



RELEASE

April 26, 2018

Gazprom's financial statements under International Financial Reporting Standards (IFRS) for the year ended December 31, 2017

Today PJSC Gazprom issued its audited consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended December 31, 2017.

The table below presents the consolidated statement of comprehensive income prepared in accordance with IFRS for the years ended December 31, 2017 and December 31, 2016. All amounts are presented in millions of the Russian Rubles.

	Year ended December 31,	
	2017	2016
Sales	6,546,143	6,111,051
Net (loss) gain from trading activity	(16,352)	3,382
Operating expenses	(5,714,090)	(5,244,983)
Change in impairment and other provisions	54,922	(143,870)
Operating profit	870,623	725,580
Finance income	426,705	1,018,997
Finance expense	(407,044)	(543,370)
Share of net income of associates and joint ventures	126,940	82,872
Gain on disposal of available-for-sale financial assets	782	1,059
Profit before profit tax	1,018,006	1,285,138
Current profit tax expense	(241,817)	(218,113)
Deferred profit tax expense	(9,310)	(69,921)
Profit tax	(251,127)	(288,034)
Profit for the year	766,879	997,104
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	(5,064)	33,118
Total items that will not be reclassified to profit or loss	(5,064)	33,118
Items that may be reclassified subsequently to profit or loss:		
(Loss) gain arising from change in fair value of available-for-sale financial assets, net of tax	(30,404)	62,133
Share of other comprehensive income (loss) of associates and joint ventures	2,967	(6,397)
Translation differences	23,290	(297,703)
Gain from cash flow hedges, net of tax	13,601	49,196
Total items that may be reclassified subsequently to profit or loss	9,454	(192,771)
Other comprehensive income (loss) for the year, net of tax	4,390	(159,653)
Total comprehensive income for the year	771,269	837,451

Profit for the year attributable to:

Owners of PJSC Gazprom	714,302	951,637
Non-controlling interest	<u>52,577</u>	<u>45,467</u>
	766,879	997,104

Total comprehensive income for the year attributable to:

Owners of PJSC Gazprom	710,840	806,903
Non-controlling interest	<u>60,429</u>	<u>30,548</u>
	771,269	837,451

Total sales (net of excise tax, VAT and customs duties) increased by RUB 435,092 million, or 7 %, to RUB 6,546,143 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase in sales was mainly driven by an increase in sales of refined products and crude oil.

More detailed information concerning the main items of the sales' structure for the years ended December 31, 2017 and December 31, 2016 is presented in the table below.

(RUB million unless indicated otherwise)	Year ended December 31,	
	2017	2016
Sales of gas		
<i>Europe and Other countries</i>		
Net sales (net of excise tax and customs duties)	2,221,217	2,140,027
Volumes in bcm	242.0	228.3
Average price, RUB per mcm (including excise tax and customs duties)	11,670.5	11,763.3
<i>Former Soviet Union countries</i>		
Net sales (net of customs duties)	292,777	309,644
Volumes in bcm	35.0	33.2
Average price, RUB per mcm (including customs duties)	9,237.0	10,263.1
<i>Russian Federation</i>		
Net sales (net of VAT)	875,685	819,924
Volumes in bcm	229.9	214.9
Average price, RUB per mcm (net of VAT)	3,808.3	3,815.5
<i>Total sales of gas</i>		
Retroactive gas price adjustments	(49,092)	33,175
Net sales (net of excise tax, VAT and customs duties)	3,340,587	3,302,770
Volumes in bcm	506.9	476.4
Net sales of refined products (net of excise tax, VAT and customs duties)	1,687,090	1,497,562
Net sales of crude oil and gas condensate (net of VAT and customs duties)	539,958	411,958
Electric and heat energy net sales (net of VAT)	503,819	481,716
Gas transportation net sales (net of VAT)	235,061	198,971
Other revenues (net of VAT)	<u>239,628</u>	<u>218,074</u>
Total sales (net of excise tax, VAT and customs duties)	6,546,143	6,111,051

Net sales of gas increased by RUB 37,817 million, or 1 %, to RUB 3,340,587 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The change was due to the growth in volumes of gas sold in all geographic segments and the growth in average US Dollar prices (including excise tax and customs duties) in the Former Soviet Union countries and Europe and Other countries, that was partially offset by the appreciation of the average exchange rate of Russian Ruble against US Dollar and Euro by 13 % and 11 %, respectively, for the year ended December 31, 2017 compared to the year ended December 31, 2016.

Net sales of gas to Europe and Other countries increased by RUB 81,190 million, or 4 %, to RUB 2,221,217 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The change was driven by the increase in volumes of gas sold by 6 %, or 13.7 bcm, that was partially

compensated by the 1 % decrease in average Russian Ruble prices (including excise tax and customs duties).

Net sales of gas to Former Soviet Union countries decreased by RUB 16,867 million, or 5 %, to RUB 292,777 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The change was due to the decrease in average Russian Ruble prices (including customs duties) by 10 % that was partially compensated by the increase in volumes of gas sold by 5 %, or 1.8 bcm.

Net sales of gas in the Russian Federation increased by RUB 55,761 million, or 7 %, to RUB 875,685 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. This change is mainly explained by the increase in volumes of gas sold by 7 %, or 15.0 bcm.

Net sales of refined products increased by RUB 189,528 million, or 13 %, to RUB 1,687,090 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase in sales of refined products was due to an increase in average prices.

Net sales of crude oil and gas condensate increased by RUB 128,000 million, or 31 %, to RUB 539,958 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase in sales of crude oil was mainly due to an increase in volumes of crude oil sold by Gazprom Neft Group to customers in Europe and Other countries and also due to an increase in average prices in all geographic segments.

Operating expenses increased by RUB 469,107 million, or 9 %, to RUB 5,714,090 million for the year ended December 31, 2017 compared to the year ended December 31, 2016.

The change in operating expenses is primarily explained by an increase in an item "Taxes other than on income" by RUB 345,662 million, or 38 % for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase is due to an increase in mineral extraction tax by RUB 301,566 million, or 49 %, for the year ended December 31, 2017 compared to the year ended December 31, 2016 mainly as a result of changes in the elements of the natural gas and crude oil MET formulas introduced with effect from January 1, 2017.

For the year ended December 31, 2017 the balance of translation differences reflected in "Net finance income (loss)" produced a loss in the amount of RUB 10,728 million compared to a gain of RUB 453,689 million for the year ended December 31, 2016. There were the depreciation of US Dollar against the Russian Ruble by 5 % and the appreciation of Euro against the Russian Ruble by 8 % for the reporting year compared to the depreciation of US Dollar and Euro against the Russian Ruble by 17 % and 20 %, respectively, for the prior year.

Profit attributable to the owners of PJSC Gazprom for the year ended December 31, 2017 amounted to RUB 714,302 million which is RUB 237,335 million, or 25 %, less than for the year ended December 31, 2016.

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 and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) increased by RUB 464,616 million, or 24 %, from RUB 1,932,895 million as of December 31, 2016 to RUB 2,397,511 million as of December 31, 2017. This increase was due to an increase in long-term borrowings.

More detailed information on the IFRS consolidated financial statements for the year ended December 31, 2017 can be found on the PJSC Gazprom's site (www.gazprom.ru).

