



PJSC GAZPROM

# IFRS Consolidated Financial Statements with Independent Auditor's Report

31 December 2018

Moscow | 2019



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# Independent Auditor's Report

To the Shareholders and the Board of Directors of PJSC Gazprom

## Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Gazprom ("PJSC Gazprom") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including 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 31 December 2018, and its consolidated financial performance and 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 the Rules of Independence of the Auditors and Audit Organisations and The Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### **Revenue recognition**

During the audit we specially focused on revenue recognition as revenue streams were formed in different geographical segments with significantly different terms of revenue recognition including price determination and change, transfer of risks and rewards.

We assessed the consistency in the application of the revenue recognition accounting policy applicable to various types of revenue and geographic segments. Our audit procedures in respect of the risk of material misstatement of revenue included, in particular, evaluation of the design of controls and performance of substantive procedures in respect of the sales transactions. Based on the results of our audit procedures, we considered the position of the Group's management on the revenue recognition to be acceptable.

We paid special attention to the analysis and testing of liabilities associated with gas price adjustments under long-term contracts and evaluation of existing controls in this area. The amount of the estimated gas price adjustments depends on 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 considered that the amount of the liability recognised as at the end of the reporting period was the best estimate of the expenditure required to settle the present obligation.

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

#### **Impairment of property, plant and equipment**

Due to significance of property, plant and equipment, high level of subjectivity of the underlying assumptions, judgments and estimates made by the management to conduct the impairment analysis, we consider this area to be one of the most significant audit areas. Furthermore, a significant decrease in prices for energy resources and the change in demand may result in the impairment of the Group's assets.

We assessed significant assumptions underlying the impairment test procedures in respect of various cash-generating units. The significant assumptions, in particular, included determining discount rates, forecasting prices for energy resources and exchange rates, as well as estimating volumes of production and sales. 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 were within the acceptable range and corresponded to the current economic environment.

We also paid special attention to the assessment of the assets under construction. We conducted a detailed analysis of the objects where no active works had been done for long time. The management of the Group decided to recognise impairment allowance in respect of such assets. In our opinion, this decision corresponds to the current expectations related to possible future economic benefits 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.

#### **Allowance for expected credit losses in respect of accounts receivable**

One of high-risk audit areas is the evaluation of sufficiency of the allowance for expected credit losses in respect of accounts receivable. Due to the need to exercise professional judgment and make estimates to calculate the allowance for expected credit losses and the material amount of accounts receivable, we consider this area to be one of the most significant audit areas.

Our audit procedures included the assessment of the methodology used to calculate expected credit losses that had been developed by the Group in accordance with IFRS 9 Financial Instruments to estimate the allowance for expected credit losses. We assessed the assumptions and professional judgments applied by the Group's management to estimate the allowance on a collective and individual basis. We paid special attention to critical assessment of the information used by the Group to assess the risk of default based on inputs and the information about current conditions and forecasts of future economic conditions.

Based on the results of the audit procedures performed, we considered the main assumptions applied by the management to estimate the expected credit losses to be acceptable and well in line with the current expectations about expected credit losses.

Information about the allowance for expected credit losses in respect of 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.

### **Evaluation, recognition and disclosure of information about liabilities in respect of legal proceedings**

Evaluation, recognition and disclosure of information about liabilities in respect of legal proceedings require significant professional judgments. We consider this area to be one of most significance in our audit due to the material amounts subject to contestation and essential difficulties associated with the assessment issue.

Gazprom Group is a party to a number of significant litigations, including litigations with NJSC Naftogaz of Ukraine. Procedures we performed included analysis of the decisions made in respect of legal proceedings with NJSC Naftogaz of Ukraine, discussions of these and other significant matters with the Group's staff responsible for providing judicial and legal support to the Group in its activities, evaluation and testing of terms underlying the recognition of liabilities, as well as the evaluation of disclosures for sufficiency and completeness. Based on the results of the procedures performed, we considered the estimates and approaches applied by the management, including the disclosures made, to be consistent and acceptable.

Information about liabilities accrued in respect of litigations is disclosed in Note 18 "Accounts payable and estimated liabilities" to the consolidated financial statements, information about contingent liabilities in respect of litigations is disclosed in Note 36 "Operating risks" to the consolidated financial statements.

### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the Annual Report of PJSC Gazprom for 2018 and the Quarterly issuer's report of PJSC Gazprom for the second quarter of 2019, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report of PJSC Gazprom for 2018 and the Quarterly issuer's report of PJSC Gazprom for the second quarter of 2019 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 express any form of assurance conclusion thereon.

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

When we read the Annual report of PJSC Gazprom for 2018 and the Quarterly issuer's report of PJSC Gazprom for the second quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

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

## 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 judgment and maintain professional skepticism throughout the audit. We also:



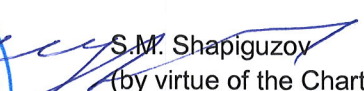
- a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk 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 the Group's 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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

S.M. Shapiguzov  
(by virtue of the Charter,  
audit qualification certificate  
01-001230)



Engagement partner

K.S. Shirikova, ACCA  
(audit qualification certificate  
01-000712)

Date of the Independent Auditor's Report:  
24 April 2019

Audited entity  
Name:  
Public Joint Stock Company Gazprom (PJSC Gazprom).  
Address of the legal entity within its location:  
16, Nametkina St., Moscow, 117420, Russian Federation.  
Official registration:

State Registration Certificate No.022.726, 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.

Auditor  
Name:  
FBK, LLC.  
Address of the legal entity within its location:  
44/1, 2AB, Myasnitskaya St., Moscow, 101990, Russian Federation.  
Official registration:

State Registration Certificate No.484.583 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 organization of auditors:

Member of Self-regulatory organization of auditors Association "Sodruzhestvo". Principal number of registration entry in the register of auditors and audit organizations of the self-regulatory organization of auditors 11506030481.



**PJSC GAZPROM**  
**CONSOLIDATED BALANCE SHEET**  
**AS OF 31 DECEMBER 2018**  
(in millions of Russian Rubles)

Notes		31 December	
		2018	2017
	<b>Assets</b>		
	<b>Current assets</b>		
8	Cash and cash equivalents	849,419	869,007
9	Short-term financial assets	26,859	31,057
10	Accounts receivable and prepayments	1,222,735	1,122,724
11	Inventories	909,677	772,314
	VAT recoverable	150,425	119,881
12	Other current assets	<u>1,053,115</u>	<u>554,283</u>
		<b>4,212,230</b>	<b>3,469,266</b>
	<b>Non-current assets</b>		
13	Property, plant and equipment	13,809,434	12,545,079
14	Goodwill	108,097	105,469
15	Investments in associates and joint ventures	1,097,446	867,445
16	Long-term accounts receivable and prepayments	636,305	669,286
17	Long-term financial assets	416,666	268,432
12	Other non-current assets	<u>530,262</u>	<u>313,793</u>
		<b>16,598,210</b>	<b>14,769,504</b>
	<b>Total assets</b>	<b>20,810,440</b>	<b>18,238,770</b>
	<b>Liabilities and equity</b>		
	<b>Current liabilities</b>		
18	Accounts payable and provisions	1,522,101	1,378,182
	Current profit tax payable	34,708	59,922
19	Taxes other than on profit and fees payable	347,825	276,607
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	<u>569,061</u>	<u>874,805</u>
		<b>2,473,695</b>	<b>2,589,516</b>
	<b>Non-current liabilities</b>		
21	Long-term borrowings, promissory notes	3,294,761	2,391,713
24	Provisions	406,322	469,453
22	Deferred tax liabilities	748,751	699,413
	Other non-current liabilities	<u>110,758</u>	<u>73,194</u>
		<b>4,560,592</b>	<b>3,633,773</b>
	<b>Total liabilities</b>	<b>7,034,287</b>	<b>6,223,289</b>
	<b>Equity</b>		
25	Share capital	325,194	325,194
25	Treasury shares	(235,919)	(235,919)
25	Retained earnings and other reserves	<u>13,210,734</u>	<u>11,539,811</u>
		<b>13,300,009</b>	<b>11,629,086</b>
33	Non-controlling interest	<u>476,144</u>	<u>386,395</u>
	<b>Total equity</b>	<b>13,776,153</b>	<b>12,015,481</b>
	<b>Total liabilities and equity</b>	<b>20,810,440</b>	<b>18,238,770</b>

A.B. Miller  
Chairman of the Management Committee  
24 April 2019

E.A. Vasilieva  
Chief Accountant  
24 April 2019

The accompanying notes on pages 13 to 78 are an integral part of these consolidated financial statements.

**PJSC GAZPROM**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
(in millions of Russian Rubles)

Notes		Year ended 31 December	
		2018	2017
26	Sales	8,224,177	6,546,143
	Net gain (loss) from trading activity	18,015	(16,352)
27	Operating expenses	(6,181,191)	(5,697,056)
27	(Impairment loss) reversal of impairment loss on financial assets	(130,971)	38,670
	<b>Operating profit</b>	<b>1,930,030</b>	<b>871,405</b>
28	Finance income	503,091	426,705
28	Finance expense	(813,042)	(407,044)
15	Share of profit of associates and joint ventures	232,483	126,940
	<b>Profit before profit tax</b>	<b>1,852,562</b>	<b>1,018,006</b>
	Current profit tax expense	(278,233)	(241,817)
	Deferred profit tax expense	(45,333)	(9,310)
22	Profit tax	(323,566)	(251,127)
	<b>Profit for the year</b>	<b>1,528,996</b>	<b>766,879</b>
	<b>Other comprehensive income (loss):</b>		
	Items that will not be reclassified to profit or loss:		
	Gain (loss) arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	148,963	(30,404)
24	Remeasurement of provision for post-employment benefits	19,854	(5,064)
	<b>Total other comprehensive income (loss) that will not be reclassified to profit or loss</b>	<b>168,817</b>	<b>(35,468)</b>
	Items that may be reclassified subsequently to profit or loss:		
15	Share of other comprehensive income of associates and joint ventures	13,923	2,967
	Translation differences	222,221	23,290
	Gain from hedging operations, net of tax	10,082	13,601
	<b>Total other comprehensive income that may be reclassified subsequently to profit or loss</b>	<b>246,226</b>	<b>39,858</b>
	<b>Total other comprehensive income for the year, net of tax</b>	<b>415,043</b>	<b>4,390</b>
	<b>Comprehensive income for the year</b>	<b>1,944,039</b>	<b>771,269</b>
	<b>Profit for the year attributable to:</b>		
	Owners of PJSC Gazprom	1,456,270	714,302
33	Non-controlling interest	72,726	52,577
		<b>1,528,996</b>	<b>766,879</b>
	<b>Comprehensive income for the year attributable to:</b>		
	Owners of PJSC Gazprom	1,858,486	710,840
	Non-controlling interest	85,553	60,429
		<b>1,944,039</b>	<b>771,269</b>
30	<b>Basic and diluted earnings per share attributable to the owners of PJSC Gazprom (in Russian Rubles)</b>	<b>65.89</b>	<b>32.32</b>

A.B. Miller  
Chairman of the Management Committee  
24 April 2019


E.A. Vasilieva  
Chief Accountant  
24 April 2019

The accompanying notes on pages 13 to 78 are an integral part of these consolidated financial statements.

**PJSC GAZPROM**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2018**  
(in millions of Russian Rubles)

Notes	Year ended 31 December	
	2018	2017
	<b>Cash flows from operating activities</b>	
31	<b>Net cash from operating activities</b>	<b>1,617,384</b>
	<b>Cash flows from investing activities</b>	
	Capital expenditures	(1,639,474)
28	Interest capitalised and paid	(134,886)
	Net change in loans issued	22,099
	Acquisition of subsidiaries, net of cash acquired	(2,252)
	Investments in associates and joint ventures	(48,267)
	Interest received	85,744
	Change in long-term financial assets measured at fair value through other comprehensive income	12,255
	Proceeds from associates and joint ventures	128,622
	Proceeds from the sale of associates	-
	Proceeds from the sale of subsidiaries	1,054
	Placement of long-term bank deposits	(5,726)
	Repayment of long-term bank deposits	43,131
	Other	(80,018)
	<b>Net cash used in investing activities</b>	<b>(1,617,718)</b>
	<b>Cash flows from financing activities</b>	
37	Proceeds from long-term borrowings	1,239,745
37	Repayment of long-term borrowings (including current portion of long-term borrowings)	(1,138,451)
37	Proceeds from short-term borrowings	57,717
37	Repayment of short-term borrowings	(53,492)
37	Dividends paid	(188,313)
28, 37	Interest paid	(38,288)
	Acquisition of non-controlling interests in subsidiaries	(289)
	Proceeds from the sale of non-controlling interests in subsidiaries	22,358
	Other	2,943
	<b>Net cash (used in) from financing activities</b>	<b>(96,070)</b>
	Effect of foreign exchange rate changes on cash and cash equivalents	76,816
	<b>Decrease in cash and cash equivalents</b>	<b>(19,588)</b>
8	Cash and cash equivalents at the beginning of the reporting year	869,007
8	<b>Cash and cash equivalents at the end of the reporting year</b>	<b>849,419</b>

  
A.B. Miller  
Chairman of the Management Committee  
24 April 2019

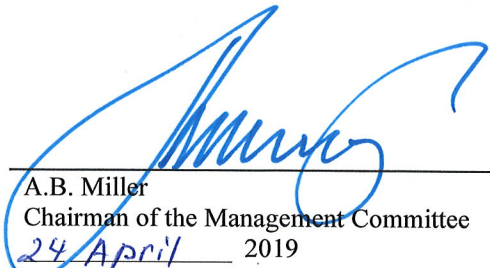
  
E.A. Vasilieva  
Chief Accountant  
24 April 2019


The accompanying notes on pages 13 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 2018**  
(in millions of Russian Rubles)

Notes	Equity attributable to the owners of PJSC Gazprom						
	Number of shares out- standing (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total	Non- controlling interest	Total equity
	<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>
	<b>Balance as of 31 December 2016</b>						
33	Profit for the year	-	-	714,302	714,302	52,577	766,879
	Other comprehensive income (loss):						
	Loss arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	-	-	(30,397)	(30,397)	(7)	(30,404)
24, 33	Remeasurement of provision for post-employment benefits	-	-	(4,982)	(4,982)	(82)	(5,064)
	Share of other comprehensive income of associates and joint ventures	-	-	2,967	2,967	-	2,967
33	Translation differences	-	-	16,145	16,145	7,145	23,290
33	Gain from hedging operations, net of tax	-	-	12,805	12,805	796	13,601
	<b>Comprehensive income for the year ended 31 December 2017</b>	-	-	<b>710,840</b>	<b>710,840</b>	<b>60,429</b>	<b>771,269</b>
33	Change in non-controlling interest in subsidiaries	-	-	1,413	1,413	(2,963)	(1,550)
25	Return of social assets to the balance of governmental authorities	-	-	(18)	(18)	-	(18)
33	Dividends declared	-	-	(177,680)	(177,680)	(18,379)	(196,059)
	<b>Balance as of 31 December 2017</b>	<b>22.1</b>	<b>325,194</b>	<b>(235,919)</b>	<b>11,539,811</b>	<b>386,395</b>	<b>12,015,481</b>
5	Effect of changes in accounting policies	-	-	(13,086)	(13,086)	(140)	(13,226)
	<b>Balance as of 1 January 2018 (restated)</b>	<b>22.1</b>	<b>325,194</b>	<b>(235,919)</b>	<b>11,526,725</b>	<b>386,255</b>	<b>12,002,255</b>
33	Profit for the year	-	-	1,456,270	1,456,270	72,726	1,528,996
	Other comprehensive income (loss):						
	Gain (loss) arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	-	-	149,580	149,580	(617)	148,963
24, 33	Remeasurement of provision for post-employment benefits	-	-	19,732	19,732	122	19,854
	Share of other comprehensive income of associates and joint ventures	-	-	13,923	13,923	-	13,923
33	Translation differences	-	-	209,531	209,531	12,690	222,221
33	Gain from hedging operations, net of tax	-	-	9,450	9,450	632	10,082
	<b>Comprehensive income for the year ended 31 December 2018</b>	-	-	<b>1,858,486</b>	<b>1,858,486</b>	<b>85,553</b>	<b>1,944,039</b>
33	Change in non-controlling interest in subsidiaries	-	-	3,260	3,260	19,471	22,731
25	Return of social assets to the balance of governmental authorities	-	-	(50)	(50)	-	(50)
33	Dividends declared	-	-	(177,687)	(177,687)	(15,135)	(192,822)
	<b>Balance as of 31 December 2018</b>	<b>22.1</b>	<b>325,194</b>	<b>(235,919)</b>	<b>13,210,734</b>	<b>476,144</b>	<b>13,776,153</b>

  
A.B. Miller  
Chairman of the Management Committee  
24 April 2019

  
E.A. Vasilieva  
Chief Accountant  
24 April 2019

The accompanying notes on pages 13 to 78 are an integral part of these consolidated financial statements.

**PJSC GAZPROM**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2018**  
(in millions of Russian Rubles)

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**1 GENERAL INFORMATION**

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, provide for the major part of natural gas production and high pressure gas transportation in the Russian Federation. The Group is also a major supplier of gas to European countries. The Group is engaged in oil production, oil refining, 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 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, other works and rendering of other services.

The average number of employees during 2018 and 2017 was 462 thousand persons and 463 thousand persons, 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 a subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The political and economic instability, the situation in Ukraine, the current situation with sanctions, uncertainty and volatility of 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 rate as determined by the Central Bank of the Russian Federation was as follows:

- as of 31 December 2018 – 69.4706;
- as of 31 December 2017 – 57.6002 (as of 31 December 2016 – 60.6569).

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

- as of 31 December 2018 – 79.4605;
- as of 31 December 2017 – 68.8668 (as of 31 December 2016 – 63.8111).

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 frameworks. The 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 situation and the regulatory environment and their 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 assets and liabilities presented at the fair value (Note 38). The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in these consolidated financial statements, unless otherwise stated.

**4 SCOPE OF CONSOLIDATION**

As described in Note 5, the consolidated financial statements include consolidated subsidiaries, associates, joint ventures and operations of the Group. There were no significant changes in the Group's structure in 2018 and 2017.

**5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**5.1 Consolidation of subsidiaries, associates and joint arrangements**

***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 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 substantive rights 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 when control over their operations is transferred to the Group (the acquisition date) and are deconsolidated from the date on which control ceases.

All inter-company transactions, balances and unrealised 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 entities under common control. The cost of an acquisition is measured at the fair value of the assets transferred, shares issued and liabilities incurred or assumed at the date of acquisition. Acquisition-related costs are expensed as incurred. The acquisition date is a date when a business combination is achieved, and when a business combination is achieved in stages the acquisition date is a date of each share purchase.

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 in the identifiable net assets acquired is recorded as goodwill. If actual cost of acquisition 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 a cash-generating unit or a group of cash-generating units.

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 in the net fair value of those items.

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

***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 arising from 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 participant, 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 is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. Associates are accounted for using the equity method. The Group's share of its associates' post-acquisition profit or loss 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 there is an evidence of the impairment of the asset transferred.

The Group's interest in each associate is carried in the consolidated balance sheet in the amount that reflects cost of acquisition, including the goodwill at the acquisition date, the Group's share of profit or loss 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 method is discontinued when the carrying amount of the investment in the associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

**5.2 Financial instruments**

**5.2.1 Classification and measurement of financial assets**

The Group classifies financial assets into three measurement categories: those measured subsequently at amortised cost, those measured subsequently at fair value with changes recognised in other comprehensive income, and those measured subsequently at fair value with changes recognised in profit or loss.

**Financial assets measured subsequently at amortised cost**

Such category of financial assets includes assets held to obtain contractual cash flows and it is expected that they will result in cash flows being solely payments of principal and interest.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any allowance for expected credit losses.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Group estimates expected cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.



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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss over the relevant period.

This category of financial assets of the Group mainly includes cash and cash equivalents, restricted cash, deposits, accounts receivable, including loans receivable.

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

Cash comprises cash on hand and bank balances. Cash equivalents comprise short-term financial assets which are readily convertible to cash and have an original maturity of three months or less. Restricted cash includes cash and cash equivalents which are restricted to withdrawal under financing and other agreements or under banking regulations. Restricted cash are excluded from cash and cash equivalents in the consolidated statement of cash flows.

***Accounts receivable***

Accounts receivable, including loans receivable, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounts receivable are carried at amortised cost using the effective interest method.

**Financial assets measured subsequently at fair value with changes recognised through other comprehensive income**

Such category of financial assets includes debt-type assets held within business models whose objective is achieved by both collecting contractual cash flows and selling financial assets and it is expected that they will result in cash flows being solely payments of principal and interest.

Gain or loss associated with this category of financial assets are recognised in other comprehensive income, except for impairment gain or loss, interest income and foreign exchange gain and loss, which are recognised in profit or loss. When a financial asset is disposed of, cumulative previous gains or losses that have been recognised in other comprehensive income are reclassified from equity to profit or loss in the consolidated statement of comprehensive income. Interest income from these financial assets is calculated using the effective interest method and included in financial income.

The Group's management can make an irrevocable decision to recognise changes in the fair value of equity instruments in other comprehensive income if the instrument is not held for trading. The Group's management has made a decision to recognise changes in the fair value of the majority of equity instruments in other comprehensive income as such instruments are considered to be long-term strategic investments which are not expected to be sold in the short and medium term. Other comprehensive income or loss from changes in the fair value of such instruments shall not be subsequently reclassified to profit or loss in the consolidated statement of comprehensive income.

This category of financial assets of the Group mainly includes equity instruments for which the Group has made a decision to recognise changes in their fair value in other comprehensive income.

**Financial assets measured subsequently at fair value with changes recognised through profit or loss**

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss.

Such financial assets of the Group mainly include derivative financial instruments and financial instruments held for trading, as well as some equity instruments for which the Group has not made a decision to recognise changes in their fair value in other comprehensive income.

**Impairment of financial assets**

The Group applies the expected credit loss model to financial assets measured at amortised cost and at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

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

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. If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset is measured at an amount equal to 12-month expected credit losses.

For trade accounts receivable or contract assets, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses is applied.

The accrual (reversal) of the allowance for expected credit losses for financial assets is recognised in the consolidated statement of comprehensive income within impairment loss (reversal of impairment loss) on financial assets.

**5.2.2 Classification and measurement of financial liabilities**

The Group classifies all financial liabilities as measured subsequently at amortised cost, except for:

- financial liabilities measured at fair value through profit or loss;
- financial guarantee contracts;
- contingent consideration recognised in a business combination for which IFRS 3 Business Combinations is applied. Such contingent consideration is measured subsequently at fair value with changes recognised in profit or loss.

Financial liabilities of the Group measured at amortised cost mainly include borrowings and accounts payable.

Financial liabilities of the Group measured at fair value through profit or loss mainly include derivative financial instruments. The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

***Borrowings***

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

***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 fair value. After initial recognition financial guarantee contracts are measured at the higher of the allowance for expected credit losses and the amount initially recognised less total income recognised in accordance with IFRS 15 Revenue from Contracts with Customers.

Financial guarantee contracts of the Group mainly include guarantees issued and independent guarantees provided.

**5.2.3 Derivative financial instruments**

The Group uses a variety of derivative financial instruments, including forward and foreign currency, commodities and securities option contracts. The derivative financial instruments are recognised in the consolidated financial statements at fair value. Gain or loss from change in the fair value of the derivative financial instruments is recognised in profit or loss of the consolidated statement of comprehensive income in the period in which it raised.

The fair value of the derivative financial instruments is determined using market information and valuation techniques based on prevailing market interest rates for similar financial instruments.

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

As part of its activities, the Group enters into contracts to buy / 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 IFRS 9 Financial Instruments, because a contract to buy / 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, concluded not for the purpose of the receipt or delivery of a non-financial asset in accordance with the Group's expected purchase, sale or usage requirements. Consequently, such contracts to buy or sell a non-financial item are regulated by IFRS 9 Financial Instruments and are recognised as derivative financial instruments at fair value, with changes in fair value recognised in "Derivatives (gain) loss" within operating expenses of the consolidated statement of comprehensive income.

**5.2.4 Hedge accounting**

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument according to IFRS 9 Financial Instruments. The Group applies the cash flow hedge to manage variability in cash flows that results from fluctuations in foreign exchange rates attributable to highly probable forecast transactions.

A qualifying hedging instrument is designated in its entirety as a hedging instrument.

The effective portion of fair value changes of hedging instrument is recognised in other comprehensive income. Any remaining gains or losses on the hedging instrument that are hedge ineffectiveness are immediately recognised in profit or loss.

The effective portion of hedging is reclassified from equity to profit or loss as a reclassification adjustment in the same period during which the hedged expected future cash flows affect profit or loss. However, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered is immediately reclassified into profit or loss as a reclassification adjustment.

If the hedging instrument expires or is sold or the instrument no longer meets the criteria for hedge accounting, the cumulative gain and loss that has been recognised in equity remains in equity until the forecast transaction occurs. If the forecast transaction on hedging instrument is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that has been recognised in equity is immediately reclassified to profit or 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.

**5.3 Fair value**

Fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of accounts receivable in the consolidated financial statements is measured by discounting the value of future cash flows at the current market rate of interest for similar borrowings at the reporting date.

The fair value of financial liabilities and other financial instruments (except for publicly quoted) in the consolidated financial statements 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 in the consolidated financial statements is measured based on market value at the last trading price on the reporting date.

**5.4 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. From January 1, 2019, the VAT rate increased to 20 %. 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 received. Input VAT could be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

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

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

Deductible 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.

**5.5 Mineral extraction tax**

Mineral extraction tax ("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 fields;
- 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) 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.

**5.6 Customs duties**

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

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

Revenues are recognised net of the amount of customs duties.

**5.7 Excise tax**

Effective from 1 January 2015 natural gas is subject to a 30 % excise tax rate, 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's activities, excise tax is imposed on the transfers of excisable refined oil products produced at the Group's refineries from customer-supplied raw materials to the Group companies owning the product. The Group considers the excise tax on refining of oil products produced from customer-supplied raw materials as an operating expenses. These taxes are not netted with sales of refined oil products presented in the consolidated statement of comprehensive income.

**5.8 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.

**5.9 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. Gain or loss arising from the disposal of property, plant and equipment is included within the profit or loss in 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.

Borrowing costs 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 for general purposes and used for 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. Foreign exchange rate 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.

Depreciation 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.

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

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

	<b>Years</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.

**5.10 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 assets to the recoverable value is recorded within the profit or loss 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.

**5.11 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 realised or the liability is settled, based on tax rates that have been enacted or enactment of which in the foreseeable future was reliably known as of the reporting date. Deferred tax is recorded for 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.

**5.12 Foreign currency transactions**

Items included in the financial statements of each of the Group's subsidiaries 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 the Russian Rubles, which are the presentation currency of the Group's consolidated financial statements.

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

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

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

There are currency control rules relating to conversion the Russian Rubles into other currencies. The Russian Ruble is not freely convertible currency in most countries outside of the Russian Federation.

**5.13 Provisions**

Provisions, including provisions for post-employment benefits and for decommissioning and site restoration costs, are recognised when the Group has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be measured in terms of money with sufficient reliability. 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 the property, plant and equipment are capitalised as property, plant and equipment.

**5.14 Equity**

***Treasury shares***

The cost of acquisition of the shares of PJSC Gazprom by the Group entities, including any attributable transaction costs is deducted from total equity until they are re-sold. When such shares are subsequently sold, any consideration received net of profit tax is included in equity. Treasury shares are recorded at weighted average cost. Gain (loss) arising from treasury shares transactions is recognised in the consolidated statement of changes in equity, net of associated costs including tax payments.

***Dividends***

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

**5.15 Revenue recognition**

Revenue from contracts with customers is measured at the fair value of the consideration received or receivable. Revenue is recognised when (or as) the entity satisfies a performance obligation by transfer of the promised good or service (i.e. the asset) to the customer. The asset is transferred when (or as) the customer obtains control over such an asset. The moment of control transfer varies depending on the terms of the contract with customer.

Sales of 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 are provided, as evidenced by delivery of gas in accordance with the contract.

Prices of natural gas and tariffs for transportation of gas to final consumers in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS"). Prices for gas sold to European countries are mainly calculated by formulas 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 customers.



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

***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 IFRS 9 Financial Instruments for valuation as well as for information disclosure purposes. Income and expenses which arise at the moment of contract fulfilment are recognised on a net basis in profit or loss in the line "Net gain (loss) from trading activity" of the consolidated statement of comprehensive income.

**5.16 Interest**

Interest income and expense are recognised in profit or loss of the consolidated statement of comprehensive income for all interest bearing financial instruments on an accrual basis using the effective interest method. Interest income includes nominal interest and accrued discount and premiums. If 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.

**5.17 Research and development**

Research expenditures are recognised as expenses as incurred. Development expenditures are recognised as intangible assets (within other non-current assets) if only future economic benefits are expected to flow from such expenditures. Other development expenditures are recognised as an expense as incurred. However, development expenditures previously recognised as expenses are not recognised as assets in subsequent periods, even if the asset recognition criteria are subsequently met.

**5.18 Employee benefits**

***Pension and other post-employment benefits***

The Group operates post-employment and other employee benefits system which is recorded as defined benefit plan in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Group. The cost of providing pension benefits is recognised using the projected unit credit method. The cost of providing pension benefits is accrued and charged to staff costs within operating expenses of the consolidated statement of comprehensive income as a provision for post-employment benefits, reflecting the cost of benefits as they are earned over the service lives of employees.

The provision for post-employment benefits is measured at the present value of the projected cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liabilities.

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

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

Plan assets are measured at fair value and are subject to certain limitations (see Note 24). Fair value of pension plan assets is based on market quotes. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected cash flows using a discount rate that reflects both the risk associated with the pension 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 are recorded as a defined contribution plan, are expensed when incurred and are included within staff costs in operating expenses. The costs of providing other discretionary post-employment benefits (including constructive obligations) are accrued and charged to profit or loss of the consolidated statement of comprehensive income as they are earned over the average remaining service lives of employees.

***Social expenses***

The Group incurs employee costs related to the provision of benefits such as health services and maintenance of social infrastructure. 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**5.19 Recent accounting pronouncements**

*Application of New Standards*

- **IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018)**

Application of IFRS 9 Financial Instruments from 1 January 2018 did not have a significant effect on the consolidated financial statements of the Group. The Group applied IFRS 9 Financial Instruments retrospectively and used an option not to restate prior periods in respect of new requirements. The effect of applying IFRS 9 Financial Instruments was recognised in the opening balance of retained earnings and other reserves and non-controlling interest in the consolidated statement of changes in equity of the Group as of 1 January 2018.

	<u><b>1 January 2018</b></u>
Impairment loss on financial assets measured at amortised cost, net of tax	(2,696)
Revaluation of financial assets measured at fair value with changes recognised through profit or loss	1,015
Decrease in the cost of investment in associate Gazprombank (Joint-stock Company)	<u>(11,545)</u>
<b>Total decrease in equity</b>	<u><b>(13,226)</b></u>

- **IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018)**

Except for the requirement for more detailed disclosure of revenue by geographic segments (see Note 26), application from 1 January 2018 of IFRS 15 Revenue from Contracts with Customers did not have a significant effect on the consolidated financial statements of the Group. Therefore, comparative data and opening balance of retained earnings and other reserves and non-controlling interest as of 1 January 2018 have not been restated.

*Application of Interpretations and Amendments to Standards*

A number of interpretations and amendments to current standards became effective after 1 January 2018:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising as a result of committing or receiving prepayment until the recognition of the related asset, income or expense.
- The amendments to IFRS 2 Share-based Payment (issued in June 2016). 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 IAS 40 Investment Property (issued in December 2016). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

The Group has reviewed these interpretations and amendments to standards while preparing the consolidated financial statements. The interpretations and amendments to 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 to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2019. In particular, the Group has not early adopted following standards, interpretations and amendments to standards:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The standard replaces IAS 17 Leases and establishes a general accounting model for all types of lease agreements in the statement of financial position which is consistent to 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. The Group will apply the retrospective approach, which means that the cumulative effect of initially applying IFRS 16 Leases will be

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

recognised at the date of initial application, i.e. 1 January 2019, without restatement of the comparative information. According to preliminary estimates of the Group's management, the recognition of financial lease liabilities will be approximately RUB 232 billion and the non-current assets in the form of right-of-use assets will be approximately RUB 217 billion as at 1 January 2019. This amount may be adjusted if the judgments and estimates made by the Group's management are updated.

- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form a part of the net investments in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- The amendments to IFRS 9 Financial Instruments (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments enable to measure at amortised cost some prepayable financial assets with negative compensation.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.
- The amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify how obtaining control (or joint control) of a business that is a joint operation should be accounted if the entity already holds an interest in that business.
- The amendments to IAS 12 Income Taxes (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify income tax consequences of payments on instruments classified as equity.
- The amendments to IAS 19 Employee Benefits (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs.
- The amendments to IFRS 3 Business Combinations (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of a business and simplify assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

The Group is currently assessing the impact of these changes 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 may affect the reported amount of assets and liabilities as well as information in notes to the consolidated financial statements. Management also makes certain judgments in the process of applying the accounting policies. These estimates and judgments are continually analysed based on historical experience and other information, including forecasts and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from specified estimates, and management's estimates can be revised in the future, either negatively or positively, depending upon the outcome of changes in expectations based on the facts surrounding each estimate.

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

**6.1 Consolidation of subsidiaries**

Management's judgments are involved in the assessment of control and the method of accounting of various investments in subsidiaries in the Group's consolidated financial statements taking into account voting rights and contractual arrangements with other shareholders.

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

**6.2 Tax legislation**

Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations (see Note 36).

Profit tax liabilities are determined by management in accordance with the current tax legislation. 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 allowances**

***Loss allowance for expected credit losses of accounts receivable***

An allowance for expected credit losses of accounts receivable is based on the Group's management's assessment of expected credit losses for the accounts receivable lifetime. Credit losses are the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. If there is deterioration in any major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The accruals (and reversals) of allowance for expected credit losses of accounts receivable may be material (see Notes 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 in relation to certain variables as volumes of production and extraction, prices on natural gas, oil and refined products, electrical power, operating costs, capital expenditures, hydrocarbon reserves estimates, and also macroeconomic factors such as inflation and discount rates.

In addition, assumptions are 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 single gas cash-generating unit and assesses 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 production are based on their expected production volumes, which include both proved and explored reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future.

Change in impairment allowance of property, plant and equipment and goodwill is disclosed in Notes 13, 14 and 27.

***Accounting for impairment***

Accounting for impairment includes allowances against assets under construction, 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 prepared on or around the reporting date.

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

**6.4 Decommissioning and site restoration costs**

Decommissioning and site restoration costs that may occur at the end of the operating life of certain Group's production facilities 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 profit or 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 decommissioning and site restoration provision that result from changes in the estimated timing or amount of cash outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRSs prescribe the recording of provisions for these costs.

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

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. Provisions for decommissioning and site restoration are subject to change because of change in laws and regulations, and their interpretation.

**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 such factors as 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 Group's management estimates, the impact on depreciation for the year ended 31 December 2018 would be an increase by RUB 71,491 million or a decrease by RUB 58,493 million (2017: increase by RUB 66,851 million or a decrease by RUB 54,696 million).

Based on the terms included in the licenses and past experience, management believes that hydrocarbon production licenses, which are expected to be productive after 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 value of energy trading contracts, commodity futures and swaps is based on market data received on measurement date (Level 1 in accordance with the fair value hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair value is calculated based on inputs that are observable either directly or indirectly (Level 2 in accordance with the fair value hierarchy).

Contracts not based on observable market data belong to Level 3 in accordance with the fair value hierarchy. Management's best estimates based on models internally developed by the Group are used for the valuation of these instruments. Where the valuation technique employed incorporates significant input data for which market information is not available, such as long-term price assumptions, contracts have been categorised as Level 3 in accordance with the fair value hierarchy (see Note 38).

The assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement of financial instruments 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 received 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 pension plan assets and 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 pension plan assets related to JSC NPF GAZFOND are recorded using the fair value estimation techniques. Management makes judgements with respect to the selection of valuation models applied, the amount and timing of cash flows and other assumptions including discount rate. The recognition of pension plan assets is limited to the estimated present value of future benefits which are available to the Group in relation to this plan. These future benefits are determined using actuarial techniques and assumptions. The impact of the limitation of the net pension plan asset in accordance with IAS 19 Employee Benefits is disclosed in Note 24. The value of pension plan assets and the limitations 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 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 decision making 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., JSC Tomskneft VNK and its subsidiaries, 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”.

The inter-segment sales mainly consist of the following operations:

- 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, Transportation 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 of the Group assess the performance, assets and liabilities of the reportable segments including on the basis of the internal financial information. The effects of certain significant transactions and events, such as business acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the internal financial information of the Group to the corresponding data presented in the consolidated financial statements are reviewed by the Governing bodies on a central basis and not allocated to the reportable segments. Financial income and expense are not allocated to the reportable segments.

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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>Year ended</b>									
<b>31 December 2018</b>									
<b>Sales of segments</b>	<b>1,017,044</b>	<b>1,173,837</b>	<b>4,568,746</b>	<b>58,675</b>	<b>1,528,932</b>	<b>2,187,170</b>	<b>522,095</b>	<b>363,993</b>	<b>11,420,492</b>
Inter-segment sales	990,737	948,164	291,382	54,211	793,979	7,398	-	-	3,085,871
External sales	26,307	225,673	4,277,364	4,464	734,953	2,179,772	522,095	363,993	8,334,621
<b>Financial result of segments</b>	<b>3,106</b>	<b>49,423</b>	<b>807,214</b>	<b>5,533</b>	<b>390,663</b>	<b>180,863</b>	<b>53,010</b>	<b>37,111</b>	<b>1,526,923</b>
Depreciation	180,753	495,814	16,760	28,873	131,352	39,542	62,642	42,934	998,670
Share of profit of associates and joint ventures	9,226	24,975	707	-	151,422	4,046	65	42,042	232,483
<b>Year ended</b>									
<b>31 December 2017</b>									
<b>Sales of segments</b>	<b>989,961</b>	<b>1,163,097</b>	<b>3,585,422</b>	<b>56,250</b>	<b>1,176,672</b>	<b>1,695,205</b>	<b>503,819</b>	<b>372,225</b>	<b>9,542,651</b>
Inter-segment sales	965,839	928,036	268,957	51,997	636,714	8,115	-	-	2,859,658
External sales	24,122	235,061	3,316,465	4,253	539,958	1,687,090	503,819	372,225	6,682,993
<b>Financial result of segments</b>	<b>43,920</b>	<b>55,068</b>	<b>(27,885)</b>	<b>5,565</b>	<b>265,308</b>	<b>76,073</b>	<b>49,925</b>	<b>51,268</b>	<b>519,242</b>
Depreciation	192,460	513,940	18,126	27,104	117,071	48,555	48,435	38,329	1,004,020
Share of profit of associates and joint ventures	6,525	20,120	1,907	180	85,911	2,905	116	9,276	126,940

Segments' Production of gas and Distribution of gas sales compose gas sales, segment's Gas storage sales are included in other sales.

The reconciliation of reportable segments' financial result to profit before profit tax in the consolidated statement of comprehensive income is provided below.

