
Net cash from (used in):					
operating activities	366,747	27,267	21,924	10,332	9,400
investing activities	(431,349)	(18,379)	(25,028)	(9,687)	(25,915)
financing activities	119,240	(2,481)	(921)	(1,201)	10,784

The rights of the non-controlling shareholders of the presented subgroups are determined by the respective laws of country of incorporation and the charter documents of the subsidiaries.

**34 ACQUISITION OF SUBSIDIARIES**

**Asset swap with Wintershall Holding GmbH**

On 30 September 2015 PJSC Gazprom and Wintershall Holding GmbH completed the asset swap which was initially agreed in December 2013. The Swap Agreement has retroactive economic effect starting from 1 April 2013.

According to the Swap Agreement 25.01 % of interest in the capital of LLC Achim Development and 9.00 % of ordinary shares, one class A preference share and one class B preference share of JSC Achim Trading which were recognised under other non-current assets in the consolidated financial statements of the Group have been transferred to Wintershall Holding GmbH in return for the 100.00 % of the interest in WIBG GmbH and for 50.00 % of the interest in Wintershall Noordzee B.V. and Wintershall Services B.V. WIBG GmbH holds an equity interest of 50.02 % and 50.00 % in W & G Beteiligungs-GmbH & Co. KG and in WIEH GmbH, respectively.

The compensation payments from Wintershall Holding GmbH amounted to EUR 29 million (RUB 2,170 million – translated at the rate as of 30 September 2015).

Prior to the swap transaction the Group held an equity interest of 49.98 % in W & G Beteiligungs-GmbH & Co. KG and of 50.00 % in WIEH GmbH. These subgroups were accounted for using the equity method. In addition at the acquisition date the Group held an equity interest of 33.33 % in WINGAS Storage UK Ltd., in which W & G Beteiligungs-GmbH & Co. KG held an equity interest of 50.00 %.

In substance, the Group acquired the remaining shares in the natural gas trading and storage companies W & G Beteiligungs-GmbH & Co. KG and WIEH GmbH and in their subsidiaries. Consequently as of 30 September 2015 the Group obtained control over these companies.

The acquired 50 % interests in Wintershall Noordzee B.V. and Wintershall Services B.V. are accounted for using the equity method since the acquisition date.

The following table summarizes the fair values of transferred assets at the acquisition date:

	<b>Fair value</b>
Fair value of transferred shares / interest and investments accounted for using the equity method before the business combination	64,059
Pre-existing relationships	25,885
Compensation payments	(2,170)
<b>Total</b>	<b>87,774</b>

In accordance with IFRS 3 Business combinations the Group measured shares of LLC Achim Development and JSC Achim Trading at fair value evaluated by an independent appraiser CJSC Deloitte & Touche CIS at the acquisition date. On 31 December 2015 the Group recognised the gain from the revaluation of disposed investments to their fair value in the amount of RUB 20,137 million in the consolidated financial statements of comprehensive income within other operating expenses.

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**34 ACQUISITION OF SUBSIDIARIES (continued)**

Previously held by the Group investments in W & G Beteiligungs-GmbH & Co. KG, WIEH GmbH and WINGAS Storage UK Ltd. were measured at fair value at the acquisition date. On 31 December 2015 the gain from the revaluation of investments accounted for using the equity method to fair value is recognised in the consolidated financial statement of comprehensive income within other operating expenses in the amount of RUB 18,087 million.

In connection with derecognition of equity-accounted investments the Group recognised the loss in profit and loss within other operating expenses in the amount of RUB 9,034 million previously recognised in other comprehensive loss arising mainly from hedge transactions.

In accordance with IFRS 3 Business Combinations, the Group recognised the acquired assets and liabilities based upon their fair values.

Fair value of assets acquired and liabilities assumed is as follows:

	<b>Fair value</b>
<b>Current assets</b>	
Cash and cash equivalents	24,247
Accounts receivable and prepayments	117,414
Inventories	<u>47,658</u>
	<b>189,319</b>
<b>Non-current assets</b>	
Property, plant and equipment	45,500
Investments in associates and joint ventures	956
Long-term accounts receivable and prepayments	40,175
Other non-current assets	<u>9,078</u>
	<b>95,709</b>
<b>Total assets</b>	<b>285,028</b>
<b>Current liabilities</b>	
Accounts payable, accruals and provisions for liabilities and charges	104,150
Short-term borrowings, promissory notes and current portion of long-term borrowings	<u>29,066</u>
	<b>133,216</b>
<b>Non-current liabilities</b>	
Long-term borrowings, promissory notes	179
Provisions for liabilities and charges	18,679
Deferred tax liabilities	4,865
Other non-current liabilities	<u>30,184</u>
	<b>53,907</b>
<b>Total liabilities</b>	<b>187,123</b>
<b>Net assets at the acquisition date</b>	<b>97,905</b>

Result of the asset swap is as follows:

	<b>31 December 2015</b>
Fair value of transferred assets including compensation payments	87,774
Non-controlling interest measured at its proportionate share of the acquirees's net assets	262
Fair value of acquired assets	<u>97,905</u>
<b>Gain from a bargain purchase</b>	<b>9,869</b>

The gain from a bargain purchase identified as the excess of the fair value of assets acquired and liabilities assumed over the fair value of transferred assets is mainly related to the decrease of the energy market prices since the conception of the transaction. The gain from a bargain purchase is recognised in other operating income in the consolidated financial statement of comprehensive income for the year ended 31 December 2015.

Fair value of acquired accounts receivable amounted to RUB 157,589 million at the acquisition date. The amount of accounts receivable at the acquisition date amounts to RUB 75,517 million. The best estimate of cash flows, that are expected not to be recovered, amounts to RUB 1,729 million at the acquisition date.

At the acquisition date contingencies related to judicial proceedings with fair value of RUB 2,707 million are accounted for within current provisions for liabilities and chargers. The probability of unfavorable outcome of filed claim is estimated as medium.