INFORMATION DIRECTORATE, PJSC GAZPROM

www.gazprom.ru

Media

+7 812 609-34-21
+7 812 609-34-05
+7 812 609-34-31
+7 812 609-34-26

pr@gazprom.ru

Investment Community

+7 812 609-41-29

ir@gazprom.ru



PJSC GAZPROM

IFRS Consolidated Financial Statements with Independent Auditor's Report

31 December 2017

Moscow | 2018



Contents

Independent Auditor's Report	3
Consolidated balance sheet	8
Consolidated statement of comprehensive income	9
Consolidated statement of cash flows	10
Consolidated statement of changes in equity	11

Notes to the IFRS consolidated financial statements:

1	Nature of operations.....	12
2	Economic environment in the Russian Federation	12
3	Basis of presentation	12
4	Scope of consolidation.....	13
5	Summary of significant accounting policies	13
6	Critical judgements and estimates in applying accounting policies	25
7	Segment information	28
8	Cash and cash equivalents	31
9	Short-term financial assets.....	31
10	Accounts receivable and prepayments	32
11	Inventories	33
12	Other current and non-current assets.....	33
13	Property, plant and equipment.....	34
14	Goodwill.....	35
15	Investments in associates and joint ventures.....	36
16	Long-term accounts receivable and prepayments.....	39
17	Available-for-sale long-term financial assets.....	40
18	Accounts payable and provisions for liabilities and charges	41
19	Taxes and other payable	41
20	Short-term borrowings, promissory notes and current portion of long-term borrowings.....	41
21	Long-term borrowings, promissory notes	42
22	Profit tax.....	45
23	Derivative financial instruments.....	46
24	Provisions for liabilities and charges.....	46
25	Equity	49
26	Sales	50
27	Operating expenses.....	51
28	Finance income and expense	52
29	Reconciliation of profit, disclosed in consolidated statement of financial results, prepared in accordance with russian accounting rules (RAR) to profit disclosed in IFRS consolidated statement of comprehensive income.....	52
30	Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom.....	52
31	Net cash from operating activities	53
32	Subsidiaries	53
33	Non-controlling interest.....	56
34	Related parties.....	58
35	Commitments and contingencies	63
36	Operating risks	64
37	Financial risk factors.....	70
38	Fair value of financial instruments	75
39	Offsetting financial assets and financial liabilities.....	77
40	Post balance sheet events.....	77



Independent Auditor's Report

To the Shareholders 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 2017, 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with 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 appropriate.

We paid special attention to the analysis and testing of liabilities associated with gas price adjustments under long-term contracts and existing controls in this area. The amount of the estimated 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 high 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 paid special attention to testing impairment of the assets deployed under the projects the completion of which could not be assessed with a reasonable degree of reliability. Professional judgment about future cash flows which might be generated by such projects was one of the areas of increased attention of the auditor. In view of existing uncertainty associated with the implementation of the projects, we agree with the view of the management on the recognition and impairment of assets which do not have alternative use.

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.

Impairment of accounts receivable

One of high-risk audit areas is the evaluation of sufficiency of impairment allowance for accounts receivable. We assessed the assumptions and professional judgments applied by the Group’s management, including critical assessment of the information used by the Group to forecast the ability of its customers to repay their debts. We also performed procedures to evaluate controls over the recognition and repayment of the accounts receivable.

Based on the results of the procedures performed, we considered the criteria and assumptions applied by the management to accrue impairment allowance for accounts receivable to be appropriate.

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

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.

In 2017 and 2018, the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, made the decisions in respect of legal proceedings with NJSC Naftogaz of Ukraine, which were the most significant litigations of the Group.

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, including staff responsible for providing judicial and legal support to the Group in its activities, evaluation and testing of terms underlying the recognition of liabilities. Based on the results of the procedures performed, we considered the estimates and approaches applied by the management, including the procedure for recognition of liabilities in respect of the court decisions made on legal proceedings with NJSC Naftogaz of Ukraine, to be consistent and appropriate.

Information about liabilities accrued in respect of litigations is disclosed in Note 18 “Accounts payable and provisions for liabilities and chargers” 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 2017 and the Quarterly issuer’s report for the second quarter of 2018 but does not include the consolidated financial statements and our auditor’s report thereon. The Annual Report of PJSC Gazprom for 2017 and the Quarterly issuer’s report 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 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 2017 and the Quarterly issuer’s report for the second quarter of 2018, 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 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



Engagement partner

Date of the Independent Auditor's Report:
24 April 2018



S.M. Shapiguzov
(by virtue of the Charter,
audit qualification certificate
01-001230, ORNZ 21606043397)

K.S. Shirikova, ACCA
(audit qualification certificate
01-000712, ORNZ 21606042126)

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. 002.726, issued by Moscow Registration Chamber on 25 February 1993. The registration entry was made in the Unified State Register of Legal Entities on 02 August 2002 under principal state registration (OGRN) number 1027700070518.

Auditor

Name:

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

Address of the legal entity within its location:

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

Official registration:

State Registration Certificate series YZ 3 No. 484.583 RP issued by Moscow Registration Chamber on 15 November 1993. The registration entry was made in the Unified State Register of Legal Entities on 24 July 2002 under primary state registration number (OGRN) 1027700058286.

Membership in self-regulatory organization of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of self-regulatory organization of auditors:


Certificate of membership in the self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, number in the register – 11506030481.

PJSC GAZPROM
CONSOLIDATED BALANCE SHEET
AS OF 31 DECEMBER 2017
(in millions of Russian Rubles)

Notes

		31 December	
		2017	2016
Assets			
Current assets			
8	Cash and cash equivalents	869,007	896,728
	Restricted cash	2,943	3,471
9	Short-term financial assets	31,057	11,481
10	Accounts receivable and prepayments	1,122,724	1,084,967
11	Inventories	772,314	711,199
	VAT recoverable	119,881	195,033
12	Other current assets	<u>551,340</u>	<u>331,467</u>
		3,469,266	3,234,346
Non-current assets			
13	Property, plant and equipment	12,545,079	11,502,747
14	Goodwill	105,469	105,330
15	Investments in associates and joint ventures	867,445	730,149
16	Long-term accounts receivable and prepayments	669,286	710,747
17	Available-for-sale long-term financial assets	268,432	294,345
12	Other non-current assets	<u>313,793</u>	<u>341,274</u>
		14,769,504	13,684,592
Total assets		18,238,770	16,918,938
Liabilities and equity			
Current liabilities			
18	Accounts payable and provisions for liabilities and charges	1,378,182	1,197,005
	Current profit tax payable	59,922	62,479
19	Taxes and fees payable	276,607	215,244
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	<u>874,805</u>	<u>447,080</u>
		2,589,516	1,921,808
Non-current liabilities			
21	Long-term borrowings, promissory notes	2,391,713	2,382,543
24	Provisions for liabilities and charges	469,453	406,234
22	Deferred tax liabilities	699,413	688,503
	Other non-current liabilities	<u>73,194</u>	<u>78,011</u>
		3,633,773	3,555,291
Total liabilities		6,223,289	5,477,099
Equity			
25	Share capital	325,194	325,194
25	Treasury shares	(235,919)	(235,919)
25	Retained earnings and other reserves	<u>11,539,811</u>	<u>11,005,256</u>
		11,629,086	11,094,531
33	Non-controlling interest	<u>386,395</u>	<u>347,308</u>
		12,015,481	11,441,839
Total liabilities and equity		18,238,770	16,918,938


A.B. Miller
Chairman of the Management Committee
24 April 2018


E.A. Vasilieva
Chief Accountant
24 April 2018

The accompanying notes on pages 12 to 77 are an integral part of these consolidated financial statements.