Notes	Year ended 31 December	
	2018	2017
Financial result of reportable segments	1,489,812	467,974
Financial result of other segments	37,111	51,268
<b>Total financial result of segments</b>	<b>1,526,923</b>	<b>519,242</b>
Difference in depreciation <sup>1</sup>	350,677	390,860
Expenses associated with provision for post-employment benefits	123,421	(8,967)
28 Net finance (expense) income	(309,951)	19,661
15 Share of profit of associates and joint ventures	232,483	126,940
27 Derivatives (loss) gain	(1,849)	18,344
Other	(69,142)	(48,074)
<b>Total profit before profit tax in the consolidated statement of comprehensive income</b>	<b>1,852,562</b>	<b>1,018,006</b>

<sup>1</sup> The difference in depreciation mainly relates to adjustments of property, plant and equipment under Russian statutory accounting to comply with IFRS, such as reversal of revaluation of property, plant and equipment recorded under Russian statutory accounting or adjustments related to operating of the Group in hyperinflation which is not recorded under Russian statutory accounting.

The reconciliation of reportable segments' external sales to sales in the consolidated statement of comprehensive income is provided below.

	Year ended 31 December	
	2018	2017
External sales of reportable segments	7,970,628	6,310,768
External sales of other segments	363,993	372,225
<b>Total external sales of segments</b>	<b>8,334,621</b>	<b>6,682,993</b>
Differences in external sales <sup>1</sup>	(110,444)	(136,850)
<b>Total sales in the consolidated statement of comprehensive income</b>	<b>8,224,177</b>	<b>6,546,143</b>

<sup>1</sup> The differences in external sales relate to adjustments of external sales under Russian statutory accounting to comply with IFRS, such as elimination of sales of materials to subcontractors and other adjustments.

Substantially the Group's 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, VAT recoverable, goodwill, financial assets and other current and non-current assets are not allocated to the segments and 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 2018</b>									
Assets of segments	2,743,944	7,023,399	1,719,640	393,700	2,898,071	2,059,715	911,036	1,428,467	19,177,972
Investments in associates and joint ventures	25,211	200,307	21,476	2	570,760	20,714	1,517	257,459	1,097,446
Capital expenditures <sup>1</sup>	308,007	640,063	39,078	19,391	257,932	309,417	72,907	149,089	1,795,884
<b>As of 31 December 2017</b>									
Assets of segments	2,677,231	6,721,549	1,669,202	347,929	2,516,019	1,715,485	868,933	1,131,509	17,647,857
Investments in associates and joint ventures	25,706	155,054	19,198	2	465,544	21,534	1,422	178,985	867,445
Capital expenditures <sup>2</sup>	216,450	498,550	51,675	37,694	330,424	225,240	58,110	86,457	1,504,600

<sup>1</sup> Capital expenditures for the year ended 31 December 2018.

<sup>2</sup> Capital expenditures for the year ended 31 December 2017.

The reconciliation of reportable segments' assets to total assets in the consolidated balance sheet is provided below.

Notes	31 December	
	2018	2017
Assets of reportable segments	17,749,505	16,516,348
Assets of other segments	1,428,467	1,131,509
<b>Total assets of segments</b>	<b>19,177,972</b>	<b>17,647,857</b>
Difference in property, plant and equipment, net <sup>1</sup>	(1,602,553)	(1,967,878)
13 Borrowing costs capitalised	808,251	714,392
8 Cash and cash equivalents	849,419	869,007
9 Short-term financial assets	26,859	31,057
VAT recoverable	150,425	119,881
12 Other current assets	1,053,115	554,283
17 Long-term financial assets	416,666	268,432
14 Goodwill	108,097	105,469
12 Other non-current assets	530,262	313,793
Inter-segment assets	(956,216)	(742,369)
Other	248,143	324,846
<b>Total assets in the consolidated balance sheet</b>	<b>20,810,440</b>	<b>18,238,770</b>

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

Segment liabilities mainly comprise accounts payable arising in the course of operating activities. Current profit tax payable, deferred tax liabilities, long-term provisions (except for provision for decommissioning and site restoration), long-term and short-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are not allocated to the reportable segments and managed on a central basis.

Liabilities of segments are provided in the table below.

	31 December	
	2018	2017
Distribution of gas	905,778	841,706
Refining	546,611	337,170
Production of gas	314,613	329,521
Transportation	305,569	306,235
Production of crude oil and gas condensate	216,553	217,805
Electric and heat energy generation and sales	96,869	82,315
Gas storage	25,250	24,416
All other segments	325,644	287,748
<b>Total liabilities of segments</b>	<b>2,736,887</b>	<b>2,426,916</b>

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**7 SEGMENT INFORMATION (continued)**

The reconciliation of reportable segments' liabilities to total liabilities in the consolidated balance sheet is provided below.

Notes	31 December	
	2018	2017
Liabilities of reportable segments	2,411,243	2,139,168
Liabilities of other segments	<u>325,644</u>	<u>287,748</u>
<b>Total liabilities of segments</b>	<b>2,736,887</b>	<b>2,426,916</b>
Current profit tax payable	34,708	59,922
20 Short-term borrowings, promissory notes and current portion of long-term borrowings	569,061	874,805
21 Long-term borrowings, promissory notes	3,294,761	2,391,713
24 Long-term provisions (except for provision for decommissioning and site restoration)	239,523	266,837
22 Deferred tax liabilities	748,751	699,413
Other non-current liabilities	110,758	73,194
Dividends	7,586	5,099
Inter-segment liabilities	(956,216)	(742,369)
Other	<u>248,468</u>	<u>167,759</u>
<b>Total liabilities in the consolidated balance sheet</b>	<b>7,034,287</b>	<b>6,223,289</b>

**8 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, balances with banks and term deposits with the original maturity of three months or less.

31 December	
2018	2017
Cash on hand and bank balances payable on demand	531,432
Term deposits with original maturity of three months or less	<u>317,987</u>
<b>Total cash and cash equivalents</b>	<b>849,419</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 conditionally shown under Standard & Poor's classification.

31 December	
2018	2017
Cash on hand	823
External credit investment rating	189,112
External credit non-investment rating	482,717
No external credit rating	<u>176,767</u>
<b>Total cash and cash equivalents</b>	<b>849,419</b>

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BBB- as of 31 December 2018 and BB+ as of 31 December 2017 respectively, the outlook is changed from positive to stable.

**9 SHORT-TERM FINANCIAL ASSETS**

31 December	
2018	2017
<b>Financial assets measured at fair value with changes recognised through profit or loss:</b>	
Bonds	26,827
Equity securities	30,964
<b>Financial assets measured at fair value with changes recognised through other comprehensive income:</b>	
Promissory notes	32
	<u>93</u>
<b>Total short-term financial assets</b>	<b>26,859</b>

Analysis of 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 conditionally shown under Standard & Poor's classification.

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

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Investment rating	12,724	18,217
Non-investment rating	5,254	7,340
No external credit rating	<u>7,922</u>	<u>5,294</u>
	<b>25,900</b>	<b>30,851</b>

**10 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Financial assets</b>		
Trade accounts receivable	912,109	758,150
Other accounts receivable	159,494	136,980
Loans receivable	<u>70,891</u>	<u>149,302</u>
	<b>1,142,494</b>	<b>1,044,432</b>
<b>Non-financial assets</b>		
Advances paid and prepayments	<u>80,241</u>	<u>78,292</u>
<b>Total accounts receivable and prepayments</b>	<b>1,222,735</b>	<b>1,122,724</b>

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

Trade accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 957,770 million and RUB 752,629 million as of 31 December 2018 and 31 December 2017, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million as of 31 December 2018 and 31 December 2017 net of allowance for expected credit losses in the amount of RUB 147,241 million and RUB 80,231 million as of 31 December 2018 and 31 December 2017, respectively.

Loans receivable are presented net of allowance for expected credit losses in the amount of RUB 10,801 million and RUB 8,534 million as of 31 December 2018 and 31 December 2017, respectively.

Other accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 24,461 million and RUB 20,815 million as of 31 December 2018 and 31 December 2017, respectively.

Advances paid and prepayments are presented net of impairment allowance in the amount of RUB 12,314 million and RUB 12,542 million as of 31 December 2018 and 31 December 2017, respectively.

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

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Short-term trade accounts receivable neither past due nor credit-impaired	796,358	654,381
Short-term trade accounts receivable past due and for which allowance for expected credit losses was accrued	996,425	768,010
Amount of allowance for expected credit losses of trade accounts receivable	(957,770)	(752,629)
Short-term trade accounts receivable past due but not credit-impaired	<u>77,096</u>	<u>88,388</u>
<b>Total short-term trade accounts receivable</b>	<b>912,109</b>	<b>758,150</b>

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

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Europe and other countries gas, crude oil, gas condensate and refined products trade accounts receivable	458,990	376,543
Domestic gas, crude oil, gas condensate and refined products trade accounts receivable	191,250	158,288
Former Soviet Union countries (excluding the Russian Federation) gas, crude oil, gas condensate and refined products trade accounts receivable	7,422	9,346
Electricity and heat trade accounts receivable	76,434	54,671
Gas transportation services trade accounts receivable	4,906	4,087
Other trade accounts receivable	<u>57,356</u>	<u>51,446</u>
<b>Total trade accounts receivable neither past due nor credit-impaired</b>	<b>796,358</b>	<b>654,381</b>

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

As of 31 December 2018 and 31 December 2017 credit-impaired accounts receivable mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the accounts receivable will be settled. The ageing analysis from the due date of these accounts receivable is as follows:

Ageing from the due date	Gross book value		Allowance for expected credit losses		Net book value	
	31 December		31 December		31 December	
	2018	2017	2018	2017	2018	2017
up to 6 months	105,661	66,292	(80,059)	(59,403)	25,602	6,889
from 6 to 12 months	84,552	64,832	(76,384)	(60,384)	8,168	4,448
from 1 to 3 years	214,674	193,191	(209,864)	(189,842)	4,810	3,349
more than 3 years	591,538	443,695	(591,463)	(443,000)	75	695
	<b>996,425</b>	<b>768,010</b>	<b>(957,770)</b>	<b>(752,629)</b>	<b>38,655</b>	<b>15,381</b>

Change in the Group's allowance for expected credit losses of trade and other accounts receivable is as follows:

	Trade receivables		Other receivables	
	Year ended 31 December		Year ended 31 December	
	2018	2017	2018	2017
<b>Allowance for expected credit losses of accounts receivable at the beginning of the year</b>	<b>752,629</b>	<b>831,164</b>	<b>20,815</b>	<b>16,950</b>
Effect of changes in accounting policies	1,990	-	55	-
Accrual of allowance for expected credit losses of accounts receivable <sup>1</sup>	143,365	106,714	18,880	13,307
Write-off of accounts receivable during the year <sup>2</sup>	(7,463)	(5,192)	(2,481)	(1,444)
Reversal of previously accrued allowance for expected credit losses of accounts receivable <sup>1</sup>	(17,537)	(150,683)	(12,960)	(7,983)
Reclassification to other lines	(6,287)	(5,649)	-	-
Foreign exchange rate differences	91,073	(23,725)	153	(15)
<b>Allowance for expected credit losses of accounts receivable at the end of the year</b>	<b>957,770</b>	<b>752,629</b>	<b>24,462</b>	<b>20,815</b>

<sup>1</sup> The accrual and release of allowance for expected credit losses of trade and other accounts receivable have been included in the line "Impairment loss) reversal of impairment loss on financial assets" in the consolidated statement of comprehensive income.

<sup>2</sup> If there is no probability of cash receipt for the credit-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 accounts receivable is as follows:

Ageing from the due date	31 December	
	2018	2017
up to 6 months	63,078	63,172
from 6 to 12 months	6,790	9,771
from 1 to 3 years	4,382	7,968
more than 3 years	2,846	7,477
	<b>77,096</b>	<b>88,388</b>

**11 INVENTORIES**

	31 December	
	2018	2017
Gas in pipelines and storages	502,051	475,233
Materials and supplies (net of allowance for obsolescence of RUB 4,251 million and RUB 3,789 million as of 31 December 2018 and 31 December 2017, respectively)	166,994	157,348
Goods for resale (net of allowance for obsolescence of RUB 1,321 million and RUB 1,185 million as of 31 December 2018 and 31 December 2017, respectively)	113,537	31,280
Crude oil and refined products	127,095	108,453
<b>Total inventories</b>	<b>909,677</b>	<b>772,314</b>

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

Other current assets are provided in the table below.

Notes	31 December	
	2018	2017
Short-term deposits	796,140	327,969
Prepaid VAT	119,208	150,511
38 Derivative financial instruments	107,868	55,202
Prepaid profit tax	6,117	6,271
Other	23,782	14,330
<b>Total other current assets</b>	<b>1,053,115</b>	<b>554,283</b>

Other non-current assets are provided in the table below.

Notes	31 December	
	2018	2017
24 Net pension plan assets	140,878	27,173
Intangible assets	52,753	52,174
VAT recoverable related to assets under construction	41,905	36,681
38 Derivative financial instruments	37,393	19,575
Long-term deposits	1,432	1,559
Other	255,901	176,631
<b>Total other non-current assets</b>	<b>530,262</b>	<b>313,793</b>

**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 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>
Depreciation	(86,950)	(72,397)	(296,922)	(132,112)	(10,775)	(2,501)	-	(601,657)
Additions	16	58,892	67,759	11,452	8,725	743	1,540,299	1,687,886
Translation differences	(1,250)	(5,115)	5,924	4,986	(3,705)	14	21,539	22,393
Transfers	104,836	132,050	288,560	169,521	23	1,323	(696,313)	-
Disposals	(714)	(3,038)	(24,162)	(10,809)	(6,313)	(518)	(43,428)	(88,982)
27 Change in impairment allowance	-	30,998	5,257	-	1,385	-	(14,948)	22,692
<b>Net book value as of 31 December 2017</b>	<b>2,344,626</b>	<b>1,240,632</b>	<b>2,657,663</b>	<b>2,506,975</b>	<b>356,733</b>	<b>53,455</b>	<b>3,384,995</b>	<b>12,545,079</b>
<b>As of 31 December 2017</b>								
Cost	3,854,762	1,953,727	4,943,941	3,800,548	611,767	96,791	3,384,995	18,646,531
Accumulated depreciation	(1,510,136)	(713,095)	(2,286,278)	(1,293,573)	(255,034)	(43,336)	-	(6,101,452)
<b>Net book value as of 31 December 2017</b>	<b>2,344,626</b>	<b>1,240,632</b>	<b>2,657,663</b>	<b>2,506,975</b>	<b>356,733</b>	<b>53,455</b>	<b>3,384,995</b>	<b>12,545,079</b>
Depreciation	(86,640)	(88,444)	(319,657)	(134,655)	(11,570)	(2,457)	-	(643,423)
Additions	123	5,992	14,947	3,879	2,200	-	1,924,151	1,951,292
Translation differences	3,902	43,728	24,056	17,147	7,924	160	98,735	195,652
Transfers	147,077	153,073	478,514	304,787	3,268	3,207	(1,089,926)	-
Disposals	(3,335)	(50,280)	(39,181)	(71,477)	(4,668)	(11,184)	(37,633)	(217,758)
27 Change in impairment allowance	(72)	(16,621)	(11,179)	2,304	(723)	-	4,883	(21,408)
<b>Net book value as of 31 December 2018</b>	<b>2,405,681</b>	<b>1,288,080</b>	<b>2,805,163</b>	<b>2,628,960</b>	<b>353,164</b>	<b>43,181</b>	<b>4,285,205</b>	<b>13,809,434</b>
<b>As of 31 December 2018</b>								
Cost	4,001,928	2,097,022	5,366,693	4,047,684	629,180	88,479	4,285,205	20,516,191
Accumulated depreciation	(1,596,247)	(808,942)	(2,561,530)	(1,418,724)	(276,016)	(45,298)	-	(6,706,757)
<b>Net book value as of 31 December 2018</b>	<b>2,405,681</b>	<b>1,288,080</b>	<b>2,805,163</b>	<b>2,628,960</b>	<b>353,164</b>	<b>43,181</b>	<b>4,285,205</b>	<b>13,809,434</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 assets.

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

Operating property, plant and equipment are presented net of impairment allowance of RUB 214,222 million and RUB 181,792 million as of 31 December 2018 and 31 December 2017, respectively.

As of 31 December 2018 and 31 December 2017 the Group conducted impairment tests of assets assessing where the carrying amount of cash-generating units is compared with the recoverable amount of the respective cash-generating unit for possible accrual or release of previously recognised impairment losses.

The Group allocates several cash-generating units in various business areas, including production of gas, production of crude oil and gas condensate, refining, electric and heat energy generation and sales. In the production of gas, the Group allocates cash-generating units for the assets included in the unified gas transportation system and for the assets of Eastern Siberia and the Far East.

The recoverable amount of cash-generating units has been determined on the basis of the values in use of such assets. The values in use of each cash-generating units have been calculated by the Group as the present values of forecasted future cash flows discounted using the rates derived from the weighted average cost of capital of the Group, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units.

The Group applied discount rates ranging from 5.38 % to 13.00 % and from 10.66 % to 12.42 % as of 31 December 2018 and 31 December 2017, respectively. Cash flows were forecasted based on actual operating results, business plans and long-term development program. The cash flow forecast covered periods commensurate with expected useful lives of the respective assets. The Group used estimated growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budgets.

As of 31 December 2018 based on the result of the impairment test the Group recognised an impairment allowance in the amount of RUB 26,291 million for the following cash generating units:

- exploration and production of oil;
- gas storage outside the Russian Federation;
- electric and heat energy generation and sales.

As of 31 December 2017 the Group recognised an impairment release in the amount of RUB 37,640 million mainly related to assets used in production of oil.

As of 31 December 2018 and 31 December 2017 the test did not reveal any impairment of the cash-generating units relating to production and refining of gas.

Assets under construction are presented net of allowance for impairment of RUB 191,326 million and RUB 189,252 million as of 31 December 2018 and 31 December 2017, respectively. Impairment allowance of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefits.

Social assets (rest houses, housing, schools and medical facilities) included in the property, plant and equipment which were vested to the Group at privatisation have a net book value of RUB 69 million and RUB 148 million as of 31 December 2018 and 31 December 2017, respectively.

Included in additions above are capitalised borrowing costs of RUB 182,351 million and RUB 152,628 million for the years ended 31 December 2018 and 31 December 2017, respectively. Capitalisation rates of 6.21 % and 6.18 % were used representing the weighted average borrowing cost including exchange differences on foreign currency borrowings for the years ended 31 December 2018 and 31 December 2017, respectively. Capitalisation rate excluding exchange losses on foreign currency borrowings was 5.76 % for the years ended 31 December 2018 and 31 December 2017, 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>2018</b>	<b>2017</b>
<b>Exploration and evaluation assets at the beginning of the year</b>	<b>281,157</b>	<b>298,488</b>
Additions	57,248	49,008
Translation differences	7,556	(1,006)
Reclassification	(2,886)	(35,632)
Disposals	(23,397) <sup>1</sup>	(29,701) <sup>2</sup>
<b>Exploration and evaluation assets at the end of the year</b>	<b>319,678</b>	<b>281,157</b>

<sup>1</sup> Including impairment allowance in the amount of RUB 215 million.

<sup>2</sup> Including impairment allowance in the amount of RUB 6,041 million.

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**14 GOODWILL**

Change in goodwill occurred as a result of subsidiaries acquisition is presented in the table below.

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Goodwill at the beginning of the year</b>	<b>105,469</b>	<b>105,330</b>
Additions	-	187
Translation differences	2,629	(46)
Disposals	(1)	(2)
<b>Goodwill at the end of the year</b>	<b>108,097</b>	<b>105,469</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>2018</b>	<b>2017</b>
Gas production, transportation and distribution	44,115	44,104
Production of crude oil and gas condensate	35,469	32,852
Electric and heat energy generation and sales	28,513	28,513
<b>Total goodwill</b>	<b>108,097</b>	<b>105,469</b>

As of 31 December 2018 and 31 December 2017 the Group did not identify any indicators for recognising an impairment loss in relation to goodwill.

**15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

<b>Notes</b>			<b>Carrying value as of</b>		<b>Share of profit (loss) of associates and joint ventures for the year ended</b>	
			<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
			<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
34, 37	Sakhalin Energy Investment Company Ltd. Associate		196,679	169,242	64,071	43,846
	Gazprombank (Joint-stock Company) and its subsidiaries <sup>1</sup>	Associate	166,218	145,603	13,126	9,473
34	PJSC NGK Slavneft and its subsidiaries	Joint venture	152,495	140,548	11,882	7,122
34	JSC Arcticgas <sup>2</sup>	Joint venture	146,246	105,157	40,451	19,861
34, 37	Nord Stream AG	Joint venture	100,138	79,288	17,547	14,867
	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	55,867	45,436	6,694	5,552
34	JSC Achimgaz	Joint venture	37,310	33,509	13,399	8,768
34	JSC Messoyakhaneftegaz	Joint venture	36,837	17,965	28,172	9,976
34	JSC EUROPOL GAZ	Associate	33,894	29,588	734	(506)
	JSC NPF GAZFOND <sup>3</sup>	Associate	28,861	-	28,861	-
	Wintershall AG	Associate	18,026	15,645	(4)	256
34	KazRosGas LLP	Joint venture	11,758	9,435	464	1,544
34	Wintershall Noordzee B.V.	Joint venture	8,125	6,532	383	207
34	CJSC Northgas	Joint venture	7,986	12,786	3,700	3,434
	JSC Latvijas Gaze and its subsidiaries <sup>4</sup>	Associate	4,027	3,439	635	580
	Other (net of allowance for investments impairment of RUB 26,092 million and RUB 21,795 million as of 31 December 2018 and 31 December 2017, respectively)		92,979	53,272	2,368	1,960
			<b>1,097,446</b>	<b>867,445</b>	<b>232,483</b>	<b>126,940</b>

<sup>1</sup> On 28 June 2017 the Group acquired 16 % ordinary shares of Gazprombank (Joint-stock Company) buying the additional share issue for the amount of RUB 60,000 million. As a result of this transaction the effective ownership interest of the Group in Gazprombank (Joint-stock Company) increased from 37 % to 48 %.

<sup>2</sup> In January 2018 LLC Yamal razvitie and its subsidiary LLC SeverEnergy were reorganised in the form of the merger with JSC Arcticgas (a former subsidiary of LLC SeverEnergy). As of 31 December 2017 the investment in this line in the amount of RUB 105,157 million includes investments in LLC Yamal razvitie and its subsidiaries.

<sup>3</sup> In December 2018 the Group as one of the founder of NPF GAZFOND become owner of 31 % of ordinary registered shares of JSC NPF GAZFOND established as a result of reorganisation of NPF GAZFOND from a non-profit organisation to a joint-stock company. The Group's share in JSC NPF GAZFOND voting shares was 42 %. As a result of that transaction a lump-sum income in the amount of RUB 28,861 million was recognised.

<sup>4</sup> To complete the liberalisation process of the Latvian gas market shareholders of JSC Latvijas Gaze at the foundation meeting on 22 November 2017 made a decision to reorganise the company by disavowance of JSC Gaso, a 100 % subsidiary, to which natural gas distribution business was transferred.



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

Changes in the carrying amount of investment in associates and joint ventures are as follows:

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Investments in associates and joint ventures at the beginning of the year</b>	<b>867,445</b>	<b>730,149</b>
Share of profit of associates and joint ventures	232,483	126,940
Distributions from associates and joint ventures	(124,662)	(88,105)
Share of other comprehensive income of associates and joint ventures	13,923	2,967
Translation differences	68,454	4,831
Other acquisitions and disposals	39,803	90,663
<b>Investments in associates and joint ventures at the end of the year</b>	<b>1,097,446</b>	<b>867,445</b>

The estimated fair values of the Group's investments in associates and joint ventures which are based on published price quotations are as follows:

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
JSC Latvijas Gaze	11,046	9,349

**Significant associates and joint ventures**

	<b>Country of primary operations</b>	<b>Country of incorporation</b>	<b>Nature of operations</b>	<b>Ownership interest as of 31 December</b>	
				<b>2018</b>	<b>2017</b>
JSC Arcticgas	Russia	Russia	Production of oil and petroleum gas	50	50
JSC Achimgaz	Russia	Russia	Exploration and production of gas	50	50
WIGA Transport Beteiligungs- GmbH & Co. KG	Germany	Germany	Gas transportation	50	50
Wintershall AG	Libya	Germany	Production of oil and gas sales	49	49
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company) <sup>1</sup>	Russia	Russia	Banking	48	48
JSC NPF GAZFOND <sup>1</sup>	Russia	Russia	Non-state pension provision	42	-
JSC EUROPOL GAZ	Poland	Poland	Transportation and gas sales	48	48
KazRosGas LLP	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
JSC Latvijas Gaze	Latvia	Latvia	Sale and distribution of gas	34	34
JSC Messoyakhaneftegaz	Russia	Russia	Production of oil and petroleum gas	50	50
JSV Moldovagaz	Moldova	Moldova	Transportation and gas sales	50	50
Nord Stream AG <sup>2</sup>	Russia, Germany	Switzerland	Gas transportation	51	51
CJSC Northgas	Russia	Russia	Production and sales of gas and gas condensate	50	50
Panrusgas Co.	Hungary	Hungary	Gas sales	40	40
Prometheus Gas S.A.	Greece	Greece	Gas sales, construction	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Production of oil, LNG	50	50
PJSC NGK Slavneft	Russia	Russia	Production, processing and sales of oil	50	50
Bosphorus Gaz Corporation A.S. <sup>2</sup>	Turkey	Turkey	Gas sales	-	71

<sup>1</sup> Share in voting shares.

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

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

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

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

This financial information may be different from the financial statements of the associate and joint 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.

	<b>PJSC 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 2018</u></b>			
Cash and cash equivalents	3,448	1,049,343	32,675
Other current assets (excluding cash and cash equivalents)	89,057	4,648,318	156,895
Other non-current assets	<u>459,041</u>	<u>740,041</u>	<u>913,361</u>
<b>Total assets</b>	<b>551,546</b>	<b>6,437,702</b>	<b>1,102,931</b>
Current financial liabilities (excluding trade payables)	1,991	4,913,146	103,463
Other current liabilities (including trade payables)	60,520	127,054	142,865
Non-current financial liabilities	126,151	861,842	155,143
Other non-current liabilities	<u>58,301</u>	<u>13,301</u>	<u>308,104</u>
<b>Total liabilities</b>	<b>246,963</b>	<b>5,915,343</b>	<b>709,575</b>
<b>Net assets (including non-controlling interest)</b>	<b>304,583</b>	<b>522,359</b>	<b>393,356</b>
Ownership interest	50 %	48 %	50 %
<b>Carrying value of investment</b>	<b>152,495</b>	<b>166,218</b>	<b>196,679</b>
Revenue	314,332	287,415	392,816
Depreciation	(45,022)	(44,972)	(119,098)
Interest income	368	373,482	3,685
Interest expense	(5,276)	(234,801)	(13,590)
Profit tax expense	<u>(7,682)</u>	<u>(13,521)</u>	<u>(81,586)</u>
<b>Profit for the year</b>	<b>24,926</b>	<b>41,086</b>	<b>128,142</b>
<b>Other comprehensive income for the year</b>	<b>137</b>	<b>3,496</b>	<b>986</b>
<b>Comprehensive income for the year</b>	<b>25,063</b>	<b>44,582</b>	<b>129,128</b>
<b>Dividends received from associates and joint ventures</b>	<b>-</b>	<b>(3,086)</b>	<b>(74,433)</b>
<b><u>As of and for the year ended 31 December 2017</u></b>			
Cash and cash equivalents	4,153	649,428	38,868
Other current assets (excluding cash and cash equivalents)	54,479	1,295,049	76,715
Other non-current assets	<u>430,466</u>	<u>3,495,187</u>	<u>828,551</u>
<b>Total assets</b>	<b>489,098</b>	<b>5,439,664</b>	<b>944,134</b>
Current financial liabilities (excluding trade payables)	10,359	4,050,693	61,963
Other current liabilities (including trade payables)	53,924	132,921	93,983
Non-current financial liabilities	88,198	748,068	166,083
Other non-current liabilities	<u>58,323</u>	<u>25,561</u>	<u>283,620</u>
<b>Total liabilities</b>	<b>210,804</b>	<b>4,957,243</b>	<b>605,649</b>
<b>Net assets (including non-controlling interest)</b>	<b>278,294</b>	<b>482,421</b>	<b>338,485</b>
Ownership interest	50 %	48 %	50 %
<b>Carrying value of investment</b>	<b>140,548</b>	<b>145,603</b>	<b>169,242</b>
Revenue	241,253	244,194	314,932
Depreciation	(44,453)	(42,011)	(114,681)
Interest income	988	365,335	1,682
Interest expense	(4,578)	(233,818)	(11,330)
Profit tax expense	<u>(4,429)</u>	<u>(9,343)</u>	<u>(46,210)</u>
<b>Profit for the year</b>	<b>15,179</b>	<b>35,493</b>	<b>87,692</b>
<b>Other comprehensive income for the year</b>	<b>59</b>	<b>1,757</b>	<b>1,382</b>
<b>Comprehensive income for the year</b>	<b>15,238</b>	<b>37,250</b>	<b>89,074</b>
<b>Dividends received from associates and joint ventures</b>	<b>-</b>	<b>(3,398)</b>	<b>(51,221)</b>

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

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

	Assets	Liabilities	Revenues	Profit (loss)
<b>As of and for the year ended 31 December 2018</b>				
Nord Stream AG	489,723	293,372	79,469	34,405
JSC Arcticgas	439,148	168,497	195,581	81,823
JSC NPF GAZFOND	427,516	358,003	-	14,616
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	321,523	188,493	76,008	13,780
JSC Messoyakhaneftegaz	202,430	129,175	125,521	56,344
JSC Achimgaz	93,125	18,504	41,217	26,798
Wintershall AG	78,622	53,527	11,561	(8)
JSC EUROPOL GAZ	72,453	1,843	15,752	1,490
Wintershall Noordzee B.V.	54,408	39,943	14,643	765
CJSC Northgas	46,496	29,589	23,337	7,399
KazRosGas LLP	27,622	4,106	44,347	1,825
JSC Latvijas Gaze and its subsidiaries	25,210	8,067	26,095	1,865
<b>As of and for the year ended 31 December 2017</b>				
Nord Stream AG	437,421	281,955	71,008	29,150
JSC Arcticgas	401,450	212,622	147,204	42,365
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	252,107	155,126	46,519	11,789
JSC Messoyakhaneftegaz	171,124	135,612	61,030	19,952
JSC Achimgaz	78,206	11,188	31,027	17,536
Wintershall AG	67,904	44,818	10,066	522
JSC EUROPOL GAZ	64,993	3,353	13,865	(1,051)
CJSC Northgas	58,730	32,221	23,079	6,868
Wintershall Noordzee B.V.	50,550	38,271	9,858	414
KazRosGas LLP	30,824	11,953	43,548	3,087
JSC Latvijas Gaze and its subsidiaries	19,638	6,338	21,050	1,706

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

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Financial assets</b>		
Long-term accounts receivable	<u>151,131</u>	<u>158,333</u>
	<b>151,131</b>	<b>158,333</b>
<b>Non-financial assets</b>		
Long-term prepayments	20,991	25,561
Advances for assets under construction	<u>464,183</u>	<u>485,392</u>
	<b>485,174</b>	<b>510,953</b>
<b>Total long-term accounts receivable and prepayments</b>	<b>636,305</b>	<b>669,286</b>

Long-term accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 12,031 million and RUB 8,810 million as of 31 December 2018 and 31 December 2017, respectively. Prepayments and advances paid for assets under construction are presented net of impairment allowance in the amount of RUB 7,868 million and RUB 7,508 million as of 31 December 2018 and 31 December 2017, respectively.

As of 31 December 2018 and 31 December 2017 long-term accounts receivable and prepayments with carrying value RUB 172,122 million and RUB 183,894 million have an estimated fair value RUB 149,766 million and RUB 181,218 million, respectively.

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Long-term accounts receivable neither past due nor credit-impaired	172,101	180,520
Long-term accounts receivable past due and for which allowance for expected credit losses was accrued	12,040	8,819
Allowance for expected credit losses of long-term accounts receivable	(12,031)	(8,810)
Long-term accounts receivable past due but not credit-impaired	<u>12</u>	<u>3,365</u>
<b>Total long-term accounts receivable and prepayments</b>	<b>172,122</b>	<b>183,894</b>

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

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Loans receivable	59,983	81,892
Long-term trade accounts receivable	40,525	11,243
Other long-term accounts receivable <sup>1</sup>	71,593	87,385
<b>Total long-term accounts receivable neither past due nor credit-impaired</b>	<b>172,101</b>	<b>180,520</b>

<sup>1</sup> Other long-term accounts receivable includes prepayments in the amount of RUB 20,991 million and RUB 25,561 million as of 31 December 2018 and 31 December 2017, respectively.

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

Movement of the Group's allowance for expected credit losses of long-term accounts receivable is presented in the table below.

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Allowance for expected credit losses of accounts receivable at the beginning of the year</b>	<b>8,810</b>	<b>5,837</b>
Effect of changes in accounting policies	569	-
Accrual of allowance for expected credit losses of accounts receivable <sup>1</sup>	3,405	3,010
Reversal of previously accrued allowance for expected credit losses of accounts receivable <sup>1</sup>	(819)	(33)
Foreign exchange rate differences	66	(4)
<b>Allowance for expected credit losses of accounts receivable at the end of the year</b>	<b>12,031</b>	<b>8,810</b>

<sup>1</sup> The accrual and release of allowance for expected credit losses of long-term accounts receivable have been included in the line "Impairment loss) reversal of impairment loss on financial assets" in the consolidated statement of comprehensive income.

**17 LONG-TERM FINANCIAL ASSETS**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Financial assets measured at fair value with changes recognised through profit or loss:</b>	<b>2,131</b>	<b>797</b>
Equity securities	2,131	797
<b>Financial assets measured at fair value with changes recognised through other comprehensive income:</b>	<b>414,535</b>	<b>267,635</b>
Equity securities <sup>1</sup>	414,273	267,386
Promissory notes	262	249
<b>Total long-term financial assets</b>	<b>416,666</b>	<b>268,432</b>

<sup>1</sup> As of 31 December 2018 and 31 December 2017 equity securities measured at fair value with changes recognised through other comprehensive income include PJSC NOVATEK shares in the amount of RUB 360,336 million and RUB 210,010 million, respectively.

Long-term financial assets are shown net of allowance for expected credit losses of RUB 35 million and RUB 32 million as of 31 December 2018 and 31 December 2017, respectively.

Long-term financial assets measured at fair value with changes recognised through other comprehensive income include promissory notes on Group companies' balances which are assessed by management as of high credit quality.

Movement in long-term financial assets is presented in the table below.

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>Long-term financial assets at the beginning of the year</b>	<b>268,432</b>	<b>294,345</b>
Increase (decrease) in fair value of long-term financial assets	148,963	(30,404)
Acquisition of long-term financial assets	1,387	5,691
Disposal of long-term financial assets	(2,113)	(2,096)
(Accrual) release of allowance for expected credit losses of long-term financial assets	(3)	896
<b>Long-term financial assets at the end of the year</b>	<b>416,666</b>	<b>268,432</b>

As of the reporting date the maximum exposure to credit risk for this category of assets equals to the fair value of the promissory notes classified as financial assets measured at fair value with changes recognised through other comprehensive income. Fair value of financial assets measured at fair value with changes recognised through other comprehensive income mainly has been determined using the quoted market prices (see Note 38).

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**18 ACCOUNTS PAYABLE AND PROVISIONS**

Notes	31 December	
	2018	2017
<b>Financial liabilities</b>		
Accounts payable for acquisition of property, plant and equipment	319,660	354,857
Trade accounts payable	473,027	353,179
38 Derivative financial instruments	99,490	64,342
Other accounts payable <sup>1</sup>	<u>463,672</u>	<u>455,585</u>
	1,355,849	1,227,963
<b>Non-financial liabilities</b>		
Advances received	164,167	148,324
Accruals and deferred income	<u>2,085</u>	<u>1,895</u>
	<u>166,252</u>	<u>150,219</u>
<b>Total accounts payable and provisions</b>	<b>1,522,101</b>	<b>1,378,182</b>

<sup>1</sup> As of 31 December 2018 and 31 December 2017 other accounts payable include RUB 33,228 million and RUB 111,607 million of accruals for probable price adjustments related to natural gas deliveries made from 2013 to 2018, respectively.

Fair values of these liabilities approximate the carrying values.

**19 TAXES OTHER THAN ON PROFIT AND FEES PAYABLE**

	31 December	
	2018	2017
VAT	151,936	103,698
MET	114,078	96,320
Property tax	37,301	35,240
Excise tax	21,227	21,432
Other taxes	<u>23,283</u>	<u>19,917</u>
<b>Total taxes and fees payable</b>	<b>347,825</b>	<b>276,607</b>

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

	31 December	
	2018	2017
Short-term borrowings and promissory notes:		
Borrowings and promissory notes denominated in Russian Rubles	66,839	74,374
Foreign currency denominated borrowings	<u>8,052</u>	<u>11,807</u>
	74,891	86,181
Current portion of long-term borrowings (see Note 21)	<u>494,170</u>	<u>788,624</u>
<b>Total short-term borrowings, promissory notes and current portion of long-term borrowings</b>	<b>569,061</b>	<b>874,805</b>

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

	31 December	
	2018	2017
Fixed rate short-term borrowings denominated in Russian Rubles	7.95 %	8.82 %
Fixed rate foreign currency denominated short-term borrowings	7.83 %	7.47 %
Variable rate short-term borrowings denominated in Russian Rubles	9.75 %	9.72 %
Variable rate foreign currency denominated short-term borrowings	3.48 %	3.05 %

Fair values of these liabilities approximate the carrying values.