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**34 ACQUISITION OF SUBSIDIARIES (continued)**

If the acquisition occurred as of 1 January 2015 sales of the Group and the Group's profit before profit tax for the year ended 31 December 2015 would be higher by RUB 395,732 million and RUB 7,034 million, respectively.

**Acquisition of Shtokman Development AG**

In July 2015 the Group became an owner of the 100 % of shares of Shtokman Development AG. Before the acquisition date the Group held an equity interest of 75 % in the company and accounted the investment as a joint venture using the equity method. At the acquisition date the investment in Shtokman Development AG was fully impaired. The impairment provision amounted to RUB 27,378 million.

The Group acquired remaining 25 % of the shares of Shtokman Development AG from Total Shtokman B.V. for 25 thousand Swiss Franc (RUB 2 million) according to the terms of the Shareholder Agreement. The payment was made by the cash.

According to IFRS 3 Business combinations the Group recognised the acquired assets and liabilities assumed based upon their provisional fair values.

In compliance with IFRS 3 Business combinations preliminary estimate of fair value of construction in progress is recognised as nil. As at the date of assessment decisions concerning the use of the assets under construction are not made.

Fair value of acquired assets and liabilities assumed of Shtokman Development AG is as follows.

	<u>Fair value</u>
<b>Current assets</b>	
Cash and cash equivalents	1,767
Accounts receivable and prepayments	38
Inventories	1
VAT recoverable	<u>216</u>
	<b>2,022</b>
<b>Non-current assets</b>	
Property, plant and equipment	252
Long-term accounts receivable and prepayments	32
Other non-current assets	<u>8</u>
	<b>292</b>
<b>Total assets</b>	<b>2,314</b>
<b>Current liabilities</b>	
Accounts payable, accruals and provisions for liabilities and charges	30
Other taxes payable	<u>9</u>
	<b>39</b>
<b>Non-current liabilities</b>	
Provisions for liabilities and charges	321
Other non-current liabilities	<u>14</u>
	<b>335</b>
<b>Total liabilities</b>	<b>374</b>
<b>Net assets at the acquisition date</b>	<b>1,940</b>
<b>Acquisition cost</b>	<u>2</u>
<b>Gain from a bargain purchase</b>	<b>1,938</b>

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**35 RELATED PARTIES**

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding is detailed below.

**Government (Russian Federation)**

The Government of the Russian Federation is the ultimate controlling party of PJSC Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50 % in PJSC Gazprom.

As of 31 December 2016 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. Another 11.859 % are owned JSC Rosneftgaz and OJSC Rosgazifikatsiya controlled by Government.

The Government does not prepare consolidated financial statements for public use. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

As a condition of privatization in 1992, the Government imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices.

**Parties under control of the Government**

In the normal course of business the Group enters into transactions with other entities under Government control.

As of 31 December 2016 prices of natural gas sales, gas transportation and electricity tariffs in Russia are regulated by the FAS. Until 21 July 2015 these functions were performed by the FTS.

Bank loans with related parties are provided on the basis of market rates. Taxes are accrued and settled in accordance with the applicable statutory rules.

As of 31 December 2016 and 31 December 2015 and for the years ended 31 December 2016 and 31 December 2015, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	<b>As of 31 December 2016</b>		<b>Year ended 31 December 2016</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Revenues</b>	<b>Expenses</b>
<b>Transactions and balances with the Government</b>				
Current profit tax	11,608	56,695	-	199,675
Insurance contributions to non-budget funds	720	7,795	-	96,693
VAT recoverable / payable	322,643	72,557	-	-
Customs duties	16,183	-	-	-
Other taxes	2,457	116,769	-	763,267
<b>Transactions and balances with other parties under control of the Government</b>				
Gas sales	-	-	76,955	-
Electricity and heating sales	-	-	217,445	-
Gas transportation sales	-	-	46,849	-
Other services sales	-	-	3,842	-
Accounts receivable	49,091	-	-	-
Oil and refined products transportation expenses	-	-	-	117,045
Accounts payable	-	13,800	-	-
Borrowings	-	345,604	-	-
Interest expense	-	-	-	11,467
Short-term financial assets	10,136	-	-	-
Available-for-sale long-term financial assets	8,087	-	-	-

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**35 RELATED PARTIES (continued)**

	<b>As of 31 December 2015</b>		<b>Year ended 31 December 2015</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Revenues</b>	<b>Expenses</b>
<b>Transactions and balances with the Government</b>				
Current profit tax	78,678	3,816	-	85,542
Insurance contributions to non-budget funds	688	7,369	-	126,042
VAT recoverable / payable	400,295	54,990	-	-
Customs duties	46,446	-	-	-
Other taxes	2,411	85,132	-	800,605
<b>Transactions and balances with other parties under control of the Government</b>				
Gas sales	-	-	70,439	-
Electricity and heating sales	-	-	190,891	-
Gas transportation sales	-	-	42,445	-
Other services sales	-	-	3,581	-
Accounts receivable	40,431	-	-	-
Oil and refined products transportation expenses	-	-	-	118,161
Accounts payable	-	14,062	-	-
Borrowings	-	300,003	-	-
Interest expense	-	-	-	17,205
Short-term financial assets	9,859	-	-	-
Available-for-sale long-term financial assets	6,485	-	-	-

Gas sales and respective accounts receivable, oil transportation expenses and respective accounts payable included in the table above are related to major state controlled companies.

In the normal course of business the Group incurs electricity and heating expenses (see Note 27). A part of these expenses relates to purchases from the entities under Government control. Due to the specifics of the electricity market in the Russian Federation, these purchases can not be accurately separated from the purchases from private companies.

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2016 and 31 December 2015. See Note 13 for net book values as of 31 December 2016 and 31 December 2015 of social assets vested to the Group at privatisation.

On 15 July 2016 the Group acquired from Vnesheconombank 211 million PJSC Gazprom's ordinary shares and American depositary receipts representing 639 million PJSC Gazprom's ordinary shares for RUB 132,000 million.

**Compensation for key management personnel**

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RUB 4,685 million and RUB 4,801 million for the years ended 31 December 2016 and 31 December 2015, respectively.