PJSC GAZPROM
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

Notes		Year ended 31 December	
		2017	2016
26	Sales	6,546,143	6,111,051
	Net (loss) gain from trading activity	(16,352)	3,382
27	Operating expenses	(5,714,090)	(5,244,983)
27	Change in impairment and other provisions	<u>54,922</u>	<u>(143,870)</u>
	Operating profit	870,623	725,580
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15	Share of other comprehensive income (loss) of associates and joint ventures	2,967	(6,397)
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		771,269	837,451
30	Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)	32.32	42.19

A.B. Miller
Chairman of the Management Committee
24 April 2018


E.A. Vasilieva
Chief Accountant
24 April 2018

The accompanying notes on pages 12 to 77 are an integral part of these consolidated financial statements.

PJSC GAZPROM
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

Notes		Year ended 31 December	
		2017	2016
	Cash flows from operating activities		
31	Net cash from operating activities	1,187,022	1,571,323
	Cash flows from investing activities		
	Capital expenditures	(1,405,780)	(1,369,052)
	Interest paid and capitalised	(127,159)	(132,477)
	Net change in loans issued	18,788	(9,627)
	Acquisition of subsidiaries, net of cash acquired	(16)	(1,113)
	Investments in associates and joint ventures	(97,238)	(3,359)
	Interest received	75,547	119,460
	Change in available-for-sale long-term financial assets	(13,673)	13,451
	Proceeds from associates and joint ventures	87,197	62,461
	Proceeds from the sale of associates	559	22,801
	Placement of long-term bank deposits	(2,586)	(142,374)
	Repayment of long-term bank deposits	100,000	85
	Other	(3,770)	(6,221)
	Net cash used in investing activities	(1,368,131)	(1,445,965)
	Cash flows from financing activities		
37	Proceeds from long-term borrowings	933,987	548,623
37	Repayment of long-term borrowings (including current portion of long-term borrowings)	(592,056)	(653,092)
37	Proceeds from short-term borrowings	74,576	124,783
37	Repayment of short-term borrowings	(40,035)	(110,291)
37	Dividends paid	(191,875)	(186,337)
37	Interest paid	(34,296)	(50,835)
25	Acquisition of treasury shares	-	(132,000)
	Acquisition of non-controlling interest in subsidiaries	(885)	(124)
	Issue of shares acquired by non-controlling interests	-	450
	Change in restricted cash	528	(1,656)
	Net cash from (used in) financing activities	149,944	(460,479)
	Effect of foreign exchange rate changes on cash and cash equivalents	3,444	(127,246)
	Decrease in cash and cash equivalents	(27,721)	(462,367)
8	Cash and cash equivalents at the beginning of the reporting year	896,728	1,359,095
8	Cash and cash equivalents at the end of the reporting year	869,007	896,728


A.B. Miller
Chairman of the Management Committee
24 April 2018



E.A. Vasilieva
Chief Accountant
24 April 2018

The accompanying notes on pages 12 to 77 are an integral part of these consolidated financial statements.

PJSC GAZPROM
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in millions of Russian Rubles)

Notes		Number of shares out- standing (billions)	Attributable to the owners of PJSC Gazprom			Total	Non- controlling interest	Total equity
			Share capital	Treasury shares	Retained earnings and other reserves			
	Balance as of 31 December 2015	23.0	325,194	(103,919)	10,368,311	10,589,586	325,036	10,914,622
33	Profit for the year	-	-	-	951,637	951,637	45,467	997,104
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	-	-	-	33,110	33,110	8	33,118
	Gain arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	62,132	62,132	1	62,133
	Share of other comprehensive loss of associates and joint ventures	-	-	-	(6,397)	(6,397)	-	(6,397)
25, 33	Translation differences	-	-	-	(281,414)	(281,414)	(16,289)	(297,703)
33	Gain from cash flow hedges, net of tax	-	-	-	47,835	47,835	1,361	49,196
	Total comprehensive income for the year ended 31 December 2016	-	-	-	806,903	806,903	30,548	837,451
	Change in non-controlling interest in subsidiaries	-	-	-	4,437	4,437	3,451	7,888
25	Return of social assets to governmental authorities	-	-	-	(23)	(23)	-	(23)
25, 34	Treasury shares	(0.9)	-	(132,000)	-	(132,000)	-	(132,000)
25, 33	Dividends declared	-	-	-	(174,372)	(174,372)	(11,727)	(186,099)
	Balance as of 31 December 2016	22.1	325,194	(235,919)	11,005,256	11,094,531	347,308	11,441,839
33	Profit for the year	-	-	-	714,302	714,302	52,577	766,879
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	-	-	-	(4,982)	(4,982)	(82)	(5,064)
	Loss arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	(30,397)	(30,397)	(7)	(30,404)
	Share of other comprehensive income of associates and joint ventures	-	-	-	2,967	2,967	-	2,967
25, 33	Translation differences	-	-	-	16,145	16,145	7,145	23,290
33	Gain from cash flow hedges, net of tax	-	-	-	12,805	12,805	796	13,601
	Total comprehensive income for the year ended 31 December 2017	-	-	-	710,840	710,840	60,429	771,269
33	Change in non-controlling interest in subsidiaries	-	-	-	1,413	1,413	(2,963)	(1,550)
25	Return of social assets to governmental authorities	-	-	-	(18)	(18)	-	(18)
25, 33	Dividends declared	-	-	-	(177,680)	(177,680)	(18,379)	(196,059)
	Balance as of 31 December 2017	22.1	325,194	(235,919)	11,539,811	11,629,086	386,395	12,015,481


A.B. Miller
Chairman of the Management Committee
24 April 2018


E.A. Vasilieva
Chief Accountant
24 April 2018

The accompanying notes on pages 12 to 77 are an integral part of these consolidated financial statements.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

The weighted average number of employees during 2017 and 2016 was 463 thousand and 456 thousand, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

- as of 31 December 2017 – 57.6002;
- as of 31 December 2016 – 60.6569 (as of 31 December 2015 – 72.8827).

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

- as of 31 December 2017 – 68.8668;
- as of 31 December 2016 – 63.8111 (as of 31 December 2015 – 79.6972).

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

3 BASIS OF PRESENTATION

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

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

3 BASIS OF PRESENTATION (continued)

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

4 SCOPE OF CONSOLIDATION

As described in Note 5, the consolidated financial statements include consolidated subsidiaries, associates, joint ventures and operation of the Group. There were no significant changes in the Group's structure in 2017 and 2016.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Group accounting

Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

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

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

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

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

Goodwill and non-controlling interest

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

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

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 by the joint operation; and its expenses, including its share of any expenses incurred jointly.

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

Associates

Associates are entities over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint arrangement. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associates are accounted for using the equity method. The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised gains are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

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

5.2 Financial instruments

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

Accounting for financial guarantee contracts

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

Fair value disclosure

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 Derivative financial instruments

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

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

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

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

5.4 Hedge accounting

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

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

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

5.5 Non-derivative financial assets

The Group classifies its financial assets in the following categories:

(a) financial assets at fair value through profit or loss;

(b) available-for-sale financial assets; and

(c) loans and receivables.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial assets at fair value through profit or loss of the consolidated statement of comprehensive income

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

There were no material financial assets designated at the fair value through profit or loss at inception as of 31 December 2017 and 31 December 2016.