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

	Currency	Final maturity	31 December 2018	2017
Long-term borrowings, promissory notes payable to:				
Loan participation notes issued in April 2009 <sup>1</sup>	US Dollar	2019	159,040	131,865
Bank of China Limited, London branch	Euro	2021	113,580	137,186
Loan participation notes issued in September 2012 <sup>2</sup>	US Dollar	2022	105,485	87,461
Loan participation notes issued in November 2013 <sup>2</sup>	US Dollar	2023	104,779	86,875
Intesa Sanpaolo Bank Luxembourg S.A.	Euro	2023	94,883	-
Loan participation notes issued in March 2007 <sup>1</sup>	US Dollar	2022	92,174	76,424
Loan participation notes issued in August 2007 <sup>1</sup>	US Dollar	2037	89,212	73,968
J.P. Morgan Europe Limited <sup>3</sup>	Euro	2023	87,087	-
Loan participation notes issued in April 2004 <sup>1</sup>	US Dollar	2034	84,622	70,163
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2020	81,578	70,702
Loan participation notes issued in November 2016 <sup>1</sup>	Euro	2023	79,268	68,530
Loan participation notes issued in November 2018 <sup>1</sup>	Euro	2024	79,045	-
J.P. Morgan Europe Limited <sup>3</sup>	Euro	2022	78,987	68,256
	British Pound			
Loan participation notes issued in April 2017 <sup>1, 4</sup>	Sterling	2024	78,028	67,474
Loan participation notes issued in July 2012 <sup>1</sup>	US Dollar	2022	71,018	58,883
Loan participation notes issued in February 2013 <sup>1</sup>	US Dollar	2028	63,770	52,874
Loan participation notes issued in February 2014 <sup>1</sup>	Euro	2021	61,412	53,224
China Construction Bank Corporation, Beijing branch <sup>3</sup>	US Dollar	2020	61,151	75,699
Loan participation notes issued in March 2018 <sup>1</sup>	Euro	2026	60,239	-
Loan participation notes issued in November 2017 <sup>1</sup>	Euro	2024	59,243	51,194
Loan participation notes issued in February 2013 <sup>1</sup>	US Dollar	2020	56,438	46,795
Credit Agricole CIB	Euro	2022	55,722	48,138
UniCredit S.p.A.	Euro	2025	55,427	-
UniCredit S.p.A.	Euro	2022	55,329	27,135
Loan participation notes issued in March 2018 <sup>1</sup>	Swiss Franc	2023	53,161	-
Loan participation notes issued in March 2017 <sup>1</sup>	US Dollar	2027	52,340	43,261
	British Pound			
Loan participation notes issued in September 2013 <sup>1, 4</sup>	Sterling	2020	48,058	41,651
Credit Agricole CIB	Euro	2023	47,467	-
Loan participation notes issued in November 2011 <sup>1</sup>	US Dollar	2021	42,780	35,470
J.P. Morgan Europe Limited <sup>3</sup>	Euro	2020	42,007	54,522
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2025	41,089	35,611
Loan issued in December 2018 <sup>5</sup>	Japanese yen	2028	40,411	-
Loan participation notes issued in November 2016 <sup>1, 4</sup>	Swiss Franc	2021	36,943	31,923
Loan participation notes issued in July 2017 <sup>1, 4</sup>	Swiss Franc	2022	36,207	31,272
Loan participation notes issued in October 2013 <sup>1</sup>	Swiss Franc	2019	35,474	29,641
Citibank Europ plc <sup>3</sup>	Euro	2023	33,537	-
ING Bank, a branch of ING-DiBa AG	Euro	2023	31,611	-
PJSC Sberbank	Euro	2023	29,861	-
AO «ALFA-BANK»	US Dollar	2021	27,803	23,052
Wintershall Nederland Transport and Trading B.V. <sup>6</sup>	Euro	2035	26,978	20,555
Uniper Gas Transportation and Finance B.V. <sup>6</sup>	Euro	2035	26,978	20,555
OMV Gas Marketing Trading & Finance B.V. <sup>6</sup>	Euro	2035	26,975	20,554
Shell Exploration and Production (LXXI) B.V. <sup>6</sup>	Euro	2035	26,975	20,554
Engie Energy Management Holding Switzerland AG <sup>6</sup>	Euro	2035	26,975	20,554
Wintershall Nederland Transport and Trading B.V. <sup>6</sup>	Euro	2019	26,245	3,119
OMV Gas Marketing Trading & Finance B.V. <sup>6</sup>	Euro	2019	26,245	3,119
Shell Exploration and Production (LXXI) B.V. <sup>6</sup>	Euro	2019	26,245	3,119
Uniper Gas Transportation and Finance B.V. <sup>6</sup>	Euro	2019	26,245	3,119
Engie Energy Management Holding Switzerland AG <sup>6</sup>	Euro	2019	26,243	3,119
Russian bonds issued in March 2018 <sup>2</sup>	Russian Ruble	2024	25,538	-
Russian bonds issued in October 2017 <sup>2</sup>	Russian Ruble	2022	25,376	25,371
Gazprombank (Joint-stock Company)	US Dollar	2019	25,009	20,736

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

	Currency	Final maturity	31 December 2018	2017
Gazprombank (Joint-stock Company)	US Dollar	2019	22,925	19,008
UniCredit Bank Austria AG	Euro	2021	21,254	23,908
VTB Bank (Europe) SE	Euro	2027	20,276	19,640
PJSC Sberbank	Euro	2022	19,149	15,736
PJSC Sberbank	Euro	2020	19,143	16,591
Mizuho Bank Ltd. <sup>3</sup>	US Dollar	2019	17,339	53,130
Deutsche Bank Luxembourg S.A.	Euro	2022	15,943	13,818
Russian bonds issued in July 2018 <sup>7</sup>	Russian Ruble	2048	15,509	-
Russian bonds issued in July 2018 <sup>7</sup>	Russian Ruble	2048	15,509	-
Russian bonds issued in February 2017 <sup>8</sup>	Russian Ruble	2027	15,505	15,501
Russian bonds issued in February 2017 <sup>8</sup>	Russian Ruble	2027	15,505	15,501
Russian bonds issued in August 2017 <sup>2</sup>	Russian Ruble	2024	15,482	15,476
Russian bonds issued in April 2017 <sup>2</sup>	Russian Ruble	2022	15,282	15,276
BANK ROSSIYA	Russian Ruble	2022	15,281	15,012
Russian bonds issued in November 2013 <sup>7</sup>	Russian Ruble	2043	15,074	15,059
Russian bonds issued in November 2013 <sup>7</sup>	Russian Ruble	2043	15,074	15,059
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,000	15,001
Gazprombank (Joint-stock Company)	Russian Ruble	2021	15,000	-
BNP Paribas S.A. <sup>3</sup>	Euro	2022	12,986	14,069
Russian bonds issued in July 2018 <sup>7</sup>	Russian Ruble	2033	10,340	-
Russian bonds issued in August 2016 <sup>2</sup>	Russian Ruble	2046	10,322	10,319
Russian bonds issued in February 2011 <sup>2</sup>	Russian Ruble	2021	10,319	10,371
Russian bonds issued in February 2018 <sup>8</sup>	Russian Ruble	2028	10,245	-
Russian bonds issued in February 2018 <sup>8</sup>	Russian Ruble	2028	10,245	-
Russian bonds issued in June 2016 <sup>2</sup>	Russian Ruble	2046	10,067	10,064
Russian bonds issued in December 2017 <sup>2</sup>	Russian Ruble	2024	10,023	10,021
AO «ALFA-BANK»	Russian Ruble	2023	10,007	-
Gazprombank (Joint-stock Company)	US Dollar	2019	585	17,856
Russian bonds issued in April 2009 <sup>2</sup>	Russian Ruble	2019	118	10,184
Loan participation notes issued in October 2007 <sup>1</sup>	Euro	2018	-	87,456
Loan participation notes issued in October 2015 <sup>1</sup>	Euro	2018	-	69,539
Loan participation notes issued in April 2008 <sup>1</sup>	US Dollar	2018	-	64,507
Loan participation notes issued in July 2013 <sup>1</sup>	Euro	2018	-	62,985
Loan participation notes issued in April 2013 <sup>2</sup>	Euro	2018	-	52,684
PJSC Sberbank	US Dollar	2018	-	43,776
Loan participation notes issued in March 2016 <sup>1</sup>	Swiss Franc	2018	-	29,438
Bank of America Securities Limited	US Dollar	2018	-	17,453
Russian bonds issued in March 2016 <sup>2</sup>	Russian Ruble	2018	-	15,427
UniCredit Bank Austria AG	US Dollar	2018	-	11,526
Commerzbank International S.A.	US Dollar	2018	-	11,522
Russian bonds issued in March 2016 <sup>2</sup>	Russian Ruble	2018	-	10,303
Gazprombank (Joint-stock Company)	Russian Ruble	2018	-	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2018	-	10,000
Other long-term borrowings, promissory notes	Various	Various	521,131	473,398
<b>Total long-term borrowings, promissory notes</b>			<b>3,788,931</b>	<b>3,180,337</b>
Less: current portion of long-term borrowings			(494,170)	(788,624)
			<b>3,294,761</b>	<b>2,391,713</b>

<sup>1</sup> Issuer of these bonds is Gaz Capital S.A. Bonds were issued under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

<sup>2</sup> Issuer of these bonds is PJSC Gazprom Neft.

<sup>3</sup> Loans received from consortiums of banks, named lender is the bank-agent.

<sup>4</sup> According to the signed agreements between the bond issuer Gas Capital S.A. and the banks, settlements for the bonds are made in Euro (up to achieve of a coefficient based on the ratio of currency exchange rates set in the agreements).

<sup>5</sup> Issuer of these bonds is GazAsia Capital S.A.

<sup>6</sup> Borrowings were obtained for financing of the Nord Stream-2 project.

<sup>7</sup> Issuer of these bonds is PJSC Gazprom.

<sup>8</sup> Issuer of these bonds is Gazprom capital LLC.

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

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Long-term borrowings and promissory notes		
denominated in Russian Rubles (including current portion of		
RUB 46,611 million and RUB 142,484 million as of 31 December 2018 and		
31 December 2017, respectively)	694,548	558,509
denominated in foreign currency (including current portion of		
RUB 447,559 million and RUB 646,140 million as of 31 December 2018		
and 31 December 2017, respectively)	<u>3,094,383</u>	<u>2,621,828</u>
	<b>3,788,931</b>	<b>3,180,337</b>

The analysis of due for repayment of long-term borrowings and promissory notes is presented in the table below.

	<b>31 December</b>	
<b>Due for repayment of long-term borrowings, promissory notes</b>	<b>2018</b>	<b>2017</b>
between one and two years	607,775	481,070
between two and five years	1,654,576	1,087,239
after five years	<u>1,032,410</u>	<u>823,404</u>
	<b>3,294,761</b>	<b>2,391,713</b>

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,709,599 million and RUB 2,355,672 million and fair value of RUB 2,831,050 million and RUB 2,605,734 million as of 31 December 2018 and 31 December 2017, respectively.

All other long-term borrowings have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 1,079,332 million and RUB 824,665 million and fair value is RUB 1,082,539 million and RUB 837,266 million as of 31 December 2018 and 31 December 2017, respectively.

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

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Fixed rate long-term borrowings denominated in Russian Rubles	8.08 %	8.81 %
Fixed rate foreign currency denominated long-term borrowings	5.38 %	5.59 %
Variable rate long-term borrowings denominated in Russian Rubles	7.20 %	6.51 %
Variable rate foreign currency denominated long-term borrowings	2.46 %	3.28 %

As of 31 December 2018 and 31 December 2017 according to the agreements signed within the framework of financing the Nord Stream-2 project with Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V., 100 % of shares of Nord Stream 2 AG held by PJSC Gazprom were pledged until a full settlement of the secured obligations.

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom in July 2018 due in 2048 the issuer can execute the right of early redemption in July 2025.

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom in July 2018 due in 2048 the issuer can execute the right of early redemption in July 2025.

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom in July 2018 due in 2033 the issuer can execute the right of early redemption in July 2025.

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by Gazprom capital LLC in February 2018 due in 2028 the issuer can execute the right of early redemption in February 2025.

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by Gazprom capital LLC in February 2017 due in 2027 the issuer can execute the right of early redemption in February 2024.

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.



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

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Notes 30).

**22 PROFIT TAX**

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

Notes		For the year ended 31 December	
		2018	2017
	Profit before profit tax	1,852,562	1,018,006
	Theoretical tax charge calculated at applicable tax rates	(370,512)	(203,601)
	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	(14,261)	(12,253)
24, 27	Provision for post-employment benefits	15,787	(9,704)
13	Provision for impairment of assets under construction	1,911	(2,990)
	Non-operating expenses	(31,839)	(19,774)
	Social expenses	(7,375)	(6,338)
	Other non-deductible expenses	(8,719)	(25,779)
15	Non-taxable share of profit of associates and joint ventures	46,497	25,388
	Other non-taxable income	44,945	3,924
	<b>Profit tax expense</b>	<b>(323,566)</b>	<b>(251,127)</b>

Differences between the recognition criteria of assets and liabilities reflected in IFRS financial statements and for the purposes of Russian statutory taxation give rise to certain temporary differences. The tax effect of the movement in these temporary differences is recorded at the applicable statutory rates with the prevailing rate of 20 % in the Russian Federation.

	Temporary differences of recognition and reversals in other			Temporary differences of recognition and reversals in other			31 December 2018
	31 December 2016	in profit or loss	comprehensive income	31 December 2017	in profit or loss	comprehensive income	
Property, plant and equipment	(750,373)	(80,862)	-	(831,235)	(44,172)	-	(875,407)
Financial assets	1,936	(7,661)	1,151	(4,574)	10,331	(4,044)	1,713
Account receivables	39,165	7,906	-	47,071	33,639	-	80,710
Inventories	(11,619)	2,712	-	(8,907)	14,152	-	5,245
Tax losses carry forward	5,659	7,682	-	13,341	3,505	-	16,846
Retroactive gas price adjustments	22,757	(297)	-	22,460	(15,801)	-	6,659
Accounts payable	-	53,859	-	53,859	(53,859)	-	-
Other deductible temporary differences	3,972	7,351	(2,751)	8,572	6,872	39	15,483
<b>Total net deferred tax liabilities</b>	<b>(688,503)</b>	<b>(9,310)</b>	<b>(1,600)</b>	<b>(699,413)</b>	<b>(45,333)</b>	<b>(4,005)</b>	<b>(748,751)</b>

Taxable temporary differences recognised for the years ended 31 December 2018 and 31 December 2017 include the effect of depreciation premium on certain items of property, plant and equipment. The negative tax effect on these differences for the year ended 31 December 2018 was RUB 6,942 million and it was offset by the increase in the current profit tax by the corresponding this amount which did not have influence on profit for the year ended 31 December 2018. The positive tax effect on these differences for the year ended 31 December 2017 amounted to RUB 44,723 million and it was offset by the decrease in the current profit tax by the corresponding amount which did not have influence on profit for the year ended 31 December 2017.

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. Starting from 1 January 2013 the membership was expanded to 65 participants. Starting from 1 January 2014, the list of participants was 69. Starting from 1 January 2015 the number of participants was reduced to 65. Starting from 1 January 2016, the list of participants has been expanded to 67. In 2017, the number of participants did not change compared to 2016. Starting from 1 January 2018 the number of participants was reduced to 65. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies

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**22 PROFIT TAX (continued)**

within the CGT to the extent that profit or loss is recognised for tax purposes in the reporting year and, thus, is 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	
	2018	2017
<b>Assets</b>		
Commodity contracts	141,767	73,273
Foreign currency derivatives and currency and interest rate swaps	<u>3,494</u>	<u>1,504</u>
	<b>145,261</b>	<b>74,777</b>
<b>Liabilities</b>		
Commodity contracts	134,800	58,181
Foreign currency derivatives and currency and interest rate swaps	3,052	20,680
Other derivatives	<u>16,133</u>	<u>13,188</u>
	<b>153,985</b>	<b>92,049</b>

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

**24 PROVISIONS**

	31 December	
	2018	2017
Provision for post-employment benefits	226,585	258,132
Provision for decommissioning and site restoration costs	166,799	202,616
Other	<u>12,938</u>	<u>8,705</u>
<b>Total provisions</b>	<b>406,322</b>	<b>469,453</b>

Provision for decommissioning and site restoration costs changed mainly due to revised liquidation dates and an increase in discount rate from 8.47 % to 8.93 % as of 31 December 2017 and 31 December 2018, respectively.

The Group operates post-employment and other employee benefits system, which is recorded as defined benefit plan in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Group. These benefits include pension benefits provided by the non-governmental pension fund, JSC NPF GAZFOND, and post-employment benefits from the Group provided upon retirement.

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

Principal actuarial assumptions used:

	31 December	
	2018	2017
Discount rate (nominal)	8.8 %	7.6 %
Future salary and pension increases (nominal)	5.0 %	5.0 %
Average expected retirement age, years	women 58, men 62	women 55, men 58
Turnover ratio	age-related probability of resignation curve, 3.8 % on average	

Weighted-average duration of obligations is 11.6 years.

The assumptions related to life expectancy at expected retirement age were 16.3 years for 62 year old men and 25.8 years for 58 year old women in 2018. The assumptions related to life expectancy at expected retirement age were 19.3 years for 58 year old men and 28.5 years for 55 year old women in 2017.

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**24 PROVISIONS (continued)**

Net liabilities or assets related to post-employment benefits recognised in the consolidated balance sheet are presented below.

	<b>31 December 2018</b>		<b>31 December 2017</b>	
	<b>Pension plan provided through JSC NPF GAZFOND</b>	<b>Other post-employment benefits</b>	<b>Pension plan provided through JSC NPF GAZFOND</b>	<b>Other post-employment benefits</b>
Present value of obligations	(332,493)	(226,585)	(422,641)	(258,132)
Fair value of plan assets	<u>473,371</u>	<u>-</u>	<u>449,814</u>	<u>-</u>
<b>Total net assets (liabilities)</b>	<b>140,878</b>	<b>(226,585)</b>	<b>27,173</b>	<b>(258,132)</b>

The net pension plan assets related to benefits provided through JSC NPF GAZFOND in the amount of RUB 140,878 million and RUB 27,173 million as of 31 December 2018 and 31 December 2017, respectively, are included within other non-current assets in the consolidated balance sheet (see Note 12).

Changes in the present value of the defined benefit plan obligations and fair value of pension plan assets for the years ended 31 December 2018 and 31 December 2017 are presented below.

	Provision for pension plan provided through JSC NPF GAZFOND		Fair value of plan assets	Net (assets) liabilities	Provision for other post-employment benefits
As of 31 December 2017	422,641	(449,814)	(27,173)	258,132	
Current service cost	14,148	-	14,148	12,019	
Past service cost	(94,678)	-	(94,678)	(27,499)	
Interest expense (income)	32,115	(34,391)	(2,276)	19,349	
<b>Total expenses included in staff costs within operating expenses (see Note 27)</b>	<b>(48,415)</b>	<b>(34,391)</b>	<b>(82,806)</b>	<b>3,869</b>	
Remeasurement of provision for post-employment benefits:					
Actuarial gains arising from changes in financial assumptions	(33,408)	-	(33,408)	(27,657)	
Actuarial (gains) losses arising from changes in demographic assumptions	(91)	-	(91)	34	
Actuarial losses – experience adjustments	7,372	-	7,372	17,030	
Expense on plan assets excluding amounts included in interest expense	-	16,243	16,243	-	
Translation differences	-	-	-	623	
<b>Total included in other comprehensive income</b>	<b>(26,127)</b>	<b>16,243</b>	<b>(9,884)</b>	<b>(9,970)</b>	
Benefits paid	(15,606)	15,606	-	(25,446)	
Employer’s contributions	-	(21,015)	(21,015)	-	
<b>As of 31 December 2018</b>	<b>332,493</b>	<b>(473,371)</b>	<b>(140,878)</b>	<b>226,585</b>	
<b>As of 31 December 2016</b>	<b>372,845</b>	<b>(393,344)</b>	<b>(20,499)</b>	<b>236,852</b>	
Current service cost	14,966	-	14,966	12,703	
Past service cost	1,878	-	1,878	1,134	
Interest expense (income)	31,678	(33,641)	(1,963)	19,804	
<b>Total expenses included in staff costs within operating expenses (see Note 27)</b>	<b>48,522</b>	<b>(33,641)</b>	<b>14,881</b>	<b>33,641</b>	
Remeasurement of provision for post-employment benefits:					
Actuarial gains arising from changes in financial assumptions	(4,384)	-	(4,384)	(2,996)	
Actuarial (gains) losses arising from changes in demographic assumptions	(339)	-	(339)	72	
Actuarial losses – experience adjustments	19,996	-	19,996	10,467	
Return on plan assets excluding amounts included in interest expense	-	(17,972)	(17,972)	-	
Translation differences	-	-	-	220	
<b>Total included in other comprehensive loss</b>	<b>15,273</b>	<b>(17,972)</b>	<b>(2,699)</b>	<b>7,763</b>	
Benefits paid	(13,999)	13,999	-	(20,124)	
Employer’s contributions	-	(18,856)	(18,856)	-	
<b>As of 31 December 2017</b>	<b>422,641</b>	<b>(449,814)</b>	<b>(27,173)</b>	<b>258,132</b>	

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**24 PROVISIONS (continued)**

The major categories of plan assets allocation broken down by fair value and percentage of total plan assets are presented below.

	31 December 2018		31 December 2017	
	Fair value	Percent in plan assets	Fair value	Percent in plan assets
<b>Quoted plan assets, including:</b>	<b>223,912</b>	<b>47.3 %</b>	<b>231,468</b>	<b>51.5 %</b>
Mutual funds	63,931	13.5 %	60,610	13.5 %
Bonds	136,582	28.9 %	108,236	24.1 %
Shares	23,399	4.9 %	62,622	13.9 %
<b>Unquoted plan assets, including:</b>	<b>249,459</b>	<b>52.7 %</b>	<b>218,346</b>	<b>48.5 %</b>
Shares	177,325	37.5 %	177,016	39.3 %
Deposits	18,600	3.9 %	18,843	4.2 %
Mutual funds	9,708	2.0 %	18,400	4.1 %
Other assets	43,826	9.3 %	4,087	0.9 %
<b>Total plan assets</b>	<b>473,371</b>	<b>100 %</b>	<b>449,814</b>	<b>100 %</b>

The amount of ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB nil million and RUB 32,490 million as of 31 December 2018 and 31 December 2017, respectively.

Unquoted equities within pension plan assets are mostly represented by shares of Gazprombank (Joint-stock Company), which are measured at fair value (Level 2 in accordance with the fair value hierarchy) using market approach valuation techniques based on available market data.

For the years ended 31 December 2018 and 31 December 2017 actual return on pension plan assets was a gain of RUB 18,148 million and RUB 51,613 million, respectively, primarily caused by the change in the fair value of assets.

The sensitivity analysis of the present value of defined benefit plan obligations to changes in the principal actuarial assumptions as of 31 December 2018 is presented below.

	Increase (decrease) of obligation	Increase (decrease) of obligation, %
Mortality rates lower by 20 %	21,068	3.8 %
Mortality rates higher by 20 %	(17,769)	(3.2 %)
Discount rate lower by 1 pp	49,306	9.0 %
Discount rate higher by 1 pp	(41,833)	(7.6 %)
Benefit growth lower by 1 pp	(43,910)	(8.0 %)
Benefit growth higher by 1 pp	51,065	9.3 %
Staff turnover lower by 1 pp for all ages	24,793	4.5 %
Staff turnover higher by 1 pp for all ages	(21,329)	(3.9 %)
Retirement ages lower by 1 year	19,952	3.6 %
Retirement ages higher by 1 year	(19,754)	(3.6 %)

The Group expects to contribute RUB 45,100 million to the defined benefit plans in 2019.

**Pension 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 and are exposed to inflation risk.

In addition to the inflation risk, the pension plans of the Group are exposed to mortality risks and longevity risks.

**25 EQUITY**

**Share capital**

Share capital authorised, issued and paid totals RUB 325,194 million as of 31 December 2018 and 31 December 2017 and consists of 23.7 billion ordinary shares, each with a par value of 5 Russian Rubles.

**Dividends**

In 2018 PJSC Gazprom declared and paid dividends in the nominal amount of 8.04 Russian Rubles per share based on the results for the year ended 31 December 2017. In 2017 PJSC Gazprom declared and paid dividends in the nominal amount of 8.04 Russian Rubles per share based on the results for the year ended 31 December 2016.

**25 EQUITY (continued)**

**Treasury shares**

As of 31 December 2018 and 31 December 2017 subsidiaries of PJSC Gazprom held 1,573 million ordinary shares of PJSC Gazprom including American depositary receipts in the amount of 639 million PJSC Gazprom's ordinary shares, which are accounted for as treasury shares.

In June 2017 the Group pledged American depositary receipts as security of liabilities in the amount of 506 million PJSC Gazprom's ordinary shares. On 1 November 2018 the pledge was terminated due to the repayment of liabilities secured by the pledge.

The shares including American depositary receipts held by PJSC Gazprom's subsidiaries represent 6.6 % of the total number of PJSC Gazprom's shares as of 31 December 2018 and 31 December 2017.

The management of the Group controls the voting rights of treasury 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 the economy of the Russian Federation ceased to be hyperinflationary under IAS 29 Financial Reporting in Hyperinflationary 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 843,598 million and RUB 634,067 million as of 31 December 2018 and 31 December 2017, 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 social assets to the balance of local governmental authorities and this process may continue in the future. Social assets with a net book value of RUB 18 million and RUB 50 million have been transferred to governmental authorities in 2017 and 2018, respectively. Cost of assets transferred has been recorded as a reduction of retained earnings and other reserves.

The current year net profit calculated in accordance with Russian statutory accounting and presented in the statutory financial statements of PJSC Gazprom is available for distribution in accordance with the legislation of the Russian Federation. For the year ended 31 December 2018 the statutory net profit of PJSC Gazprom was RUB 933,137 million. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to different legal interpretations and accordingly management of PJSC Gazprom believes at present it would not be appropriate to disclose any amounts that are available for the distributable profits and reserves in these consolidated financial statements.

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**SALES**

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
Gas sales gross of excise tax and customs duties:		
Russian Federation	954,493	875,685
Former Soviet Union (excluding Russian Federation)	389,217	323,037
Europe and other countries	<u>3,770,291</u>	<u>2,823,939</u>
	5,114,001	4,022,661
Customs duties	(804,987)	(581,109)
Excise tax	(54,681)	(51,873)
Retroactive gas price adjustments <sup>1</sup>	<u>49,338</u>	<u>(49,092)</u>
Total gas sales	4,303,671	3,340,587
Sales of refined products:		
Russian Federation	1,394,137	1,115,125
Former Soviet Union (excluding Russian Federation)	144,658	117,635
Europe and other countries	<u>640,977</u>	<u>454,330</u>
Total sales of refined products	2,179,772	1,687,090
Sales of crude oil and gas condensate:		
Russian Federation	64,645	71,434
Former Soviet Union (excluding Russian Federation)	38,748	29,770
Europe and other countries	<u>631,560</u>	<u>438,754</u>
Total sales of crude oil and gas condensate	734,953	539,958
Electric and heat energy sales:		
Russian Federation	501,362	487,283
Former Soviet Union (excluding Russian Federation)	5,090	2,937
Europe and other countries	<u>15,643</u>	<u>13,599</u>
Total electric and heat energy sales	522,095	503,819
Gas transportation sales:		
Russian Federation	220,488	229,395
Former Soviet Union (excluding Russian Federation)	2,758	2,433
Europe and other countries	<u>2,427</u>	<u>3,233</u>
Total gas transportation sales	225,673	235,061
Other sales:		
Russian Federation	210,149	199,506
Former Soviet Union (excluding Russian Federation)	8,064	6,212
Europe and other countries	<u>39,800</u>	<u>33,910</u>
Total other sales	<u>258,013</u>	<u>239,628</u>
<b>Total sales</b>	<b>8,224,177</b>	<b>6,546,143</b>

<sup>1</sup> The effect of retroactive gas price adjustments relate to gas deliveries in previous years for which a price adjustment has been agreed or is in the process of negotiation. The effect of gas price adjustments, including corresponding impact on profit tax, is recorded in the consolidated financial statements when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments for the years ended 31 December 2018 and 31 December 2017 were recorded as the increase of sales by RUB 49,338 million and the decrease of sales by RUB 49,092 million, respectively. The effects increasing sales were 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. The effects decreasing sales were due to increase in related accruals following agreements reached prior to the issuance of the respective consolidated financial statements. The effect arising from retroactive gas price adjustments for the year ended 31 December 2017 included amount of adjustment related to the gas supply contract with NJSC Naftogaz Ukraine reflected in accordance with the court decision (see Note 36).

Prepayments received from customers as of the beginning of the corresponding period were recognised within sales in the amount of RUB 92,253 million and RUB 67,454 million for the years ended 31 December 2018 and 31 December 2017, respectively.

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**27 OPERATING EXPENSES**

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
Taxes other than on profit	1,498,278	1,246,059
Purchased gas and oil	1,468,885	1,236,201
Transit of gas, oil and refined products	650,829	593,327
Depreciation	647,993	613,160
Staff costs	600,812	682,060
Materials	264,190	261,642
Cost of goods for resale, including refined products	249,911	207,689
Repairs and maintenance	137,821	154,785
Electricity and heating expenses	114,465	109,485
Social expenses	42,789	34,461
Rental expenses	37,177	37,723
Insurance expenses	32,628	30,491
Transportation services	24,544	27,253
Impairment loss (reversal of impairment loss) on non-financial assets	21,743	(16,252)
Processing services	18,961	16,261
Research and development expenses	13,591	16,175
Derivatives loss (gain)	1,849	(18,344)
Foreign exchange rate differences on operating items	(28,029)	(14,487)
Other	427,990	610,005
	<b>6,226,427</b>	<b>5,827,694</b>
Change in balances of finished goods, work in progress and other effects	(45,236)	(130,638)
<b>Total operating expenses</b>	<b>6,181,191</b>	<b>5,697,056</b>

Taxes other than on profit consist of:

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
MET	1,163,882	915,228
Property tax	162,928	154,639
Excise tax	157,113	162,140
Other taxes	14,355	14,052
<b>Total taxes other than on profit</b>	<b>1,498,278</b>	<b>1,246,059</b>

Gas purchase expenses included within purchased gas and oil amounted to RUB 976,849 million and RUB 873,866 million for the years ended 31 December 2018 and 31 December 2017, respectively.

Staff costs include RUB 78,937 million of income and RUB 48,522 million of expenses for provision for post-employment benefits for the years ended 31 December 2018 and 31 December 2017, respectively (see Note 24).

The impairment loss (reversal of impairment loss) on assets is presented below.

<b>Notes</b>		<b>Year ended 31 December</b>	
		<b>2018</b>	<b>2017</b>
10, 16	Impairment loss (reversal of impairment loss) on trade accounts receivable	125,828	(43,969)
	Impairment loss on other accounts receivable and loans receivable	5,143	5,299
	<b>Total impairment loss (reversal of impairment loss) on financial assets</b>	<b>130,971</b>	<b>(38,670)</b>
13	Impairment loss (reversal of impairment loss) on property, plant and equipment		
	and assets under construction	21,408	(22,692)
	Impairment loss on advances paid and prepayments	482	621
	Impairment loss on investments in associates and joint ventures	306	3,562
	(Reversal of impairment loss) impairment loss on other assets	(453)	2,257
	<b>Total impairment loss (reversal of impairment loss) on non-financial assets</b>	<b>21,743</b>	<b>(16,252)</b>

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**28 FINANCE INCOME AND EXPENSE**

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
Foreign exchange gain	430,439	342,984
Interest income	<u>72,652</u>	<u>83,721</u>
<b>Total finance income</b>	<b>503,091</b>	<b>426,705</b>
Foreign exchange loss	762,664	353,712
Interest expense	<u>50,378</u>	<u>53,332</u>
<b>Total finance expense</b>	<b>813,042</b>	<b>407,044</b>

Total interest paid amounted to RUB 173,174 million and RUB 161,455 million for the years ended 31 December 2018 and 31 December 2017, respectively.

Foreign exchange gain and loss for the years ended 31 December 2018 and 31 December 2017 were recognised as a result of change in the Euro and US Dollar exchange rates against the Russian Ruble. Gain and loss primarily relate to revaluation of borrowings denominated in a foreign currency.

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

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
<b>RSA profit for the year per consolidated statutory accounts</b>	<b>1,056,004</b>	<b>82,118</b>
Effect of IFRS adjustments:		
Differences in depreciation of property, plant and equipment and intangible assets	409,273	451,406
Borrowing costs capitalised	155,107	135,556
Reversal of goodwill amortisation	62,896	63,083
Classification of (gain) loss arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	(148,963)	30,404
Impairment loss on assets and changes in provisions, including provision for post-employment benefits	45,701	15,049
Differences in property, plant and equipment disposal	(1,316)	7,272
Difference in share of profit of associates and joint ventures	(20,945)	(3,451)
Write-off of research and development expenses capitalised for RSA purposes	(3,727)	(2,480)
Other	<u>(25,034)</u>	<u>(12,078)</u>
<b>IFRS profit for the year</b>	<b>1,528,996</b>	<b>766,879</b>

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

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

There were 22.1 billion of weighted average number of ordinary shares outstanding, excluding the weighted average number of treasury shares, for the years ended 31 December 2018 and 31 December 2017.

There are no dilutive financial instruments outstanding in the Group.



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**31 NET CASH FROM OPERATING ACTIVITIES**

Notes		Year ended 31 December	
		2018	2017
	<b>Profit before profit tax</b>	<b>1,852,562</b>	<b>1,018,006</b>
	<b>Adjustments to profit before profit tax</b>		
27	Depreciation	647,993	613,160
28	Net finance expense (income)	309,951	(19,661)
15	Share of profit of associates and joint ventures	(232,483)	(126,940)
	Impairment loss (reversal of impairment loss) on assets and change in provision for		
27	post-employment benefits	73,777	(6,400)
27	Derivatives loss (gain)	1,849	(18,344)
	Other	<u>17,674</u>	<u>(1,682)</u>
	Total effect of adjustments	818,761	440,133
	Cash flows from operating activities before working capital changes	2,671,323	1,458,139
	Increase in non-current assets	(11,307)	(6,973)
	Increase in non-current liabilities	<u>2,371</u>	<u>4,056</u>
		2,662,387	1,455,222
	<b>Changes in working capital:</b>		
	(Increase) decrease in accounts receivable and prepayments	(244,707)	33,989
	Increase in inventories	(137,799)	(51,996)
	Increase in other current assets	(526,057)	(207,558)
	Increase in accounts payable, excluding interest, dividends and capital construction	94,669	161,325
	Settlements on taxes and fees payable (other than profit tax)	69,864	43,190
	Decrease (increase) in financial assets	<u>3,759</u>	<u>(19,601)</u>
	Total effect of working capital changes	(740,271)	(40,651)
	Profit tax paid	<u>(304,732)</u>	<u>(227,549)</u>
	<b>Net cash from operating activities</b>	<b>1,617,384</b>	<b>1,187,022</b>

The following taxes and other similar payments were paid in cash during 2017 and 2018:

	Year ended 31 December	
	2018	2017
MET	1,146,040	883,895
Customs duties	931,762	664,191
Profit tax	304,732	227,549
Excise tax	270,651	256,205
VAT	167,800	127,580
Property tax	158,905	149,236
Insurance contributions	137,057	126,307
Personal income tax	74,021	67,879
Other taxes	<u>50,015</u>	<u>31,611</u>
<b>Total taxes paid</b>	<b>3,240,983</b>	<b>2,534,453</b>

**32 SUBSIDIARIES**

**Significant subsidiaries**

Subsidiary	Country of primary operation	Ownership interest as of 31 December <sup>1</sup>	
		2018	2017
LLC Aviapredpriyatie Gazprom avia	Russia	100	100
WIBG GmbH	Germany	100	100
WIEE Hungary Kft.	Hungary	100	100
WIEH GmbH	Germany	100	100
WINGAS GmbH	Germany	100	100
OJSC Vostokgazprom	Russia	100	100
CJSC Gazprom Armenia	Armenia	100	100
JSC Gazprom gazoraspredelenie	Russia	100	100
LLC Gazprom geologorazvedka	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100

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**32 SUBSIDIARIES (continued)**

Subsidiary	Country of primary operation	Ownership interest as of 31 December <sup>1</sup>	
		2018	2017
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 RGK	Russia	100	100
LLC Gazprom investgazifikatsiya	Russia	100	100
LLC Gazprom komplektatsiya	Russia	100	100
JSC Gazprom Space Systems	Russia	80	80
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
Gazprom Marketing and Trading Retail Ltd.	United Kingdom	100	100
LLC Gazprom mezhregiongaz	Russia	100	100
LLC Gazprom mezhregiongaz Moskva	Russia	100	100
JSC Gazprom mezhregiongaz Nizhny Novgorod	Russia	51	51
LLC Gazprom mezhregiongaz Sankt-Peterburg	Russia	100	100
LLC Gazprom neftekhim Salavat	Russia	100	100
PJSC Gazprom Neft	Russia	96	96
Gazprom Neft Badra B.V. <sup>2</sup>	Netherlands	100	100
LLC Gazprom neft shelf <sup>2</sup>	Russia	100	100
LLC Gazprom pererabotka	Russia	100	100
LLC Gazprom pererabotka Blagoveshchensk	Russia	100	100
LLC Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	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 Moskva	Russia	100	100
LLC Gazprom transgaz Nizhny Novgorod	Russia	100	100
LLC Gazprom transgaz Samara	Russia	100	100
LLC Gazprom transgaz Sankt-Peterburg	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
Gazprom Holding Cooperatie U.A.	Netherlands	100	100
LLC Gazprom tsentremont	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
LLC Gazprom export	Russia	100	100
JSC Gazprom energosbyt	Russia	58	58
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft Marine Bunker <sup>2</sup>	Russia	100	100
JSC Gazpromneft-Aero <sup>2</sup>	Russia	100	100
LLC Gazpromneft-Vostok <sup>2</sup>	Russia	51	100
LLC Gazpromneft Corporate Sales <sup>2</sup>	Russia	100	100
JSC Gazpromneft - MNPZ <sup>2</sup>	Russia	100	100
JSC Gazpromneft-Noyabrskneftegaz <sup>2</sup>	Russia	100	100
JSC Gazpromneft - ONPZ <sup>2</sup>	Russia	100	100
LLC Gazpromneft-Orenburg <sup>2</sup>	Russia	100	100
LLC Gazpromneft Regional Sales <sup>2</sup>	Russia	100	100

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**32 SUBSIDIARIES (continued)**

Subsidiary	Country of primary operation	Ownership interest as of 31 December <sup>1</sup>	
		2018	2017
LLC Gazpromneft-Khantos <sup>2</sup>	Russia	100	100
LLC Gazpromneft-Centr <sup>2</sup>	Russia	100	100
LLC Gazpromneft-Yamal <sup>2</sup>	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
Gazfin Cyprus Limited	Cyprus	100	100
LLC GPN-Invest <sup>2</sup>	Russia	100	100
LLC GPN-Finans <sup>2</sup>	Russia	100	100
PJSC Mosenergo <sup>3</sup>	Russia	54	54
PJSC MIPC <sup>3</sup>	Russia	99	100
Naftna Industrija Srbije a.d. <sup>2</sup>	Serbia	56	56
LLC Novourengoysky gazohimicheskii kompleks	Russia	100	100
Nord Stream 2 AG	Switzerland	100	100
PJSC WGC-2 <sup>3</sup>	Russia	80	80
Rosingaz Limited	Cyprus	100	100
South Stream Transport B.V.	Netherlands	100	100
OJSC Severneftegazprom <sup>3</sup>	Russia	50	50
LLC Sibmetakhim	Russia	100	100
PJSC TGC-1	Russia	52	52
JSC Teploset Sankt-Peterburga	Russia	75	75
OJSC Tomskgazprom	Russia	100	100
LLC Faktoring-Finance	Russia	100	100
PJSC Centerenergoholding	Russia	100	100

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

<sup>2</sup> Subsidiaries of PJSC Gazprom Neft.

<sup>3</sup> Share in voting shares.

**33 NON-CONTROLLING INTEREST**

	Year ended 31 December	
	2018	2017
<b>Non-controlling interest at the end of the previous year</b>	<b>386,395</b>	<b>347,308</b>
Effect of changes in accounting policies	(140)	-
<b>Non-controlling interest at the beginning of the year (restated)</b>	<b>386,255</b>	<b>347,308</b>
Non-controlling interest share of profit of subsidiaries <sup>1</sup>	72,726	52,577
Change in ownership interest in LLC Gazpromneft-Vostok <sup>2</sup>	21,279	-
Change in ownership interest in JSC Gazprom gazoraspredelenie Sever	(2,910)	(117)
Change in ownership interest in LLC Ural special valve plant <sup>3</sup>	661	-
Change in ownership interest in PJSC MIPC	145	(777)
Change in ownership interest in PJSC WGC-2	79	91
Change in ownership interest in JSC Gazprom StroyTEK Salavat <sup>3</sup>	-	(2,127)
Change in the non-controlling interest as a result of other acquisitions and disposals	217	(33)
Gain from hedging operations, net of tax	632	796
Loss arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	(617)	(7)
Remeasurement of provision for post-employment benefits	122	(82)
Dividends	(15,135)	(18,379)
Translation differences	12,690	7,145
<b>Non-controlling interest at the end of the year</b>	<b>476,144</b>	<b>386,395</b>

<sup>1</sup> Non-controlling interest share of profit of subsidiaries includes share in impairment of assets in the amount of RUB 7,470 million and RUB 3,299 million for the years ended 31 December 2018 and 31 December 2017, respectively.