Government officials, who are directors, do not receive remuneration from the Group.

The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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 benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF GAZFOND, and a one-time retirement payment from the Group.

Employees of the majority of Group companies are eligible for such benefits.

The Group provides medical insurance and liability insurance for key management personnel.

**Associates and joint ventures**

For the years ended 31 December 2016 and 31 December 2015 and as of 31 December 2016 and

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**35 RELATED PARTIES (continued)**

31 December 2015 the Group had the following significant transactions and balances with associates and joint ventures.

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<b>Revenues</b>	
<b>Gas sales</b>		
Panrusgaz Gas Trading Plc	38,041	69,345
JSV Moldovagaz	24,849	31,950
VEMEX s.r.o. and its subsidiaries	16,046	7,166
Bosphorus Gaz Corporation A.S.	15,376	19,735
KazRosGaz LLP	10,509	3,598
JSC Latvijas Gaze	10,237	13,338
CJSC Gazprom YRGM Trading <sup>1</sup>	7,917	17,312
JSC Gazprom YRGM Development <sup>1</sup>	7,137	12,366
SGT EuRoPol GAZ S.A.	4,759	5,927
PremiumGas S.p.A	4,702	638
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>2</sup>	-	123,156
WIEH GmbH <sup>2</sup>	-	109,935
Gasum Oy <sup>3</sup>	-	24,999
Overgaz Inc. AD	-	4,944
WIEE AG <sup>2</sup>	-	1,344
<b>Gas transportation sales</b>		
CJSC Gazprom YRGM Trading <sup>1</sup>	11,453	23,641
JSC Gazprom YRGM Development <sup>1</sup>	10,323	16,886
KazRosGaz LLP	2,688	2,299
<b>Gas condensate, crude oil and refined products sales</b>		
OJSC NGK Slavneft and its subsidiaries	38,445	44,075
CJSC SOVEKS	3,696	4,674
LLC NPP Neftekhimia	2,379	3,054
Sakhalin Energy Investment Company Ltd.	2,054	2,233
Poliom Ltd.	1,800	2,744
<b>Operator services sales and other services sales</b>		
JSC Messoyakhaneftegaz	4,538	31,142
<b>Gas refining services sales</b>		
KazRosGaz LLP	8,169	5,940
	<b>Expenses</b>	
<b>Purchased gas</b>		
LLC SeverEnergiya and its subsidiaries	49,393	48,714
KazRosGaz LLP	32,567	44,624
CJSC Gazprom YRGM Trading <sup>1</sup>	24,566	62,560
JSC Gazprom YRGM Development <sup>1</sup>	22,089	44,708
Sakhalin Energy Investment Company Ltd.	11,811	20,226
CJSC Northgas	8,512	8,819
VEMEX s.r.o. and its subsidiaries	3,885	1,512
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>2</sup>	-	57,182
<b>Purchased transit of gas</b>		
Nord Stream AG	79,002	73,966
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	38,035	24,386
SGT EuRoPol GAZ S.A.	16,613	17,881
JSV Moldovagaz	3,587	3,027
<b>Purchased crude oil and refined products</b>		
OJSC NGK Slavneft and its subsidiaries	91,524	95,752
Sakhalin Energy Investment Company Ltd.	19,090	9,140

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**35 RELATED PARTIES (continued)**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>Purchased services of gas and gas condensate extraction</b>		
JSC Achimgaz	27,994	28,798

**Purchased processing services**

OJSC NGK Slavneft and its subsidiaries	13,313	14,179
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<sup>1</sup> CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development are not associates and joint ventures.

<sup>2</sup> In September 2015 W&G Beteiligungs-GmbH & Co. KG and its subsidiaries, WIEH GmbH (formerly WIEH GmbH & Co. KG), WIEE AG (formerly Wintershall Erdgas Handelshaus Zug AG) became subsidiaries of the Group (see Note 34). In August 2016 W & G Beteiligungs-GmbH & Co. KG was merged with WIBG GmbH.

<sup>3</sup> In January 2016 PJSC Gazprom has sold its equity interest of 25 % in Gasum Oy to the Government of Finland for EUR 251 million.

Gas is sold to and purchased from associates in the Russian Federation mainly at the rates established by the FAS. Gas is sold and purchased outside the Russian Federation mainly under long-term contracts at prices indexed mainly to world oil product prices. The Group sells to and purchases oil from related parties in the ordinary course of business at prices close to average market prices.

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Short-term accounts receivable and prepayments</b>				
JSC Messoyakhaneftegaz	40,530	-	19,742	-
Gazprombank (Joint-stock Company) and its subsidiaries	14,306	-	35,831	-
OJSC NGK Slavneft and its subsidiaries	8,286	-	8,415	-
Wintershall Noordzee B.V.	5,811	-	-	-
KazRosGaz LLP	3,287	-	842	-
Panrusgas Gas Trading Plc	3,175	-	7,434	-
Sakhalin Energy Investment Company Ltd.	2,733	-	1,149	-
Wintershall AG	2,125	-	3,064	-
VEMEX s.r.o. and its subsidiaries	1,518	-	1,790	-
CJSC Gazprom YRGM Trading	1,167	-	2,756	-
JSC Gazprom YRGM Development	1,052	-	1,968	-
Overgaz Inc. AD <sup>1</sup>	-	-	8,813	-
JSV Moldovagaz <sup>2</sup>	-	-	4,435	-
Gasum Oy	-	-	2,579	-
<b>Cash balances</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	518,084	-	883,194	-
<b>Other current assets</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	100,015	-	16,467	-
OJSC Belgazprombank	968	-	11,827	-
<b>Other non-current assets</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	42,230	-	-	-
<b>Long-term accounts receivable and prepayments</b>				
JSC Messoyakhaneftegaz	18,962	-	15,172	-
LLC Yamal razvitie	15,722	-	1,460	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	12,757	-	15,933	-
OJSC Belgazprombank	4,957	-	4,957	-
Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG	-	-	4,695	-
Wintershall Noordzee B.V.	-	-	3,742	-
<b>Short-term accounts payable</b>				
Nord Stream AG	-	5,723	-	7,170
CJSC Gazprom YRGM Trading	-	4,490	-	7,739
KazRosGaz LLP	-	4,186	-	3,370
OJSC NGK Slavneft and its subsidiaries	-	4,094	-	1,510
JSC Messoyakhaneftegaz	-	3,694	-	-
JSC Gazprom YRGM Development	-	3,682	-	5,690
LLC SeverEnergiya and its subsidiaries	-	3,436	-	5,755