(b) Available-for-sale financial assets

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

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

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

(c) Loans and receivables

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

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

Impairment of financial assets

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.6 Options on purchase or sale of financial assets

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

5.7 Cash and cash equivalents and restricted cash

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

5.8 Value added tax

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

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

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

5.9 Mineral extraction tax

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

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

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

5.10 Customs duties

The export of hydrocarbons, including natural gas and crude oil, outside of the Customs union, which includes the Russian Federation, Belarus and Kazakhstan, is subject to export customs duties. According to the Decree of the Government of the Russian Federation No.754 dated 30 August 2013 export of natural gas outside the boundaries of the Customs union is subject to a fixed 30 % export customs duty rate levied on the customs value of the exported natural gas.

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

Revenues are recognised net of the amount of custom duties.

5.11 Excise tax

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

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

5.12 Inventories

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

5.13 Property, plant and equipment

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

5.14 Impairment of non-current non-financial assets

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

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.15 Borrowings

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

5.16 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred income tax is provided on all temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

5.17 Foreign currency transactions

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

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

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

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

5.18 Provisions for liabilities and charges

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.19 Equity

Treasury shares

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

Dividends

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

5.20 Revenue recognition

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

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

Prices for natural gas and tariffs for transportation of gas to final consumers in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS"). Prices for gas sold to European countries are mainly calculated by a formula based on the number of oil product prices, in accordance with the terms of long-term contracts. Gas prices that are being implemented in countries of the former Soviet Union are defined in various ways, including using formulas similar to those used in contracts with European buyers.

Net gain (loss) from trading activity

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

5.21 Interest

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

5.22 Research and development

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

5.23 Employee benefits

Pension and other post-retirement benefits

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accrued and charged to staff expenses within operating expenses in the consolidated statement of comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees. The post-employment benefit obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability.

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

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

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

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

Social expenses

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

5.24 Recent accounting pronouncements

Application of new IFRSs

A number of amendments to current IFRSs became effective for the periods beginning on or after 1 January 2017:

- The amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).

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

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

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2018. In particular, the Group has not early adopted the standards and amendments:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.
- 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.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.
- 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 part of the net investment in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- 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 Group is currently assessing the impact of the amendments on its financial position and results of operations.

Standards that are not yet effective and have not been early adopted by the Group

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

IFRS 9 Financial Instruments combine the three phases of the financial instruments project: classification and measurement, impairment and hedge accounting. The Group plans to apply the new standard starting from its effective date. The Group has performed detailed assessment of all three parts of IFRS 9 Financial Instruments. This assessment is based on the currently available information and may be modified after receipt of additional valid and justifiable information, which will become available in 2018 when the Group starts application of IFRS 9 Financial Instruments.

a) Classification and measurement of financial assets

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value with changes recognised in other comprehensive income, and measured at fair value with changes recognised in profit or loss.

Classification of debt instruments depends on the entity's business model applied to manage financial assets and on whether the contractual cash flows are just payments of principal and interest. The Group's accounts receivable and loans granted are mainly held to obtain contractual cash flows and it is expected that they will result in cash flows being payments of principal and interest. The Group has analysed characteristics of contractual cash flows in respect of these instruments and come to a conclusion that they continue to meet the criteria for measurement at amortised cost in accordance with the requirements of IFRS 9 Financial Instruments. Financial assets that do not contain cash flows being payments of principal and interest shall be measured at fair value with changes recognised in profit or loss. Such instruments include the Group's derivative financial instruments and financial instruments held for trading. The Group has analysed characteristics of contractual cash flows in respect of these instruments and come to a conclusion that they continue to meet the criteria for measurement at fair value in accordance with the requirements of IFRS 9 Financial Instruments. According to the Group's assessment, classification and measurement of debt financial assets in accordance with the requirements of IFRS 9 Financial Instruments as at 1 January 2018 will not have a significant effect on the consolidated financial statements.

Investments in equity instruments shall always be measured at fair value. However, management can make an irrevocable decision to recognise changes in fair value in other comprehensive income if the instrument is not held for trading. If an equity instrument is held for trading, changes in fair value are recognised in profit or loss. The Group's management has made a decision to recognise changes in fair value of the majority of equity instruments in other comprehensive income. Other comprehensive income / expense from changes in fair value of such instruments shall not be subsequently reclassified to profit or loss.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Impairment of financial assets

IFRS 9 Financial Instruments sets out a new expected credit loss impairment model, which replaces the existing incurred loss model in IAS 39 Financial Instruments: Recognition and Measurement. Application of the new model requires significant professional judgements from the Group to determine how changes in economic factors affect expected credit losses determined as the probability-weighted estimate of credit losses.

The new impairment model will be applied to financial assets measured at amortised cost or at fair value through other comprehensive income, expect for investments in equity instruments, and to contract assets.

In accordance with IFRS 9 Financial Instruments, expected credit loss allowances will be measured using one of the following methods:

- based on 12-month expected credit losses. These are the expected credit losses that result from default events that are possible within 12 months after the reporting date;
- based on lifetime expected credit losses. These are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

For trade receivables or contract assets that do not contain a significant financing component, measurement at an amount equal to lifetime ECL shall be applied. The Group has selected the same accounting approach for trade receivables and contract assets that contain a significant financing component.

According to the Group's preliminary assessment, application of the impairment requirements of IFRS 9 Financial Instruments as at 1 January 2018 will not result in recognition of significant additional losses.

c) Classification of financial liabilities

IFRS 9 Financial Instruments is consistent with the significant requirements of IAS 9 Financial Instruments: Recognition and Measurement related to classification of financial liabilities. At the same time, in accordance with IAS 9 Financial Instruments: Recognition and Measurement all changes in fair value of financial liabilities classified as measured at fair value through profit or loss are recognised in profit or loss, while in accordance with IFRS 9 Financial Instruments such changes are generally recognised as follows:

- the amount of the change in the financial liability's fair value attributable to changes in the credit risk is recognised in other comprehensive income;
- the remaining amount of change in fair value is recognised in profit or loss.

The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss and it does not currently intend to do so. According to the Group's assessment, classification of financial liabilities as at 1 January 2018 will not have a significant effect on the consolidated financial statements.

d) Hedge accounting

New hedge accounting rules continue to identify three types of hedging relationships set in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 Financial Instruments contains softer rules for the possibility to apply hedge accounting to various transactions, extended list of financial instruments that can be recognised as hedging instrument and extended list of components of non-financial items that can be hedged. In addition, a hedge effectiveness test is replaced with a test of economic relationship. Retrospective effectiveness testing is no longer required. The standard introduces extensive new disclosure requirements for risk management. The Group's management has made a decision to apply the hedge accounting requirements of IFRS 9 Financial Instruments. According to the Group's assessment, hedge accounting in accordance with the new requirements as at 1 January 2018 will not have a significant effect on the consolidated financial statements.

The Group will use an option not to restate prior periods in respect of changes in classification and measurement (including impairment) of financial instruments. Any difference between the previous carrying amount of instruments and their carrying amount in accordance with IFRS 9 Financial Instruments will be generally recognised in retained earnings and other reserves of the Group as at 1 January 2018.