<sup>2</sup> Subsidiary of PJSC Gazprom Neft.

<sup>3</sup> Subsidiary of LLC Gazprom neftekhim Salavat.

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

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

	<b>Country of primary operation</b>	<b>Ownership interest 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 accrued to non-controlling interest during the year</b>
<b><u>As of and for the year ended 31 December 2018</u></b>					
Gazprom Neft Group <sup>2</sup>	Russia	4 %	47,280	224,980	7,114
Naftna Industrija Srbije a.d. Group	Serbia	46 %	7,296	92,673	2,016
Mosenergo Group	Russia	46 %	16,568	110,507	3,044
TGC-1 Group	Russia	48 %	2,163	68,355	910
WGC-2 Group	Russia	20 %	2,201	32,329	341

<b><u>As of and for the year ended 31 December 2017</u></b>					
Gazprom Neft Group <sup>2</sup>	Russia	4 %	32,093	149,974	5,061
Naftna Industrija Srbije a.d. Group	Serbia	46 %	6,808	75,560	1,014
Mosenergo Group	Russia	46 %	10,857	97,594	1,556
TGC-1 Group	Russia	48 %	5,009	67,012	642
WGC-2 Group	Russia	20 %	915	30,364	171

<sup>1</sup> Effective share held by non-controlling interest in share 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 is presented in the table below:

	<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><u>As of and for the year ended 31 December 2018</u></b>					
Current assets	652,207	66,310	83,237	25,970	34,821
Non-current assets	3,080,495	262,190	187,880	152,490	224,191
Current liabilities	562,466	37,010	17,438	19,904	27,185
Non-current liabilities	1,015,841	69,569	15,681	26,325	69,208
Sales	2,393,980	176,148	199,647	92,659	143,416
Profit for the year	394,779	15,166	21,038	85	19,979
Comprehensive income for the year	447,292	15,191	19,720	269	20,110
Net cash from (used in):					
operating activities	505,017	20,844	36,220	19,554	30,940
investing activities	(352,953)	(20,777)	(14,106)	(11,327)	(12,262)
financing activities	(3,470)	(7,372)	(26,558)	(8,651)	(17,364)

	<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><u>As of and for the year ended 31 December 2017</u></b>					
Current assets	422,567	61,658	87,075	26,943	29,510
Non-current assets	2,732,329	218,321	189,909	159,749	216,978
Current liabilities	479,606	36,160	29,657	18,968	21,504
Non-current liabilities	851,041	61,812	21,726	33,874	80,831
Sales	1,857,929	127,927	196,216	87,568	141,504
Profit for the year	294,784	13,997	23,470	10,047	4,776

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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><u>As of and for the year ended 31 December 2017</u></b>					
Comprehensive income for the year	326,072	14,340	23,463	9,926	4,630
Net cash from (used in):					
operating activities	401,778	29,130	42,067	17,209	24,741
investing activities	(328,608)	(19,533)	(6,580)	(9,968)	(9,788)
financing activities	(15,477)	(7,553)	(24,921)	(3,752)	(14,323)

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 RELATED PARTIES**

For the purpose of the 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 operational and financial 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 2018 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. 11.859 % of PJSC Gazprom's issued shares are owned by JSC Rosneftegaz and JSC Rosgazifikatsiya controlled by the Government.

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

As a condition of privatisation in 1992, the Government of the Russian Federation 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 the Government control**

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

As of 31 December 2018 prices of natural gas sales and gas transportation, electricity tariffs in the Russian Federation are regulated by the FAS.

Bank borrowings are provided on the basis of market interest rates. Taxes are accrued and settled in accordance with the applicable current legislation.

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**34 RELATED PARTIES (continued)**

As of 31 December 2018 and 31 December 2017 and for the years ended 31 December 2018 and 31 December 2017 the Group had the following significant transactions and balances with the Government and parties under the Government control:

	<b>As of 31 December 2018</b>		<b>Year ended 31 December 2018</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expenses</b>
<b>Transactions and balances with the Government</b>				
Current profit tax	5,011	26,296	-	264,017
Insurance contributions	1,526	9,449	-	141,271
VAT recoverable / payable	304,159	140,085	-	-
Customs duties	11,187	-	-	-
Other taxes	5,056	172,901	-	1,400,533
<b>Transactions and balances with entities under the Government control</b>				
Gas sales	-	-	144,411	-
Electricity and heating sales	-	-	174,512	-
Gas transportation sales	-	-	45,291	-
Other services sales	-	-	9,271	-
Accounts receivable	45,104	-	-	-
Oil and refined products transportation expenses	-	-	-	128,723
Accounts payable	-	18,671	-	-
Borrowings	-	206,681	-	-
Interest expense	-	-	-	10,431
Short-term financial assets	20,315	-	-	-
Long-term financial assets	4,742	-	-	-

	<b>As of 31 December 2017</b>		<b>Year ended 31 December 2017</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Income</b>	<b>Expenses</b>
<b>Transactions and balances with the Government</b>				
Current profit tax	4,088	53,112	-	228,221
Insurance contributions	1,359	7,689	-	129,947
VAT recoverable / payable	300,567	90,632	-	-
Customs duties	16,249	-	-	-
Other taxes	4,029	153,784	-	1,172,472
<b>Transactions and balances with entities under the Government control</b>				
Gas sales	-	-	113,062	-
Electricity and heating sales	-	-	166,292	-
Gas transportation sales	-	-	49,846	-
Other services sales	-	-	7,865	-
Accounts receivable	43,701	-	-	-
Oil and refined products transportation expenses	-	-	-	121,118
Accounts payable	-	17,201	-	-
Borrowings	-	226,565	-	-
Interest expense	-	-	-	19,171
Short-term financial assets	27,472	-	-	-
Long-term financial assets	5,711	-	-	-

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2018 and 31 December 2017. See Note 13 for net book values as of 31 December 2018 and 31 December 2017 of social assets vested to the Group at privatisation.

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**34 RELATED PARTIES (continued)**

**Transactions with JSC FSC**

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with JSC FSC. Current financial system of JSC FSC does not provide the ultimate counterparty with automated information about transactions and outstanding balances with the participants of the wholesale electricity and capacity market.

The Group's significant transactions and balances with JSC FSC are presented below.

	As of 31 December 2018		Year ended 31 December 2018	
	Assets	Liabilities	Income	Expenses
<b>Transactions and balances with JSC FSC</b>				
Electricity and heating sales	-	-	157,705	-
Purchased electricity and heating	-	-	-	27,032
Accounts receivable	6,920	-	-	-
Accounts payable	-	1,975	-	-

	As of 31 December 2017		Year ended 31 December 2017	
	Assets	Liabilities	Income	Expenses
<b>Transactions and balances with JSC FSC</b>				
Electricity and heating sales	-	-	153,914	-
Purchased electricity and heating	-	-	-	26,621
Accounts receivable	6,030	-	-	-
Accounts payable	-	1,856	-	-

**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 the Group's companies, amounted to approximately RUB 4,312 million and RUB 4,537 million for the years ended 31 December 2018 and 31 December 2017, respectively.

The members of the Board of Directors, who are governmental officials, do not receive compensation from the Group.

The compensation of the members of the Board of Directors is approved by the Annual General Meeting of Shareholders of the Group's entities. Compensation of key management personnel (other than compensation of the members of the Board of Directors) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to the 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 are also entitled to post-employment benefits. These benefits include pension benefits provided by the non-governmental pension fund, JSC NPF GAZFOND, and post-employment benefits from the Group's entities provided upon retirement (see Note 24).

Employees of the majority of the Group's companies are eligible for such post-employment benefits.

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

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**34 RELATED PARTIES (continued)**

**Associates and joint ventures**

For the years ended 31 December 2018 and 31 December 2017 and also as of 31 December 2018 and 31 December 2017 significant transactions performed by the Group with associates and joint ventures and balances with associates and joint ventures are presented below.

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Income</b>	
<b>Gas sales</b>		
Panrusgas Co.	62,906	46,715
JSV Moldovagaz	29,421	18,063
CJSC Gazprom YRGM Trading <sup>1</sup>	16,709	17,264
JSC Latvijas Gaze	16,095	14,608
JSC Gazprom YRGM Development <sup>1</sup>	11,935	12,332
Prometheus Gas S.A.	10,439	7,454
Bosphorus Gaz Corporation A.S.	8,784	15,128
KazRosGas LLP	7,762	11,118
VEMEX s.r.o. and its subsidiaries	2,978	8,654
JSC EUROPOL GAZ	2,715	2,347
<b>Gas transportation sales</b>		
CJSC Gazprom YRGM Trading <sup>1</sup>	25,430	25,391
JSC Gazprom YRGM Development <sup>1</sup>	18,164	18,137
KazRosGas LLP	2,758	2,432
<b>Gas condensate, crude oil and refined products sales</b>		
PJSC NGK Slavneft and its subsidiaries	45,541	39,597
JSC SOVEX	6,761	5,377
LLC NPP Neftekhimia	4,915	2,732
LLC Poliom	4,796	2,931
Sakhalin Energy Investment Company Ltd.	3,078	2,118
<b>Field operator services sales and other services sales</b>		
JSC Messoyakhaneftegaz	3,632	4,389
PJSC NGK Slavneft and its subsidiaries	2,612	4,486
<b>Gas processing services sales</b>		
KazRosGas LLP	10,075	8,137
<b>Interest income</b>		
Gazprombank (Joint-stock Company) and its subsidiaries	37,153	39,507
JSC Messoyakhaneftegaz	551	6,352
<b>Other operating income (rental income)</b>		
Sakhalin Energy Investment Company Ltd.	3,301	3 834
	<b>Expenses</b>	
<b>Purchased gas</b>		
CJSC Gazprom YRGM Trading <sup>1</sup>	62,725	54,752
JSC Gazprom YRGM Development <sup>1</sup>	44,832	39,154
JSC Arcticgas	30,438	43,980
KazRosGas LLP	30,025	30,264
Sakhalin Energy Investment Company Ltd.	18,741	17,525
CJSC Northgas	6,256	2,732



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**34 RELATED PARTIES (continued)**

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Expenses</b>	
<b>Purchased transit of gas</b>		
Nord Stream AG	79,568	71,047
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	37,258	30,699
JSC EUROPOL GAZ	13,959	12,572
JSV Moldovagaz	3,301	3,499
<b>Purchased crude oil and refined products</b>		
PJSC NGK Slavneft and its subsidiaries	156,363	114,674
JSC Messoyakhaneftegaz	62,747	29,699
Sakhalin Energy Investment Company Ltd.	10,400	18,380
<b>Purchased services of gas and gas condensate production</b>		
JSC Achimgaz	40,018	31,027
<b>Purchased processing services</b>		
PJSC NGK Slavneft and its subsidiaries	14,594	13,719
<b>Purchased transit of crude oil and oil products</b>		
PJSC NGK Slavneft and its subsidiaries	3,811	6,252
JSC Messoyakhaneftegaz	5,432	3,863
<b>Interest expense</b>		
Gazprombank (Joint-stock Company) and its subsidiaries	11,129	11,736

<sup>1</sup> CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development are not associates and joint ventures.

Under the agreement of subordinated loan the Group provided cash to Gazprombank (Joint-stock Company) in the amount of RUB 25,542 million and RUB 9,458 million for the years ended 31 December 2018 and 31 December 2017, respectively.

Gas is sold to and purchased from the Group's associates and joint ventures in the Russian Federation mainly at the rates established by the FAS. Gas is sold and purchased outside the Russian Federation generally on a long-term basis at prices based on world prices of oil products.

Crude oil is sold to and purchased from the Group's associates and joint ventures in the ordinary course of business at prices not significantly different from average market prices.

	<b>As of 31 December 2018</b>		<b>As of 31 December 2017</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
<b>Short-term accounts receivable and prepayments</b>				
JSC Gazstroyprom <sup>1</sup>	46,746	-	-	-
Gazprombank (Joint-stock Company)	14,739	-	17,380	-
Panrusgas Co.	5,990	-	4,023	-
PJSC NGK Slavneft and its subsidiaries	4,929	-	5,304	-
CJSC Gazprom YRGM Trading	2,488	-	2,327	-
KazRosGas LLP	2,186	-	5,457	-
JSC Gazprom YRGM Development	1,777	-	1,662	-
Prometheus Gas S.A.	1,468	-	9	-
Sakhalin Energy Investment Company Ltd.	1,450	-	1,045	-
JSC Messoyakhaneftegaz	1,080	-	796	-
JSC Arcticgas	116	-	3,459	-
Bosphorus Gaz Corporation A.S.	-	-	2,603	-
<b>Cash</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	436,061	-	388,436	-
OJSC Belgazprombank	14,446	-	19,320	-
<b>Other current assets</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	705,968	-	290,322	-
OJSC Belgazprombank	11,610	-	7,436	-

<sup>1</sup> Accounts receivable relate to a transaction for the sale of promissory notes, the income and expenses of which are presented in other operating expenses in the consolidated statement of comprehensive income on a net basis.

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**34 RELATED PARTIES (continued)**

	As of 31 December 2018		As of 31 December 2017	
	Assets	Liabilities	Assets	Liabilities
<b>Long-term accounts receivable and prepayments</b>				
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	15,869	-	13,768	-
Wintershall Noordzee B.V.	3,842	-	5,595	-
JSC Evroteck-Yugra	2,636	-	1,514	-
OJSC Belgazprombank	2,479	-	4,957	-
JSC Messoyakhaneftegaz	-	-	24,414	-
JSC Arcticgas	-	-	4,483	-
<b>Short-term accounts payable</b>				
PJSC NGK Slavneft and its subsidiaries	-	52,601	-	31,164
JSC Messoyakhaneftegaz	-	35,371	-	6,928
CJSC Gazprom YRGM Trading	-	9,057	-	7,927
Nord Stream AG	-	7,100	-	6,172
JSC Gazprom YRGM Development	-	6,469	-	5,662
JSC Achimgaz	-	5,054	-	3,195
Sakhalin Energy Investment Company Ltd.	-	4,746	-	5,710
KazRosGas LLP	-	2,362	-	2,079
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	-	2,345	-	1,957
JSC EUROPOL GAZ	-	2,258	-	2,078
JSC Arcticgas	-	403	-	2,963
<b>Short-term borrowings (including current portion of long-term borrowings)</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	-	55,475	-	80,807
<b>Long-term borrowings</b>				
Gazprombank (Joint-stock Company)	-	37,905	-	87,511

Accounts receivable due from JSV Moldovagaz were RUB nil million as of 31 December 2018 and 31 December 2017 net of allowance for expected credit losses in the amount of RUB 431,660 million and RUB 339,481 million as of 31 December 2018 and 31 December 2017, respectively.

Accounts receivable for gas due from Overgas Inc. AD were RUB nil million as of 31 December 2018 and 31 December 2017 net of allowance for expected credit losses in the amount of RUB 7,307 million and RUB 6,058 million as of 31 December 2018 and 31 December 2017, respectively.

As of 31 December 2018 the Group sold the investment in the associate Bosphorus Gaz Corporation A.S. As of 31 December 2017 accounts receivable due from Bosphorus Gaz Corporation A.S. were RUB 2,603 million, net of allowance for expected credit losses in the amount of RUB 5,935 million.

Borrowings from Gazprombank (Joint-stock Company) and its subsidiaries are obtained on terms not substantially different from those on financial instruments with similar characteristics and equally exposed to influence of changes in economic or other factors. The amount of secured borrowings was RUB nil million and RUB 60,000 million as of 31 December 2018 and 31 December 2017, respectively.

Information on investments in associates and joint ventures is disclosed in Note 15.

Information on transactions performed by the Group with JSC NPF GAZFOND is disclosed in Note 24.

Financial guarantees issued by the Group for associates and joint ventures are disclosed in Note 37.

**35 COMMITMENTS AND CONTINGENCIES**

**Capital commitments**

The total investment utilisation in accordance with investment programme of the Group for 2019 (for gas, oil, electricity, heat generating and other assets) and current similar intentions of the Group is RUB 2,094,195 million.

**Operating lease commitments**

As of 31 December 2018 and 31 December 2017 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 2018 no loss is expected to result from these long-term commitments.

**Other**

The Group has transportation agreements with certain of its associates and joint ventures (see Note 34).

**36 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 Russian tax, currency and customs legislation 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 2018 is appropriate and all of the Group's 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 the sale and purchase of natural gas in 2009-2019 ("Contract No. KP"), and related interest charged. On 12 June 2015 PJSC Gazprom submitted to arbitration a defence to the claim from NJSC Naftogaz of Ukraine and a counter-claim, in which it specified its claims totalling USD 29,200 million. On 9 October 2015 NJSC Naftogaz of Ukraine filed a defence to the claim from PJSC Gazprom. On 14 March 2016 PJSC Gazprom filed a reply to the defence 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 of natural gas under Contract No. KP, compensation of all overpaid amounts starting from 20 May 2011 and cancellation of the provision of Contract No. KP which provided 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 in the case were held, the parties provided post-hearing statements on 11 November 2016.

**36 OPERATING RISKS (continued)**

On 31 May 2017 the arbitrators rendered an interim (separate) award on certain key legal issues. On 7 November 2017 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated interim (separate) award and to annul it partially. The final decision on the case was rendered on 22 December 2017. The arbitrators recognised that the basic provisions of Contract No. KP were valid and satisfied the majority of the claims filed by PJSC Gazprom seeking payment for the gas supplied, which initiated the proceedings, and obliged NJSC Naftogaz of Ukraine:

- 1) to pay PJSC Gazprom the overdue debt for the gas supplied amounting to USD 2,019 million, and interest for the period from 22 December 2017 to the date of such payment at the rate of 0.03 % for each day of delay;
- 2) starting from 2018 to buy and pay for 5 billion cubic meters of gas annually or in case of the failure to buy this quantity to pay for 80 % of this volume.

On 17 January 2018 the arbitrators adjusted the amount owed by NJSC Naftogaz of Ukraine to PJSC Gazprom by increasing it up to USD 2,030 million.

On 21 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated final decision of 22 December 2017 and to annul it partially. In accordance with the preliminary schedule compiled by the Swedish court following the procedural hearings, court sittings in the case on challenging the separate arbitration award on the supply are scheduled for October 2019. Court sittings in the case on challenging the final arbitration award on the supply are scheduled for February 2020.

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 of Ukraine under Contract No. TKGU dated 19 January 2009 ("Contract No. TKGU") on volumes and terms of gas transportation through Ukraine in 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 in the case were held, the parties provided post-hearing statements on 11 November 2016. On 2 February 2018 NJSC Naftogaz of Ukraine submitted the corrected amount of claim to the arbitration court, including a claim to recover damages for the failure to provide gas for transit and underpayment of the transit tariff for the second half of 2016 and 2017. Total amount of the claim filed by NJSC Naftogaz of Ukraine (without interest) was USD 14,865 million. On 16 February 2018 PJSC Gazprom submitted to the arbitration court a defence to this claim and a claim to refund the overpaid transit tariff for the period from April 2014 to December 2017 due to the change in the gas price under Contract No. KP for the purchase and sale of natural gas in 2009 - 2019 totaling USD 44 million without interest. The final award in the case was issued on 28 February 2018. The arbitration court rejected the request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the EU to the Contract. The arbitration court rejected the request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under Contract No. TKGU to PJSC Ukrtransgaz or to another gas transportation system operator. The arbitration court satisfied the request of NJSC Naftogaz of Ukraine in the amount of USD 4,673 million for having provided less gas for transit to European consumers than stipulated in the Contract. With consideration for the amount awarded to PJSC Gazprom under the supply contract, the arbitration court set off counter-claims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million

**36 OPERATING RISKS (continued)**

to NJSC Naftogaz of Ukraine. The amount of liabilities under the award is presented in the line “Accounts payable and provisions” in the consolidated balance sheet. On 29 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated final award of 28 February 2018 and to annul it partially. On 13 June 2018 the court rendered the decision to suspend execution of the arbitration award and on 28 June 2018 the court confirmed its decision to suspend execution of the arbitration award in relation to recovery from PJSC Gazprom of the amount of USD 2,560 million awarded by the arbitrators. On 13 September 2018 upon a motion from NJSC Naftogaz of Ukraine the court annulled its decision to suspend execution of the arbitration award. Hearings in the case on challenging the arbitration award in the transit case have not been scheduled yet.

On 29 May 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking actions to enforce the arbitration award in Switzerland. In particular, an injunction was issued seizing PJSC Gazprom’s receivables from Nord Stream AG and Nord Stream 2 AG. Payments from these companies to PJSC Gazprom should be directed to the bailiff. PJSC Gazprom has not received any official notifications on this issue. On 2 August 2018 PJSC Gazprom filed a reasoned objection to the injunction to the Swiss court. On 16 January 2019 the Swiss court rendered a decision to fully annul the injunction seizing PJSC Gazprom’s assets issued on 29 May 2018. Based on this court decision the shares of Nord Stream AG and Nord Stream 2 AG in Switzerland and PJSC Gazprom’s receivables from these companies are no longer seized. On 5 June 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking similar actions in the Netherlands. In particular on 30 May 2018 the shares in Blue Stream Pipeline Company B.V., the operator of the Blue Stream pipeline, owned by PJSC Gazprom and the receivables payable to PJSC Gazprom (with such receivables remaining at the disposal of the Dutch Group’s companies) were seized pursuant to the decision of the District Court of Amsterdam.

On 17 September 2018 NJSC Naftogaz of Ukraine filed a motion in the Netherlands to recognise and enforce the arbitration award in the transit case.

On 22 June 2018 PJSC Gazprom received an order of the High Court of Justice (the United Kingdom) dated 18 June 2018 for the seizure of PJSC Gazprom’s assets in the United Kingdom as requested by NJSC Naftogaz of Ukraine as part of its efforts to enforce the above mentioned arbitration award and the decision of the court of first instance dated 8 June 2018 on the enforcement of this decision. On 13 September 2018 the High Court of England and Wales cancelled its order dated 18 June 2018 to seize PJSC Gazprom’s assets in England and Wales. The condition for the cancellation was the obligation undertaken by PJSC Gazprom not to alienate shares of Nord Stream AG before the end of the hearings in the English court in the case on recognition and execution of the decision of the Stockholm arbitration court in the transit case dated 28 February 2018. The hearings in the case were held on 12-13 February 2019. On 15 March 2019 the English court suspended the proceedings in the case on recognition and execution in England and Wales of the decision of the Stockholm arbitration court in the transit case dated 28 February 2018 until the end of the proceedings in the Court of Appeal of Svea (Sweden).

On 15 February 2018 NJSC Naftogaz of Ukraine sent to Luxembourg branches of the major banks and Gaz Capital S.A. a notification on the seizure of any liabilities and assets of PJSC Gazprom in Luxembourg. On 15 April 2019 PJSC Gazprom filed with the court of Luxembourg a petition to challenge the seizure and intervene in order to defend its rights.

On 5 March 2018 PJSC Gazprom notified NJSC Naftogaz of Ukraine about the need to restore the balance of interests between the parties under gas supply and transit contracts disrupted by earlier awards of the Stockholm arbitration court and suggested negotiating this issue. Negotiations were unsuccessful, therefore, on 20 April 2018 PJSC Gazprom filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration seeking amendment or termination of contracts with NJSC Naftogaz of Ukraine for gas supply and gas transit through Ukraine in order to restore the balance between contractual obligations and eliminate disproportions in terms of parties’ contractual liabilities. On 22 May 2018 NJSC Naftogaz of Ukraine filed in response to this a request for arbitration and counter-claims in respect of the gas supply and transit contracts. On 6 September 2018 the Stockholm Chamber of Commerce, Sweden, rendered a decision upon PJSC Gazprom’s petition to consolidate these proceedings with the proceedings related to the request of NJSC Naftogaz of Ukraine to change the gas transit tariff. On 28 December 2018 the arbitration panel was formed. The hearings in the case are scheduled for April-May 2021.

**36 OPERATING RISKS (continued)**

On 10 July 2018 PJSC Naftogaz of Ukraine filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration for changing of the tariff for gas transit through Ukraine starting from 18 March 2018 and for enforced recovery from PJSC Gazprom of USD 11,580 million for the period from 18 March 2018 until the expiration date of the effective gas transit contract (until 31 December 2019). PJSC Gazprom filed a response to this request for arbitration on 14 August 2018. On 6 September 2018 upon a motion from PJSC Gazprom the Stockholm Chamber of Commerce, Sweden, decided to consolidate this proceeding and those initiated to consider PJSC Gazprom's request to amend or terminate contracts with PJSC Naftogaz of Ukraine for gas supply and gas transit through Ukraine in order to restore the balance between contractual obligations and eliminate disproportions in terms of the parties' contractual liabilities. On 28 December 2018 the arbitration panel was formed. The hearings in the case are scheduled for April-May 2021.

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 2018 – RUB 115,067 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, a response to the request for arbitration. The 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 and expert statements. On 22 June 2016 the arbitration court issued a final award which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including the claims on unfair pricing of the 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 had filed a motion with the Court of Appeal of Stockholm, Sweden, to annul the Final arbitration award of 22 June 2016. On 4 April 2017 PJSC Gazprom was officially served with this motion. On 9 June 2017 PJSC Gazprom filed a defence to the claim with the Court of Appeal of Stockholm, Sweden. The Ministry of Energy of the Republic of Lithuania submitted its detailed written opinions on the case on 10 October 2017. PJSC Gazprom is keeping on analysing received documents and is preparing its legal position. The hearings in the case are scheduled for May 2019.

In December 2015 South Stream Transport B.V., a subsidiary of the Group, was served with an official notification by the Secretariat of the International Court of Arbitration of the International Chamber of Commerce stating that Saipem S.p.A. had submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by South Stream Transport B.V. of the agreement dated 14 March 2014 for the construction of the "South Stream" pipeline. The amount of current claims of Saipem S.p.A. to South Stream Transport B.V. is about EUR 615 million (at the exchange rate as of 31 December 2018 – RUB 48,868 million). On 18 April 2019 Saipem S.p.A. and South Stream Transport B.V. agreed to terminate the legal proceedings initiated in December 2015 by signing a settlement agreement.

On 22 January 2016 the Antimonopoly Committee of Ukraine rendered a decision to impose a fine on PJSC Gazprom in the amount of 85,966 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 215,522 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed a claim with the Kiev Economic Court to challenge the decision of the Antimonopoly Committee of Ukraine. In April 2017 the Antimonopoly Committee of Ukraine filed a request with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of 171,932 million Ukrainian hryvnia (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office Order of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover an amount of 189,125 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 474,148 million), including an execution fee of 17,193 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 43,104 million), and on the seizure of the bank accounts of the Kiev-based Representative office of PJSC Gazprom, dividends due to PJSC Gazprom for the participation in JSC Gaztransit, the shares of JSC Gaztransit owned by PJSC Gazprom, the shares of PJSC YUZHNIIGIPROGAZ Institute, equity interests in LLC Gazprom sbyt Ukraine, and LLC International Consortium for the Ukrainian Gas Transmission System Management and Development. PJSC Gazprom is currently challenging the actions under the enforcement proceedings in the Ukrainian courts. PJSC Gazprom is also considering other legal remedies to restore its violated rights.

**36 OPERATING RISKS (continued)**

The shares of PJSC YUZHNIIGIPROGAZ Institute with a nominal value of 651,500 Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 2 million) (estimated value – 6,241,386 Ukrainian hryvnia, at the exchange rate as of 31 December 2018 – RUB 16 million) were sold on 22 August 2018 in a forced sale auction.

The shares of JSC Gaztransit with a nominal value of 33.3 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 – RUB 83 million) (estimated value – 44.22 million Ukrainian hryvnia, at the exchange rate as of 31 December 2018 – RUB 111 million) were sold on 29 January 2019 in a forced sale auction.

On 26 October 2018 pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) PJSC Gazprom commenced an arbitration against Ukraine to protect its investments in Ukraine due to the fact that Ukraine represented by the Antimonopoly Committee of Ukraine had imposed an unjustified and unfair fine on PJSC Gazprom, which means that it violated PJSC Gazprom's rights guaranteed by the Agreement between the Government of the Russian Federation and the Cabinet of Ministers of Ukraine on the Encouragement and Mutual Protection of Investments dated 27 November 1998. The procedural schedule has not currently been compiled.

On 15 October 2018 PGNiG S.A., Poland, filed a claim with the General Court of the EU for cancellation of the decision of the European Commission on the pro-competition commitments which completed the antitrust investigation against alleged breach of the EU antitrust law by PJSC Gazprom and its subsidiary LLC Gazprom export within the activity in EU member countries from the Central and Eastern Europe. The pro-competition commitments came into effect on 28 May 2018 when PJSC Gazprom was officially served with the adopted decision. The decision on the pro-competition commitments was published by the European Commission on 17 July 2018.

On 14 March 2017 the European Commission received a complaint from PGNiG S.A., Poland, stating that PJSC Gazprom and LLC Gazprom export allegedly violated Article 102 of the Treaty on the Functioning of the EU. In this complaint PGNiG S.A. states that PJSC Gazprom and LLC Gazprom export violate 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 this complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal investigation and constitute an accusation of PJSC Gazprom and LLC Gazprom export in violating the antitrust law of the EU. These claims relate to issues covered by the European Commission investigation of PJSC Gazprom and LLC Gazprom export's operation in the countries of Central and Eastern Europe, which formal phase was initiated in 2012 and finalised in 2018. It is currently impossible to assess a potential negative impact of this ongoing investigation on Gazprom Group's operation in Europe and on the financial position of Gazprom Group as a whole.

On 4 May 2018 PJSC Gazprom received a notice from Poland's antimonopoly authority on initiation of proceedings over alleged concentration exercised by PJSC Gazprom and foreign investors when implementing the Nord Stream 2 project (on the basis of "the establishment of a joint venture without obtaining the prior consent of the President of the Polish Office of Competition and Consumer Protection"). The notice states that in accordance with the Polish legislation the President of the Polish Office of Competition and Consumer Protection has the right to impose certain sanctions on companies that, in his opinion, exercise concentration without obtaining the consent of the Polish Office of Competition and Consumer Protection (in particular, to impose a fine of up to 10 % annual turnover of the company). On 15 June 2018 PJSC Gazprom filed its objections to the position declared by Poland's antimonopoly authority and a motion to terminate the antitrust investigation.

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

**36 OPERATING RISKS (continued)**

**Sanctions**

Since 2014 the EU, the United States (“U.S.”) and some other countries introduced a series of sanctions against the Russian Federation and some Russian legal entities. Some of these sanctions are aimed directly against PJSC Gazprom, PJSC Gazprom Neft and their subsidiaries 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 legal entities incorporated in U.S. (including their foreign branches) and 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 with new debt of longer than 90 days maturity (from 28 November 2017 – 60 days maturity) or newly issued share capital, property or rights to property in respect of a number of energy companies, including PJSC Gazprom Neft;

2) transacting in, providing financing for, or otherwise dealing with new debt of longer than 30 days maturity (from 28 November 2017 – 14 days maturity) or newly issued share capital, property or rights to property in respect 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, inland 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 has included the Yuzhno-Kirinskoye field located in the Sea of Okhotsk. According to the changes of 31 October 2017 the scope of the stated restriction is extended for projects that meet three criteria at the same time:

- projects start after 29 January 2018;
- projects relate to oil production around the world;
- Russian companies included in the Sectoral Sanctions Identifications List, including PJSC Gazprom and PJSC Gazprom Neft and their subsidiaries, own a share of 33 % and more in such project or control the majority of voting rights.

On 2 August 2017 the U.S. President signed the Countering America's Adversaries Through Sanctions Act (the “Act of 2 August 2017”), which expanded the U.S. sanctions regime against the Russian Federation. The Act of 2 August 2017, inter alia, gives the U.S. President the right to impose certain sanctions in interaction (coordination) with the U.S. allies against any person who after the adoption of the Act of 2 August 2017 consciously made investments or sold goods, supplied technologies or provided services to the Russian Federation (for the amount exceeding USD 1 million, or during the year – totally exceeding USD 5 million) in the construction and maintenance of Russian energy export pipelines. The implementation of these sanctions can create risks for the development of new prospective gas transportation projects of PJSC Gazprom.

The Act of 2 August 2017 creates the risk of extraterritorial application of certain U.S. sanctions and may adversely affect the participation of foreigners in certain new projects of PJSC Gazprom. At the same time, the provisions of the Act of 2 August 2017 should be applied along with the explanations of the U.S. Department of the Treasury and the U.S. Department of State.

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 equity interest.

PJSC Gazprom is not expressly stated among the 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 equity interest are subject to certain financial restrictions imposed by the EU.

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



**36 OPERATING RISKS (continued)**

1) provision of drilling, wells testing, logging and completion services, 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 and providing of 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), but excluding PJSC Gazprom;

3) purchasing, selling and providing 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 a maturity of more than 30 days;

4) after 12 September 2014 providing directly or indirectly or being part of any arrangement to make new borrowings with a maturity exceeding 30 days to some Russian companies (including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for borrowings 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 borrowings that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for bodies 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 in its capital is owned, directly or indirectly, by entities that are subject to sanctions.

Canada and some other countries also imposed sanctions on some Russian individuals and legal 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 outside Canada to transact in, provide financing for, or otherwise deal in new debt of longer than 90 days' maturity for a number of Russian energy companies, including PJSC Gazprom and PJSC Gazprom Neft. Furthermore, there is an ongoing restriction on the export, sale and delivery by persons in Canada and Canadian citizens outside Canada of certain goods to the Russian Federation or any person in the Russian Federation, if such goods are used for deep-water oil exploration (at a depth of more than 500 metres), for oil exploration or production in the Arctic, as well as shale oil exploration or production.

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

**37 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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**37 FINANCIAL RISK FACTORS (continued)**

Notes		Russian Ruble	US dollar	Euro	Other	Total
	<b><u>As of 31 December 2018</u></b>					
	<b>Financial assets</b>					
	<b>Current</b>	335,175	204,757	289,942	19,545	849,419
8	Cash and cash equivalents					
12	Short-term deposits	554,724	212,156	24,170	5,090	796,140
9	Short-term financial assets (excluding equity securities)	25,900	-	-	-	25,900
10	Trade and other accounts receivable	310,128	355,355	344,286	132,725	1,142,494
	<b>Non-current</b>					
12	Long-term deposits	-	-	-	1,432	1,432
16	Long-term accounts receivable	110,528	1,765	37,809	1,029	151,131
17	Long-term financial assets (excluding equity securities)	<u>262</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>262</u>
	<b>Total financial assets</b>	<b>1,336,717</b>	<b>774,033</b>	<b>696,207</b>	<b>159,821</b>	<b>2,966,778</b>
	<b>Financial liabilities</b>					
	<b>Current</b>					
18	Accounts payable (excluding derivative financial instruments)	651,391	341,204	173,789	89,975	1,256,359
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	113,450	277,983	139,450	38,178	569,061
	<b>Non-current</b>					
21	Long-term borrowings, promissory notes	<u>647,937</u>	<u>826,125</u>	<u>1,529,969</u>	<u>290,730</u>	<u>3,294,761</u>
	<b>Total financial liabilities</b>	<b>1,412,778</b>	<b>1,445,312</b>	<b>1,843,208</b>	<b>418,883</b>	<b>5,120,181</b>

Notes		Russian Ruble	US dollar	Euro	Other	Total
	<b><u>As of 31 December 2017</u></b>					
	<b>Financial assets</b>					
	<b>Current</b>					
8	Cash and cash equivalents	478,401	201,232	162,436	26,938	869,007
12	Short-term deposits	233,520	83,761	506	10,182	327,969
9	Short-term financial assets (excluding equity securities)	30,851	-	-	-	30,851
10	Trade and other accounts receivable	533,110	132,995	244,398	133,929	1,044,432
	<b>Non-current</b>					
12	Long-term deposits	-	311	-	1,248	1,559
16	Long-term accounts receivable	121,411	2,026	33,254	1,642	158,333
17	Long-term financial assets (excluding equity securities)	<u>249</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>249</u>
	<b>Total financial assets</b>	<b>1,397,542</b>	<b>420,325</b>	<b>440,594</b>	<b>173,939</b>	<b>2,432,400</b>
	<b>Financial liabilities</b>					
	<b>Current</b>					
18	Accounts payable (excluding derivative financial instruments)	595,188	363,597	157,961	46,875	1,163,621
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	216,858	259,646	366,685	31,616	874,805
	<b>Non-current</b>					
21	Long-term borrowings, promissory notes	<u>416,025</u>	<u>933,435</u>	<u>841,633</u>	<u>200,620</u>	<u>2,391,713</u>
	<b>Total financial liabilities</b>	<b>1,228,071</b>	<b>1,556,678</b>	<b>1,366,279</b>	<b>279,111</b>	<b>4,430,139</b>

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**37 FINANCIAL RISK FACTORS (continued)**

Information on derivative financial instruments is presented in Note 23.

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

As of 31 December 2018, 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 134,256 million, mainly as a result of foreign exchange loss on translation of US dollar-denominated borrowings partially offset by foreign exchange gain on translation of US dollar-denominated trade receivables. As of 31 December 2017, 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 227,271 million, mainly as a result of foreign exchange loss on translation of US dollar-denominated borrowings partially offset by foreign exchange gain 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.

As of 31 December 2018, 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 229,400 million, mainly as a result of foreign exchange loss on translation of Euro-denominated borrowings partially offset by foreign exchange gain on translation of Euro-denominated trade receivables. As of 31 December 2017, 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 185,137 million, mainly as a result of foreign exchange loss on translation of Euro-denominated borrowings partially offset by foreign exchange gain 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	
		2018	2017
21	At fixed rate	2,709,599	2,355,672
21	At variable rate	<u>1,079,332</u>	<u>824,665</u>
		<b>3,788,931</b>	<b>3,180,337</b>

The Group does not have a formal policy of determining level of acceptable risk associated with fixed or variable interest 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.

In 2017-2018 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2018, if benchmark interest rates on borrowings had been 100 basis points higher with all other variables held constant, profit before profit tax would have been lower by RUB 9,520 million for 2018, mainly as a result of higher interest expense on variable interest rate long-term borrowings. As of 31 December 2017, if benchmark interest rates on borrowings had been 100 basis points higher with all other variables held constant, profit before profit tax would have been lower by RUB 7,537 million for 2017, mainly as a result of higher interest expense on variable interest rate long-term borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

**37 FINANCIAL RISK FACTORS (continued)**

*(c) Commodity price risk*

Commodity price risk - possible change in prices for natural gas, crude oil and their refined products, and its 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 profit and cash flows.

The Group's overall strategy in production and sales of natural gas, crude oil and their refined products is centrally managed. Natural gas export prices to Europe and other countries are generally based on a formula linked to refined products 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 2018, if the average gas export prices had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 334,918 million for 2018. As of 31 December 2017, if the average gas export prices had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 246,490 million for 2017.