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**35 RELATED PARTIES (continued)**

	<b>31 December 2016</b>		<b>31 December 2015</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
JSC Achimgaz	-	3,025	-	4,506
Sakhalin Energy Investment Company Ltd.	-	2,948	-	854
SGT EuRoPol GAZ S.A.	-	2,100	-	2,710
JSC Latvijas Gaze	-	92	-	1,806
Gasum Oy	-	-	-	2,260
<b>Short-term borrowings (including current portion of long-term borrowings)</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	-	31,797	-	15,635
<b>Long-term borrowings</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	-	88,850	-	114,793

<sup>1</sup> Net of impairment allowance on accounts receivable in the amount of RUB 6,380 million and nil million as of 31 December 2016 and 31 December 2015, respectively.

<sup>2</sup> Net of impairment allowance on accounts receivable in the amount of RUB 342,765 million and RUB 380,942 million as of 31 December 2016 and 31 December 2015, respectively.

Investments in associates and joint ventures are disclosed in Note 15.

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 36.

**36 COMMITMENTS AND CONTINGENCIES**

**Financial guarantees**

<b>Notes</b>	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Outstanding guarantees issued for:		
Blackrock Capital Investments Limited	4,968	9,946
18, 27 Ostchem Holding Limited	3,427	61,404
Other	<u>36,362</u>	<u>36,001</u>
<b>Total financial guarantees</b>	<b>44,757</b>	<b>107,351</b>

In 2016 and 2015 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 87 million and USD 1,018 million as of 31 December 2016 and 31 December 2015, respectively, as well as amounts denominated in Euros of EUR 66 million and EUR 72 million as of 31 December 2016 and 31 December 2015, respectively.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 31 December 2016 and 31 December 2015 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 4,968 million (USD 82 million) and RUB 9,946 million (USD 136 million), respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2016 and 31 December 2015 the above guarantee amounted to RUB 3,427 million and RUB 61,404 million (USD 843 million), respectively, and was fully provided. In June 2016 the Group signed an amendment agreement with Gazprombank (Joint-stock Company) according to which the amount of the guarantee was converted into Russian Rubles at the conversion rate agreed between the parties. The change in the amount of guarantee as of 31 December 2016 is mainly due to the partial assignment of Gazprombank (Joint-stock company) to RUB 54,099 million of the principal debt of the borrower under a loan agreement to a third party in December 2016.

**36 COMMITMENTS AND CONTINGENCIES (continued)**

**Other**

The Group has transportation agreements with certain of its associates and joint ventures (see Note 35).

**Capital commitments**

The total investment program related to gas, oil and power assets for 2017 is RUB 1,798,705 million.

**Operating lease commitments**

As of 31 December 2016 and 31 December 2015 the Group does not have significant liabilities related to operating leases.

**Supply commitments**

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2016 no loss is expected to result from these long-term commitments.

**37 OPERATING RISKS**

**Operating environment**

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

The future economic prospects of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government of the Russian Federation, together with tax, legal, regulatory, and political developments.

**Taxation**

The tax, currency and customs legislation in the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 December 2016 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

**Legal proceedings**

On 16 June 2014 PJSC Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NJSC Naftogaz of Ukraine to recover unpaid debt for gas supplied under Contract No. KP dated 19 January 2009 regarding sale and purchase of natural gas in the years 2009-2019 ("Contract No. KP"), and related interest charged. On 12 June 2015 PJSC Gazprom submitted to arbitration a review on the claim from NJSC Naftogaz of Ukraine and a new counter-claim, in which it specified its claims totalling USD 29,200 million. On 9 October 2015 NJSC Naftogaz of Ukraine filed a response to the claim from PJSC Gazprom. On 14 March 2016 PJSC Gazprom filed an answer to the response of NJSC Naftogaz of Ukraine. The corrected amount of claim of PJSC Gazprom against NJSC Naftogaz of Ukraine exceeded USD 37,000 million. This amount includes the outstanding payment for the gas supplied in May-June 2014, and take-or-pay obligations for 2012-2016, and penalty interest for late payment for the gas supplied.

At the same time on 16 June 2014 NJSC Naftogaz of Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom seeking a retroactive revision of the price, compensation of all overpaid amounts starting from 20 May 2011 and cancellation of the provision of Contract No. KP which provides for the prohibition on reexport of natural gas out of Ukraine. The clarified claims of NJSC Naftogaz of Ukraine to PJSC Gazprom amounted to over USD 14,230 million.

On 21 July 2014 both cases were consolidated. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. The arbitration panel is expected to deliver its ruling on 30 June 2017.

**37 OPERATING RISKS (continued)**

On 13 October 2014 NJSC Naftogaz of Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom, seeking:

(1) to acknowledge that rights and obligations of NJSC Naftogaz Ukraine under Contract No. TKGU dated 19 January 2009 ("Contract No. TKGU") on volumes and terms of gas transportation through Ukraine in the years 2009-2019 should be transferred to PJSC Ukrtransgaz;

(2) to acknowledge that certain provisions of Contract No. TKGU, which will be subsequently updated, are invalid and / or inoperative and should be supplemented with or substituted by provisions which will be updated in line with the energy and anti-monopoly legislation of Ukraine and the European Union ("the EU");

(3) to oblige PJSC Gazprom to pay a compensation of USD 3,200 million and related interest to NJSC Naftogaz of Ukraine for the failure to provide gas for transit;

(4) to acknowledge that the transit tariff stipulated in Contract No. TKGU should be revised in such a way as will be provided in further written statements of NJSC Naftogaz of Ukraine in line with key principles of the Swedish contractual law.