Thus, the Group does not expect significant effects of the new requirements of IFRS 9 Financial Instruments on the consolidated financial statements.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed. To assess the impact of IFRS 15 on the consolidated financial statements, the Group

reviewed the major contracts with customers. Based on the analysis, the Group does not expect the standard to have a significant impact on its consolidated financial statements.

IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).

The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application of IFRS 15 Revenue from Contracts with Customers. The Group is currently assessing the impact of the adoption of the standard on the consolidated financial statements.

6 CRITICAL JUDGEMENTS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from management estimates, and management estimates can be revised in the future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each estimate.

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

6.1 Consolidation of subsidiaries

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

6.2 Tax legislation and uncertain tax positions

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 36).

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

6.3 Assumptions to determine amount of provisions

Impairment allowance for accounts receivable

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

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

Impairment of Property, plant and equipment and Goodwill

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

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

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

Accounting for provisions

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

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

6.4 Site restoration and environmental costs

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

6.5 Useful lives of Property, plant and equipment

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

Were the estimated useful lives to decrease by 10 % or increase by 10 % from management's estimates, the impact on depreciation for the year ended 31 December 2017 would be an increase by RUB 66,851 million or a decrease by RUB 54,696 million (2016: increase by RUB 63,429 million or a decrease by RUB 51,896 million).

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

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

6.6 Fair value estimation for financial instruments

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy). Contracts that are valued based on non-observable market data belong to Level 3 in accordance with the valuation hierarchy. Management's best estimates based on internally developed models are used for the valuation. Where the valuation technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 38).

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

6.7 Fair value estimation for acquisitions

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

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

6.8 Accounting for plan assets and pension liabilities

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

6.9 Joint Arrangements

Upon adopting of IFRS 11 Joint Arrangements the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures, except for its investments in Blue Stream Pipeline Company B.V., Moravia Gas Storage a.s., Podzemno skladiste 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.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

7 SEGMENT INFORMATION

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

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

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

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

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

The inter-segment sales mainly consist of:

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

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

7 SEGMENT INFORMATION (continued)

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Year ended									
31 December 2017									
Total segment revenues	989,961	1,163,097	3,585,422	56,250	1,176,672	1,695,205	503,819	372,225	9,542,651
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
Segment result	43,920	55,068	(27,885)	5,565	265,308	76,073	49,925	51,268	519,242
Depreciation	192,460	513,940	18,126	27,104	117,071	48,555	48,435	38,329	1,004,020
Share of net income of associates and joint ventures	6,525	20,120	1,907	180	85,911	2,905	116	9,276	126,940
Year ended									
31 December 2016									
Total segment revenues	745,972	1,051,683	3,531,666	53,843	1,005,690	1,506,457	481,716	345,925	8,722,952
Inter-segment sales	723,169	852,712	251,699	48,275	593,732	8,895	-	-	2,478,482
External sales	22,803	198,971	3,279,967	5,568	411,958	1,497,562	481,716	345,925	6,244,470
Segment result	14,909	5,454	125,649	7,247	68,478	85,161	40,762	16,108	363,768
Depreciation	170,794	456,377	19,609	25,226	102,147	50,587	45,826	38,082	908,648
Share of net income (loss) of associates and joint ventures	8,157	26,233	4,577	(2,774)	37,293	5,132	34	4,220	82,872

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

Notes	Year ended 31 December	
	2017	2016
Segment result for reportable segments	467,974	347,660
Other segments' result	51,268	16,108
Segment result	519,242	363,768
Difference in depreciation ¹	390,860	337,084
Expense associated with pension obligations	(8,967)	(12,992)
28 Net finance income	19,661	475,627
Gain on disposal of available-for-sale financial assets	782	1,059
15 Share of net income of associates and joint ventures	126,940	82,872
27 Derivatives gain (loss)	18,344	(9,863)
Other	(48,856)	47,583
Profit before profit tax	1,018,006	1,285,138

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

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

	Year ended 31 December	
	2017	2016
External sales for reportable segments	6,310,768	5,898,545
External sales for other segments	372,225	345,925
Total external segment sales	6,682,993	6,244,470
Differences in external sales ¹	(136,850)	(133,419)
Total sales per the consolidated statement of comprehensive income	6,546,143	6,111,051

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

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

7 SEGMENT INFORMATION (continued)

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 31 December 2017									
Segment assets	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 additions	216,450	498,550	51,675	37,694	330,424	225,240	58,110	86,457	1,504,600
As of 31 December 2016									
Segment assets	2,636,296	6,596,937	1,557,089	393,482	2,310,960	1,361,161	990,120	937,460	16,783,505
Investments in associates and joint ventures	28,007	131,006	29,701	155	427,432	22,353	1,258	90,237	730,149
Capital additions	235,161	406,828	41,785	35,542	326,366	193,243	63,485	54,926	1,357,336

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

Notes	31 December	
	2017	2016
Segment assets for reportable segments	16,516,348	15,846,045
Other segments' assets	1,131,509	937,460
Total segment assets	17,647,857	16,783,505
Differences in property, plant and equipment, net ¹	(1,967,878)	(2,361,075)
13 Borrowing interest capitalised	714,392	623,101
8 Cash and cash equivalents	869,007	896,728
Restricted cash	2,943	3,471
9 Short-term financial assets	31,057	11,481
VAT recoverable	119,881	195,033
Other current assets	551,340	331,467
17 Available-for-sale long-term financial assets	268,432	294,345
14 Goodwill	105,469	105,330
Other non-current assets	313,793	341,274
Inter-segment assets	(742,369)	(597,369)
Other	324,846	291,647
Total assets per the consolidated balance sheet	18,238,770	16,918,938

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

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

Segment liabilities are provided in the table below.

	31 December	
	2017	2016
Distribution of gas	841,444	636,223
Refining	335,114	337,711
Production of gas	329,521	279,091
Transportation	306,235	336,235
Production of crude oil and gas condensate	213,298	139,909
Electric and heat energy generation and sales	82,315	86,511
Gas storage	9,154	8,401
Other segments	287,029	131,742
Total segment liabilities	2,404,110	1,955,823

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

7 SEGMENT INFORMATION (continued)

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

Notes	31 December	
	2017	2016
Segment liabilities for reportable segments	2,117,081	1,824,081
Other segments' liabilities	287,029	131,742
Total segment liabilities	2,404,110	1,955,823
Current profit tax payable	59,922	62,479
20 Short-term borrowings, promissory notes and current portion of long-term borrowings	874,805	447,080
21 Long-term borrowings, promissory notes	2,391,713	2,382,543
Provisions for liabilities and charges	288,903	263,162
22 Deferred tax liabilities	699,413	688,503
Other non-current liabilities	73,194	78,011
Dividends	5,099	3,029
Inter-segment liabilities	(742,369)	(597,369)
Other	168,499	193,838
Total liabilities per the consolidated balance sheet	6,223,289	5,477,099

8 CASH AND CASH EQUIVALENTS

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

31 December	
2017	2016
Cash on hand and bank balances payable on demand	508,585
Term deposits with original maturity of three months or less	360,422
Total cash and cash equivalents	869,007

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

31 December	
2017	2016
Cash on hand	1,015
External credit rating of A-3 and above	113,522
External credit rating of B	579,989
No external credit rating	174,481
Total cash and cash equivalents	869,007

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BB+ as of 31 December 2017 and 31 December 2016, however the outlook has changed from stable to positive.