Gas prices in the Russian Federation are regulated by the FAS and are as such less subject to significant fluctuations.

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

*(d) Securities price risk*

The Group is exposed to movements in the equity securities prices included in financial assets held by the Group and classified in the consolidated balance sheet either as financial assets measured at fair value with changes recognised through profit or loss or other comprehensive income (see Notes 9 and 17).

As of 31 December 2018 and 31 December 2017, if London Stock Exchange equity index, which primarily affects the major part of Group's equity securities, had decreased by 20 % with all other variables held constant, assuming high correlation of the value of these securities with the index, the Group's comprehensive income for the period would have been RUB 83,473 million and RUB 53,678 million lower, respectively.

The Group is also exposed to movements in prices of securities held by JSC NPF GAZFOND and used for fair value estimation of the Group's pension plan assets (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 allowance for expected credit losses (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.

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**37 FINANCIAL RISK FACTORS (continued)**

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 allowance for expected credit losses 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	
		2018	2017
8	Cash and cash equivalents	849,419	869,007
12	Deposits	797,572	329,528
9, 17	Debt securities	26,162	30,851
10, 16	Trade and other accounts receivable	1,293,625	1,202,765
	Financial guarantee contracts	<u>320,668</u>	<u>303,842</u>
	<b>Total maximum exposure to credit risk</b>	<b>3,287,446</b>	<b>2,735,993</b>

**Financial guarantee contracts**

	31 December	
	2018	2017
Guarantees issued for:		
Nord Stream AG	136,086	128,913
LLC Stroygazconsulting	87,094	70,013
Sakhalin Energy Investment Company Ltd.	66,317	78,563
Other	<u>31,171</u>	<u>26,353</u>
<b>Total financial guarantees</b>	<b>320,668</b>	<b>303,842</b>

In 2017 and 2018 counterparties fulfilled their contractual obligations.

Included in financial guarantee contracts amounts are denominated in US Dollars of USD 955 million and USD 1,391 million as of 31 December 2018 and 31 December 2017, respectively, as well as amounts denominated in Euros of EUR 1,879 million and EUR 1,905 million as of 31 December 2018 and 31 December 2017, respectively.

In June 2008 the Group pledged the shares of Sakhalin Energy Investment Company Ltd. to the bank-agent Mizuho Bank Ltd. under the loan obligations of Sakhalin Energy Investment Company Ltd. As of 31 December 2018 and 31 December 2017 the amount of Sakhalin Energy Investment Company Ltd. obligations up to the amount of the Group's share (50 %) amounted to RUB 66,317 million (USD 955 million) and RUB 78,563 million (USD 1,364 million), respectively.

In March 2010 the Group pledged the shares of Nord Stream AG to the bank-agent Societe Generale under the obligations of Nord Stream AG under the project financing agreement. As of 31 December 2018 and 31 December 2017 the amount of Nord Stream AG obligations up to the amount of the Group's share (51 %) amounted to RUB 136,086 million (EUR 1,713 million) and RUB 128,913 million (EUR 1,872 million), respectively.

Since December 2017 the Group provided guarantees to Gazprombank (Joint-stock Company) for LLC Stroygazconsulting under its loan obligations. As of 31 December 2018 and 31 December 2017 the guarantees amounted to RUB 87,094 million and RUB 70,013 million, respectively.

**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.

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**37 FINANCIAL RISK FACTORS (continued)**

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.

	<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>As of 31 December 2018</b>					
Short-term and long-term loans and borrowings and promissory notes	351,077	217,984	607,775	1,654,576	1,032,410
Accounts payable (excluding derivative financial instruments)	999,534	256,825	-	-	-
Financial guarantee contracts	7,687	832	10,365	69,402	232,382
<b>As of 31 December 2017</b>					
Short-term and long-term loans and borrowings and promissory notes	404,002	470,803	481,070	1,087,239	823,404
Accounts payable (excluding derivative financial instruments)	1,118,632	44,989	-	-	-
Financial guarantee contracts	10,765	5,916	912	81,786	204,463

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.

**Reconciliation of liabilities arising from financing activities**

	<b>Borrowings</b>	<b>Dividends</b>	<b>Other liabilities</b>	<b>Total</b>
<b>As of 31 December 2017</b>	<b>3,266,518</b>	<b>5,099</b>	<b>31,065</b>	<b>3,302,682</b>
Cash flows, including:				
Proceeds from borrowings (net of costs directly related to the receipt)	1,297,462	-	-	1,297,462
Repayment of borrowings	(1,178,655)	-	(13,288)	(1,191,943)
Interest paid (in financing activities)	(36,384)	-	(1,904)	(38,288)
Dividends paid	-	(188,313)	-	(188,313)
Finance expense	28,902	-	1,904	30,806
Dividends declared	-	192,822	-	192,822
Change in fair value of hedging operations	-	-	310	310
Translation differences	458,206	-	434	458,640
Other movements	27,773	(2,022)	(971)	24,780
<b>As of 31 December 2018</b>	<b>3,863,822</b>	<b>7,586</b>	<b>17,550</b>	<b>3,888,958</b>

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**37 FINANCIAL RISK FACTORS (continued)**

	<b>Borrowings</b>	<b>Dividends</b>	<b>Other liabilities</b>	<b>Total</b>
<b>As of 31 December 2016</b>	<b>2,829,623</b>	<b>3,029</b>	<b>43,051</b>	<b>2,875,703</b>
Cash flows, including:				
Proceeds from borrowings (net of costs directly related to the receipt)	1,008,563	-	-	1,008,563
Repayment of borrowings	(622,058)	-	(10,033)	(632,091)
Interest paid (in financing activities)	(33,757)	-	(539)	(34,296)
Dividends paid	-	(191,875)	-	(191,875)
Finance expense	37,063	-	539	37,602
Dividends declared	-	196,059	-	196,059
Change in fair value of hedging operations	-	-	(956)	(956)
Translation differences	25,103	-	-	25,103
Other movements	21,981	(2,114)	(997)	18,870
<b>As of 31 December 2017</b>	<b>3,266,518</b>	<b>5,099</b>	<b>31,065</b>	<b>3,302,682</b>

**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 and to 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.

Adjusted EBITDA is calculated as operating profit less depreciation and less impairment loss on assets (excluding accounts receivable, advances paid and prepayments).

The net debt to adjusted EBITDA ratio as of 31 December 2018 and 31 December 2017 is presented in the table below.

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
Total debt	3,863,822	3,266,518
Less: cash and cash equivalents	(849,419)	(869,007)
Net debt	3,014,403	2,397,511
Adjusted EBITDA	2,599,284	1,467,692
<b>Net debt / Adjusted EBITDA</b>	<b>1.16</b>	<b>1.63</b>

PJSC Gazprom has an investment grade credit rating of BBB- (stable outlook) by Standard & Poor's and BBB- (positive outlook) by Fitch Ratings as of 31 December 2018.

**38 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

*a) Financial instruments included in Level 1*

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

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

*b) Financial instruments included in Level 2*

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

*c) Financial instruments included in Level 3*

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

The fair value of long-term accounts receivable is classified as Level 3 (see Note 16), long-term borrowings – Level 2 (see Note 21).

As of 31 December 2018 and 31 December 2017 the Group had the following assets and liabilities that are measured at fair value:

Notes	31 December 2018			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value with changes recognised through profit or loss:</b>				
12	7,238	100,041	589	107,868
9	25,868	-	-	25,868
9	207	-	752	959
<b>Financial assets measured at fair value with changes recognised through other comprehensive income:</b>				
9	-	32	-	32
<b>Total short-term financial assets measured at fair value</b>				
	<b>33,313</b>	<b>100,073</b>	<b>1,341</b>	<b>134,727</b>
<b>Financial assets measured at fair value with changes recognised through profit or loss:</b>				
12	9,395	27,998	-	37,393
17	-	-	2,131	2,131
<b>Financial assets measured at fair value with changes recognised through other comprehensive income:</b>				
17	365,090	43,594	5,589	414,273
17	-	262	-	262
<b>Total long-term financial assets measured at fair value</b>				
	<b>374,485</b>	<b>71,854</b>	<b>7,720</b>	<b>454,059</b>
<b>Total financial assets</b>				
	<b>407,798</b>	<b>171,927</b>	<b>9,061</b>	<b>588,786</b>
<b>Financial liabilities measured at fair value with changes recognised through profit or loss:</b>				
18, 23	11,776	83,493	4,221	99,490
23	11,622	42,344	529	54,495
<b>Total financial liabilities measured at fair value</b>				
	<b>23,398</b>	<b>125,837</b>	<b>4,750</b>	<b>153,985</b>



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

Notes	31 December 2017			
	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value with changes recognised through profit or loss:</b>				
12 Derivative financial instruments	7,182	46,109	1,911	55,202
9 Bonds	30,758	-	-	30,758
9 Equity securities	206	-	-	206
<b>Financial assets measured at fair value with changes recognised through other comprehensive income:</b>				
9 Promissory notes	-	93	-	93
<b>Total short-term financial assets measured at fair value</b>	<b>38,146</b>	<b>46,202</b>	<b>1,911</b>	<b>86,259</b>
<b>Financial assets measured at fair value with changes recognised through profit or loss:</b>				
12 Derivative financial instruments	4,764	14,745	66	19,575
17 Equity securities	-	-	797	797
<b>Financial assets measured at fair value with changes recognised through other comprehensive income:</b>				
17 Equity securities	215,733	43,594	8,059	267,386
17 Promissory notes	-	249	-	249
<b>Total long-term financial assets measured at fair value</b>	<b>220,497</b>	<b>58,588</b>	<b>8,922</b>	<b>288,007</b>
<b>Total financial assets</b>	<b>258,643</b>	<b>104,790</b>	<b>10,833</b>	<b>374,266</b>
<b>Financial liabilities measured at fair value with changes recognised through profit or loss:</b>				
18, 23 Short-term derivative financial instruments	6,912	55,137	2,293	64,342
23 Long-term derivative financial instruments	346	27,180	181	27,707
<b>Total financial liabilities measured at fair value</b>	<b>7,258</b>	<b>82,317</b>	<b>2,474</b>	<b>92,049</b>

The derivative financial instruments include natural gas purchase and sale contracts and are categorised in Levels 1, 2 and 3 of the classification of derivative financial instruments. The contracts in Level 1 are valued using active market prices 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 of money, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. If necessary, the price curves are extrapolated to the expiry of the contracts using all available external pricing information, statistical and long-term pricing relationships. These instruments are categorised in Level 3.

Foreign currency hedge contracts are categorised in Level 2. For fair value estimation the Group uses valuation prepared by independent financial institutes. Valuation results are regularly analysed by the Group's management. For the reporting period all foreign currency hedge contracts were effective.

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the reporting period.

Financial assets measured at fair value with changes recognised through profit or loss include derivative financial instruments, equity and debt securities intended to generate short-term profit through trading.

**39 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 offset, in the event of a default by the counterparty (such as bankruptcy), counterparty's rights and obligations under the agreement or 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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**39 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 2018</u></b>				
<b>Financial assets</b>				
Long-term and short-term trade and other accounts receivable	1,789,206	495,570	1,293,636	65,643
Derivative financial instruments	709,935	564,674	145,261	1,156
<b>Financial liabilities</b>				
Accounts payable (excluding derivative financial instruments)	1,751,929	495,570	1,256,359	65,643
Derivative financial instruments	718,659	564,674	153,985	1,156
<b><u>As of 31 December 2017</u></b>				
<b>Financial assets</b>				
Long-term and short-term trade and other accounts receivable	1,535,132	332,367	1,202,765	64,696
Derivative financial instruments	364,018	289,241	74,777	1,010
<b>Financial liabilities</b>				
Accounts payable (excluding derivative financial instruments)	1,495,988	332,367	1,163,621	64,696
Derivative financial instruments	381,290	289,241	92,049	1,010

**40 EVENTS AFTER REPORTING PERIOD**

*Borrowings*

In February 2019 the Group issued Loan Participation Notes in the amount of USD 1,250 million at an interest rate of 5.15 % due in 2026 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In February 2019 the Group obtained a long-term loan from PJSC Bank Otkritie Financial Corporation in the amount of EUR 400 million at an interest rate of 2.5 % due in 2024.

In February-April 2019 the Group obtained long-term loans from a consortium of banks in the total amount of EUR 421 million at an interest rate of EURIBOR + 1.6 % due in 2021 under the agreement concluded in December 2018. Intesa Sanpaolo Bank Luxembourg S.A. was appointed as a bank agent.

In March 2019 the Group obtained a long-term loan from a consortium of banks in the total amount of EUR 500 million at an interest rate of EURIBOR + 1.65 % due in 2024. Bank Natixis was appointed as a bank agent.

In March 2019 the subsidiary Nord Stream 2 AG obtained long-term loans from Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V. in the amount of EUR 220 million within the terms of the long-term financing agreement signed between the parties in April 2017.

*Financial guarantee contracts*

In January 2019 the Group terminated guarantees provided to Gazprombank (Joint-stock Company) for LLC Stroygazconsulting under its loan obligations (see Note 37).

In January 2019 the Group provided guarantees to Gazprombank (Joint-stock Company) for LLC MK-1 under its loan obligations until 2028. The liability limit according to the guarantees is RUB 117,191 million.

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

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**MANAGEMENT REPORT  
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FOR 2018**

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### Note:

This Management Report determines some operating and economic parameters in accordance with the International Financial Reporting Standards (IFRS) principles for the Group's entities included in the IFRS consolidated financial statements of PJSC Gazprom for the year ended 31 December 2018. Therefore, they may differ from similar parameters in reports of PJSC Gazprom prepared under Russian statutory requirements.

Moreover, some operating parameters of PJSC Gazprom and its subsidiaries are determined in accordance with the principles underlying management reporting.

Analysis of financial results should be read in conjunction with the audited consolidated financial statements of PJSC Gazprom for the year ended 31 December 2018 prepared in accordance with IFRS.

Among other things, the Management Report discloses information on the future production and economic activities of Gazprom Group, based on the management's forecasts and estimates considering the current situation. Actual results may differ from the said forecasts and estimates due to the effect of various objective factors.

PJSC Gazprom and its subsidiaries (“Gazprom Group”, “Gazprom”, or the “Group”) is one of the world’s largest vertically integrated energy companies.

## THE GROUP’S POSITION IN THE GLOBAL ENERGY INDUSTRY

Gazprom remains a global leader in terms of natural gas reserves (ca. 16% of global gas reserves) and gas production (ca. 11% of global gas production). Gazprom’s share in total Russian production stands at 69% for gas and 12% for oil and gas condensate.

Gazprom operates in 24 countries, and its products are supplied to more than 130 markets around the world.

The Unified Gas Supply System (UGSS) of Russia is a centrally operated system of natural gas treatment, transportation and storage. The UGSS incorporates the world’s longest network of high-pressure trunk pipelines covering European Russia and Western Siberia. As at the end of 2018, the combined length of trunk pipelines and connections operated by the Group’s gas transportation subsidiaries in Russia totalled 172.6 thousand km.

In Russia, Gazprom Group accounts for more than a half of all natural and associated petroleum gas processing and 18% of oil and stable gas condensate refining.

Gazprom is the dominant supplier of gas to consumers in Russia and countries of the former Soviet Union (FSU). In addition, the Group is Europe’s major supplier of natural gas. The share of PJSC Gazprom’s gas sales under contracts signed by LLC Gazprom export and under direct contracts with GAZPROM Schweiz AG in the total gas consumption in European far abroad countries is 36.8%.

The Group also owns electricity generating assets, which provide 14% of all the electrical power generated in Russia. Gazprom is the largest Russian heat producer.

Gazprom Group’s key operational and financial indicators for 2018 and 2017 are presented in the tables below:

	As at and for the year ended 31 December		Change, %
	2018	2017	
<b>Reserves of hydrocarbons under PRMS standards<sup>(1)</sup></b>			
Proved and probable gas reserves, bcm	24,255.13	24,146.57	0.4
Proved and probable gas condensate reserves, mm tonnes	1,090.15	1,105.68	–1.4
Proved and probable crude oil reserves, mm tonnes	1,335.37	1,360.02	–1.8
Total proved and probable hydrocarbon reserves, <sup>(2)</sup> bboe	176.12	175.72	0.2
<b>Operating indicators</b>			
Natural and associated petroleum gas production, <sup>(1)</sup> bcm	498.7	472.1	5.6
Crude oil production, <sup>(1)</sup> mm tonnes	48.3	48.6	–0.6
Unstable gas condensate production, <sup>(1)</sup> mm tonnes	15.9	15.9	–
Total hydrocarbon production, <sup>(1),(2)</sup> mm boe	3,720.7	3,550.2	4.8
Natural and associated petroleum gas processing, bcm	31.1	30.8	1.0
Liquid hydrocarbons refining, mm tonnes	67.4	64.1	5.1
Electricity generation, billion kWh	153.19	156.55	–2.1

	As at and for the year ended 31 December		Change, %
	2018	2017	
<b>Key financial results, RUB mm</b>			
Sales	8,224,177	6,546,143	25.6
Operating profit	1,930,030	871,405	121.5
Profit for the year attributable to the owners of PJSC Gazprom	1,456,270	714,302	103.9
Adjusted EBITDA	2,599,284	1,467,692	77.1
<b>Balance Sheet highlights, RUB mm</b>			
Cash and cash equivalents	849,419	869,007	-2.3
Total debt	3,863,822	3,266,518	18.3
Net debt	3,014,403	2,397,511	25.7
Total assets	20,810,440	18,238,770	14.1
Total equity (including non-controlling interest)	13,776,153	12,015,481	14.7
<b>Ratios</b>			
Basic and diluted earnings per share attributable to the owners of PJSC Gazprom, RUB	65.89	32.32	103.9
Total debt to equity ratio (including non-controlling interest)	0.28	0.27	3.7
Adjusted EBITDA margin, %	31.6	22.4	41.1
Profit margin for the year attributable to the owners of PJSC Gazprom, %	17.7	10.9	62.4

Note:

- (1) Including the Group's share in the reserves and production volumes of entities in which Gazprom has investments classified as joint operations.
- (2) For management accounting purposes, Gazprom Group measures hydrocarbon reserves and production in metric units. In this Management Report, gas reserves and production are converted from metric units to barrels of oil equivalent at a ratio of 1,000 cubic metres to 6.49 boe.

## OPERATING RESULTS

### Reserves and Development of Hydrocarbons

The table below shows assets and capital expenditures in the Production of gas and Production of oil and gas condensate segments:

	As at 31 December	
	2018	2017
<b>Production of gas</b>		
Assets, RUB million	2,743,944	2,677,231
Share in the Group's total assets, %	14.3	15.2
<b>Production of oil and gas condensate</b>		
Assets, RUB million	2,898,071	2,516,019
Share in the Group's total assets, %	15.1	14.3
	For the year ended 31 December	
	2018	2017
<b>Production of gas</b>		
Capital expenditures, RUB million	308,007	216,450
Share in the Group's total capital expenditures, %	17.2	14.4
<b>Production of oil and gas condensate</b>		
Capital expenditures, RUB million	257,932	330,424
Share in the Group's total capital expenditures, %	14.4	22.0

## Reserves

According to an audit of Gazprom Group's hydrocarbon reserves under PRMS standards performed by DeGolyer and MacNaughton, as at 31 December 2018 proved and probable hydrocarbon reserves of Gazprom Group (including the share in the reserves of entities in which Gazprom has investments classified as joint operations) are estimated at 176.12 bboe. The audit covered 93.0% of gas reserves, 94.1% of condensate reserves, and 93.9% of oil reserves in A, B<sub>1</sub>, and C<sub>1</sub> reserve categories.

The table below shows proved and probable reserves of Gazprom Group (including the share in the reserves of entities in which Gazprom has investments classified as joint operations) under PRMS standards:

		<b>As at 31 December</b>	
		<b>2018</b>	<b>2017</b>
<b>Gas</b>			
Share of A+B <sub>1</sub> +C <sub>1</sub> reserves covered by the audit under PRMS standards, <sup>(1)</sup> %		93.0	94.1
Proved			
	bcm	17,890.38	18,253.39
	bboe	116.11	118.46
Probable			
	bcm	6,364.75	5,893.18
	bboe	41.31	38.25
Proved and probable			
	bcm	24,255.13	24,146.57
	bboe	157.42	156.71
<b>Gas condensate</b>			
Share of A+B <sub>1</sub> +C <sub>1</sub> reserves covered by the audit under PRMS standards, <sup>(1)</sup> %		94.1	92.7
Proved			
	mm tonnes	759.69	797.75
	bboe	6.21	6.52
Probable			
	mm tonnes	330.46	307.93
	bboe	2.70	2.52
Proved and probable			
	mm tonnes	1,090.15	1,105.68
	bboe	8.91	9.04
<b>Oil</b>			
Share of A+B <sub>1</sub> +C <sub>1</sub> reserves covered by the audit under PRMS standards, <sup>(1)</sup> %		93.9	93.5
Proved			
	mm tonnes	712.32	736.80
	bboe	5.22	5.40
Probable			
	mm tonnes	623.05	623.22
	bboe	4.57	4.57
Proved and probable			
	mm tonnes	1,335.37	1,360.02
	bboe	9.79	9.97



	As at 31 December	
	2018	2017
<b>Total</b>		
Share of A+B <sub>1</sub> +C <sub>1</sub> reserves covered by the audit under PRMS standards, <sup>(1)</sup> %	93.1	94.0
Proved, bboe <sup>(2)</sup>	127.54	130.38
Probable, bboe <sup>(2)</sup>	48.58	45.34
Proved and probable, bboe <sup>(2)</sup>	176.12	175.72

Notes:

- (1) The A+B<sub>1</sub>+C<sub>1</sub> reserve classification accepted in Russia is based on geological factors and technological indicators of development analysis and estimates the actual hydrocarbon reserves contained in geological formations and the technological possibility of their extraction. PRMS standards take into account the economic feasibility of extracting reserves, which is determined based on exploration and drilling costs, operating expenses for production and transportation, taxes, current hydrocarbon prices, and other factors.
- (2) For management accounting purposes, Gazprom Group measures hydrocarbon reserves and production in metric units. In this Management Report, gas reserves are converted from metric units to barrels of oil equivalent at a ratio of 1,000 cubic metres to 6.49 boe.

Gazprom Group's PRMS proved and probable hydrocarbon reserves increased by 0.4 bboe from the previous estimate as at 31 December 2017. In addition to the annual production from the fields operated by Gazprom, the key factors behind the changes in reserve estimates under international standards included a review of geological models following exploration activities and re-estimation at the Tambeyskoye, Yen-Yakhinskoye, Taldinskoye, and Gubkinskoye fields, new development solutions at the Yen-Yakhinskoye, Gubkinskoye, and Taldinskoye fields, transfer of the Semakovskoye field license to the books of LLC RusGazAlyans, as well as PJSC Gazprom Neft's investment decisions on gas transportation and sale for the Novoportovskoye field.

The bulk of the Group's hydrocarbon reserves is concentrated within its licence areas in Russia.

As at 31 December 2018, Gazprom Group held 274 subsoil licences for conducting geological surveys, prospecting, exploration, and production of hydrocarbons in the Russian Federation. These licence blocks aggregately cover the area of 559.3 thousand square km. In addition, entities in which Gazprom has investments classified as joint operations held a total 36 licences covering a total area of 23.1 thousand square km.

As at 31 December 2018, Gazprom Group's A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves in Russia were 35,195.3 bcm of natural gas, 1,604.4 mm tonnes of gas condensate, and 2,015.7 mm tonnes of oil, including the share in the reserves of entities in which Gazprom Group has investments classified as joint operations – 23.9 bcm of gas, 2.8 mm tonnes of gas condensate, and 190.9 mm tonnes of oil.

The Group's share in A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves of associates and joint ventures as at 31 December 2018 was 1,146.7 bcm of natural and associated gas, 110.1 mm tonnes of gas condensate, and 592.0 mm tonnes of oil.

The table below shows changes to A+B<sub>1</sub>+C<sub>1</sub> reserves of natural gas, gas condensate, and oil (including the share in the reserves of entities in which Gazprom Group has investments classified as joint operations) contained within the licenced areas of Gazprom Group in Russia in 2018:

	Natural gas, bcm	Gas condensate, mm tonnes	Oil, mm tonn es	Total, mm boe
<b>Reserves as at 31 December 2017</b>	<b>35,355.4</b>	<b>1,595.6</b>	<b>2,045.3</b>	<b>257,500.6</b>
<b>including non-controlling interests<sup>(1)</sup></b>	<b>517.9</b>	<b>4.2</b>	<b>71.2</b>	<b>3,917.4</b>
Exploration-based additions to reserves	796.6	21.8	19.4	5,490.5
Transfer of reserves discovered in 2018 to the Russian open acreage, <sup>(2)</sup> to the books of other companies; acquisition from other companies	-409.3	-0.6	-5.7	-2,703.0
Obtaining of licences	—	—	0.8	5.9
Licence returns	—	—	—	—
Acquisition of assets	—	—	0.1	0.7
Disposal of assets	—	—	—	—
Re-estimation	-49.6	0.1	3.1	-298.4
Production (including losses)	-497.8 <sup>(3)</sup>	-12.5 <sup>(4)</sup>	-47.3	-3,679.7
<b>Reserves as at 31 December 2018</b>	<b>35,195.3</b>	<b>1,604.4</b>	<b>2,015.7</b>	<b>256,316.6</b>
<b>including non-controlling interests<sup>(1)</sup></b>	<b>455.8</b>	<b>2.5</b>	<b>70.0</b>	<b>3,491.7</b>

Notes:

- (1) Non-controlling interest as at the end of the year is calculated based on Gazprom Group's effective interest in the share capital of the relevant subsidiary which is a subsoil use licence holder.
- (2) Under the Russian laws, a subsoil user does not have any vested right to develop reserves it discovers within the areas covered by its exploration licences or beyond the licenced areas. Such reserves are to be transferred to the open acreage of the Russian Federation, with the subsoil user granted the pre-emptive right to subsequently obtain a licence for developing the relevant discovery.
- (3) Excluding dissolved gas.
- (4) Any production-driven changes in gas condensate reserves are recognized following conversion into stable gas condensate (C<sub>5+</sub>). In 2018, Gazprom Group produced 15.9 mm tons of unstable gas condensate.

### Re-estimation of reserves

Gazprom continued revising gas recovery factors (GRFs) under the new Russian Classification of Reserves and Resources of Oil and Flammable Gases. The revision did not have any significant impact on the changes in natural gas reserves in 2018 since it covered the fields comprising a minor share of Gazprom Group's total gas reserves. As at 31 December 2018, Gazprom completed the GRF estimation for the fields containing 19% of the Group's total A+B<sub>1</sub>+C<sub>1</sub> reserves. Revision of GRFs for Gazprom Group's other fields in the coming years may have a significant impact on the size of its recoverable gas reserves.

## Exploration

The table below shows summary information on the exploration activities completed in 2018 across Gazprom Group's licenced areas in Russia and within the foreign projects implemented with the Group's participation:

### For the year ended 31 December 2018

	In Russia	Abroad <sup>(1)</sup>
Exploration drilling, thousand m	157.6	21.9
Completed exploration wells, units	25	10
including successful wells	20	9
2D seismic surveys, thousand km	5.7	–
3D seismic surveys, thousand square km	9.5	1.1
Financing for exploration (including VAT), RUB billion	86.4	4.7

Note.

- <sup>(1)</sup> The consolidated data reflecting the physical metrics of the exploration activities carried out by Gazprom Group in foreign countries include the data for projects in which the Group's subsidiaries act as operators.

In addition, for entities in which Gazprom has investments classified as joint operations, exploration drilling stood at 28.7 thousand m, with eight exploration wells completed and five of them flowing, and 3D seismic was acquired on 0.5 thousand square km.

In 2018, exploration-driven additions to Gazprom Group's A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves in Russia totalled 796.6 bcm of natural gas, 21.8 mm tonnes of gas condensate, and 19.4 mm tonnes of oil.

Significant growth in gas reserves was achieved at the Leningradskoye field in the Kara Sea (+667.4 bcm) and the Yuzhno-Kirinskoye field in the Sea of Okhotsk (+100.9 bcm).

The Group made three new field discoveries during 2018: the Neptune and Triton fields in the Sea of Okhotsk and the Blizhnenovoportovskoye field in the Yamal-Nenets Autonomous Area, as well as identified 12 new deposits at the previously discovered fields in the Yamal-Nenets Autonomous Area, Khanty-Mansi Autonomous Area – Yugra, the Tomsk and Orenburg Regions, and the Kara Sea. In addition, entities in which Gazprom has investments classified as joint operations discovered the Vostochno-Talovoye field in the Tomsk Region and three deposits in the Khanty-Mansi Autonomous Area – Yugra.

The results of exploration activities at the Nyarmeytsky and Rusanovsky license blocks in the Kara Sea allow Gazprom to expect more discoveries in the areas.

The reserve replacement ratio for the Group's assets in Russia was 1.60 for natural gas, and 0.69 for gas condensate and oil.

During 2018, Gazprom Group carried out a number of geological and geophysical (G&G) surveys under the relevant contracts in FSU countries, Europe, Southeast Asia, Africa, the Middle East, and South America.

Exploration campaigns conducted by Gazprom Group on the Group-operated projects included drilling in Serbia and Iraq, as well as 3D seismic surveys in Serbia.

Under the Agreement of Strategic Cooperation between PJSC Gazprom and JSC Uzbekneftegaz, hydrocarbon potential of six investment blocks, as well as the Paleozoic deposits in the Bukhara-Khiva region in Uzbekistan was assessed.

In Algeria, Gazprom Group optimised the technical and economic parameters of the ZERN and ZER field development (including negotiations with the Algerian party on amending the contract terms), which led to the decision to transfer the blocks to the state. In 2018, Gazprom Group also returned licences for the Shohambary and Sarikamysh prospects in Tajikistan, and the Kugart and Eastern

Mailu-Suu IV licence blocks in Kyrgyzstan since PJSC Gazprom resolved that further exploration would be unviable.

#### Transfer of reserves

In 2018, the transfer of subsoil licences for the Severo-Parusovoye and Semakovskoye fields located in the Tazovsky and Nadymsky districts of the Yamal-Nenets Autonomous Area and in the Taz Bay of the Kara Sea to LLC RusGazAlyans (a joint venture between LLC Gazprom dobycha Yamburg and JSC RusGazDobycha) was a major factor behind the changes in natural gas reserves vs the estimate as at 31 December 2017. The transaction was made under the Master Agreement on the implementation of a joint project for the development of the Parusovoye, Severo-Parusovoye and Semakovskoye fields located in the Yamal-Nenets Autonomous Area, signed between PJSC Gazprom and JSC RusGazDobycha.

#### Production

The table below shows information on the volumes of natural gas and liquid hydrocarbons produced by Gazprom Group, its associates and joint ventures in Russia:

	Natural and associated gas, bcm	Unstable gas condensate, mm tonnes	Oil, mm tonnes	Total, mm boe
<b>For the year ended 31 December 2018</b>				
Production of Gazprom Group, including the share in production volumes of entities in which Gazprom has investments classified as joint operations	498.7	15.9	48.3	3,720.7
Gazprom Group's share in production volumes of associates and joint ventures	26.9	4.9	11.2	296.8
<b>For the year ended 31 December 2017</b>				
Production of Gazprom Group, including the share in production volumes of entities in which Gazprom has investments classified as joint operations	472.1	15.9	48.6	3,550.2
Gazprom Group's share in the production volumes of associates and joint ventures	27.0	5.0	10.9	296.0

In 2018, Gazprom Group produced 498.7 bcm of natural and associated gas in Russia, demonstrating an increase driven by higher demand.

Gazprom Group produced 48.3 mm tonnes of oil and 15.9 mm tonnes of gas condensate in 2018. Gazprom Group's oil and gas condensate production volumes in 2018 remained almost flat year-on-year.

In 2018, associates and joint ventures produced 26.9 bcm of natural and associated gas, 4.9 mm tonnes of gas condensate, and 11.2 mm tonnes of oil (share attributable to Gazprom Group). The increase in the oil production volumes of associates and joint ventures was driven by higher production from JSC Messoyakhneftegas-operated Vostochno-Messoyakhskoye field, put into commercial development in 2016 (a joint venture between PJSC Gazprom Neft and PJSC Rosneft).

The table below shows information on the number of Gazprom Group's field developments and production well stock (excluding entities in which Gazprom has investments classified as joint operations):

	<b>As at 31 December 2018</b>	
	<b>In Russia</b>	<b>Abroad</b>
Fields in commercial development	138	47
Gas production wells (active)	7,418	126
Oil production wells (active)	8,489	734

In addition, as at 31 December 2018, entities in which Gazprom has investments classified as joint operations had 38 fields in commercial development.

Abroad, the number of fields in commercial development amounted to 47. These fields are developed by Naftna Industrija Srbije (NIS), a Serbian subsidiary of Gazprom Neft Group.

Gazprom Group also has stakes in a number of oil and gas projects at the production stage in a number of foreign countries.

In terms of natural gas and gas condensate production, the largest of them include the following projects:

- Moc Tinh and Hai Thach fields in the Vietnamese section of the South China Sea bed (49% held by Gazprom Group). Total gas production in 2018 from these fields was 2.2 bcm of gas.
- Ipati and Aquio licence blocks in Bolivia (20% held by Gazprom Group). Total gas production in 2018 from the Incahuasi field was 2.6 bcm of gas.

The Badra field development project in Iraq (30% held by Gazprom Group) is the largest asset by production of oil and associated petroleum gas among the foreign projects implemented with the Group's participation. In 2018, a total 4.0 mm tonnes of oil were produced from the Badra field.

Naftna Industrija Srbije (NIS), a Serbian subsidiary of Gazprom Neft Group, produced 0.9 mm tonnes of oil and 0.5 bcm of natural and associated gas in 2018.

Wintershall Noordzee B.V. joint venture (50% held by the Group) produced 0.7 bcm of gas in the North Sea in 2018.

In Lybia, the Group's associate Wintershall AG (49% owned by the Group) operates six fields on oil concessions C96 and C97. This company still faces challenges due to the ongoing political crisis in Lybia, which resulted in limited oil production and export: in the reporting year, 2.1 mm tonnes of oil and 0.3 bcm of associated gas were produced.

#### Major capex projects

The bulk of gas production capex was spent on field construction to develop the Chayandinskoye oil and gas condensate field (OGCF), the Cenomanian-Aptian deposits at the Bovanenkovskoye OGCF, as well as the Achimov deposits at the Urengoy OGCF while oil and gas condensate production capex was mostly directed toward field construction to develop the oil rim at the Chayandinskoye OGCF, and the implementation of Gazprom Neft Group's projects, including construction and production drilling at the Novoportovskoye and Prirazlomnoye fields, building of hi-tech ice breakers, participation in auctions for subsoil licences, as well as capex projects for conventional assets.

Within its gas production capex projects, in 2018 Gazprom commissioned:

- a 30 bcm per year comprehensive gas treatment unit (CGTU) at the Bovanenkovskoye OGCF
- two booster compressor stations at the Zapolyarnoye and Bovanenkovskoye fields with a combined capacity of 237 MW
- 102 gas production wells in Russia.

Production drilling for gas in Russia totalled 304.4 thousand m.

Within its oil and gas condensate production projects, Gazprom commissioned:

- Phase 2 facilities of a compressor station with a CGTU at the Novoportovskoye OGCF and Phase 1 facilities of the TL-4 compressor station at the Orenburgskoye OGCF's Eastern block
- 578 oil production wells in Russia,
- the second train of the CGTU at the Badra field in Iraq.

Production drilling for oil in Russia totalled 2,202.6 thousand m

#### Oil and gas condensate sales

In 2018, Gazprom Group sold 25.6 mm tonnes of crude oil and stable gas condensate. Total net sales (net of VAT and customs duties) reached RUB 735.0 bn, up by RUB 195.0 bn, or 36.1% year-on-year, a significant increase over 2017 driven mostly by an increase in average selling prices.

The table below shows the volumes of oil and gas condensate sales by Gazprom Group in the domestic and foreign markets:

(Mm tonnes)	For the year ended 31 December		Change, %
	2018 <sup>(1)</sup>	2017 <sup>(1)</sup>	
Russia	2.7	4.3	-37.2
including Gazprom Neft Group	1.2	2.8	-57.1
FSU countries	1.7	1.7	–
including Gazprom Neft Group	1.7	1.7	–
Europe and other countries	21.2	21.6	-1.9
including Gazprom Neft Group	18.3	19.3	-5.2
<b>Total</b>	<b>25.6</b>	<b>27.6</b>	<b>-7.2</b>

Note.

<sup>(1)</sup> The volumes of oil and gas condensate sales do not include intra-group sales.

The decline in sales of oil and gas condensate was due to increased volumes of processed liquid hydrocarbon feedstocks following the completion of scheduled overhaul programme at Russian refineries operated by Gazprom Neft Group in 2017.

#### Events in the reporting year

Gazprom continued its efforts to create Russia's main prospective gas production hub on the Yamal Peninsula. In December 2018, the third and final gas production site with a design capacity of 30 bcm per year was commissioned at the core Bovanenkovskoye field. This will bring the Cenomanian-Aptian deposits of the field to the design level of gas production - 115 bcm of gas per year.

New Neptune and Triton oil fields were discovered in the Sea of Okhotsk and included into the State Register of Mineral Reserves of the Russian Federation, and the construction of production wells commenced at the Yuzhno-Kirinskoye field using the Polyarnaya Zvezda (Polar Star) and Severnoye Siyaniye (Northern Lights) semi-submersible drilling rigs.

#### Outlook for the Production of gas and Production of crude oil and gas condensate segments

Gas reserves contained in the conventional hydrocarbon fields operated by Gazprom Group represent over 70 years of supply to the domestic and foreign markets at the current production rate.

Strategic priorities in exploration and production of gas:

- Building gas production hubs in eastern Russia. The Chayandinskoye OGCF is the core field for the future Yakutia gas production hub, and the Kovyktinskoye gas and condensate field is key to the future Irkutsk gas production hub. These fields will comprise the resource base for the Power of Siberia trunk pipeline. The priority developments to add production capacity at the Sakhalin gas production hub include Sakhalin-3 fields – the Kirinskoye gas and condensate field put into commercial development in 2014, and the Yuzhno-Kirinskoye gas and condensate field, one of Gazprom's priority projects in gas production over the longer term

- Bringing into development the Yamal Peninsula's unique, large fields (Cenomanian-Aptian deposits of the Kharasaveyskoye field, Neocomian-Jurassic deposits of the Bovanenkovskoye and Kharasaveyskoye fields, and the Kruzenshternskoye field)
- Bringing online new fields in the Nadym-Pur-Taz region
- Further exploration of deposits in deep-lying Achimov and Jurassic sediments and above the Cenomanian sediments in fields under development in the Yamal-Nenets Autonomous Area
- Bringing into development continental shelf fields in Russian northern seas (fields in the Ob and Taz Bays, primarily the Severo-Kamennomysskoye and Kamennomysskoye-Sea fields, and the offshore Shtokman field in the Barents Sea)

2019 and mid-term objectives in exploration and production of gas in the context of strategic priorities:

- Ensuring increased reserve replacement rates
- Further building of new gas production hubs in Russia
- Upgrades and retrofits of existing gas production facilities to maintain target gas production levels

In particular, the start of commercial development of the Chayandinskoye field has been scheduled for 2019, and that of Blocks 4 and 5 of the Achimov deposits at the Urengoyevskoye field – for 2020, the completion of well commissioning to provide for the ramp-up to design capacity of the Cenomanian-Aptian deposits at the Bovanenkovskoye field and that of the Kirinskoye field – for 2021, the start of commercial development of the Kovyktinskoye field has been scheduled for 2022, and that of the Cenomanian-Aptian deposits at the Kharasaveyskoye field – for 2023.