On 28 November 2014 PJSC Gazprom filed its response to the request for arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz of Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. The arbitration panel is expected to deliver its ruling on 30 June 2017.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 31 December 2016 – RUB 92,405 million). PJSC Gazprom did not agree to the claims and on 9 November 2012, filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness statement and expert statement.

On 22 June 2016 the arbitration court made a final decision which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including claims on unfair pricing of gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania has filed appeal with the Court of Appeal of Stockholm, Sweden, to cancel the Final arbitration decision of 22 June 2016. On 4 April 2017 PJSC Gazprom officially received this appeal and is preparing a statement to contest it.

In August 2012 the European Commission launched a formal stage of investigation into a potential breach of the EU antitrust law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The European Commission extended the deadline for providing a formal response to the Statement of objections until September 2015. In September 2015 PJSC Gazprom filed its proposal of antitrust investigation settlement to the European Commission. In December 2015 PJSC Gazprom's representatives and the European Commission took part in closed-door oral hearings where PJSC Gazprom provided arguments which rendered the raised claims groundless. An oral hearing is just one of the stages of the ongoing antitrust investigation. On 27 December 2016 PJSC Gazprom forwarded to the European Commission a formal proposal for the settlement of the investigation (commitments). On 13 March 2017 the European Commission launched a market test process of the commitments upon which it will be able to rightfully accept the commitments and close the investigation without recognising the Gazprom Group guilty of violating the antitrust law of the European Union. The period for the market testing procedure established by the European Commission is seven weeks. Currently it's impossible to assess a potential negative impact of this ongoing investigation on activity of PJSC Gazprom in Europe and on financial position of PJSC Gazprom as a whole.

On 16 December 2015 South Stream Transport B.V., the subsidiary of the Group, was served with an official notification by the Secretariat of the Arbitration Court of the International Chamber of Commerce stating that Saipem S.p.A. submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by the latter of the agreement dated 14 March 2014 for the construction of the "South Stream" pipeline. In its notice of arbitration Saipem S.p.A. claimed to receive from South Stream Transport B.V. as a



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**37 OPERATING RISKS (continued)**

compensation for the work performed reimbursements for the expenses incurred and for the termination of the agreement in the amount of about EUR 760 million plus interest (at the exchange rate as of 31 December 2016 – RUB 48,496 million). On 16 February 2016 South Stream Transport B.V. sent a response to the notice of arbitration of Saipem S.p.A., where it rejected all the claims raised by Saipem S.p.A. and declared its intention to file a counterclaim. On 30 September 2016 Saipem S.p.A. submitted its claim in its entirety with all attachments. The amount of claim of Saipem S.p.A. was reduced to the amount of EUR 679 million (at the exchange rate as of 31 December 2016 – RUB 43,328 million). On 10 March 2017 South Stream Transport B.V. filed a defense on the claim along with testimony and experts' opinions which underpin the respondent's argument, and a counter-claim in the amount of about EUR 730 million (at the exchange rate as of 31 December 2016 – RUB 46,582 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for May 2018.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 31 December 2016 – RUB 192,414 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an action with the Kiev Economic Court against the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the action was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which left the primary court's award unchanged based on the decision of 18 May 2016. On 7 June 2016 PJSC Gazprom filed a cassation appeal with the Ukraine's Higher Economic Court. On 13 July 2016 the Ukraine's Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the judgements in the case delivered by the lower-level courts.

On 13 September 2016 the Supreme Court of Ukraine rejected to move the petition forward to review the judgements delivered in the case by the lower-level courts. On 7 October 2016 the Kiev Economic Court determined to initiate proceedings in the case in view of the application filed by the Antimonopoly Committee of Ukraine along with a claim to impose a penalty in the amount of about USD 3,300 million on PJSC Gazprom, a fine in the amount of about USD 3,300 million and a demand to enforce PJSC Gazprom to fulfil a portion of its decision which pertains to the performance of the terms and conditions to the fullest extent of Contract No. TKGU regarding the volumes of gas intended for transit purposes. On 5 December 2016 the Court satisfied the claims of the Antimonopoly Committee of Ukraine to the fullest extent. On 22 February 2017 the Court dismissed the appeal of PJSC Gazprom keeping the first-instance court's decision in force. On 14 March 2017 PJSC Gazprom filed with the Ukraine's Higher Economic Court a cassation appeal on the decision of the Kiev Economic Court dated 5 December 2016 and the ruling of the Kiev Economic Court of Appeal dated 22 February 2017. Management of the Group believes that the charges are not founded.

On 3 February 2016 under EU Regulation № 1/2003 on the implementation of competition policy stipulated by Articles 101 and 102 of the EU Agreement the European Commission filed an official request to PJSC Gazprom for presenting information regarding the alleged infringement by PJSC Gazprom of the EU competition laws within the framework of gas supply to Bulgaria. Submitting a request is not the beginning of the formal investigatory phase, it doesn't represent acknowledgment of the infringement by PJSC Gazprom of the EU competition laws and is aimed solely at collection of information. The subject of the request is providing information regarding relations PJSC Gazprom with wholesale gas buyers in Bulgaria. The response to the request for information to the European Commission was filed by PJSC Gazprom on 7 April 2016. PJSC Gazprom's terms of contractual relationships with customers are defined by international legal obligations, commercial reasonableness and market conditions.

On 14 March 2017 the European Commission received a complaint from PGNiG S.A., Poland, stating that PJSC Gazprom and its subsidiary LLC Gazprom export allegedly violate Article 102 of the EU Agreement the European Commission. The complaint specifically states that PJSC Gazprom violates the antitrust law of the EU through:

- 1) applying unfair pricing policy with respect to PGNiG S.A.;
- 2) preventing cross-border gas sale;
- 3) tying commercial issues with infrastructure.

Based on the complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal proceedings and recognise PJSC Gazprom guilty of violation of the antitrust law of the European Union. It is currently impossible to assess a potential negative impact of this

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**37 OPERATING RISKS (continued)**

ongoing investigation on the activities of PJSC Gazprom in Europe and on a financial position of PJSC Gazprom.