9 SHORT-TERM FINANCIAL ASSETS

31 December	
2017	2016
Financial assets held for trading:	30,964
Bonds	30,758
Equity securities	206
Available-for-sale financial assets:	93
Promissory notes	93
Total short-term financial assets	31,057

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

31 December	
2017	2016
External credit rating of A-3 and above	-
External credit rating of B	25,557
No external credit rating	5,294
	30,851

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2017	2016
Financial assets		
Trade receivables	758,150	731,566
Short-term loans	149,302	142,068
Other receivables	<u>136,980</u>	<u>134,352</u>
	1,044,432	1,007,986
Non-financial assets		
Advances and prepayments	<u>78,292</u>	<u>76,981</u>
Total accounts receivable and prepayments	1,122,724	1,084,967

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

Trade receivables are presented net of impairment allowance of RUB 752,629 million and RUB 831,164 million as of 31 December 2017 and 31 December 2016, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million and RUB nil million net of impairment allowance of RUB 80,231 million and RUB 188,307 million as of 31 December 2017 and 31 December 2016, respectively.

Short-term loans are presented net of impairment allowance of RUB 8,534 million and RUB 9,264 million as of 31 December 2017 and 31 December 2016, respectively.

Other receivables are presented net of impairment allowance of RUB 20,815 million and RUB 16,950 million as of 31 December 2017 and 31 December 2016, respectively.

Advances and prepayments are presented net of impairment allowance of RUB 12,542 million and RUB 11,074 million as of 31 December 2017 and 31 December 2016, respectively.

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

	31 December	
	2017	2016
Short-term trade receivables neither past due nor impaired	654,381	614,543
Short-term trade receivables past due and impaired	768,010	855,687
Allowance for impairment at the end of the year	(752,629)	(831,164)
Short-term trade receivables past due but not impaired	<u>88,388</u>	<u>92,500</u>
Total short-term trade receivables	758,150	731,566

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

	31 December	
	2017	2016
Europe and other countries gas, crude oil, gas condensate and refined products receivables	376,543	303,516
Domestic gas, crude oil, gas condensate and refined products receivables	158,288	171,165
Former Soviet Union countries (excluding the Russian Federation) gas, crude oil, gas condensate and refined products receivables	9,346	14,504
Electricity and heat trade receivables	54,671	50,661
Gas transportation services receivables	4,087	5,222
Other trade receivables	<u>51,446</u>	<u>69,475</u>
Total trade receivables neither past due nor impaired	654,381	614,543

As of 31 December 2017 and 31 December 2016 the individually impaired receivables mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the receivables will be ultimately recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value		Allowance for impairment		Net book value	
	31 December		31 December		31 December	
	2017	2016	2017	2016	2017	2016
Up to 6 months	66,292	68,509	(59,403)	(62,053)	6,889	6,456
From 6 to 12 months	64,832	79,045	(60,384)	(69,938)	4,448	9,107
From 1 to 3 years	193,191	330,717	(189,842)	(322,184)	3,349	8,533
More than 3 years	<u>443,695</u>	<u>377,416</u>	<u>(443,000)</u>	<u>(376,989)</u>	<u>695</u>	<u>427</u>
	768,010	855,687	(752,629)	(831,164)	15,381	24,523

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

10 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

	Trade receivables		Other receivables	
	Year ended 31 December		Year ended 31 December	
	2017	2016	2017	2016
Allowance for impairment at the beginning of the year	831,164	839,123	16,950	24,118
Allowance for impairment accrued ¹	106,714	130,084	13,307	7,064
Write-off of receivables during the year ²	(5,192)	(10,099)	(1,444)	(3,948)
Release of previously created allowance ¹	(150,683)	(24,369)	(7,983)	(8,315)
Reclassification to other lines	(5,649)	-	-	-
Translation differences	(23,725)	(103,575)	(15)	(1,969)
Allowance for impairment at the end of the year	752,629	831,164	20,815	16,950

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

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

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

Ageing from the due date	31 December	
	2017	2016
Up to 6 months	63,172	57,727
From 6 to 12 months	9,771	21,915
From 1 to 3 years	7,968	4,504
More than 3 years	7,477	8,354
	88,388	92,500

11 INVENTORIES

	31 December	
	2017	2016
Gas in pipelines and storage	475,233	430,720
Materials and supplies (net of allowance for inventory obsolescence of RUB 3,789 million and RUB 3,370 million as of 31 December 2017 and 31 December 2016, respectively)	157,348	169,486
Goods for resale (net of allowance for inventory obsolescence of RUB 1,185 million and RUB 831 million as of 31 December 2017 and 31 December 2016, respectively)	31,280	21,955
Crude oil and refined products	108,453	89,038
Total inventories	772,314	711,199

12 OTHER CURRENT AND NON-CURRENT ASSETS

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RUB 150,511 million and RUB 97,869 million and profit tax in the amount of RUB 6,271 million and RUB 12,916 million as of 31 December 2017 and 31 December 2016, respectively. Other current assets include short-term deposits in the amount of RUB 327,969 million and RUB 144,035 million as of 31 December 2017 and 31 December 2016, respectively.

As of 31 December 2017 and 31 December 2016 other non-current assets include:

- intangible assets in the amount of RUB 52,174 million and RUB 46,126 million;
- VAT recoverable related to assets under construction totalling RUB 36,681 million and RUB 35,702 million;
- net pension assets in the amount of RUB 27,173 million and RUB 20,499 million (see Note 24);
- long-term deposits in the amount of RUB 1,559 million and RUB 42,230 million.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

13 PROPERTY, PLANT AND EQUIPMENT

Notes	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
As of 31 December 2015								
Cost	3,623,972	1,587,322	4,177,710	3,333,173	597,696	96,323	2,516,619	15,932,815
Accumulated depreciation	(1,334,810)	(576,199)	(1,706,861)	(1,042,050)	(230,793)	(38,221)	-	(4,928,934)
Net book value as of 31 December 2015	2,289,162	1,011,123	2,470,849	2,291,123	366,903	58,102	2,516,619	11,003,881
Depreciation	(88,376)	(64,499)	(282,495)	(119,411)	(13,466)	(2,614)	-	(570,861)
Additions	48	51,071	20,819	10,862	28,259	199	1,348,489	1,459,747
Translation differences	(5,582)	(45,420)	(33,945)	(27,067)	(13,006)	(101)	(52,349)	(177,470)
Transfers	134,715	176,390	449,665	330,898	1,249	1,933	(1,094,850)	-
Disposals	(1,279)	(14,660)	(13,646)	(22,468)	(571)	(3,125)	(77,438)	(133,187)
27 Change in impairment allowance	-	(14,763)	-	-	(1,975)	-	(62,625)	(79,363)
Net book value as of 31 December 2016	2,328,688	1,099,242	2,611,247	2,463,937	367,393	54,394	2,577,846	11,502,747
As of 31 December 2016								
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)
Net book value as of 31 December 2016	2,328,688	1,099,242	2,611,247	2,463,937	367,393	54,394	2,577,846	11,502,747
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
Net book value as of 31 December 2017	2,344,626	1,240,632	2,657,663	2,506,975	356,733	53,455	3,384,995	12,545,079
As of 31 December 2017								
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)
Net book value as of 31 December 2017	2,344,626	1,240,632	2,657,663	2,506,975	356,733	53,455	3,384,995	12,545,079

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.