Strategic priorities in exploration and production of oil:

- Efficient development of mature assets
- Developing the resource base of the Yamal Peninsula
- Bringing into development and monetising the uniquely vast liquid hydrocarbon reserves in the Nadym-Pur-Taz region
- Building a hydrocarbon production hub in the Sea of Okhotsk
- Developing technology for cost-effective development of the Bazhenov suite, Domanic and Paleozoic deposits
- Bringing into operation the remaining recoverable reserves that are currently economically unrecoverable through development and deployment of new technologies
- Building up the resource base to support production beyond 2025

2019 and mid-term objectives in exploration and production of oil in the context of strategic priorities:

- Driving mature asset performance and implementing the enhanced oil recovery programme
- Further exploration of blocks in the Sea of Okhotsk
- Development of the Novoportovskoye field and the Vostochno-Messoyakhskoye OGCF in the Nadym- Pur-Taz region, including the infrastructure development
- Developing technology for cost-effective development of hard-to-recover hydrocarbon reserves

In particular, the ramp-up to design capacity of the Novoportovskoye field has been scheduled for 2020, and that of the Vostochno-Messoyakhskoye field and the Eastern block of the Orenburgskoye field – for 2021.

## Transportation

The table below shows information on the assets and capital expenditures in the Transportation segment:

	As at 31 December	
	2018	2017
Assets, RUB million	7,023,399	6,721,549
Share in the Group's total assets, %	36.6	38.1
	For the year ended 31 December	
	2018	2017
Capital expenditures, RUB million	640,063	498,550
Share in the Group's total capital expenditures, %	35.6	33.1

### Gas transportation system

The Unified Gas Supply System (UGSS) of Russia is a centrally operated system of natural gas treatment, transportation and storage. The UGSS incorporates the world's longest network of high-pressure trunk pipelines covering European Russia and Western Siberia. In addition, the Group owns trunk pipelines in the Russian Far East: Sakhalin–Khabarovsk–Vladivostok, and Sobolevo–Petropavlosk-Kamchatsky pipelines.

As at the end of 2018, the combined length of trunk pipelines and connections operated by the Group's gas transportation subsidiaries in Russia totalled 172.6 thousand km (taking into account technological jumpers). The gas transportation system (GTS) comprises 254 compressor stations, equipped with a total 3,812 gas pumping units with a combined capacity of 47,1 MW.

The table below shows age breakdown of Gazprom Group's gas transport subsidiaries' trunk gas pipelines in Russia:

Age of trunk gas pipelines	As at 31 December 2018	
	Length, thousand km	Share, %
10 years or less	16.7	9.7
11 to 20 years	15.7	9.1
21 to 30 years	34.8	20.2
31 to 40 years	59.1	34.2
41 to 50 years	26.3	15.2
Over 50 years	20.0	11.6
<b>Total</b>	<b>172.6</b>	<b>100.0</b>

During 2018, a total 693.1 bcm of gas were supplied into Gazprom's GTS in Russia, up 3.1% year-on-year. The growth was driven by higher demand and subsequent increase in gas supplies by Gazprom and non-Group companies. In 2018, the amount of natural gas consumed for the GTS' own operational needs was 40.1 bcm.

As the owner of the Russian section of the GTS, PJSC Gazprom leases out free pipeline capacity (subject to its availability) to independent companies outside Gazprom Group provided they have a gas production licence and a supply contract with the buyer of the supplied gas. Such third-party gas also needs to meet relevant technical standards.

In 2018, the volume of gas transported via Gazprom Group's GTS in Russia by companies outside Gazprom Group was 136.4 bcm (137.9 bcm in 2017).

Gazprom Group subsidiaries own the gas transportation systems in Belarus, Armenia, and Kyrgyzstan. The gas transportation system in Belarus, which is owned by PJSC Gazprom's subsidiary OJSC Gazprom transgaz Belarus, supplies natural gas to consumers in Belarus, and carries transit supplies of gas to Europe and Russia's Kaliningrad Region.



The table below shows the volumes of gas injected into the gas transportation systems in Belarus:  
(bcm)

	For the year ended 31 December	
	2018	2017
Belarus		
(OJSC Gazprom transgaz Belarus and the Yamal – Europe trunk gas pipeline)	62.6	61.2
including gas in transit	42.3	42.2

Nord Stream (operated by joint venture Nord Stream AG) and Blue Stream (operated by Blue Stream Pipeline Company B.V., which is included in the list of entities in which Gazprom has investments classified as joint operations), offshore cross-border pipeline systems constructed with Gazprom's involvement, secure gas supplies to consumers in Northwest and Central Europe, as well as in Turkey.

The key drivers of gas pipeline capacity utilisation include demand from European consumers and regulatory restrictions by supervisory authorities on access to pipeline capacity for transit supplies.

In the reporting year gas supplies to consumers in Northwest and Central Europe (Nord Stream, 58.7 bcm of gas in 2018) and Turkey (Blue Stream, 13.3 bcm of gas in 2018) were provided.

#### Major capex projects

Most gas transportation capex was spent to finance the construction of the Power of Siberia and the Ukhta–Torzhok 2 trunk gas pipelines, the UGSS expansion project for the Gryazovets–Slavyanskaya CS section in the North-West region, and the construction of the TurkStream and Nord Stream 2 trunk gas pipelines.

Within its gas transportation capex projects, in 2018 Gazprom commissioned the following facilities:

- Four compressor shops with a combined capacity of 371 MW at the compressor station of Bovanenkovo–Ukhta trunk gas pipeline
- 890.8 km of trunk gas pipelines and connections in Russia, including 361.7 km following upgrades
- Eleven gas pumping units with a combined capacity of 79.5 MW and two upgraded gas distribution stations in Russia.

#### Events in the reporting year

In September 2018, work started to install the Nord Stream 2 deep water gas pipeline, a new export route to Europe. Just like Nord Stream, the new pipeline will provide Russian gas fields with a direct connection to European gas consumers, ensuring the high reliability of Russian gas supplies.

In November 2018, Gazprom completed the offshore installation of two strings of the TurkStream gas pipeline. The pipeline is scheduled for commissioning in late 2019. The project will significantly increase reliability of gas supplies to Turkey, and to Southern and South-Eastern Europe. Construction of a receiving terminal near Kiyikoy in Turkey is in progress.

Construction of the linear section of the Power of Siberia gas pipeline, from the Chayandinskoye field to the Chinese border in the Amur Region, was mostly completed. The project is part of Gazprom's efforts to ensure Russian gas supplies to China via the eastern route.

In December 2018, Gazprom commissioned the linear part of the new high-tech 970 km Ukhta–Torzhok 2 trunk gas pipeline with an annual capacity of 45 bcm. The new Northern Gas Transmission Corridor pipeline will be the key route of the Unified Gas Supply System (UGSS) of Russia.

#### Outlook for the Transportation segment

Strategic priorities in gas transportation:

- Comprehensive expansion in tandem with the expansion of gas production and storage, taking into account the degree of readiness to receive gas shown by new consumers, as well as export projects
- Diversification of gas export routes

- Construction of new gas transportation capacity
- Upgrades and retrofits of existing gas transportation facilities.

2019 and mid-term objectives in gas transportation in the context of strategic priorities:

- Construction of gas transportation facilities ensuring diversification of gas export routes
- Construction of new gas transportation capacity in Russia to ensure gas supplies to the domestic market and meet obligations under export contracts, including gas transportation capacity intended to carry gas from the Yamal fields to the Nord Stream 2 gas pipeline
- Implementation of comprehensive reconstruction programmes and upgrades and retrofits of existing gas transportation facilities
- Decommissioning of excess capacity of the Central Gas Transmission Corridor.

In particular, the commissioning of the Power of Siberia gas pipeline, the Nord Stream 2 gas pipeline, and the TurkStream gas pipeline as well as the development of gas transportation facilities envisaged by GTS development project at the Gryazovets–Slavyanskaya CS section have been scheduled for 2019. Besides, the ramp-up to full capacity of the Ukhta–Torzhok 2 gas pipeline have been scheduled for 2020, that of the Bovanenkovo–Ukhta 2 gas pipeline – for 2021, the start of the phased commissioning of the Bovanenkovo–Ukhta 3 gas pipeline and the Ukhta–Torzhok 3 gas pipeline – for 2023.

## Underground Gas Storage

The table below shows information on the assets and capital expenditures in the Gas storage segment:

	As at 31 December	
	2018	2017
Assets, RUB million	393,700	347,929
Share in the Group's total assets, %	2.1	2.0

	For the year ended 31 December	
	2018	2017
Capital expenditures, RUB million	19,391	37,694
Share in the Group's total capital expenditures, %	1.1	2.5

Underground gas storage facilities (UGSFs) are located in key gas consumption areas. Peak and base load gas storage facilities improve reliability of the UGSS infrastructure, and optimise technical parameters and capital intensity of gas transportation systems. UGSFs have been constructed and are used by Gazprom Group for process purposes, as well as to ensure reliability of gas supplies during seasonal consumption peaks and level off seasonal and daily fluctuations in demand.

In Russia, Gazprom operates 23 UGSFs. Their operation is supported by 20 compressor stations with an aggregate capacity of 942.3 MW, and the operating well stock of 2,705 units. As at 31 December 2018, Gazprom Group's UGSFs in Russia had an aggregate total gas storage capacity of 75.0 bcm.

During 2018, withdrawal and injection amounts for Russian UGSFs totalled 52.0 bcm and 49.5 bcm of gas, respectively.

The maximum aggregate daily deliverability was registered on 1 March 2018 at 555 mmcm. By the start of the 2018/2019 withdrawal season, the potential maximum daily deliverability was increased to 812.5 mmcm of gas, an increase of 7.2 mmcm from the previous year. By the 2018/2019 withdrawal season, operating gas reserves in Russian UGSFs increased by 0.088 bcm from the previous season to 72.2 bcm.

The improved performance was driven by a recovery in target well productivity and revamps of the existing Kasimovskoye, Sovkhoznoye, Kaliningradskoye, Elshano-Kurdyumskoye, and Peschano-Umet'skoye UGSFs, as well as the construction of the new Volgogradskoye UGSF.

The UGSFs outside Russia enable Gazprom Group to build strategic natural gas reserves mitigating transit risks.

In the FSU countries, Gazprom operates UGSFs in Belarus (Pribugskoye, Osipovichskoye, and Mozyrskoye), and Armenia (Abovianskaya underground gas storage station), and also has access to Inčukalns UGSF's capacity in Latvia.

As at 31 December 2018, the operating gas reserves in FSU-based UGSFs totalled 1.6 bcm. During 2018, withdrawal and injection amounts for FSU-based UGSFs totalled 1.2 bcm and 1.2 bcm of gas, respectively.

To secure reliable and flexible gas supplies, PJSC Gazprom makes extensive use of gas storage facilities located abroad: in Austria (Haidach), Germany (Jemgum, Rehden, Katarina, and Etzel), Serbia (Banatski Dvor), the Netherlands (Bergermeer), and the Czech Republic (Dambořice).

By the start of the 2017/2018 withdrawal season, PJSC Gazprom owned gas storage capacity in far abroad European countries totalled approximately 5 bcm of working gas while the additional gas storage contracts signed in autumn and winter of 2018/2019 added 5.8 bcm in gas inventories by 1 December 2018. In 2018, a total of 6.6 bcm of PJSC Gazprom's gas were pumped into UGSFs in far abroad European countries under LLC Gazprom export contracts, with a total gas withdrawal of 7.2 bcm.

#### Major capex projects

The bulk of capital expenditures on underground gas storage in Russia was spent on the construction of the new Volgogradskoye UGSF, revamp of the Sovkhoznoye UGSF, revamps of existing and construction of new facilities at the Kaliningradskoye UGSF in Russia, as well as on capacity expansions at the Katharina and Jemgum UGSFs in Germany, and the Dambořice UGSF in the Czech Republic.

Within its gas storage capex projects, in 2018 Gazprom commissioned the following facilities in Russia:

- Working gas capacity of 0.08 bcm at the Volgogradskoye UGSF
- Ten wells at the Sovkhoznoye, Volgogradskoye, and Peschano-Umetskoye UGSFs
- A 12 MW compressor plant at the Volgogradskoye UGSF

Within its gas storage capex projects abroad, in 2018 LLC Gazprom export commissioned working gas capacity of 0.08 bcm at the Dambořice UGSF in the Czech Republic

#### Outlook for the Gas storage segment

Strategic priorities in gas storage:

- Sustaining the capacity levels achieved for the UGSF network, improve the flexibility of the UGSF system, and provide UGSF capacity to Russian regions where such capacity is in short supply
- Expanding Gazprom Group's UGSF capacity outside Russia.

2019 and mid-term objectives in gas storage in the context of strategic priorities:

- Revamps and replacement of worn-out and obsolete fixed assets at existing UGSFs
- Construction and expansion of the peak-shaving Kaliningradskoye, Volgogradskoye, and Novomoskovskoye UGSFs, as well as the Udmurtskoye reserve complex
- Providing UGSF capacity to regions where such capacity is in short supply (the prospective areas for the construction of new UGSFs are Russia's Northwestern, Siberian, and Far Eastern Federal Districts)

## Distribution of Gas

The table below shows information on the assets and capital expenditures in the Distribution of gas segment:

	As at 31 December	
	2018	2017
Assets, RUB million	1,719,640	1,669,202
Share in the Group's total assets, %	9.0	9.5

	For the year ended 31 December	
	2018	2017
Capital expenditures, RUB million	39,078	51,675
Share in the Group's total capital expenditures, %	2.2	3.4

The table below shows Gazprom Group's natural gas sales volumes by geographic segment:

(bcm)	For the year ended 31 December		Change, %
	2018	2017	
Russia	239.7	229.9	4.3
FSU countries <sup>(1)</sup>	38.1	35.0	8.9
Europe and other countries <sup>(1)</sup>	243.3	242.0	0.5
<b>Total</b>	<b>521.1</b>	<b>506.9</b>	<b>2.8</b>

Note:

- <sup>(1)</sup> Sales to FSU countries, and to Europe and other countries include both gas exports from the Russian Federation, and sales of gas purchased by the Group outside Russia.

In 2018, Gazprom Group sold 243.3 bcm of natural gas to Europe and other countries. Gas sales showed significant growth in the UK and the Netherlands. At the same time, sales to Turkey decreased due to the influence of the weather factor, the growth of LNG supplies to this market in Q4 2018 and deterioration of the state of the country's economy.

Net sales (net of excise tax and customs duties) was RUB 2,951.2 bn, up 32.9% year-on-year.

The natural gas sold to Europe and other countries in 2018 accounted for 47% of Gazprom Group's total gas sales (48% in 2017) and 69% of total gas sales (66% in 2017).

PJSC Gazprom is a major supplier of natural gas to the European market.

PJSC Gazprom's gas supplies in 2017 to European far abroad countries under the contracts with LLC Gazprom export and direct contracts with GAZPROM Schweiz AG totalled 201.9 bcm, up by 7.5 bcm, or 3.8%, year-on-year. The share of PJSC Gazprom's gas sales under contracts with LLC Gazprom export and direct contracts with GAZPROM Schweiz AG in the total gas consumption in European far abroad countries was 36.8% for 2018.

The Group's exports are diversified by markets, the largest consumers being Germany, Great Britain and Turkey.

The increase in PJSC Gazprom's gas supplies to European far abroad countries was driven by the following factors:

- A year-on-year increase in demand for natural gas in European countries in February and March 2018 due to cold weather
- Gas injections into UGSFs in European countries exceeding withdrawals
- Declining domestic gas production in far abroad European countries as compared to 2017, and higher net gas imports in Europe
- Limited capabilities of other gas exporters and decrease of net imports of LNG supplies in Q1–Q3 2018

According to management estimates, large-scale LNG sales from Gazprom Group's trading portfolio totalled 3.88 mm tonnes, or 5.18 bcm, in 2018, an increase of 16% as compared to 2017.

Corporates in India (20%), Japan (16%) and China (16%), were the key buyers of LNG in 2018.

Gazprom is the largest natural gas supplier on the Russian market. In 2018, gas consumption in Russia totalled 493.2 bcm, up by 5.3% year-on-year. The increase in consumption was mostly driven by colder weather in Q1 and Q4 2018 compared with the same periods in 2017.

In 2018, Gazprom Group sold 239.7 bcm of gas to consumers in the Russian Federation, with net sales (excluding VAT) at RUB 954.5 bn, up by 9.0% year-on-year.

Natural gas sold to Russian consumers in 2018 accounted for 46% (45% in 2017) of Gazprom Group's total gas sales and 22% of total gas sales (26% in 2017).

Major consumers of natural gas in Russia include electricity and heat generating companies, households, oil industry, utilities, and steel-makers.

Gazprom Group covers a significant portion of natural gas demand in FSU countries.

In 2018, Gazprom Group sold 38.1 bcm of gas to the FSU countries, with net sales (net of customs duties) at RUB 348.6 bn, up by 19.1% year-on-year.

Natural gas sold to the FSU countries in 2018 accounted for 7% (7% in 2017) of Gazprom Group's total gas sales and 8% of total gas sales (9% in 2017).

The increase in gas supplies to FSU countries in 2018 resulted from higher demand and gas withdrawals in Belarus, gas sales to Azerbaijan within the framework of a contract signed in November 2017 with SOCAR (Azerbaijan) and an increase in the supply of Uzbek gas to Kazakhstan.

#### Domestic natural gas prices

The table below shows the average prices of natural gas sold by Gazprom Group in the domestic market:

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>(net of VAT)</b>	
RUB per mcm	3,981.3	3,808.3

In accordance with applicable Russian laws, end consumers buy gas at regulated prices which are differentiated between consumer groups (households vs industrial consumers), as well as by price zone, based on the relative distance from the gas production region to the consumer. In 2018, wholesale gas prices for subsequent resale to household consumers were 16% lower than wholesale gas prices for industrial consumers.

In Russia, gas is sold and purchased using two different pricing approaches, which results in the existence of two gas sales sectors – with prices fixed by the Government or unregulated prices.

Gas produced by PJSC Gazprom subsidiaries is sold mostly at prices fixed by the Government. In accordance with applicable Russian laws, wholesale prices of gas produced by PJSC Gazprom and its associates are subject to regulation.

The Forecast of Russia's Socio-economic Development drafted by the Russian Ministry of Economic Development and approved by the Government in September 2018 assumes increases in domestic regulated wholesale gas prices.

The table below shows changes in the average regulated wholesale gas prices for industrial and household consumers as per the Forecast of the Ministry of Economic Development of the Russian Federation between 2019 and 2021, annual average increase vs the previous year:

(%)	2019	2020	2021
Change in the average regulated wholesale prices for all Russian consumer groups	1.4	3.0	3.0
Change in the average regulated wholesale prices for all consumers excluding households	1.4	3.0	3.0
Change in the average regulated wholesale prices for households	1.4	3.0	3.0

Note.

Indexation has been scheduled as of 1 July in accordance with the Forecast of Russia's Socio-economic Development drafted by the Russian Ministry of Economic Development and approved by the Government in September 2018.

As part of the efforts to create a level playing field in the domestic market, PJSC Gazprom works toward partial deregulation of wholesale gas prices.

PJSC Gazprom and its affiliates are allowed to use unregulated wholesale prices in marketing produced natural gas to industrial consumers in Russia if the gas is supplied (1) for producing liquefied natural gas from natural gas in a gaseous state for exports (Resolution of the Russian Government No. 1663 dated 27 December 2017); (2) with the use of liquefaction and (or) regasification technology (Resolution of the Russian Government No. 1442 dated 30 November 2018); (3) for producing methanol from natural gas in a gaseous state for exports under contracts signed after 1 November 2018 and providing for first natural gas supplies after 1 January 2020 (Resolution of the Russian Government No. 1282 dated 29 October 2018).

To promote market-driven pricing principles, PJSC Gazprom is actively in exchange-based gas trade at the Saint Petersburg International Mercantile Exchange (SPIMEX). For instance, PJSC Gazprom's gas volumes sold through the exchange totalled 13.6 bcm, which is within the allowable limits placed on PJSC Gazprom's gas sales through the exchange-based trading channel.

#### Natural gas prices in FSU, Europe and other countries

The table below shows the average prices of natural gas sold by Gazprom Group to FSU, Europe and other countries:

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>(including excise tax and customs duties)</b>	
Natural gas sales to Europe and other countries <sup>(1)</sup>		
USD per mcm <sup>(2)</sup>	246.4	200.2
RUB per mcm	15,499.5	11,670.5
Natural gas sales to FSU countries <sup>(1)</sup>		
USD per mcm <sup>(2)</sup>	162.6	158.4
RUB per mcm	10,225.9	9,237.0

Notes:

(1) VAT is not charged on sales to Europe and other countries, as well as to FSU countries.

(2) Calculated based on the year-average RUB/USD exchange rate.

#### Major capex projects

The bulk of capital expenditures for the Distribution of Gas segment was spent on the construction of an LNG production, storage, and shipping complex with an annual production capacity of 1.5 mm tonnes near the Portovaya compressor station in the Leningrad Region, gas infrastructure expansion in Russia, and the implementation of a series of projects to ensure gas supplies in the Kaliningrad Region (an LNG receiving terminal and a floating storage and regasification unit).

In 2018 an LNG receiving terminal and a floating storage and regasification unit in the Kaliningrad Region was commissioned.

### Events in the reporting year

In 2018, gas exports to Europe set an all-time high of 201.9 bcm, with PJSC Gazprom's share amounting to 36.8%.

In August 2018, LLC Gazprom export launched its Electronic Sales Platform (ESP) to sell natural gas both on standard market terms and on its own terms. Contracts for gas supply at any delivery point (both at trading platforms or facilities with slow-moving inventories located close to the borders) with delivery periods starting from one day can be offered via the ESP. LLC Gazprom export holds daily trading sessions and offers contracts for the supply of natural gas to various delivery points to pre-qualified companies registered on the ESP. As a result of trading sessions held in 2018, LLC Gazprom export sold about 1.1 bcm of gas with delivery in the reporting year.

### **Refining**

The table below shows information on the assets and capital expenditures in the Refining segment:

	<b>As at 31 December</b>	
	<b>2018</b>	<b>2017</b>
Assets, RUB million	2,059,715	1,715,485
Share in the Group's total assets, %	10.7	9.7
	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
Capital expenditures, RUB million	309,417	225,240
Share in the Group's total capital expenditures, %	17.2	15.0

### Processing of hydrocarbons and production of refined products

The table below shows the volumes of Gazprom Group's hydrocarbon processing:

	<b>For the year ended 31 December</b>	
	<b>2018<sup>(1)</sup></b>	<b>2017<sup>(1)</sup></b>
Natural and associated gas, bcm	31.1	30.8
Liquid hydrocarbon feedstocks, mm tonnes	67.4	64.1

Note:

<sup>(1)</sup> Excluding tolling arrangements.

In 2018, Gazprom Group processed 31.1 bcm of natural and associated gas (almost flat year-on-year), excluding tolling arrangements. Processing of liquid hydrocarbon feedstocks (crude oil, gas condensate, and fuel oil) was up by 5.1% to 67.4 mm tonnes mainly due to higher processing volumes across Gazprom Neft Group and due to the completion in 2017 of the program of planned overhauls at Russian refineries, as well as at the facilities and on the facilities of Gazprom neftekhim Salavat Group.

The table below shows production volumes of major refined products of Gazprom Group:

	For the year ended 31 December			
	2018 <sup>(1)</sup>		2017 <sup>(1)</sup>	
	Total	including abroad	Total	including abroad
Dry gas, bcm	23.6	–	23.6	–
Liquefied petroleum gases, mm tonnes	3.6	0.1	3.5	0.1
including Gazprom Neft Group	0.8	0.1	0.7	0.1
Natural gas liquids, mm tonnes	1.4	–	1.3	–
Stable gas condensate and crude oil, mm tonnes	8.2	–	8.7	–
Oil products, mm tonnes	51.4	3.7	48.9	3.5
including Gazprom Neft Group	40.4	3.7	37.8	3.5
including Gazprom neftekhim Salavat Group	5.3	–	5.2	–
Helium, mmcm	5.1	–	5.1	–
Sulphur, mm tonnes	5.2	0.0 <sup>(2)</sup>	5.0	0.0 <sup>(2)</sup>
including Gazprom Neft Group	0.2	0.0 <sup>(2)</sup>	0.1	0.0 <sup>(2)</sup>

Notes:

(1) Excluding tolling arrangements.

(2) Less than 0.05.

The table below shows Gazprom Group's output of oil products:

(mm tonnes)	For the year ended 31 December	
	2018 <sup>(1)</sup>	2017 <sup>(1)</sup>
Diesel fuel	15.7	14.3
Motor gasolines	12.0	11.7
Fuel oil	6.9	6.6
Aviation fuel	3.6	3.1
Marine fuel	2.9	3.4
Bitumens	3.1	2.7
Lubricants	0.5	0.5
Other oil products	6.7	6.6
<b>Total</b>	<b>51.4</b>	<b>48.9</b>

Notes:

(1) Excluding tolling arrangements.

### Sales of refined products

In 2018, Gazprom Group's sales of oil and gas refined products were 68.9 mm tonnes. Net sales amounted to RUB 2,179.8 bn (net of excise tax, VAT, and customs duties). The increase in net sales of refined products was due to an increase in average prices in all geographic segments and an increase in Gazprom Neft Group sales volumes to customers in the Russian Federation, Europe and other countries.



The table below shows sales of refined and petrochemical products by Gazprom Group:

(mm tonnes)	For the year ended 31 December		Change, %
	2018	2017	
Russia	43.2	40.8	5.9
including Gazprom Neft Group	29.6	27.8	6.5
FSU countries	4.4	4.3	2.3
including Gazprom Neft Group	3.0	3.1	–3.2
Europe and other countries	21.3	20.9	1.9
including Gazprom Neft Group	13.2	12.4	6.5
<b>Total</b>	<b>68.9</b>	<b>66.0</b>	<b>4.4</b>

Notes:

Excluding helium sales and intra-group sales.

The table below shows Gazprom Group's sales of helium:

	For the year ended 31 December		Change, %
	2018	2017	
Gaseous helium, mmcm	3.4	3.3	3.0
Liquid helium, tonnes	260.1	289.6	–10.2

Notes:

Excluding intra-group sales.

In 2018, total sales of refined oil and gas products by Gazprom Group increased due to a higher output of refined products at Gazprom Neft Group's refineries and a respective increase in sales volumes.

Sales of liquid helium declined due to lower exports associated with the growing demand in the domestic market and volume redistribution in favour of gaseous helium.

### Major capex projects

The bulk of capital expenditures for processing was used towards the construction of the Amur GPP, implementation of projects to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region, construction and upgrade of oil refining and petrochemical facilities at Gazprom neftekhim Salavat Group (construction of a catalytic cracking complex and a hydrogen production unit), construction and upgrade of production facilities at Moscow Refinery (construction of Euro+ combined refining unit), and at Omsk Refinery (construction of a primary refining unit, an advanced oil refining facility, and a delayed coking unit), and the construction of a delayed coking unit at Pančevo Refinery in Serbia.

Within its processing capex projects, in 2018 Gazprom commissioned:

- 187.1 km of the Urengoy–Surgut gas condensate pipeline (Line 2). 107 km–288 km section
- a hydrogen production unit (intended to increase the output of premium Euro-5 fuels) and a diesel fuel hydrotreating unit (upgraded) at the Astrakhan GPP
- a hydrogen pressure swing adsorption facility at the refinery (allowing to increase hydrogen concentration in the plant's network and the hydrotreating severity of motor fuels across units, as well as reduce the amount of gases discharged to flare) and a sulfur-alkaline wastewater neutralisation units at Gazprom neftekhim Salavat Group's refinery and Monomer plant.

### Events of the reporting year

In May 2018, PJSC Gazprom and JSC RusGazDobycha signed the Heads of Agreement on cooperation in implementing a joint project to construct new gas processing facilities relying on PJSC Gazprom's current hydrocarbon resource base in the Nadym-Pur-Taz region. The Agreement specifies the key terms of a GPP construction near the seaport of Ust-Luga intended to process ethane-containing natural gas produced from the Achimov and Valanginian deposits. In 2018, a joint venture,

LLC RusKhimAlyans, was established to implement this project, and a pre-investment study was carried out to support the main investment decision making.

### Outlook for the Refining segment

Strategic priorities in processing of gas and gas condensate:

- Constructing new gas processing facilities to support hydrocarbon developments in Eastern Siberia and the Far East
- Processing the projected volumes of liquid hydrocarbons produced at fields in Western Siberia

2019 and mid-term objectives in processing of gas and gas condensate in the context of strategic priorities:

- Construction of new gas processing facilities to support hydrocarbon developments in Eastern Siberia and the Far East as well as processing of the projected volumes of liquid hydrocarbons produced at fields in Western Siberia
- Revamps of existing facilities

In particular, the commissioning of projects to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region has been scheduled for 2019, and the commissioning of the Amur GPP has been scheduled for 2021.

Strategic priorities of oil refining:

- Increasing the refining depth and yields for light products
- Enhancing the efficiency of processing and marketing
- Improving conventional business sustainability through developing petrochemical businesses

Upgrades and capacity expansions across refineries are the 2019 and mid-term objectives of oil refining in the context of strategic priorities.

In particular, the commissioning of Euro+ combined refining unit at Moscow Refinery and the commissioning of a delayed coking unit at Pančevo Refinery have been scheduled for 2019, the commissioning of a primary refining unit, an advanced oil refining facility, and a new delayed coking unit at Omsk Refinery – for 2020, the commissioning of the catalyst production business in Omsk – for 2021, and that of the advanced oil refining facility at Moscow Refinery – for 2023.

## **Power Generation**

The table below shows information on the assets and capital expenditures in the Electric and heat energy generation and sales segment:

	<b>As at 31 December</b>	
	<b>2018</b>	<b>2017</b>
Assets, RUB million	911,036	868,933
Share in the Group's total assets, %	4.8	4.9
<hr/>		
	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
Capital expenditures, RUB million	72,907	58,110
Share in the Group's total capital expenditures, %	4.1	3.9

Russia's largest vertically integrated power generation holding company has been established within PJSC Gazprom and has consolidated electricity and heat generating assets, heat transmission and distribution assets, as well as assets in related segments.

Gazprom Group's generating assets are consolidated within its 100% subsidiary, LLC Gazprom energoholding. Gazprom energoholding manages the following companies: PJSC TGC-1, PJSC Mosenergo, PJSC WGC-2, and PJSC MIPC.

Outside Russia, the Group owns Unit 5 at the Hrazdan TPP through its subsidiary CJSC Gazprom Armenia.

The table below shows information on Gazprom Group's key generating assets:

	<b>As at 31 December 2018</b>	
	<b>Installed electrical capacity, GW</b>	<b>Installed heat capacity, thousand Gcal/h</b>
Gazprom energoholding Group including	38.58	67.91
PJSC Mosenergo	12.80	43.14
PJSC MIPC and subsidiaries	—	7.09
PJSC WGC-2	18.83	3.93
PJSC TGC-1 and subsidiaries	6.95	13.75
Other generating assets in Russia and abroad	1.38	2.88
<b>Total</b>	<b>39.96</b>	<b>70.79</b>

The table below shows the volumes of Gazprom Group's electricity generation:

(billion kWh)	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
Gazprom energoholding Group including	146.56	150.81
PJSC Mosenergo	58.31	57.87
PJSC MIPC and subsidiaries	—	—
PJSC WGC-2	58.92	63.43
PJSC TGC-1 and subsidiaries	29.33	29.51
Other generating assets in Russia and abroad	6.63	5.74
<b>Total</b>	<b>153.19</b>	<b>156.55</b>

Note. The table shows power generation, i.e. the amount of power generated by power stations.

The table below shows the volumes of Gazprom Group's heat generation:

(million Gcal)	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
Gazprom energoholding Group <sup>(1)</sup> including	124.36	120.77
PJSC Mosenergo	82.29	79.45
PJSC MIPC and subsidiaries*	10.17	9.85
PJSC WGC-2	7.01	6.76
PJSC TGC-1 and subsidiaries	24.89	24.71
Other generating assets in Russia and abroad	6.89	6.57
<b>Total</b>	<b>131.25</b>	<b>127.34</b>

Note.

The table shows heat supply from TPPs, i.e. the amount of heat supplied by a power station to consumers at the asset ownership / interface boundary points.

<sup>(1)</sup> Heat generation figures include PJSC MIPC's subsidiaries LLC TSK Novaya Moskva and LLC TSK Mosenergo. For data comparability, the figures for 2016 take into account the volumes of these entities.

The table below shows the volumes of Gazprom Group's electricity and heat generation in Russia and abroad:

	<b>For the year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
Power generation, billion kWh		
including	153.19	156.55
in Russia	151.50	155.46
abroad	1.69	1.09
Heat generation, mm Gcal		
including	131.25	127.34
in Russia	131.25	127.34
abroad	—	—

During 2018, the Group generated 151.50 billion kWh of electricity (in 2017 – 155.46 billion kWh of electricity) and 131.25 million Gcal of heat (in 2017 – 127.34 million Gcal of heat) at its generating assets in Russia. The decline in electricity generation by the Group was due to the streamlining of the load factors for Gazprom energoholding's inefficient generating equipment. Heat generation increased due to cooler average temperatures during the heating season.

Electricity produced by the Group's Russian generating companies is sold mainly in Russia, with a small portion exported to Norway and Finland.

Outside Russia, Gazprom Group generated 1.69 billion kWh of electricity. The year-on-year increase was due to increased power output from Unit 5 at Hrazdan TPP, reflecting the actual operation modes of Armenia's national grid in the context of extended repair operations at the Armenian NPP and Yerevan CHPP, as well as the need to meet both domestic and export demand.

In 2018, Gazprom Group's net electricity and heat sales (net of VAT) was RUB 522.1 bn, with the increase mostly due to higher competitive (unregulated) electricity prices and tariffs for capacity under capacity supply agreements (CSAs) in the Russian market.

#### Major capex projects

The bulk of capital expenditures was spent on the construction of two new GTU-180 power unit projects at the Grozny TTP, Svobodnenskaya TPP, Pančevo CHPP in Serbia, as well as on the upgrade of the existing generating equipment (particularly, the upgrade of the Verkhne-Tulomskaya HPP of PJSC TGC-1, and the equipment upgrade of Power Unit 9 at CHPP-22 operated by PJSC Mosenergo) and implementation of a series of projects to ensure the reliability and safety of generating facilities and maintain the heat network infrastructure.

Within its power generation capex projects, in 2018 Gazprom commissioned:

- Unit 1 at the Grozny TTP with an installed capacity of 176 MW.

#### Events in the reporting year

In June 2018, PJSC Gazprom's Board of Directors approved PJSC Gazprom's Power Generation Strategy for 2018–2027.

In December 2018, Gazprom energoholding commissioned the first (with a capacity of 176 MW) of the two power units at the Grozny TPP which is crucial for power supply to Russian southern regions.

#### Outlook for the Electric and heat energy generation and sales segment

Power generation sector is a strategic line of business for Gazprom Group. Enhanced presence in the power generation sector facilitates the entire Group's business sustainability over the longer term and provides additional revenue streams.

Strategic priorities in production and sales of electric and heat energy:

- Optimising the generation capacity mix
- Improving operational efficiency and optimising costs

- Constructing new and upgrading existing generating capacity, and decommissioning low-performing facilities
- Improving technology
- Diversifying the power market by entering promising markets in Russia and abroad

2019 and mid-term objectives in production and sales of electric and heat energy in the context of strategic priorities:

- Completion of an ambitious programme to build new generating capacity under CSAs
- Upgrade of generating capacity
- Decommissioning of over 2 GW of low-performing capacity by 2022
- Implementation of measures to improve operational efficiency and optimise costs

The commissioning of Unit 2 at the Grozny TTP has been scheduled for 2019, commissioning of the Svobodnenskaya TPP for power supply of the Amur GPP – for 2020, and the commissioning of Pančevo CHPP in Serbia for power supply of Gazprom Neft Group subsidiary NIS – for 2020.

## **INNOVATION-DRIVEN DEVELOPMENT**

In its evolution as a global energy company and a reliable energy supplier, Gazprom focuses on research and application of new knowledge and technology, as well as on continuous improvement of its innovation capabilities and acceleration of innovation to address a number of strategic, technological, and economic challenges that such leadership involves.

PJSC Gazprom's Innovative Development Programme until 2025 is a fundamental instrument for long-term planning and management of innovations embedded into Gazprom's strategic development planning and covering the gas, oil, and power generation business of PJSC Gazprom. PJSC Gazprom, PJSC Gazprom Neft, LLC Gazprom energoholding, and other subsidiaries and associates implement R&D programmes (plans) to achieve the priority technology and organisational priorities set out in the Programme.

Technological priorities (key areas of technological development) set by PJSC Gazprom's Innovative Development Programme:

Gas business:

- Hydrocarbon field exploration and appraisal, including development of unconventional resources
- Brownfield enhancement technologies
- Offshore hydrocarbon development technologies
- Greenfield development technologies
- Efficiency enhancement of trunk gas pipelines, and diversification of gas distribution methods
- Enhancement of gas storage
- Enhancement of gas and gas condensate processing
- LNG production technologies
- Gas marketing and utilisation technologies

Oil business:

- Development of multiphase fields
- Production from low-permeability reservoirs
- Effective and safe work on the shelf in ice conditions;
- Development and production of catalysts for refining processes

Power generation business:

- Increasing energy efficiency in power generation

- Reducing the environmental footprint of operations
- Implementing advanced engineering solutions

Gazprom has in place an extensive innovation management framework. The R&D Committee of PJSC Gazprom serves as a platform to discuss all matters related to R&D performance through comprehensive review and collective decision-making driven by the principles of openness, fairness, and independence while balancing the interests of Operations, Economics, and Prospective Development.

As part of its Corporate Framework for Management of Innovations at Subsidiaries of PJSC Gazprom, PJSC Gazprom focuses on further use (roll-out) and commercialisation of R&D results and protected intellectual property that deliver a positive and meaningful impact for PJSC Gazprom as well as on reviewing and following up compliance of its subsidiaries' innovation efforts with Russian laws and internal documents of PJSC Gazprom. The total number of patents for patent objects owned by PJSC Gazprom and its subsidiaries as of 31 December 2018 was 2,555.

PJSC Gazprom has designed and successfully maintains an intellectual property management framework, which is essentially intended to determine company-wide principles governing the creation, legal protection, registration, commercialisation, and monitoring of the use of intellectual property across Gazprom Group, as well as to provide incentive schemes encouraging employees of Gazprom Group companies to create intellectual property.

The Group allocates significant amounts for its annual R&D budgets, and R&D results are applied in its priority projects across different lines of business. The Group's R&D efforts aim to develop and implement high-tech equipment and sophisticated engineering complexes unrivalled in the world, as well as to create advanced R&D solutions.

In 2018, RUB 9.0 bn worth of R&D was carried under R&D projects commissioned by Gazprom Group entities (RUB 8.2 bn in 2017).