The Group is also a party to certain other legal proceedings arising in the ordinary course of business and subject to various laws of environmental protection regarding handling, storage, and disposal of certain products, regulation by various governmental authorities. Management believes, there are no such current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or financial position of the Group.

**Sanctions**

In 2014 and 2015 the EU, the United States (“U.S.”) and some other countries introduced a series of sanctions against the Russian Federation and some Russian entities. Some of these sanctions are aimed directly against PJSC Gazprom, PJSC Gazprom Neft and other companies, including Gazprombank (Joint-stock Company), and some of them include general restrictions of economic activity in certain sectors of the Russian Federation economy.

The U.S. sanctions prohibit any U.S. person, and U.S. incorporated entities (including their foreign branches) or any person or entity in the U.S. or related with the territory of U.S. from:

- 1) transacting in, providing financing for, or otherwise dealing in new debt of longer than 90 days maturity or newly issued share capital, property or rights to property in respect of a number of Russian energy companies, including PJSC Gazprom Neft;
- 2) to carry out operations, to provide funding or otherwise make transactions related to new borrowings with maturity of longer than 30 days or newly issued share capital, property or rights to property of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);
- 3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction includes the Yuzhno-Kirinskoye field located in the Sea of Okhotsk.

U.S. sanctions apply to any entity, in the capital of which the companies from the sanctions list directly or indirectly, individually or in the aggregate, own 50 or more percent interest in capital.

PJSC Gazprom is not expressly stated in the number of entities against whom the EU sanctions are imposed. However, PJSC Gazprom Neft and Gazprombank (Joint-stock Company), as well as their subsidiaries in which they own more than 50 percent interest in capital are subject to certain financial restrictions imposed by the EU.

The sanctions imposed by the EU prohibit all citizens of countries-EU members, as well as to all legal entities and bodies established or created under the laws of the country-a member of the EU (both within the EU and abroad), as well as all legal entities, bodies in connection with any economic activities carried out in whole or in part within the EU:

- 1) provision of drilling, well testing, logging and completion and services and supply of specialised floating vessels necessary for deep water oil exploration and production, and (or) Arctic oil exploration and production, and shale oil projects in Russia, as well as the direct or indirect financing, financial assistance, technical and brokerage services in relation to these activities;
- 2) purchasing, selling, providing investment services for or assistance in the issuance of, or other dealings with transferable securities and money market instruments with a maturity of more than 90 days issued from 1 August 2014 to 12 September 2014 or more than 30 days, issued after 12 September 2014 by certain Russian companies in banking sector, including Gazprombank (Joint-stock Company), excluding PJSC Gazprom;
- 3) purchase, sale, provision of investment services for or assisting in the issuance of, or other dealings with transferable securities and money market instruments issued by some Russian energy companies, including PJSC Gazprom Neft but excluding PJSC Gazprom, after 12 September 2014 with maturity of more than 30 days;
- 4) providing after 12 September 2014 directly or indirectly or being part of any arrangement to make new loans or credit with a maturity of more than 30 days to a number of Russian companies (including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for loans

**37 OPERATING RISKS (continued)**

or credit that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and the Russian Federation or for loans that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for legal entities established in the EU, whose proprietary rights are owned for more than 50 percent by any entity referred to above.

These EU sanctions also apply to any entity if 50 percent or more of its capital is owned, directly or indirectly, separately or in the aggregate, by sanctioned entities.

Canada and a number of other states also imposed sanctions against some Russian individuals and entities, including PJSC Gazprom, PJSC Gazprom Neft and other oil and gas companies of the Russian Federation. Sanctions imposed by Canada prohibit any person in Canada and any Canadian citizen to transact in, provide financing for, or otherwise deal in new debt with maturity of more than 90 days for a number of Russian energy companies, including PJSC Gazprom and PJSC Gazprom Neft. In addition, there is the ongoing restriction on the export, sale and delivery by persons in Canada, Canadians and located outside the territory of Canada of certain goods to Russia or any person in Russia, if such goods are used for deep-water oil exploration (at a depth of more than 500 meters), for the exploration and production of oil in the Arctic, as well as the exploration and production of shale oil.

The Group is currently assessing an influence of adopted economic measures on its financial position and results of activity.

**38 FINANCIAL RISK FACTORS**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

**Market risk**

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

*(a) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies.

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**38 FINANCIAL RISK FACTORS (continued)**

Notes		Russian Ruble	US dollar	Euro	Other	Total
	<b><u>As of 31 December 2016</u></b>					
	<b>Financial assets</b>					
	<b>Current</b>					
8	Cash and cash equivalents	539,158	249,143	90,458	17,969	896,728
9	Short-term financial assets (excluding equity securities)	11,094	-	-	-	11,094
10	Trade and other accounts receivable	506,332	187,767	216,638	97,249	1,007,986
	<b>Non-current</b>					
16	Long-term accounts receivable (excluding prepayments)	130,556	6,573	39,068	1,298	177,495
17	Available-for-sale long-term financial assets (excluding equity securities)	311	-	-	-	311
	<b>Total financial assets</b>	<b>1,187,451</b>	<b>443,483</b>	<b>346,164</b>	<b>116,516</b>	<b>2,093,614</b>
	<b>Financial liabilities</b>					
	<b>Current</b>					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	692,907	126,497	96,091	67,056	982,551
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	113,841	108,334	224,400	505	447,080
	<b>Non-current</b>					
21	Long-term borrowings, promissory notes	357,525	1,192,238	743,887	88,893	2,382,543
	<b>Total financial liabilities</b>	<b>1,164,273</b>	<b>1,427,069</b>	<b>1,064,378</b>	<b>156,454</b>	<b>3,812,174</b>
	<b><u>As of 31 December 2015</u></b>					
	<b>Financial assets</b>					
	<b>Current</b>					
8	Cash and cash equivalents	660,664	468,936	170,407	59,088	1,359,095
9	Short-term financial assets (excluding equity securities)	10,089	146	-	-	10,235
10	Trade and other accounts receivable	467,587	217,425	216,775	105,198	1,006,985
	<b>Non-current</b>					
16	Long-term accounts receivable (excluding prepayments)	123,506	10,060	66,856	12,704	213,126
17	Available-for-sale long-term financial assets (excluding equity securities)	171	-	-	-	171
	<b>Total financial assets</b>	<b>1,262,017</b>	<b>696,567</b>	<b>454,038</b>	<b>176,990</b>	<b>2,589,612</b>
	<b>Financial liabilities</b>					
	<b>Current</b>					
18	Accounts payable and accrued charges (excluding derivative financial instruments)	713,374	121,705	128,627	60,224	1,023,930
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	92,676	461,694	91,793	209	646,372
	<b>Non-current</b>					
21	Long-term borrowings, promissory notes	282,490	1,569,153	907,203	36,997	2,795,843
	<b>Total financial liabilities</b>	<b>1,088,540</b>	<b>2,152,552</b>	<b>1,127,623</b>	<b>97,430</b>	<b>4,466,145</b>