Operating property, plant and equipment are shown net of allowance for impairment of RUB 157,849 million and RUB 203,476 million as of 31 December 2017 and 31 December 2016, respectively.

As of 31 December 2017 the Group conducted impairment tests of assets assessing where the carrying amount of each cash-generating unit 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 production areas, including gas production, production of crude oil and gas condensate, refining, electric and heat energy generation and sales. In the gas production, 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 used in the impairment tests has been determined on the basis of the values in use of such assets. The values in use of cash-generating units have been calculated as the present values of projected 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 used discount rates ranging from 10.66 % to 12.42 %. Cash flows are projected based on actual operating results, business plans and long-term development program. The cash flow projections cover periods commensurate with expected 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.

Based on the results of the impairment test the Group recognised an impairment release of RUB 38,909 million for oil production assets, which was primarily due to a decrease in discount rates and

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

13 PROPERTY, PLANT AND EQUIPMENT (continued)

stabilisation of oil prices.

As of 31 December 2017 the test did not reveal any impairment of the cash-generating units relating to production of gas, refining and electric and heat energy generation.

However, the Group recognised an impairment loss in respect of certain assets, including oil production assets in Iraq in the amount of RUB 256 million and gas production assets in Europe in the amount of RUB 1,013 million as of 31 December 2017. As of 31 December 2016 the Group recognised an impairment loss of oil production assets in Iraq in the amount of RUB 14,763 million.

Assets under construction are presented net of allowance for impairment of RUB 185,145 million and RUB 167,546 million as of 31 December 2017 and 31 December 2016, respectively. Charges for impairment allowance of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefits.

Due to the suspension of the implementation of the project "South Stream" and the commencement of the implementation of the project "TurkStream" the Group recognised impairment losses in respect of facilities under construction in the amount of RUB 49,617 million and RUB 45,978 million as of 31 December 2017 and 31 December 2016, respectively.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RUB 148 million and RUB 200 million as of 31 December 2017 and 31 December 2016, respectively.

Included in additions above are capitalized borrowing costs of RUB 152,628 million and RUB 132,477 million for the years ended 31 December 2017 and 31 December 2016, respectively. Capitalization rates of 6.18 % and 5.75 % were used representing the weighted average borrowing cost including exchange losses on foreign currency borrowings for the years ended 31 December 2017 and 31 December 2016, respectively. Capitalization rates excluding exchange losses on foreign currency borrowings were 5.76 % and 5.75 % for the years ended 31 December 2017 and 31 December 2016, respectively.

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

	Year ended 31 December	
	2017	2016
Exploration and evaluation assets at the beginning of the year	298,488	290,945
Additions	49,008	42,303
Translation differences	(1,006)	(10,165)
Reclassification	(35,632)	(18,163)
Disposals	(29,701)	(6,432)
Exploration and evaluation assets at the end of the year	281,157	298,488

14 GOODWILL

Change in the Group's goodwill on subsidiaries is as follows:

	Year ended 31 December	
	2017	2016
Goodwill at the beginning of the year	105,330	107,467
Additions	187	-
Translation differences	(46)	(2,132)
Disposals	(2)	(5)
Goodwill at the end of the year	105,469	105,330

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

	31 December	
	2017	2016
Gas production, transportation and distribution	44,104	44,103
Production of crude oil and gas condensate	32,852	32,901
Electric and heat energy generation and sales	28,513	28,326
Total goodwill	105,469	105,330

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

14 GOODWILL (continued)

As of 31 December 2017 and 31 December 2016 the Group did not identify any indicators for recognising an impairment loss in relation to goodwill.

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of		Share of the income (loss) of associates and joint ventures for the year ended	
			31 December	31 December	31 December	31 December
			2017	2016	2017	2016
34	Sakhalin Energy Investment Company Ltd.	Associate	169,242	185,013	43,846	13,893
34, 35	Gazprombank (Joint-stock Company) and its subsidiaries ¹	Associate	145,603	77,109	9,473	5,311
34	OJSC NGK Slavneft and its subsidiaries	Joint venture	140,548	129,082	7,122	10,509
34	LLC Yamal razvitie and its subsidiaries	Joint venture	105,157	86,600	19,861	14,472
34	Nord Stream AG	Joint venture	79,288	63,319	14,867	17,307
34	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	45,436	40,510	5,552	8,149
34	JSC Achimgaz	Joint venture	33,509	32,043	8,768	10,221
34, 35	JSC EUROPOL GAZ	Associate	29,588	26,387	(506)	770
34	JSC Messoyakhaneftegaz	Joint venture	17,965	353	9,976	(947)
34	Wintershall AG	Associate	15,645	14,233	256	(2,746)
34	CJSC Northgas	Joint venture	12,786	11,735	3,434	3,009
34	KazRosGas LLP	Joint venture	9,435	14,470	1,544	3,601
34	Wintershall Noordzee B.V.	Joint venture	6,532	6,862	207	(1,650)
34	JSC Latvijas Gaze and its subsidiaries ^{2,3}	Associate	3,439	6,588	580	993
	Other (net of allowance for impairment of RUB 21,795 million and RUB 10,755 million as of 31 December 2017 and 31 December 2016, respectively)		<u>53,272</u>	<u>35,845</u>	<u>1,960</u>	<u>(20)</u>
			867,445	730,149	126,940	82,872

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

² The Extraordinary Meeting of Shareholders of JSC Latvijas Gaze, held on 2 September 2016, decided to reorganize the company by separation of natural gas transportation and storage activities via establishing JSC Conexus Baltic Grid (the Group's equity interest is 34 %). JSC Conexus Baltic Grid was registered on 2 January 2017. As of 31 December 2017 investment in JSC Conexus Baltic Grid was reclassified from other investments in associates into available-for-sale long-term financial assets due to loss of control.

³ To complete the liberalization process of the Latvian gas market shareholders of JSC Latvijas Gaze at the foundation meeting on 22 November 2017 took decision to reorganize the company by separation of JSC Gaso, a 100% subsidiary, to which natural gas distribution business was transferred.

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

	Year ended 31 December	
	2017	2016
Balance at the beginning of the year	730,149	808,246
Share of net income of associates and joint ventures	126,940	82,872
Distributions from associates and joint ventures	(88,105)	(64,535)
Share of other comprehensive income (loss) of associates and joint ventures	2,967	(6,397)
Translation differences	4,831	(83,043)
Other acquisitions and disposals	<u>90,663</u>	<u>(6,994)</u>
Balance at the end of the year	867,445	730,149

Other acquisitions and disposals increased by the acquisition of Gazprombank (Joint-stock Company) ordinary shares as a result of additional issue of shares.