## PERSONNEL

Governed by the standards of the International Labour Organisation, Gazprom respects the fundamental rights and principles set forth in ILO conventions and recommendations, covering in particular:

- freedom of association and the effective recognition of the right to collective bargaining
- elimination of all forms of forced or compulsory labour
- effective abolition of child labour
- elimination of discrimination in respect of employment and occupation.

Gazprom also adheres to international standards on hours and conditions of work, occupational safety, remuneration for work, social security, and holidays with pay.

### Personnel structure

As at 31 December 2018, the total headcount of the Group was 466.1 thousand employees (469.6 thousand in 2017) (excluding entities in which Gazprom has investments classified as joint operations)

The table below shows the gender balance of Gazprom Group's workforce:

	As at 31 December 2018
Women	29.2
Men	70.8

Note.

Excluding entities in which Gazprom has investments classified as joint operations.

The table below shows the age balance of Gazprom Group's workforce:

	<b>As at 31 December 2018</b>
Under 30 years	14.4
30 to 40 years	32.0
40 to 50 years	29.4
50 years and older	24.2

Note.

Excluding entities in which Gazprom has investments classified as joint operations.

The table below shows the profile of Gazprom Group's workforce (excluding joint operations):

	<b>As at 31 December 2018</b>
Employees with a higher education degree, %	51.1
Candidates of Sciences	2,531
Doctors of Sciences	172
Mean age, years	41.3

Note.

Excluding entities in which Gazprom has investments classified as joint operations.

#### Employee training and development

Gazprom Group has in place a corporate Continuous Vocational Education and Training System designed to upgrade employee skills to meet the ever growing operational and performance requirements, support deployment of new technologies and professional standards, digital transformation across business operations and expansion of the Group's regional footprint.

In 2018, 381.1 thousand employees of Gazprom Group were trained under career enhancement and retraining programmes.

Gazprom runs targeted employee training programmes tailored for specific activities, such as development of offshore hydrocarbon fields, GTS dispatch control, LNG production, use of NGV fuels, and use of innovative process equipment.

#### Remuneration and social security

PJSC Gazprom has in place the Remuneration Management Policy for Employees of PJSC Gazprom's Entities, which sets out unified corporate remuneration standards for Gazprom Group's employees. Its purpose is to provide a framework for attracting and retaining people with required skills, and motivate employees to perform as expected.

Current remuneration schemes link fixed salaries and pay rates to qualifications and business skills, and also provide for monthly performance bonuses, premiums and additional allowances for work scope and conditions, as well as ad hoc and annual bonuses.

PJSC Gazprom's social policy provides it with a competitive advantage in the employment market, aims to form stable workforce and seeks to retain and motivate employees for strong and sustainable performance.

The mechanism of social partnership between employees and employers is central to implementing PJSC Gazprom's social policy, with its key aspects set out in the General Collective Bargaining Agreement of PJSC Gazprom and in the collective bargaining agreements of its subsidiaries. These provide for a set of employee social support measures, including social benefits, personal insurance, and healthcare benefits.

To attract and retain key and highly skilled employees PJSC Gazprom runs a number of special corporate programmes, including:

- a corporate housing programme funded by both employees and the employer through bank mortgage lending facilities (using a co-financing approach)
- a private pension arrangement run through Non-State Pension Fund GAZFOND.

## OCCUPATIONAL SAFETY

PJSC Gazprom puts the health and safety of its employees at the top of its operational agenda. In its activities, PJSC Gazprom is guided by its Occupational Health, Industrial and Fire Safety Policy.

The key objectives of PJSC Gazprom's Occupational Health, Industrial and Fire Safety Policy are to:

- create safe working conditions and protect the health and safety of employees
- reduce the risks of accidents and incidents at hazardous industrial facilities
- ensure fire safety.

### Unified Occupational Health and Safety Management System

PJSC Gazprom has in place a Unified Occupational Health and Safety Management System (UOHSMS), which forms part of PJSC Gazprom's integrated management system developed and adopted to manage occupational health, industrial and fire safety risks and meet the objectives and commitments under its Occupational Health, Industrial and Fire Safety Policy.

The scope of the UOHSMS covers PJSC Gazprom, its major gas exploration, production, processing, transportation, underground storage, and energy subsidiaries, as well as subsidiaries supporting the operation of the Russian UGSS, with a total headcount of around 319 thousand employees.

In 2014, the UOHSMS was certified to OHSAS 18001:2007. PJSC Gazprom annually expands the certification scope by including new subsidiaries and entities. By the end of 2018, the number of subsidiaries certified to OHSAS 18001:2007 reached 56 entities, with their total headcount over 270 thousand people.

Gazprom makes consistent efforts to prevent injuries, occupational diseases, accidents, incidents, and fires.

Based on the identified critical and material risks, PJSC Gazprom develops and approves its occupational health, industrial and fire safety targets for the year, and develops programmes to achieve the annual targets while all its subsidiaries and entities develop programmes to improve labour conditions and action plans to ensure occupational safety at hazardous industrial facilities.

Pre-FEED and design documents are reviewed by internal experts for compliance with PJSC Gazprom's requirements to occupational safety.

Compliance with PJSC Gazprom's OHS standards and regulations by suppliers and contractors operating at the facilities of PJSC Gazprom and its subsidiaries is an essential requirement of occupational safety. In its activities, Gazprom engages suppliers and contractors who share the principles set out in Gazprom's Occupational Health, Industrial and Fire Safety Policy.

The total number of people injured in accidents across entities covered by the UOHSMS in 2018 was 89 (61 in 2017). During 2018, causes for injury mainly included traffic accidents (47% of the total number of injured) and same-level falls (34%).

Three fatalities were reported in 2018 (six in 2017). All of them were due to traffic accidents.

A number of actions were taken as a follow up to injury investigations. Specifically, additional requirements were imposed on passenger and freight transport service providers; and procedures established for controlling the entire process, from trip planning, releasing vehicles, speed monitoring, and driver work and rest hours, to return of the vehicles to the parking area. Also, requirements were set down for the purchased vehicles; specifically, a number of restrictions were introduced on the active and passive vehicle safety systems: a ban on using a vehicle without safety belts and restrictions related to routes, driver qualifications, and replacement of motor vehicles.

A total of 16 industrial safety incidents were reported in 2018 at hazardous industrial facilities of entities covered by the UOHSMS (26 in 2017).

A plan that included organisational and technical measures to ensure fire safety was implemented in the reporting period. The plan consisted of 50 measures and resulted from a root cause analysis of, and contributing factors to, fires that happened in the previous periods. The number of fires that broke out at the entities covered by the UOHSMS decreased from four in 2017 to three in 2018.



## Occupational Health and Safety at Gazprom Group entities outside the UOHSMS

Gazprom Group has in place the Occupational Health and Safety Management System across its oil, power generation, and petrochemical businesses.

Gazprom Neft Group benefits from a vertically integrated industrial and environmental safety, occupational health and civil protection management system compliant with ISO 14001, ISO 9001, and OHSAS 18001. PJSC Gazprom Neft's operations are aligned with the in-house policy on industrial, fire and transport safety, environmental protection, health and workplace safety, and civil protection, and are coordinated by the Occupational Safety Department at the Corporate Centre. Gazprom Neft Group has in place a Health, Safety and Environmental Protection Board.

At Gazprom energoholding Group and its subsidiaries, occupational health and safety issues are addressed in line with the requirements of Russian Federation laws and applicable statutory regulations. CEOs are responsible for compliance with these requirements while relevant activities are coordinated by Chief Engineers of subsidiaries and their branches (power stations).

PJSC Gazprom's common goals, operating principles and commitments are also reflected in Gazprom neftekhim Salavat Group's existing OHS Policy. Gazprom neftekhim Salavat Group implements them in line with the requirements of federal, regional, and industry-related laws and international standards. LLC Gazprom neftekhim Salavat has in place an OHS management system certified to OHSAS 18001:2007.

A total of 35 people and 18 people were injured in accidents across entities of Gazprom Neft Group and Gazprom energoholding Group, respectively. Gazprom neftekhim Salavat Group reported no occupational injuries in 2018.

## **ENVIRONMENTAL PROTECTION**

PJSC Gazprom puts sustainable use of natural resources and environmental protection are one of the key principles that underpin PJSC Gazprom's operations as a socially and environmentally responsible energy company when operating in Russia and abroad.

The Environmental Policy is the primary document setting out PJSC Gazprom's corporate policy and environmental commitments across its operating regions. PJSC Gazprom's Environmental Policy was recommended by the Board of Directors for adoption across Gazprom Group companies.

### Environmental Management System

The Environmental Management System (EMS) is a key tool to implement PJSC Gazprom's Environmental Policy. EMS covers 34 wholly-owned subsidiaries which are engaged in the core activities of exploration, production, transportation, storage and processing of gas and gas condensate or are managing capital projects.

In 2018, PJSC Gazprom's EMS underwent an independent audit, receiving a certificate of compliance with ISO 14001:2015, valid until December 2020.

Corporate Environmental Targets are set within PJSC Gazprom's EMS based on the annually updated list of significant environmental aspects, and environmental activities are grouped into programmes for focused implementation.

Four out of the six set targets set for 2017–2019 were met in 2018:

No.	Corporate Environmental Target	Entities within the EMS scope	Progress against the target (vs the 2014 baseline)
1.	Reduction of methane emissions	All subsidiaries engaged in natural gas transportation	Down 3.8%
2.	Reduction of specific emissions of nitrogen oxides	All subsidiaries engaged in natural gas transportation	Down 2.2%
3.	Reduction of waste and effluent water discharge into surface water bodies	All subsidiaries	Down 23.5%
4.	Reduction of landfill share	All subsidiaries	Down 5.3%
5.	Reduction of above-limit impact charges	All subsidiaries	Up 2.7%
6.	Reduction of specific fuel & energy consumption for own operational needs	All subsidiaries engaged in natural gas transportation	Up 1.8%

The growth in above-limit impact charges against the 2014 baseline was due to a failure to obtain necessary environmental permits on time, which did not result in higher environmental impact. The rise in specific fuel & energy consumption for own operational needs was driven by a disproportionate increase in fuel & energy consumption along with higher natural gas transportation volumes (up 15.5% in 2018). Analysis of energy consumption by trunk gas pipelines under comparable operating conditions confirmed that specific fuel & energy consumption is going down. Those Gazprom Group companies that are not covered by PJSC Gazprom's EMS also have in place their own effective, business-specific environmental management systems.

The table below shows key metrics for the environmental impact from Gazprom Group's operations in the Russian Federation:

Key metrics	For the year ended 31 December	
	2018	2017
Air pollutant emissions, thousand tonnes	2,894.0	2,795.9
GHG emissions, mm tonnes of CO <sub>2</sub> equivalent	239.9	233.8
Waste water discharge into surface water bodies, mmcm	3,658.4	3,905.3
Waste generation, thousand tonnes	3,555.1	4,130.3
Area of land disturbed during the year, thousand ha	25.8	42.2
Area of land rehabilitated, thousand ha	15.8	19.6

The rise in GHG emissions in Russia is due to increased production across all production operations segments.

The decrease in waste generation was due to lower Class 5 bottom ash waste levels at Gazprom energoholding Group's facilities (due to substituting coal with natural gas in its fuel mix) and less drilling waste produced by Gazprom Neft Group.

The area of land disturbed was smaller in the reporting year as most of the area affected by the construction of the Power of Siberia trunk gas pipeline was reflected in the figures for the previous period. The decrease in land remediation in 2018 was due to repairs and construction work in progress on the land leased in the previous periods.

Presented below is information on the environmental protection costs related to Gazprom Group's operations in the Russian Federation:

(RUB bn)

	For the year ended 31 December	
	2018	2017
Current environmental protection costs	39.15	34.47
Capital expenditures for environmental protection and sustainable use of natural resources	29.19	35.58
Negative environmental impact charges	0.62	0.77
<b>Total</b>	<b>68.96</b>	<b>70.82</b>

Gazprom Group's current environmental protection costs in Russia grew in 2018 as a result of higher operating costs and overhaul costs for fixed capital assets used in environmental protection. The growth is mainly due to the activities of the Gazprom Neftekhim Salavat Group, which carried out the commissioning of the sulphide-alkaline wastewater treatment plant of the oil refinery and the Monomer plant, as well as the technical re-equipment of the elemental sulfur production plant.

The decline in capital investments in environmental protection and sustainable use of natural resources was primarily due to lower investments by Gazprom Neft Group during the year, including due to the completion of the capital-intensive construction of water treatment facilities at refineries in 2017.

The decrease in negative environmental impact charges paid by Gazprom Group in 2018 was largely driven by lower charges for discharge of pollutants into water bodies during APG flaring at Gazprom Neft Group's fields, reduction of landfill, and a decline in the above-limit impact charges for discharge of pollutants into water bodies.

Since the date Gazprom Group gained control of its gas transportation subsidiaries in FSU countries (OJSC Gazprom transgaz Belarus, LLC Gazprom Kyrgyzstan, and CJSC Gazprom Armenia), it has been engaged in major efforts to upgrade production facilities and improve environmental management systems to bring them in line with PJSC Gazprom's corporate standards and ISO 14001. When prospecting, exploring and developing hydrocarbon fields outside Russia, Gazprom Group applies technological and scientific innovations, including innovations aimed at reducing its environmental footprint. In 2018, operations of PJSC Gazprom's subsidiaries outside Russia did not have a significant environmental impact.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

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

- as of December 31, 2018 – 69.4706;
- as of December 31, 2017 – 57.6002.

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

- as of December 31, 2018 – 79.4605;
- as of December 31, 2017 – 68.8668.

The average exchange rates of RUB for the year ended December 31, 2018 and for the year ended December 31, 2017 were:

- to US Dollar – 62.7078 and 58.3529, respectively;
- to Euro – 73.9546 and 65.9014, respectively.

## RESULTS OF OPERATION

(in RUB million)	Year ended December 31,	
	2018	2017
Sales	8,224,177	6,546,143
Net gain (loss) from trading activity	18,015	(16,352)
Operating expenses	(6,181,191)	(5,697,056)
(Impairment loss) reversal of impairment loss on financial assets	<u>(130,971)</u>	<u>38,670</u>
<b>Operating profit</b>	<b>1,930,030</b>	<b>871,405</b>
Finance income	503,091	426,705
Finance expense	(813,042)	(407,044)
Share of profit of associates and joint ventures	<u>232,483</u>	<u>126,940</u>
<b>Profit before profit tax</b>	<b>1,852,562</b>	<b>1,018,006</b>
Current profit tax expense	(278,233)	(241,817)
Deferred profit tax expense	<u>(45,333)</u>	<u>(9,310)</u>
Profit tax	(323,566)	(251,127)
<b>Profit for the year</b>	<b>1,528,996</b>	<b>766,879</b>
<b>Other comprehensive income (loss):</b>		
Items that will not be reclassified to profit or loss:		
Gain (loss) arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	148,963	(30,404)
Remeasurement of provision for post-employment benefits	<u>19,854</u>	<u>(5,064)</u>
<b>Total other comprehensive income (loss) that will not be reclassified to profit or loss</b>	<b>168,817</b>	<b>(35,468)</b>
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive income of associates and joint ventures	13,923	2,967
Translation differences	222,221	23,290
Gain from hedging operations, net of tax	<u>10,082</u>	<u>13,601</u>
<b>Total other comprehensive income that may be reclassified subsequently to profit or loss</b>	<b>246,226</b>	<b>39,858</b>
<b>Total other comprehensive income for the year, net of tax</b>	<b>415,043</b>	<b>4,390</b>
<b>Comprehensive income for the year</b>	<b>1,944,039</b>	<b>771,269</b>
<b>Profit for the year attributable to:</b>		
Owners of PJSC Gazprom	1,456,270	714,302
Non-controlling interest	<u>72,726</u>	<u>52,577</u>
	<b>1,528,996</b>	<b>766,879</b>
<b>Comprehensive income for the year attributable to:</b>		
Owners of PJSC Gazprom	1,858,486	710,840
Non-controlling interest	<u>85,553</u>	<u>60,429</u>
	<b>1,944,039</b>	<b>771,269</b>

## Sales

The following table sets out volumes and sales prices:

(in RUB million unless indicated otherwise)	Year ended December 31,	
	2018	2017
<b>Sales of gas</b>		
<i>Europe and other countries</i>		
Gross sales <sup>(1)</sup>	3,770,291	2,823,939
Customs duties	(764,395)	(550,849)
Excise tax	(54,681)	(51,873)
Net sales	2,951,215	2,221,217
Volumes in bcm	243.3	242.0
Average price, US Dollar per mcm <sup>(2)</sup> (including excise tax and customs duties) <sup>(3)</sup>	246.4	200.2
Average price, RUB per mcm <sup>(2)</sup> (including excise tax and customs duties)	15,499.5	11,670.5
<i>Former Soviet Union countries</i>		
Gross sales <sup>(1)</sup>	389,217	323,037
Customs duties	(40,592)	(30,260)
Net sales	348,625	292,777
Volumes in bcm	38.1	35.0
Average price, US Dollar per mcm <sup>(2)</sup> (including customs duties) <sup>(3)</sup>	162.6	158.4
Average price, RUB per mcm <sup>(2)</sup> (including customs duties)	10,225.9	9,237.0
<i>Russian Federation</i>		
Gross sales (net of VAT)	954,493	875,685
Net sales	954,493	875,685
Volumes in bcm	239.7	229.9
Average price, RUB per mcm <sup>(2)</sup> (net of VAT)	3,981.3	3,808.3
<i>Total sales of gas</i>		
Gross sales (net of VAT)	5,114,001	4,022,661
Customs duties	(804,987)	(581,109)
Excise tax	(54,681)	(51,873)
Retroactive gas price adjustments	49,338	(49,092)
Net sales	4,303,671	3,340,587
Volumes in bcm	521.1	506.9
Net sales of refined products (net of excise tax, VAT and customs duties)	2,179,772	1,687,090
Net sales of crude oil and gas condensate (net of VAT and customs duties)	734,953	539,958
Electric and heat energy net sales (net of VAT)	522,095	503,819
Gas transportation net sales (net of VAT)	225,673	235,061
Other sales (net of VAT)	<u>258,013</u>	<u>239,628</u>
<b>Total sales (net of excise tax, VAT and customs duties)</b>	<b>8,224,177</b>	<b>6,546,143</b>

Notes:

<sup>(1)</sup> VAT is not charged on sales to Europe and Other countries as well as Former Soviet Union countries.

<sup>(2)</sup> One mcm is equivalent to 35,316 cubic feet.

<sup>(3)</sup> Calculated on the basis of average exchange rate between the RUB and US Dollar.

Total sales (net of excise tax, VAT and customs duties) increased by RUB 1,678,034 million, or 26 %, to RUB 8,224,177 million for the year ended December 31, 2018 compared to the prior year. The increase in sales was mainly due to an increase in sales of gas, refined products, crude oil and gas condensate.

Net sales of gas accounted for 52 % of total net sales for the year ended December 31, 2018 (51 % for the prior year).

Net sales of gas increased by RUB 963,084 million, or 29 %, from RUB 3,340,587 million for the year ended December 31, 2017 to RUB 4,303,671 million for the year ended December 31, 2018.

Net sales of gas to Europe and other countries increased by RUB 729,998 million, or 33 %, to RUB 2,951,215 million for the year ended December 31, 2018 compared to the prior year. The change was mainly due to the increase in average prices (including excise tax and customs duties) denominated in the Russian Ruble by 33 % for the year ended December 31, 2018 compared to the prior year. At the same time average prices denominated in US Dollar increased by 23 % compared to the prior year.

Net sales of gas to Former Soviet Union countries increased by RUB 55,848 million, or 19 %, to RUB 348,625 million for the year ended December 31, 2018 compared to the prior year. The change was due to the increase in average prices (including customs duties) denominated in the Russian Ruble by 11 % and the increase in volumes of gas sold by 9 % for the year ended December 31, 2018. At the same time average prices denominated in US Dollar increased by 3 % compared to the prior year.

Net sales of gas in the Russian Federation increased by RUB 78,808 million, or 9 %, to RUB 954,493 million for the year ended December 31, 2018 compared to the prior year. This change is mainly explained by the increase in average prices by 5 % and the increase in volumes of gas sold by 4 %.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RUB 492,682 million, or 29 %, to RUB 2,179,772 million for the year ended December 31, 2018 compared to the prior year. The increase in net sales of refined products was due to an increase in average prices in all geographic segments and an increase in Gazprom нефт Group sales volumes to customers in the Russian Federation, Europe and other countries.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RUB 194,995 million, or 36 %, to RUB 734,953 million for the year ended December 31, 2018 compared to the prior year, that was mainly due to an increase in average prices.

## Operating expenses

Operating expenses increased by RUB 484,135 million, or 8 %, to RUB 6,181,191 million for the year ended December 31, 2018 compared to RUB 5,697,056 million for the prior year. Operating expenses as a percentage of sales decreased from 87 % for the year ended December 31, 2017 to 75 % for the year ended December 31, 2018. The table below presents a breakdown of operating expenses in each period:

(in RUB million)	Year ended December 31,	
	2018	2017
Taxes other than on profit	1,498,278	1,246,059
Purchased gas and oil	1,468,885	1,236,201
Transit of gas, oil and refined products	650,829	593,327
Depreciation	647,993	613,160
Staff costs	600,812	682,060
Materials	264,190	261,642
Cost of goods for resale, including refined products	249,911	207,689
Repairs and maintenance	137,821	154,785
Electricity and heating expenses	114,465	109,485
Social expenses	42,789	34,461
Rental expenses	37,177	37,723
Insurance expenses	32,628	30,491
Transportation services	24,544	27,253
Impairment loss (reversal of impairment loss) on non-financial assets	21,743	(16,252)
Processing services	18,961	16,261
Research and development expenses	13,591	16,175
Derivatives loss (gain)	1,849	(18,344)
Foreign exchange rate differences on operating items	(28,029)	(14,487)
Other	427,990	610,005
	<b>6,226,427</b>	<b>5,827,694</b>
Change in balances of finished goods, work in progress and other effects	(45,236)	(130,638)
<b>Total operating expenses</b>	<b>6,181,191</b>	<b>5,697,056</b>

### *Taxes other than on profit*

Taxes other than on profit consist of:

(in RUB million)	Year ended December 31,	
	2018	2017
Mineral extraction tax	1,163,882	915,228
Property tax	162,928	154,639
Excise tax	157,113	162,140
Other taxes	14,355	14,052
<b>Total taxes other than on profit</b>	<b>1,498,278</b>	<b>1,246,059</b>

Mineral extraction tax (MET) increased by RUB 248,654 million or 27 % to RUB 1,163,882 million for the year ended December 31, 2018 compared to RUB 915,228 million for the prior year. MET for the year ended December 31, 2018 increased compared to the prior year mainly as a result of a rise in crude oil prices, an increase in the adjusting coefficient in the MET formula for crude oil and an increase in coefficient values in the MET formula for gas.

### *Purchased gas and oil*

Cost of purchased gas and oil increased by RUB 232,684 million, or 19 %, to RUB 1,468,885 million for the year ended December 31, 2018 compared to RUB 1,236,201 million for the prior year.

Cost of purchased gas included in the purchased gas and oil increased by RUB 102,983 million, or 12 %, to RUB 976,849 million for the year ended December 31, 2018 compared to RUB 873,866 million for the prior year. The change was mainly due to an increase in average prices.



Cost of purchased oil included in the purchased gas and oil increased by RUB 129,701 million, or 36 %, to RUB 492,036 million for the year ended December 31, 2018 compared to RUB 362,335 million for the prior year. This change was mainly due to an increase in prices of oil.

*Staff costs*

Staff costs decreased by RUB 81,248 million, or 12 %, to RUB 600,812 million for the year ended December 31, 2018 compared to RUB 682,060 million for the prior year. The change was mainly due to the recognition of income from change in provision for post-employment benefits for the year ended December 31, 2018 caused by the increase in a retirement age according to the legislation of the Russian Federation.

*Cost of goods for resale, including refined products*

Cost of goods for resale, including refined products increased by RUB 42,222 million, or 20 %, to RUB 249,911 million for the year ended December 31, 2018 compared to RUB 207,689 million for the prior year. The increase in cost was mainly due to an increase in prices of petroleum products that was partially compensated by a decrease in refined products purchases by Gazprom Neft Group due to an increase in the refining.

*Impairment loss (reversal of impairment loss) on non-financial assets*

Impairment loss on non-financial assets amounted to RUB 21,743 million for the year ended December 31, 2018 compared to the reversal of impairment loss in the amount of RUB 16,252 million for the prior year. The change was mainly due to the impairment loss recognition for objects of property, plant and equipment and assets under construction for the year ended December 31, 2018 compared to the reversal of impairment loss for the prior year.

*Foreign exchange rate differences on operating items*

Foreign exchange rate gain increased by RUB 13,542 million, or 93 %, to RUB 28,029 million for the year ended December 31, 2018 compared to the foreign exchange gain in the amount of RUB 14,487 million for the prior year. This change was mainly due to the appreciation of US Dollar and Euro against the Russian Ruble by 21 % and 15 %, respectively, for the year ended December 31, 2018 compared to the depreciation of US Dollar against the Russian Ruble by 5 % and the appreciation of Euro against the Russian Ruble by 8 % for the prior year.

*Other operating expenses*

Other operating expenses decreased by RUB 182,015 million, or 30 %, to RUB 427,990 million for the year ended December 31, 2018 compared to RUB 610,005 million for the prior year. Expenses related to the recognition of liabilities in accordance with the court decisions for NJSC Naftogaz Ukraine were included in other expenses for the year ended December 31, 2017. Other expenses include gas and gas condensate production expenses, services from gas distribution companies, bank charges, security services, legal and consulting services, charity and financial aid and advertising.

*Change in balances of finished goods, work in progress and other effects*

The line item Change in balances of finished goods, work in progress and other effects increased by RUB 85,402 million, or 65 %, to the negative amount of RUB 45,236 million for the year ended December 31, 2018 compared to the negative amount of RUB 130,638 million for the prior year. The change in this line item is explained by the less increase in balances of finished goods for the year ended December 31, 2018 compared to the increase in balances of finished goods for the prior year.

**(Impairment loss) reversal of impairment loss on financial assets**

Impairment loss on financial assets amounted to RUB 130,971 million for the year ended December 31, 2018 compared to the reversal of impairment loss on financial assets in the amount of RUB 38,670 million for the prior year. The change is mainly due to an increase in the accrual of the allowance for expected credit losses on receivables due from NJSC Naftogaz of Ukraine and JSV Moldovagaz for the year ended December 31, 2018 compared to the reversal of the allowance for expected credit losses on receivables due from NJSC Naftogaz of Ukraine for the prior year.

## Operating profit

As a result of the factors discussed above, operating profit increased by RUB 1,058,625 million, or 121 %, to RUB 1,930,030 million for the year ended December 31, 2018 compared to RUB 871,405 million for the prior year. The operating profit margin increased from 13 % for the year ended December 31, 2017 to 23 % for the year ended December 31, 2018.

## Net finance (expense) income

(in RUB million)	Year ended December 31,	
	2018	2017
Foreign exchange gain	430,439	342,984
Foreign exchange loss	<u>(762,664)</u>	<u>(353,712)</u>
Net foreign exchange loss	(332,225)	(10,728)
Interest income	72,652	83,721
Interest expense	<u>(50,378)</u>	<u>(53,332)</u>
<b>Net finance (expense) income</b>	<b>(309,951)</b>	<b>19,661</b>

The net foreign exchange loss increased by RUB 321,497 million to RUB 332,225 million for the year ended December 31, 2018 compared to the net foreign exchange loss of RUB 10,728 million for the prior year. The change was due to the appreciation of US Dollar and Euro against the Russian Ruble by 21 % and 15 %, respectively, for the year ended December 31, 2018 compared to the depreciation of US Dollar against the Russian Ruble by 5 % and the appreciation of Euro against the Russian Ruble by 8 % for the prior year.

Interest income decreased by RUB 11,069 million, or 13 %, to RUB 72,652 million for the year ended December 31, 2018 compared to RUB 83,721 million for the prior year.

Interest expense decreased by RUB 2,954 million, or 6 %, to RUB 50,378 million for the year ended December 31, 2018 compared to RUB 53,332 million for the prior year.

## Share of profit of associates and joint ventures

Share of profit of associates and joint ventures increased by RUB 105,543 million, or 83 %, to RUB 232,483 million for the year ended December 31, 2018 compared to RUB 126,940 million for the prior year. This change was mainly caused by an increase in the share of profit of JSC Arcticgas, Sakhalin Energy Investment Company Ltd. and JSC Messoyakhaneftegaz.

## Profit tax

Total profit tax increased by RUB 72,439 million, or 29 %, to RUB 323,566 million for the year ended December 31, 2018 compared to RUB 251,127 million for the prior year. The effective profit tax rate was 17.5 % and 24.7 % for the years ended December 31, 2018 and December 31, 2017, respectively.

The change in the effective profit tax rate was mainly driven by an increase in share of profit of associates and joint ventures and other income non-deductible for tax purposes for the year ended December 31, 2018 compared to the prior year.

## Profit for the year attributable to owners of PJSC Gazprom

As a result of the factors discussed above, profit attributable to owners of PJSC Gazprom increased by RUB 741,968 million, or 104 %, to RUB 1,456,270 million for the year ended December 31, 2018 compared to RUB 714,302 million for the prior year.

## Profit for the year attributable to non-controlling interest

Profit attributable to non-controlling interest increased by RUB 20,149 million, or 38 %, to RUB 72,726 million for the year ended December 31, 2018 compared to RUB 52,577 million for the prior year.

## Liquidity and capital resources

The following table summarises the cash flows for the year ended December 31, 2018 and December 31, 2017:

(in RUB million)	Year ended December 31,	
	2018	2017
Net cash from operating activities	1,617,384	1,187,022
Net cash used in investing activities	(1,617,718)	(1,368,131)
Net cash (used in) from financing activities	(96,070)	149,944

### *Net cash from operating activities*

Net cash from operating activities increased by RUB 430,362 million, or 36 %, to RUB 1,617,384 million for the year ended December 31, 2018 compared to RUB 1,187,022 million for the prior year. This change was mainly driven by an increase in cash from operating activities before working capital changes compared to the prior year primarily caused by the increase in the operating profit.

### *Net cash used in investing activities*

Net cash used in investing activities increased by RUB 249,587 million, or 18 %, to RUB 1,617,718 million for the year ended December 31, 2018 compared to RUB 1,368,131 million for the prior year. The change was mainly due to an increase in capital expenditures for year ended December 31, 2018 compared to the prior year.

### *Net cash (used in) from financing activities*

Net cash used in financing activities amounted to RUB 96,070 million for the year ended December 31, 2018 compared to net cash from financing activities in the amount of RUB 149,944 million for the prior year. This change was mainly due to the increase in the ratio of repayment of borrowings to proceeds from borrowings for the year ended December 31, 2018 accounted for 92%, compared with the same ratio for the prior year accounted for 63%.

## Working Capital

The working capital surplus (current assets less current liabilities) was RUB 1,738,535 million as of December 31, 2018 and RUB 879,750 million as of December 31, 2017. The increase in the working capital by RUB 858,785 million in the year ended December 31, 2018 was mainly due to an increase in short-term deposits within other current assets and also due to a decrease in the current portion of long-term borrowings.

Management believes that the working capital is sufficient to meet the requirements of the Group for at least next twelve months, however, the Group is dependent on the short-term credit markets to finance the working capital.

## Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segments for the years ended December 31, 2018 and 2017 in denominated in the Russian Ruble are presented in the following table:

(in RUB million)	Year ended December 31,	
	2018	2017
Transportation	640,063	498,550
Refining	309,417	225,240
Production of gas	308,007	216,450
Production of crude oil and gas condensate	257,932	330,424
Electric and heat energy generation and sales	72,907	58,110
Distribution of gas	39,078	51,675
Gas storage	19,391	37,694
All other segments	149,089	86,457
<b>Total</b>	<b>1,795,884</b>	<b>1,504,600</b>

Total capital expenditures increased by RUB 291,284 million, or 19 %, from RUB 1,504,600 million for the year ended December 31, 2017 to RUB 1,795,884 million for the year ended December 31, 2018.

The largest portion of capital expenditures refers to the "Transportation" segment. The amount of capital expenditures of "Transportation" segment increased by RUB 141,513 million, or 28 %, to RUB 640,063 million for the year ended December 31, 2018.

## Debts obligation

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, net of cash and cash equivalents) increased by RUB 616,892 million, or 26 %, from RUB 2,397,511 million as of December 31, 2017 to RUB 3,014,403 million as of December 31, 2018. This change was mainly due to an increase in the amount of long-term borrowings denominated in the Russian Ruble caused by the appreciation of US Dollar and Euro against the Russian Ruble.

The following table shows borrowings and promissory notes as of December 31, 2018 and December 31, 2017:

RUB million unless indicated otherwise)	As of December 31,	
	2018	2017
<b>Long-term borrowings</b>		
Fixed interest rate borrowings	2,709,599	2,355,672
Weighted average interest rates for fixed rate borrowings	5.97%	6.26%
Variable interest rate borrowings	1,079,332	824,665
Weighted average interest rates for variable rate borrowings	<u>2.88%</u>	<u>3.54%</u>
<b>Total long-term borrowings</b>	<b>3,788,931</b>	<b>3,180,337</b>
Russian Ruble denominated borrowings	694,548	558,509
Foreign currency denominated borrowings	<u>3,094,383</u>	<u>2,621,828</u>
<b>Total long-term borrowings</b>	<b>3,788,931</b>	<b>3,180,337</b>
Less: current portion of long-term borrowings	<u>(494,170)</u>	<u>(788,624)</u>
<b>Total long-term debt obligations</b>	<b>3,294,761</b>	<b>2,391,713</b>
<b>Short-term borrowings</b>		
Fixed interest rate borrowings	31,877	47,789
Weighted average interest rates for fixed rate borrowings	7.92%	8.49%
Variable interest rate borrowings	43,014	38,392
Weighted average interest rates for variable rate borrowings	<u>8.82%</u>	<u>8.19%</u>
<b>Total short-term borrowings</b>	<b>74,891</b>	<b>86,181</b>
Russian Ruble denominated borrowings	66,839	74,374
Foreign currency denominated borrowings	<u>8,052</u>	<u>11,807</u>
<b>Total short-term borrowings</b>	<b>74,891</b>	<b>86,181</b>
Add: current portion of long-term borrowings	<u>494,170</u>	<u>788,624</u>
<b>Total short-term debt obligations</b>	<b>569,061</b>	<b>874,805</b>
<b>Total borrowings</b>	<b>3,863,822</b>	<b>3,266,518</b>

The following table shows the breakdown by currency of foreign currency denominated long-term borrowings as of December 31, 2018 and December 31, 2017 as well as the same balances expressed in Russian rubles:

	As of December 31,	
	2018	2017
U.S. dollar denominated (expressed in millions of U.S. dollars)	15,813	20,544
Euro denominated (expressed in millions of U.S. dollars) <sup>(1)</sup>	24,001	20,953
Other currencies denominated (expressed in millions of U.S. dollars)	<u>4,729</u>	<u>4,021</u>
<b>Total long-term foreign currency denominated borrowings expressed in millions of U.S. dollars</b>	<b>44,543</b>	<b>45,518</b>
<b>Total long-term foreign currency denominated borrowings expressed in millions of Russian Rubles<sup>(2)</sup></b>	<b>3,094,383</b>	<b>2,621,828</b>

Notes:

(1) Converted at euro to U.S. dollar exchange rates of 1.14 and 1.20 as of December 31, 2018 and as of December 31, 2017, respectively.

(2) Converted at the exchange rate as of period-end.

The following table shows the schedule of repayments of long-term borrowings as of December 31, 2018 and December 31, 2017:

(in RUB million)	As of December 31,	
	2018	2017
Between one and two years	607,775	481,070
Between two and five years	1,654,576	1,087,239
After five years	<u>1,032,410</u>	<u>823,404</u>
<b>Total</b>	<b>3,294,761</b>	<b>2,391,713</b>

## SHAREHOLDING STRUCTURE AND STOCK MARKET OF PJSC GAZPROM

PJSC Gazprom's share capital is RUB 118,367,564,500 divided into 23,673,512,900 ordinary shares with a par value of RUB 5 each. PJSC Gazprom has no preferred shares.

As a major shareholder of PJSC Gazprom, the Russian Federation holds a more than 50% controlling stake (including direct and indirect ownership) in PJSC Gazprom. The Russian Federation does not have a special right to manage PJSC Gazprom's affairs (a "golden share").

The following table summarises quotations for PJSC Gazprom shares and ADRs:

(%)	As at 31 January	
	2018	2017
The Russian Federation represented by the Federal Agency for State Property Management	38.37	38.37
JSC ROSNEFTEGAZ <sup>(1)</sup>	10.97	10.97
JSC Rosgazifikatsiya <sup>(1)</sup>	0.89	0.89
ADR holders <sup>(2)</sup>	24.13	25.20
Other registered holders	25.64	24.57

Notes:

<sup>(1)</sup> As at 31 December 2017 and 31 December 2018, the cumulative share in PJSC Gazprom directly or indirectly controlled by the Russian Federation totals 50.23% and is owned through the full ownership of JSC ROSNEFTEGAZ which also holds a 74.55% stake in JSC Rosgazifikatsiya.

<sup>(2)</sup> The Bank of New York Mellon issued ADRs on PJSC Gazprom's shares.

As at 31 December 2018, the holders of American depositary receipts (ADRs) on the PJSC Gazprom's shares accounted for 24.1% of PJSC Gazprom's charter capital.

As at 31 December 2018, there were no PJSC Gazprom shares the title to which was transferred to PJSC Gazprom. At the same time, as at the said date, PJSC Gazprom's subsidiaries held 934 million ordinary shares of PJSC Gazprom, and American depositary receipts representing 639 million ordinary shares of PJSC Gazprom, which in total represents 6.6% of the total number of ordinary shares of PJSC Gazprom.

PJSC Gazprom shares are included in the first (top) level quotation list of the Moscow Exchange and PJSC Saint Petersburg Exchange.

In October 1996, PJSC Gazprom listed depositary receipts on the London Stock Exchange. The ADRs certifying the rights to PJSC Gazprom ordinary shares under foreign law were issued by The Bank of New York Mellon as depositary bank. An ADR stands for two PJSC Gazprom shares.

ADRs on PJSC Gazprom shares are traded on the London, Berlin, and Frankfurt exchanges, the Moscow Exchange, the US OTC market, and on the Singapore OTC market among qualified institutional buyers (QIBs). The London Stock Exchange accounts for the bulk of trade in PJSC Gazprom ADRs.

The following table summarises quotations for PJSC Gazprom shares and ADRs:

	As at 31 December 2018	2017	Change, %
<b>Moscow Exchange</b>			
Share closing price, RUB			
at year-end	153.50	130.50	17.6
minimum	132.20	115.35	14.6
maximum	172.11	157.97	9.0
Average daily trading volume, mm	26.40	28.87	-8.6
Average daily trading volume, RUB bn	3.91	3.72	5.1
<b>London Stock Exchange</b>			
ADR closing price, USD			
at year-end	4.43	4.41	0.5
minimum	4.14	3.85	7.5
maximum	5.31	5.27	0.8
Average daily trading volume, mm	9.19	11.96	-23.2
Average daily trading volume, USD mm	43.27	53.11	-18.5

In 2018, PJSC Gazprom's market capitalisation increased by 17.6% year-on-year; as at 31 December 2018, its capitalisation stood at RUB 3.6 tn.