See discussion of derivative financial instruments in Note 23.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 195,208 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2015, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 291,197 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. The effect of related Russian Ruble strengthening against the US dollar would have been approximately the same amount with opposite impact.

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**38 FINANCIAL RISK FACTORS (continued)**

As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 145,508 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2015, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 134,717 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. The effect of related Russian Ruble strengthening against the Euro would have been approximately the same amount with opposite impact.

*(b) Cash flow and fair value interest rate risk*

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Notes	Long-term borrowings and promissory notes	31 December	
		2016	2015 года
21	At fixed rate	2,086,181	2,431,823
21	At variable rate	682,810	958,390
		<b>2,768,991</b>	<b>3,390,213</b>

The Group does not have a formal policy of determining how much the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During the years ended 31 December 2016 and 31 December 2015 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2016, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 34,141 million for 2016, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2015, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 47,920 million for 2015, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

*(c) Commodity price risk*

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows.

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Natural gas export prices to Europe and other countries are generally based on a formula linked to oil product prices, which in turn are linked to crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2016, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 248,285 million for 2016. As of 31 December 2015, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 262,164 million for 2015.

The Russian gas tariffs are regulated by the FAS and are as such less subject to significant price fluctuations.

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions. However, in the current environment management estimates may materially differ from actual impact on the Group's financial position.

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**38 FINANCIAL RISK FACTORS (continued)**

*(d) Securities price risk*

The Group is exposed to movements in the equity securities prices because of financial assets held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (see Notes 9 and 17).

As of 31 December 2016 and 31 December 2015, if London Stock Exchange equity index, which affects the major part of Group's equity securities, had decreased by 20 % with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RUB 58,743 million and RUB 47,016 million lower, respectively.

The Group is also exposed to equity securities prices used to assess the fair value of pension plan assets held by NPF GAZFOND (see Note 24).

**Credit risk**

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10, 16). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. Group operates with various customers and substantial part of sales relates to major customers.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

Notes		31 December	
		2016	2015
8	Cash and cash equivalents	896,728	1,359,095
9	Debt securities	11,094	10,235
10, 16	Long-term and short-term trade and other accounts receivable	1,185,481	1,223,088
36	Financial guarantees	44,757	107,351
	<b>Total maximum exposure to credit risk</b>	<b>2,138,060</b>	<b>2,699,769</b>

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

Important factor in the Group's liquidity risk management is an access to a wide range of funding through capital markets and banks. Management aims is to maintain flexibility in financing sources by having committed facilities available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

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**38 FINANCIAL RISK FACTORS (continued)**

	<b>Less than 6 months</b>	<b>Between 6 and 12 months</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
<b><u>As of 31 December 2016</u></b>					
Short-term and long-term loans and borrowings and promissory notes	348,178	247,864	829,565	1,172,128	1,022,573
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	907,675	71,449	-	-	-
Financial guarantees	7,162	7,528	8,877	13,147	8,043
<b><u>As of 31 December 2015</u></b>					
Short-term and long-term loans and borrowings and promissory notes	437,493	389,112	627,330	1,726,618	1,285,790
Accounts payable and accrued charges (excluding derivative financial instruments and provision under financial guarantees)	875,809	86,717	-	-	-
Financial guarantees	69,090	2,229	5,915	14,927	15,190

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities. For those borrowing facilities where the Group has financial covenants, the Group is in compliance. If the financial covenants are not met, the Group reclassifies long-term borrowing facilities into short-term.

**Capital risk management**

The Group considers equity and debt to be the principal elements of capital management. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The Group considers its target debt to equity ratio at the level of not more than 40 %.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets and other provisions (excluding provisions for accounts receivable and prepayments).

The net debt to adjusted EBITDA ratios at 31 December 2016 and 31 December 2015 were as follows:

	<b>31 December</b>	
	<b>2016</b>	<b>2015</b>
Total debt	2,829,623	3,442,215
Less: cash and cash equivalents	(896,728)	(1,359,095)
Net debt	1,932,895	2,083,120
Adjusted EBITDA	1,322,199	1,874,726
<b>Net debt / Adjusted EBITDA ratio</b>	<b>1.46</b>	<b>1.11</b>

PJSC Gazprom has an investment grade credit rating of BB+ (stable outlook) by Standard & Poor's and BBB- (stable outlook) by Fitch Ratings as of 31 December 2016.

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**39 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of financial assets and liabilities is determined as follows:

*a) Financial instruments in Level 1*

The fair value of financial instruments traded in active markets is based on quoted market closing prices at the reporting date.

*b) Financial instruments in Level 2*

The fair value of financial instruments that are not traded in an active market is determined by using various valuation techniques, primarily based on market or income approach, such as discounted cash flows valuation method. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

*c) Financial instruments in Level 3*

If one or more of the significant inputs in the valuation model used to fair value an instrument is not based on observable market data, the instrument is included in Level 3.

Long-term accounts receivables are fair valued at Level 3 (see Note 16), long-term borrowings – Level 2 (see Note 21).