As at 31 December 2018, dividend payouts in 2018 based on PJSC Gazprom's performance results for 2017 were as follows:

	Accrued, RUB thousand	Paid, RUB thousand	Unpaid, RUB thousand <sup>(1)</sup>	Unpaid to accrued, %
<b>Total</b>	<b>190,335,044</b>	<b>190,005,139</b>	<b>329,905</b>	<b>0.17</b>
including dividends on shares:				
held by the Russian Federation represented by the Federal Agency for State Property Management	73,037,986	73,037,986	—	—
held by individuals and corporate entities whose rights to shares are accounted for in the register	27,100,385	26,916,208	184,177	0.68
held by individuals and corporate entities whose rights to shares are accounted for by the depositary maintaining a nominee holder account in the issuer's register <sup>(2)</sup>	90,196,521	90,050,945	145,576	0.16
held by unidentified persons	152	—	152	100.00

Notes:

- (1) No dividend payouts were made to individuals or corporate entities who had failed to provide clear payout details as per clauses 8 and 9 of Article 42 of Federal Law No. 208-FZ On Joint Stock Companies dated 26 December 1995. Dividends accrued on shares held by unidentified persons are paid out as soon as the title to securities is established.
- (2) PJSC Gazprom paid out RUB 90,196,521 thousand in dividends to nominee holders on 2 August 2018 in execution of the Annual General Shareholders Meeting resolutions on dividend payouts based on PJSC Gazprom's 2017 results, which was held on 29 June 2018. As at 31 December 2018, the amount of dividends nominee holders failed to transfer as prescribed by the securities laws of the Russian Federation for reasons beyond their control (clause 8 and clause 9, Article 42 of Federal Law No. 208-FZ dated 26 December 1995) totalled RUB 145,576 thousand.

## CORPORATE GOVERNANCE

The rights of PJSC Gazprom's shareholders and the regulatory framework for PJSC Gazprom's management bodies are determined and exercised in accordance with Russian laws and may differ from the regulatory practice applicable to UK companies.

Key documents of PJSC Gazprom ensuring protection of shareholder rights:

- Articles of Association of Public Joint Stock Company Gazprom
- Code of Corporate Governance of PJSC Gazprom
- Code of Corporate Ethics of PJSC Gazprom (as amended in 2018)
- Regulations on the General Shareholders Meeting of PJSC Gazprom (as amended in 2018)
- Regulations on the Board of Directors of PJSC Gazprom
- Regulations on the Board of Directors' Audit Committee of JSC Gazprom
- Regulations on the Board of Directors' Nomination and Remuneration Committee of PJSC Gazprom
- Regulations on the Management Committee of PJSC Gazprom
- Regulations on the Chairman of the Management Committee of PJSC Gazprom
- Regulations on the Audit Commission of JSC Gazprom, new version
- Regulations on the Internal Control System of PJSC Gazprom
- External Audit Policy for PJSC Gazprom, its subsidiaries and entities
- Procedures for Documenting of Proposals and Requests of Shareholders Related to the Convocation of the General Shareholders Meeting of PJSC Gazprom
- Dividend Policy of Joint Stock Company Gazprom
- Regulations on the Information Disclosure of PJSC Gazprom (as amended in 2018)
- Procedure for Providing Information about PJSC Gazprom to Shareholders (as amended in 2018)
- JSC Gazprom's Regulation on Control of Compliance with the Laws on Countering the Unlawful Use of Insider Information and Market Manipulation
- Anti-Corruption Policy of PJSC Gazprom
- Regulations on the Hotline for Fighting Fraud, Corruption, and Embezzlement at Gazprom Group

These documents are available on PJSC Gazprom's website (<http://www.gazprom.ru/investors/documents/>).

### Enhancement of corporate governance at PJSC Gazprom in 2018

In 2018, PJSC Gazprom enhanced its corporate governance standards in the following development areas:

- Strategic (long-term) planning: strategic performance targets lists for Gazprom Group's oil and power generation business were approved
- Shareholder rights: (1) changes to the Regulations on the General Shareholders Meeting of PJSC Gazprom were introduced allowing to use additional premises equipped for TV broadcasts of the General Shareholders Meeting and allowing shareholders to pose questions to spokespersons and make announcements concerning their participation in debates; (2) changes to the Regulations on the Information Disclosure of PJSC Gazprom were introduced to include information on amendments to the Articles of Association and PJSC Gazprom's internal documents on the list of additional information subject to disclosure to the participants of the General Shareholders Meeting in the form of a comparison between the current and proposed versions of the documents; (3) changes to the



Procedure for Providing Information about PJSC Gazprom to Shareholders (Resolution of the Management Committee of PJSC Gazprom No. 36 dated 27 September 2018) were introduced – the document was aligned with the current version of the Federal Law on Joint Stock Companies including in terms of shareholders' access to PJSC Gazprom's information and documents

- Assessment of management bodies' performance: an internal assessment of the performance of PJSC Gazprom's Board of Directors, Audit Committee, and Nomination and Remuneration Committee (recommended by the Russian Corporate Governance Code) was initiated. Members of the Board of Directors commended PJSC Gazprom for the current development level of the Board of Directors and its committees. The assessment results were reviewed at the Board of Directors' meeting held in November 2018
- Information disclosure: Gazprom Group's Sustainability Report passed its first professional external audit and was subjected to a public verification procedure
- Procurement: (1) a provision on the predominantly competitive procurement of independent valuator services to evaluate facilities was set out in PJSC Gazprom's internal document on the independent evaluation procedure; (2) in line with fundamental changes in the Russian legislation on procurement, which came into force in 2018, a new version of the Regulations on the Procurement of Goods, Works, and Services by PJSC Gazprom and Gazprom Group subsidiaries was approved
- Corporate ethics: an online training course with regular tests for knowledge of ethics standards was developed for PJSC Gazprom's employees. A provision on regular tests was included in the Code of Corporate Ethics of PJSC Gazprom
- Insider information protection: the List of Insider Information of PJSC Gazprom was extended
- Shareholder and investor relations: (1) targeted investor meetings were arranged for the independent directors Timur Kulibaev and Viktor Martynov; (2) a road show on environmental protection, social policy and corporate governance was run.

#### Corporate governance model

The corporate governance model in place at PJSC Gazprom relies on Russian laws, the requirements of Russian stock exchanges applicable to issuers whose shares have been included in the first (top) level quotation list.

PJSC Gazprom's corporate governance model ensures efficient corporate governance while protecting the interests of shareholders and maintaining the highest standards of disclosure. The model also implies the establishment and continuous operation of an efficient risk management and internal control system and provides for a clear division of roles and responsibilities and a performance assessment framework for each management body of PJSC Gazprom.

PJSC Gazprom's corporate governance pillars include management and supervisory bodies: General Shareholders Meeting, Board of Directors, Management Committee, Chairman of the Management Committee, and Audit Commission.

PJSC Gazprom's Board of Directors has set up the Audit Committee and the Nomination and Remuneration Committee of the Board of Directors of PJSC Gazprom to preview the most important matters of PJSC Gazprom's business reserved to the Board of Directors.

PJSC Gazprom's financial and business performance is independently reviewed by an external auditor.

The main task of the Department responsible for internal audit is to provide the Board of Directors (through the Audit Committee of the Board of Directors) and PJSC Gazprom's management independent and objective guarantees and consultations aimed at improving PJSC Gazprom's operations.

The Risk Management and Internal Control Unit of PJSC Gazprom provides the consolidation and methodological support for the implementation of a unified risk management and internal control policy.

In order to maintain a transparent and constructive dialogue with the investment community, PJSC Gazprom has in place the Coordinating Committee for Shareholder and Investor Relations (set up by JSC Gazprom's Order No. 292 dated 17 November 2008). Relations with the investment community are governed by the annual plan of the Coordinating Committee.

PJSC Gazprom has in place the role of Corporate Secretary (Resolution of the Board of Directors No. 2817 dated 30 September 2016). The responsibilities of Corporate Secretary are distributed, to the extent recommended by the Russian Corporate Governance Code, among several business units of PJSC Gazprom, in line with the regulations governing their functions as approved by the Board of Directors.

#### Membership of the Board of Directors

As at 31 December 2018, the membership of PJSC Gazprom's Board of Directors was as follows:

<b>Name</b>	<b>Year of birth</b>	<b>Position</b>
Viktor A. Zubkov	1941	Chairman of PJSC Gazprom's Board of Directors; Russia's Special Presidential Representative for Cooperation with the Gas Exporting Countries Forum Deputy Chairman of the Board of Directors of LLC Gazprom gazomotornoe toplivo
Alexey B. Miller	1962	Deputy Chairman of PJSC Gazprom's Board of Directors Chairman of PJSC Gazprom's Management Committee
Andrey I. Akimov	1953	Chairman of the Management Board of Gazprombank (Joint-stock Company)
Timur A. Kulibaev	1966	Chairman of Association of Legal Entities Kazakhstan Association of Oil, Gas and Energy Sector Organisations (KAZENERGY) Chairman of the Presidium of the National Chamber of Entrepreneurs of the Republic of Kazakhstan (Atameken)
Denis V. Manturov	1969	Minister of Industry and Trade of the Russian Federation
Vitaly A. Markelov	1963	Deputy Chairman of PJSC Gazprom's Management Committee
Viktor G. Martynov	1953	Rector of the Federal State Autonomous Educational Institution of Higher Education "Gubkin Russian State University of Oil and Gas (National Research University)"
Vladimir A. Mau	1959	Rector of the Russian Presidential Academy of National Economy and Public Administration (Federal State Budgetary Educational Institution of Higher Education)
Alexander V. Novak	1971	Minister of Energy of the Russian Federation
Dmitry N. Patrushev	1977	Minister of Agriculture of the Russian Federation

Mikhail L. Sereda	1970	Deputy Chairman of PJSC Gazprom's Management Committee – Head of PJSC Gazprom's Management Committee Administration
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There were no changes to the Board of Directors in 2018.

In 2018, the Board held a total of 53 meetings, including 13 meetings held in person and 40 meetings held in absentia. At these meetings, 142 resolutions were passed, including 51 resolutions in person and 91 resolutions in absentia.

#### Audit Committee of the Board of Directors

In 2018, the Audit Committee of PJSC Gazprom's Board of Directors continued its work. The Audit Committee reports to the Board of Directors. As at 31 December 2018, the Board of Directors' Audit Committee had three members of PJSC Gazprom's Board of Directors: Viktor Martynov, Mikhail Sereda, and Vladimir Mau. Viktor Martynov was the Chairman of the Committee.

During the year, the Committee held 9 meetings, all of them in absentia. The most important matters discussed by the Committee in 2018 included LLC FBK's information on critical audit issues at PJSC Gazprom and its subsidiaries, along with the external auditor's reports on ensuring independence and on the effectiveness of external audit.

The Audit Committee maintained close contact with the external auditor LLC FBK, the Audit Commission, and PJSC Gazprom's Department responsible for internal audit.

#### Nomination and Remuneration Committee of the Board of Directors

In 2018, the Nomination and Remuneration Committee of PJSC Gazprom's Board of Directors continued its work. As at 31 December 2018, the Board of Directors' Nomination and Remuneration Committee had three members of PJSC Gazprom's Board of Directors: Mikhail Sereda, Vladimir Mau, and Viktor Martynov. Mikhail Sereda was the Chairman of the Committee.

In 2018, the Committee held 9 meetings, all of them in absentia. The Committee reviewed the following matters: election of members of PJSC Gazprom's Management Committee; approval of the PJSC Gazprom's actual 2017 KPI values for the purposes of the annual bonus scheme for the management of PJSC Gazprom as well as target (planned), threshold, and maximum KPI values for 2018; remuneration of members of PJSC Gazprom's Board of Directors and Audit Commission; assessment of Board of Directors' and its committees' performance, etc.

#### Membership of the Management Committee

Members of PJSC Gazprom's Management Committee as at 31 December 2018:

<b>Name</b>	<b>Year of birth</b>	<b>Position</b>
Alexey B. Miller	1962	Chairman of PJSC Gazprom's Management Committee
Elena A. Vasilieva	1959	Deputy Chairwoman of PJSC Gazprom's Management Committee – Chief Accountant of PJSC Gazprom
Valery A. Golubev	1952	Deputy Chairman of PJSC Gazprom's Management Committee
Andrey V. Kruglov	1969	Deputy Chairman of PJSC Gazprom's Management Committee
Vitaly A. Markelov	1963	Deputy Chairman of PJSC Gazprom's Management Committee
Alexander I. Medvedev	1955	Deputy Chairman of PJSC Gazprom's Management Committee
Mikhail E. Putin	1967	Deputy Chairman of PJSC Gazprom's Management Committee

Sergey F. Khomyakov	1953	Deputy Chairman of PJSC Gazprom's Management Committee, Director General of PJSC Gazprom's Corporate Security Service Branch
Oleg E. Aksyutin	1967	Head of Department (prospective development)
Vladimir K. Markov	1955	Head of Department (relations with the Russian Federation authorities)
Elena V. Mikhailova	1977	Head of Department (asset management and corporate relations), Deputy Director General for Corporate Relations and Asset Management at LLC Gazprom mezhregiongaz
Vyacheslav A. Mikhaleiko	1965	Head of Department (gas transportation and underground storage)
Sergey F. Prozorov	1958	Head of Department (managing construction of production facilities)
Kirill G. Seleznev	1974	Head of Department (marketing; gas and liquid hydrocarbons processing; developing electric power and heat generation), Director General of LLC Gazprom mezhregiongaz
Igor Y. Fyodorov	1965	Head of Department (legal support)
Vsevolod V. Cherepanov	1966	Head of Department (hydrocarbon exploration and production)

Changes to the Management Committee in 2018 were as follows:

<b>Name</b>	<b>Change</b>
Mikhail E. Putin	Elected by the Board of Directors' decision of March 23, 2018, No 3089

#### Remuneration of key executives

Pursuant to the Regulations on the Board of Directors of PJSC Gazprom approved by the annual General Shareholders Meeting (Minutes No. 1 dated 30 June 2016) and PJSC Gazprom's Articles of Association, members of the Board of Directors, during the period of their service, may be remunerated and/or reimbursed for expenses incurred by them as members of the Board of Directors. The amount of remuneration and/or reimbursement is determined by the General Shareholders Meeting.

Members of the Board of Directors holding public or civil office in the Russian Federation receive no remuneration from the PJSC Gazprom.

Remuneration of members of the Management Committee (including Chairman of the Management Committee) and other executives of PJSC Gazprom is determined by their employment agreements. Short-term remuneration of PJSC Gazprom's key executives (members of the Board of Directors and Management Committee), including salaries, bonuses, and remuneration for their service on management bodies of PJSC Gazprom's entities amounted to ca. RUB 4,312 mm and RUB 4,537 mm for the years ended on 31 December 2018 and 31 December 2017, respectively.

#### Liability insurance of directors, officers, and PJSC Gazprom

PJSC Gazprom insures the liability of its directors (excluding directors holding public office), officers, and PJSC Gazprom.

The terms of the 2018 liability insurance programme for directors, officers, and PJSC Gazprom are as follows:

Insurance coverage	USD 100 mm
Insurance premium	USD 900 thousand
Persons insured	<ul style="list-style-type: none"> <li>• members of the Board of Directors (excluding directors who hold public office)</li> <li>• PJSC Gazprom's Management Committee members</li> <li>• heads of PJSC Gazprom's Departments who are not members of PJSC Gazprom's Management Committee.</li> </ul>
Risks insured	<ul style="list-style-type: none"> <li>• risk of third-party claims against the insured for losses arising from unintentional errors made by the insured in their management roles</li> <li>• risk of third-party claims against PJSC Gazprom for losses arising from unintentional errors made by the insured in their management roles: claims related to PJSC Gazprom's securities; claims initially made against the insured.</li> </ul>

The insurance coverage under the current liability insurance policy is in line with PJSC Gazprom's needs and Russian and international insurance standards in terms of risk coverage and indemnity limits.

#### PJSC Gazprom shares held by members of the Board of Directors and Management Committee

As at 31 December 2018, members of the Board of Directors, Management Committee, and the Chairman of the Management Committee had a shareholding of 0.012036 % in PJSC Gazprom's equity.

#### Audit Commission

The Audit Commission's authority is set forth in the Federal Law On Joint-Stock Companies and PJSC Gazprom's Articles of Association. The Audit Commission operates under the Regulations on the Audit Commission of JSC Gazprom approved by the Resolution of JSC Gazprom's Annual General Shareholders Meeting (Minutes No. 1 dated 28 June 2013).

Key roles of the Audit Commission:

- monitor the fairness of presentation of PJSC Gazprom's financial and accounting statements and other information on PJSC Gazprom's financial and business operations and condition of its assets
- supervise statutory compliance of PJSC Gazprom's accounting practices and of submission of its financial statements and information to relevant authorities and shareholders
- prepare proposals on enhancing PJSC Gazprom's asset management and other financial and business operations of PJSC Gazprom, mitigate financial and operating risks, and improve internal controls.

The Audit Commission is accountable to the General Shareholders Meeting and coordinates its activities with the Audit Committee of the Board of Directors.

Following an audit of PJSC Gazprom's financial and business operations, the Audit Commission presented its opinion confirming the fairness of data in PJSC Gazprom's statements and other financial documents.

The Audit Commission of nine members is elected by the General Shareholders Meeting.

### Internal Audit

Internal audit assists in achieving the PJSC Gazprom's goals through applying a holistic consistent approach to assessment and improvement of risk management, internal control, and corporate governance processes.

To improve the internal audit function and in accordance with Directive of the Russian Government for persons representing interests of the Russian Federation No. 3984p-P13 dated 24 June 2015, PJSC Gazprom developed and approved the Regulations on Internal Audit of PJSC Gazprom in 2015 (Resolution of the Board of Directors No. 2621 dated 6 November 2015).

These Regulations determine the goals, objectives, status, powers, and liability of the Department responsible for internal audits at PJSC Gazprom, as well as the scope of internal audit.

Pursuant to the Regulations, the internal audit in PJSC Gazprom is organised by the relevant Department, a business unit of PJSC Gazprom, and by internal audit units – in PJSC Gazprom's subsidiaries.

The key priority of the Department is to provide the Board of Directors (through the Audit Committee of the Board of Directors) and management of PJSC Gazprom with independent and unbiased assurances and advice as to the improvement of PJSC Gazprom's operations.

The Department is administratively accountable to the Chairman of PJSC Gazprom's Management Committee within the Management Committee Administration and functionally accountable to the Board of Directors (through the Board of Directors' Audit Committee). The Head of the Department is appointed and removed from office by the Chairman of PJSC Gazprom's Management Committee upon recommendation of the Deputy Chairman of the Management Committee – Head of the Administration of PJSC Gazprom's Management Committee, as approved by the Board of Directors (through the Board of Directors' Audit Committee).

### External Auditor

PJSC Gazprom selects its auditor annually by a public tender in accordance with applicable Russian laws. Assessment of potential auditors is one of the main duties of the Audit Committee of PJSC Gazprom's Board of Directors.

LLC FBK won the public tender for the service contract to audit PJSC Gazprom's accounting (financial) statements, Gazprom Group's consolidated accounting statements, and Gazprom Group's consolidated IFRS financial statements for 2018, and was approved as auditor by the Annual General Shareholders Meeting of PJSC Gazprom on 29 June 2018. The contract price offered by the winner was RUB 195,000,000 (exclusive of VAT) and was approved by Resolution of the Board of Directors No. 3113 dated 16 May 2018.

In 2018, LLC FBK provided other audit-related services to PJSC Gazprom outside its audit contract. In 2018, a fee of RUB 44,284,438.44 (inclusive of VAT) was paid for other audit-related services.

### Anti-corruption efforts

PJSC Gazprom has developed and adheres to the anti-corruption framework while effective in-house regulations adopted as part of anti-corruption measures help foster negative sentiment towards corrupt conduct, prevent or resolve conflicts of interest, and prevent unlawful behaviour.

PJSC Gazprom's anti-corruption practices comply with the main international and Russian regulations.

PJSC Gazprom's primary anti-corruption document is its Anti-Corruption Policy approved by the Board of Directors.

PJSC Gazprom's management is consistently focused on improving existing procedures for preventing and revealing corrupt practices in Gazprom Group.

In 2018, PJSC Gazprom's Board of Directors approved the Anti-Corruption Plan for 2018–2020.

PJSC Gazprom has adopted its Code of Corporate Ethics developed with due account for Russian and international corporate governance best practices. The document details PJSC Gazprom's corporate

values and determines the fundamental rules of business conduct stemming from such values, which rule out any conflicts of interest or corrupt practices and, in particular, impose restrictions on nepotism, employee engagement with PJSC Gazprom's competitors, their serving on elected government bodies, acceptance of gifts. Most of PJSC Gazprom's subsidiaries have developed and adopted similar documents based on the Code.

The Code specifies the procedure to be followed by PJSC Gazprom's employees in the event of a conflict of interest, declares zero tolerance for corrupt conduct, affirms environmental responsibility and non-discriminatory principles, establishes implementation and supervision practices on compliance with corporate ethics standards.

The Code's provisions are mandatory for PJSC Gazprom's employees (including all members of the Management Committee and the Board of Directors who are PJSC Gazprom's employees) and the Group-controlled corporate entities. The Code's provisions are not mandatory for employees of PJSC Gazprom's affiliates which are not under the Group's control, and employees of PJSC Gazprom's counterparties.

The permanent Corporate Ethics Commission of PJSC Gazprom is responsible for supervising compliance with the Code's requirements and provisions. Most of PJSC Gazprom's subsidiaries and associates have similar commissions in place.

The Commission's performance is reported to the Chairman of PJSC Gazprom's Management Committee on an annual basis. The Chairman of PJSC Gazprom's Management Committee may impose sanctions stipulated by the Code at his own initiative or at the Commission's suggestion, or at the initiative of the violator's immediate superior.

PJSC Gazprom and its subsidiaries organise awareness days to communicate to their employees the effective rules of business, including anti-corruption corporate ethics. Subsidiaries gather and consolidate information on efforts made to comply with requirements and restrictions established by codes of corporate ethics/

## **RISK MANAGEMENT AND INTERNAL CONTROL**

PJSC Gazprom acknowledges that its operations are exposed to uncertainties such as risks, and implements measures to provide adequate assurance that the goals set for PJSC Gazprom by its management bodies are achieved.

PJSC Gazprom has developed an effective risk management and internal control system (RMICS) which helps promptly identify, assess, and respond to, potential events, circumstances, and internal and external factors that may influence the achievement of goals.

PJSC Gazprom's risk management and internal control system complies with the corporate governance principles set forth in the Russian Corporate Governance Code.

RMICS is an integral part of PJSC Gazprom's corporate governance and is embedded into the planning and project management systems, and occupational health and safety management programmes. RMICS covers all operations of PJSC Gazprom and Gazprom Group entities, as well as all management levels, business segments, and risks across PJSC Gazprom and Gazprom Group entities.

### **Strategic and country risks**

#### Risks related to the global economy

An unfavourable economic environment can lead to a slowdown in energy demand and drive the cost of borrowed capital.

### *Risk management / mitigation*

To ensure growth of energy sales, PJSC Gazprom considers numerous markets and distribution channels and expands the uses of natural gas. To maintain its financial stability, PJSC Gazprom optimises leverage.

#### European gas market risks

The European Union pursues a policy of diversifying its gas supply sources and increasing the share of natural gas exchange trade, which affects PJSC Gazprom as one of the main suppliers of natural gas to the EU countries.

### *Risk management / mitigation*

To minimise the risk of lower supply levels, a set of initiatives continues to be implemented to both build new infrastructure and bolster demand for natural gas, as well as strengthen PJSC Gazprom's position in the sectors with a potential for extra supplies.

#### Political risk

Starting from 2014, Russia is under sanctions imposed by the EU, the United States, and other countries.

### *Risk management / mitigation*

PJSC Gazprom pursues a policy of ensuring technological independence.

#### Natural gas transit risks

Gas transmission via third countries is associated with the risks of the counterparties defaulting on their transit obligations, as well as uncertainty about the future conditions of transit contracts, which exposes Gazprom Group to the risk of improper performance of its obligations under gas supply contracts.

### *Risk management / mitigation*

A number of measures are taken such as diversification of export routes, expanding access to UGSFs abroad, and development of LNG trade.

#### Russian regulatory risks for the gas industry

PJSC Gazprom's operations are regulated by Federal Law No. 147-FZ On Natural Monopolies dated 17 August 1995.

### *Risk management / mitigation*

PJSC Gazprom is engaged in intensive dialogue with government authorities to improve the pricing and tariff policy; objective supporting cases are prepared to inform decision making by PJSC Gazprom's Board of Directors.

#### Unconventional gas development risks

Unconventional gas production has been growing since mid-2000's, primarily from shale deposits in the US. Shale gas appeals mostly to countries with limited conventional gas reserves and resources; however, the risk that these countries will reduce gas imports in the mid-term is assessed as insignificant.

### *Risk management / mitigation*

PJSC Gazprom continuously monitors the evolution of the shale gas industry and developments in other unconventional hydrocarbons industries around the world. The monitoring results, including the economics of unconventional gas production and its potential as a competition to PJSC Gazprom



in its existing or prospective markets, are reviewed by PJSC Gazprom's management bodies on a regular basis, which enables PJSC Gazprom to efficiently implement its marketing policy in respective regions taking into account various mechanisms of gas sales.

### Renewable energy risks

Renewable energy output can be expected to grow in some countries, which may squeeze gas consumption in these markets.

#### *Risk management / mitigation*

The use of natural gas, inter alia, for power generation offers consumers economic, technological, and environmental benefits, which, PJSC Gazprom believes, will support natural gas as common energy source. In most cases, renewable power generation supplements power generation from other sources and may entail certain risks for the natural gas market if subsidising renewable energy is maintained at national and/or supranational levels.

### **Customs, currency, and tax regulation risks**

#### Risk of changes in the Russian currency regulation and tax legislation

Currency regulation and tax legislation risks persist, along with the risk of a heavier tax burden on companies operating in the fuel and energy sector. Changes in the Russian currency regulation and tax legislation, as well as tax legislation changes in the countries in which Gazprom Group has a presence may affect the operations of PJSC Gazprom and Gazprom Group's entities.

#### *Risk management / mitigation*

Changes in currency and tax laws are consistently monitored. PJSC Gazprom liaises with government authorities to ensure timely adjustment of its operations in line with changes in Russian and international laws.

#### Risks related to changes in Russian rules on customs control and duties

Customs authorities may introduce additional customs requirements if the rules of customs control and export duty payment are amended.

#### *Risk management / mitigation*

PJSC Gazprom complies with the requirements of customs laws and communicates with government authorities.

### **Financial risks**

#### Foreign exchange risks and inflation rate risks

Potential cash flow reduction due to adverse change in foreign exchange rates. High exchange rate volatility coupled with income and expenses denominated in different currencies affect PJSC Gazprom's performance.

The current inflation rate has no significant influence on PJSC Gazprom's financial position.

#### *Risk management/mitigation*

PJSC Gazprom ensures the optimal ratio of assets and liabilities denominated in foreign currency, calculates earnings considering the foreign exchange risk, and forecasts exchange rates to develop a forecast balance.

To minimise losses from exchange rate volatility, PJSC Gazprom hedges its foreign exchange and interest rate risks.

### Credit and liquidity risks

Delayed or incomplete discharge of contractual obligations by some counterparties entails risks for PJSC Gazprom's operations.

#### *Risk management / mitigation*

Relations with credit institutions are subject to credit risk limits revised on a regular basis and reflecting, inter alia, the calculated credit rating. Performance of contractual obligations is monitored and credit quality of counterparties is assessed with the adoption of measures to reduce risks in case of low creditworthiness.

### **Market risks**

If oil prices and gas exchange quotations drop and (or) maintain at current levels for a long time, resulting risks may lead to a decline in revenues. There are also volume risks associated with a certain flexibility that buyers have in terms of gas offtake.

#### *Risk management / mitigation*

These risks are managed by adjusting contract terms and conditions or entering into new contracts, determining approved types of transactions and financial instruments and counterparties to enter into such transactions.

### **PJSC Gazprom's operating risks**

#### Risks of early termination and suspension of subsoil licences

Non-compliance with the licence agreements exposes PJSC Gazprom to risks of early termination or suspension of subsoil licences for the survey, exploration, and production of hydrocarbons.

#### *Risk management / mitigation*

Regular monitoring, control of compliance with licence requirements, and timely amendment of licence agreements minimise the likelihood of licence revocation and suspension.

#### Risks of failure to reach peak gas withdrawal capacity at UGSFs

Failure to reach necessary gas supply volumes in the context of steep increase in gas consumption.

#### *Risk management/mitigation*

UGSFs are tested to confirm their maximum daily deliverability.

#### Risk of power outages at UGSS facilities

Internal and external factors may lead to power outages at UGSS facilities.

#### *Risk management/mitigation*

PJSC Gazprom implements comprehensive programmes to enhance reliability of power supply facilities, insure equipment, and create reserves to cover potential losses.

#### Risks related to occupational health and industrial safety

PJSC Gazprom's performance depends on its occupational health and industrial safety practices.

### *Risk management / mitigation*

PJSC Gazprom has in place and operates a Unified Occupational Health and Safety Management System integrated into its management system. The Unified Occupational Health and Safety Management System has been developed and introduced to manage OHS risks and meet the objectives and commitments relating to occupational health, industrial and fire safety.

#### Cost risks

Increased prices for equipment, technical devices, spare parts, as well as works and services, which form the actual cost of capital construction projects, constitute one of the most significant investment risks.

### *Risk management / mitigation*

Competitive procurement, whereby the suppliers offering goods of adequate quality and submitting the most competitive price bids are selected, helps cut the costs of procurement and sourcing of feedstock, materials, spare parts, works, and services.

#### Facilities risks

The key operations, including hydrocarbon production, transportation, processing/refining, and storage, carry process and engineering, natural and climatic risks, as well as risks of adverse actions by personnel or third parties.

### *Risk management / mitigation*

The Unified Gas Supply System (UGSS) ensures reliable gas supplies. Stable operation of the system is achieved by implementing advanced and innovative diagnostic methods, carrying out timely overhaul and maintenance, revamping and upgrading existing facilities. Insurance coverage is provided to protect PJSC Gazprom's subsidiaries' property interests, which includes property insurance (including offshore facilities), business interruption insurance, and liability insurance for construction, repair, and operation of production facilities.

#### Hydrocarbon reserve estimation risks

PJSC Gazprom's strategic and financial goals depend on hydrocarbon reserves. Thus, inaccurate reserve estimation bears potential risks for PJSC Gazprom's operations.

### *Risk management / mitigation*

Independent reserve estimation procedures have been developed and are implemented in accordance with the Petroleum Resources Management System (PRMS) standards. Gazprom's reserves estimated under Russian reserves classification standards are recorded in its books after the annual review and approval by the State Reserves Commission of the Russian Ministry of Natural Resources.

#### Environmental risks

The key operations, including hydrocarbon production, transportation, refining/processing, and storage, carry environmental risks (risks of environmental pollution, non-compliance with environmental regulations) that may lead to legal, financial, and reputational implications.

### *Risk management / mitigation*

PJSC Gazprom implements a unified Environmental Policy, programmes, and initiatives to reduce its environmental footprint, takes out voluntary environmental liability insurance, introduces best available innovative technology for mitigating the environmental impact.

PJSC Gazprom has developed and operates an efficient environmental management system combining environmental controls of both the parent company and subsidiaries. Efforts taken by PJSC Gazprom help maintain high levels of environmental risk manageability.

## BRANCHES AND REPRESENTATIVE OFFICES OF PJSC GAZPROM

The list of branches and representative offices of PJSC Gazprom as at 31 December 2018:

Name	Location
Branch Avtopredpriyatie of PJSC Gazprom	Saint Petersburg
Branch Corporate Premises Management of PJSC Gazprom	Saint Petersburg
Branch Bogorodskoye Reception House	Moscow
Branch Souyz Holiday Hotel	Moscow Region
Branch Morozovka Holiday Hotel	Moscow Region
Branch Corporate Security Services of PJSC Gazprom	Saint Petersburg
Branch Central Interregional Security Division of PJSC Gazprom	Moscow Region
Branch Main Security Division of PJSC Gazprom in Saint Petersburg	Saint Petersburg
Branch Southern Interregional Security Division of PJSC Gazprom	Krasnodar
Branch Volga Interregional Security Division of PJSC Gazprom	Samara
Branch North Urals Interregional Security Division of PJSC Gazprom	Novy Urengoy
Branch South Urals Interregional Security Division of PJSC Gazprom	Yekaterinburg
Branch Siberian Interregional Security Division of PJSC Gazprom	Tomsk
Branch Far Eastern Interregional Security Division of PJSC Gazprom	Khabarovsk
Branch Office 333 of PJSC Gazprom in Saint Petersburg	Saint Petersburg
Representative office in Ukraine	Kiev
Representative office in the People's Democratic Republic of Algeria	Algiers
Representative office in the Islamic Republic of Iran	Tehran
Representative office in the Republic of Turkey	Ankara
Representative office in the People's Republic of China	Beijing
Representative office in the Republic of India	New Delhi
Representative office in Turkmenistan	Ashgabat
Representative office in the Republic of Kazakhstan	Astana
Representative office in the Republic of Latvia	Riga
Representative office in the Federative Republic of Brazil	Rio de Janeiro
Representative office in the Republic of Moldova	Chişinău
Representative office in the State of Qatar	Doha
Representative office in the Kingdom of Belgium	Brussels
Representative office in Japan	Tokyo
Representative office in Azerbaijan <sup>(1)</sup>	Baku

**Note:**

<sup>(1)</sup> As at 31 December 2018, details of the Representative office in Baku, the Republic of Azerbaijan, were not recorded in the Unified State Register of Legal Entities.

## CONVERSION TABLE

Metric measure	U.S. measure
1 bcm of natural gas	6.49 barrels of oil equivalent (boe)
1 tonne of oil	7.33 barrels of oil equivalent (boe)
1 tonne of gas condensate	8.18 barrels of oil equivalent (boe)

## GLOSSARY OF KEY TERMS AND ABBREVIATIONS

Terms and abbreviations	Description
A+B <sub>1</sub> +C <sub>1</sub> hydrocarbon reserves	Explored reserves estimated under the Russian Classification of Reserves and Resources with high geological certainty and corresponding to the previously used A+B+C <sub>1</sub> reserves. Recovery factors for oil, gas, and gas condensate reserves are determined based on field geology with account for existing technologies
Adjusted EBITDA	Operating profit less depreciation and less impairment loss on assets (excluding accounts receivable, advances paid and prepayments)
ADR of PJSC Gazprom	American Depositary Receipt issued for PJSC Gazprom shares
APG	Associated petroleum gas
Associates	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
boe	Barrel of oil equivalent
CGTU	Comprehensive gas treatment unit
CHPP	Combined heat and power plant
CS	Compressor station
CSA	Capacity Supply Agreement
cubic m	A cubic metre of natural gas measured at 1 Pa pressure and 20°C.
EMS	Environmental Management System
ESP	Electronic Sales Platform
Europe and other countries	Foreign countries other than FSU countries
European far abroad countries	25 EU countries (excluding Latvia, Lithuania, and Estonia), such non-EU countries as Turkey, Norway, and Switzerland, and the Balkan states of Bosnia, Bosnia and Herzegovina, Macedonia, and Serbia
FSU	Former Soviet Union republics, except for the Russian Federation
Gazprom Group, the Group, Gazprom	An aggregate of entities which includes PJSC Gazprom (parent company) and its subsidiaries
Gazprom energoholding Group	An aggregate of entities which includes LLC Gazprom energoholding (parent company) and its subsidiaries. Gazprom Group controls Gazprom energoholding Group
Gazprom neftekhim Salavat Group	An aggregate of entities which includes LLC Gazprom neftekhim Salavat (parent company) and its subsidiaries. Gazprom Group controls Gazprom neftekhim Salavat Group
Gazprom Neft Group	An aggregate of entities which includes PJSC Gazprom Neft (parent company) and its subsidiaries. Gazprom Group controls Gazprom Neft Group
GHG	Greenhouse gases
GPP	Gas and/or condensate processing plant
GRF	Gas recovery factor
GTS	Gas Transportation System
GW	Gigawatt
IFRS	International Financial Reporting Standards
ISO 14001	International Organization for Standardization, the international environmental management standard

ISO 9001	International Organization for Standardization, the international quality management standard
Joint operation	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
Joint venture	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
km	Kilometre
kWh	Kilowatt hour
LNG	Liquefied natural gas
m	Metre
MW	Megawatt
Net debt	The sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, net of cash and cash equivalents
OGCF	Oil and gas condensate field
OHSAS 18001	Occupational Health and Safety Management Systems, the international standard for occupational health and safety management systems
PRMS standards	International classification and assessment of hydrocarbon reserves under PRMS (Petroleum Resources Management System).
R&D	Research and Development
RMICS	Risk Management and Internal Control System
RUB	Russian rouble
sq km	Square kilometre
tonne	Metric ton
Total debt	The sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable
TPP	Thermal power plant
UGSF	Underground gas storage facility
UGSS	Unified Gas Supply System of Russia
USD	United States (US) dollars
UOHSMS	Unified Occupational Health and Safety Management System
VAT	Value Added Tax



## **CONTACTS**

### **Full name**

Public Joint Stock Company Gazprom

### **Abbreviated name**

PJSC Gazprom

### **Location**

Moscow, Russian Federation

Address: 16 Nametkina str., GSP-7, Moscow, 117997, Russian Federation

Postal address: BOX 1255, Saint Petersburg, 190900, Russia

Delivery address: 156 Moskovsky av., bld. A, Saint Petersburg, 196105, Russian Federation

Phone: +7 495 719 3001

Fax: +7 495 719 8333

+7 812 413 7333

### **Website**

[www.gazprom.ru](http://www.gazprom.ru) (in Russian)

[www.gazprom.com](http://www.gazprom.com) (in English)

### **E-mail**

[gazprom@gazprom.ru](mailto:gazprom@gazprom.ru)

### **Certificate of entry into the Unified State Register of Legal Entities**

by the Moscow Department of the Ministry of Taxation dated 2 August, 2002, OGRN 1027700070518

### **Taxpayer Personal Identification Number (INN)**

7736050003

### **Contact for shareholders**

Phone: +7 812 609 7657 (for shareholders of PJSC Gazprom)

**Contact for investors**

Phone: +7 812 609 4129

Fax: +7 812 609 4334

E-mail: [ir@gazprom.ru](mailto:ir@gazprom.ru)

**Auditor**

Limited Liability Company Financial and Accounting Consultants (LLC FBK).

LLC FBK is a member of the self-regulated organisation of auditors Auditor Association Sodruzhestvo

Location address: 44/1 Myasnitskaya str., bld. 2 AB, Moscow, 101990, Russian Federation

Phone: +7 495 737 5353

Website: [www.fbk.ru](http://www.fbk.ru).

**Registrar**

Joint Stock Company Specialised Registrar – Register Keeper for Gas Industry Shareholders (JSC DRAGa)

Location and postal address: 71/32 Novocheryomushkinskaya str., Moscow, 117420, Russian Federation

Phone: +7 495 719 4044

Fax: +7 495 719 4585

Website: [www.draga.ru](http://www.draga.ru)

**Depository bank (PJSC Gazprom ADRs)**

Bank of New York Mellon

Website: [www.bnymellon.com](http://www.bnymellon.com)