As of 31 December 2016 and 31 December 2015 the Group had the following assets and liabilities that are measured at fair value:

Notes		31 December 2016			Total
		Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non- observable inputs (Level 3)	
9	<b>Financial assets held for trading:</b>				
	Bonds	10,976	-	-	10,976
	Equity securities	387	-	-	387
9	<b>Available-for-sale financial assets:</b>				
	Promissory notes	-	118	-	118
	<b>Total short-term financial assets</b>	<b>11,363</b>	<b>118</b>	<b>-</b>	<b>11,481</b>
17	<b>Available-for-sale financial assets:</b>				
	Equity securities	246,866	40,584	6,584	294,034
	Promissory notes	-	311	-	311
	<b>Total available-for-sale long-term financial assets</b>	<b>246,866</b>	<b>40,895</b>	<b>6,584</b>	<b>294,345</b>
23	Derivative financial instruments	16,931	81,110	3,545	101,586
	<b>Total assets</b>	<b>275,160</b>	<b>122,123</b>	<b>10,129</b>	<b>407,412</b>
23	Derivative financial instruments	11,922	135,648	2,819	150,389
	<b>Total liabilities</b>	<b>11,922</b>	<b>135,648</b>	<b>2,819</b>	<b>150,389</b>



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**39 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Notes		31 December 2015			Total
		Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non- observable inputs (Level 3)	
9	<b>Financial assets held for trading:</b>				
	Bonds	9,673	-	-	9,673
	Equity securities	303	-	-	303
9	<b>Available-for-sale financial assets:</b>				
	Equity securities	2,032	-	-	2,032
	Bonds	146	-	-	146
	Promissory notes	-	416	-	416
	<b>Total short-term financial assets</b>	<b>12,154</b>	<b>416</b>	<b>-</b>	<b>12,570</b>
17	<b>Available-for-sale financial assets:</b>				
	Equity securities	188,142	40,584	6,710	235,436
	Promissory notes	-	171	-	171
	<b>Total available-for-sale long-term financial assets</b>	<b>188,142</b>	<b>40,755</b>	<b>6,710</b>	<b>235,607</b>
23	Derivative financial instruments	7,079	167,630	4,931	179,640
	<b>Total assets</b>	<b>207,375</b>	<b>208,801</b>	<b>11,641</b>	<b>427,817</b>
23	Derivative financial instruments	16,135	259,391	3,782	279,308
	<b>Total liabilities</b>	<b>16,135</b>	<b>259,391</b>	<b>3,782</b>	<b>279,308</b>

The derivative financial instruments include natural gas purchase and sale contracts and are categorised in Levels 1, 2 and 3 of the fair value hierarchy. The contracts in Level 1 are valued using active market price of identical assets and liabilities. Due to absence of quoted prices or other observable, market-corroborated data the contracts in Level 2 are valued using models internally developed by the Group. These models include inputs such as: quoted forward prices, time value, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. Where necessary, the price curves are extrapolated to the expiry of the contracts using all available external pricing information, historic and long-term pricing relationships. These valuations are categorised in Level 3.

Foreign currency hedge contracts are categorised in Level 2. The Group uses estimation of fair value of foreign currency hedge contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Group management. No significant ineffectiveness occurred during the reporting year.

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the year ended 31 December 2016 and 31 December 2015 the Group has reclassified available-for-sale investments losses from other comprehensive income into the profit or loss in the amount of RUB nil million and RUB 37 million, respectively.

Financial assets held for trading primarily comprise marketable equity and debt securities intended to generate short-term profits through trading.

**40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

In connection with its derivative activities, the Group generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Group with the right to, in the event of a default by the counterparty (such as bankruptcy), net counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

The following financial assets and liabilities are subject to offsetting, enforceable master netting agreements and similar agreements:

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**40 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)**

	<b>Gross amounts before offsetting</b>	<b>Amounts offset</b>	<b>Net amounts after offsetting in the consolidated balance sheet</b>	<b>Amounts subject to netting agreements</b>
<b><u>As of 31 December 2016</u></b>				
<b>Financial assets</b>				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	2,152,468	309,718	1,842,750	41,835
Derivative financial instruments	580,355	478,769	101,586	60,855
<b>Financial liabilities</b>				
Accounts payable and accrued charges (excluding derivative financial instruments)	703,739	309,718	394,021	41,835
Derivative financial instruments	629,158	478,769	150,389	60,855
<b><u>As of 31 December 2015</u></b>				
<b>Financial assets</b>				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,377,852	156,312	1,221,540	-
Derivative financial instruments	733,689	554,049	179,640	26,284
<b>Financial liabilities</b>				
Accounts payable and accrued charges (excluding derivative financial instruments)	1,180,319	156,312	1,024,007	-
Derivative financial instruments	833,357	554,049	279,308	26,284

**41 POST BALANCE SHEET EVENTS**

**Borrowings**

In February 2017 the Group obtained a long-term loan from a consortium of banks in the total amount of EUR 800 million at an interest rate of EURIBOR + 2.6 % due in 2020 under the agreement concluded in December 2016. J.P. Morgan Europe Limited was appointed as a bank agent.

In February 2017 the Group issued Russian bonds in the total amount of RUB 30,000 million at an interest rate of 9.10 % due in 2024.

In March 2017 the Group obtained a long-term loan from Credit Agricole CIB in the amount of EUR 700 million at an interest rate of EURIBOR + 2.5 % due in 2022.

In March 2017 the Group obtained a long-term loan from Gazprombank (Joint-stock Company) in the amount of RUB 15,000 million at an interest rate of 10.25 % due in 2021.

In March 2017 the Group issued Loan Participation Notes in the amount of USD 750 million at an interest rate of 4.95 % due in 2027 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In April 2017 the Group issued Loan Participation Notes in the amount of 850 million of British Pounds Sterling at an interest rate of 4.25 % due in 2024 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In April 2017 the Group issued Russian bonds in the amount of RUB 15,000 million at an interest rate of 8.70 % due in 2022.

**PJSC GAZPROM**  
**INVESTORS RELATIONS**

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