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

	31 December	
	2017	2016
JSC Latvijas Gaze	9,349	7,594

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Significant associates and joint ventures

	Country of primary operations	Country of incorporation	Nature of operations	Percent of ordinary shares held as of 31 December ¹	
				2017	2016
JSC Achimgaz	Russia	Russia	Exploration and production of gas	50	50
Bosphorus Gaz Corporation A.S. ²	Turkey	Turkey	and gas condensate Gas distribution	71	71
WIGA Transport Beteiligungs- GmbH & Co. KG	Germany	Germany	Gas transportation	50	50
Wintershall AG	Libya	Germany	Production of oil and gas distribution	49	49
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company)	Russia	Russia	Banking	48	37
JSC EUROPOL GAZ	Poland	Poland	Transportation and gas distribution	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 distribution	50	50
Nord Stream AG ²	Russia, Germany	Switzerland	Gas transportation	51	51
CJSC Northgas	Russia	Russia	Exploration and sales of gas and gas condensate	50	50
Panrusgas Gas Trading Plc	Hungary	Hungary	Gas distribution	40	40
Prometheus Gas S.A.	Greece	Greece	Gas distribution, construction	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Oil production, production of LNG	50	50
OJSC NGK Slavneft	Russia	Russia	Production, processing and sales of oil	50	50
LLC Yamal razvitie	Russia	Russia	Investment activities, assets management	50	50

¹ Cumulative share of the Group in charter capital of investees.

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

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

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

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	OJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries¹	Sakhalin Energy Investment Company Ltd.
<u>As of and for the year ended 31 December 2017</u>			
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>
Total assets	489,098	5,439,664	944,134
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>
Total liabilities	210,804	4,957,243	605,649
Net assets (including non-controlling interest)	278,294	482,421	338,485
Percent of ordinary shares held	50 %	48 %	50 %
Carrying value	140,548	145,603	169,242
Revenue	241,253	244,194	314,932
Depreciation	(44,453)	(42,011)	(114,681)
Interest income	989	365,335	1,682
Interest expense	(6,781)	(233,818)	(11,330)
Profit tax expense	<u>(4,429)</u>	<u>(9,343)</u>	<u>(46,210)</u>
Profit for the year	15,179	35,493	87,692
Other comprehensive income for the year	59	1,757	1,382
Total comprehensive income for the year	15,238	37,250	89,074
Dividends received from associates and joint ventures	-	(3,398)	(51,221)
<u>As of and for the year ended 31 December 2016</u>			
Cash and cash equivalents	4,333	473,460	23,400
Other current assets (excluding cash and cash equivalents)	22,505	1,180,849	63,540
Other non-current assets	<u>404,873</u>	<u>3,103,394</u>	<u>919,405</u>
Total assets	431,711	4,757,703	1,006,345
Current financial liabilities (excluding trade payables)	24,614	3,252,183	47,517
Other current liabilities (including trade payables)	47,481	126,121	74,752
Non-current financial liabilities	42,876	984,595	203,553
Other non-current liabilities	<u>54,975</u>	<u>21,826</u>	<u>310,498</u>
Total liabilities	169,946	4,384,725	636,320
Net assets (including non-controlling interest)	261,765	372,978	370,025
Percent of ordinary shares held	50 %	37 %	50 %
Carrying value	129,082	77,109	185,013
Revenue	214,509	213,948	304,810
Depreciation	(40,564)	(45,247)	(146,400)
Interest income	1,652	380,096	1,064
Interest expense	(6,593)	(258,049)	(13,068)
Profit tax expense	<u>(6,224)</u>	<u>(24,403)</u>	<u>(27,502)</u>
Profit for the year	22,269	31,151	57,670
Other comprehensive (loss) income for the year	(403)	(18,585)	1,950
Total comprehensive income for the year	21,866	12,566	59,620
Dividends received from associates and joint ventures	-	-	(31,490)

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	Assets	Liabilities	Revenues	Profit (loss)
As of and for the year ended 31 December 2017				
Nord Stream AG	437,421	281,955	71,008	29,150
LLC Yamal razvitie and its subsidiaries	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
As of and for the year ended 31 December 2016				
Nord Stream AG	416,875	292,719	80,325	31,949
LLC Yamal razvitie and its subsidiaries	387,516	241,054	133,229	30,877
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	227,154	143,680	45,735	19,137
JSC Messoyakhaneftegaz	130,129	129,842	12,097	1,889
Wintershall AG	72,134	50,551	14,259	(5,641)
JSC Achimgaz	71,778	7,693	27,994	20,441
JSC EUROPOL GAZ	62,485	7,513	19,196	1,873
CJSC Northgas	56,543	32,136	25,692	6,019
Wintershall Noordzee B.V.	49,008	38,088	11,114	(3,248)
KazRosGas LLP	46,158	17,220	45,435	7,203
JSC Latvijas Gaze	37,720	12,417	26,170	2,920

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 December	
	2017	2016
Long-term accounts receivable and prepayments	183,894	198,242
Advances for assets under construction	485,392	512,505
Total long-term accounts receivable and prepayments	669,286	710,747

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 16,318 million and RUB 16,481 million as of 31 December 2017 and 31 December 2016, respectively.

As of 31 December 2017 and 31 December 2016 long-term accounts receivable and prepayments with carrying value RUB 183,894 million and RUB 198,242 million have an estimated fair value RUB 181,218 million and RUB 193,868 million, respectively.

	31 December	
	2017	2016
Long-term accounts receivable neither past due nor impaired	180,520	194,876
Long-term accounts receivable past due and impaired	8,819	5,838
Allowance for impairment of long-term accounts receivable at the end of the year	(8,810)	(5,837)
Long-term accounts receivable past due but not impaired	3,365	3,365
Total long-term accounts receivable and prepayments	183,894	198,242

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

16 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

	31 December	
	2017	2016
Long-term loans	81,892	101,600
Long-term trade receivables	11,243	16,292
Other long-term receivables ¹	87,385	76,984
Total long-term accounts receivable neither past due nor impaired	180,520	194,876

¹ Other long-term accounts receivable includes prepayments in the amount of RUB 25,561 million and RUB 20,747 million as of 31 December 2017 and 31 December 2016, respectively.

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

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

	Year ended 31 December	
	2017	2016
Allowance for impairment of long-term accounts receivable at the beginning of the year	5,837	5,859
Allowance for impairment of long-term accounts receivable accrued ¹	3,010	1,732
Release of previously created allowance ¹	(33)	(856)
Foreign exchange rate differences	(4)	(898)
Allowance for impairment of long-term accounts receivable at the end of the year	8,810	5,837

¹ The accrual and release of provision for impaired long-term accounts receivable have been included in the line "Change in impairment and other provisions" in the consolidated statement of comprehensive income.

17 AVAILABLE-FOR-SALE LONG-TERM FINANCIAL ASSETS

	31 December	
	2017	2016
Equity securities ¹	268,183	294,034
Debt instruments	249	311
	268,432	294,345

¹ As of 31 December 2017 and 31 December 2016 equity securities include PJSC NOVATEK shares in the amount of RUB 210,010 million and RUB 238,817 million, respectively.

Available-for-sale long-term financial assets are shown net of allowance for impairment of RUB 379 million and RUB 1,275 million as of 31 December 2017 and 31 December 2016, respectively.

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

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

	Year ended 31 December	
	2017	2016
Available-for-sale long-term financial assets at the beginning of the year	294,345	235,607
(Decrease) increase in fair value of long-term available-for-sale financial assets	(30,404)	62,451
Acquisition of long-term available-for-sale financial assets	5,691	1,719
Disposal of long-term available-for-sale financial assets	(2,096)	(6,285)
Release of impairment of long-term available-for-sale financial assets	896	853
Available-for-sale long-term financial assets at the end of the year	268,432	294,345

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

18 ACCOUNTS PAYABLE AND PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2017	2016
Financial liabilities		
Accounts payable for acquisition of property, plant and equipment	354,857	351,170
Trade payables	353,179	331,774
Derivative financial instruments	64,342	94,414
Provision under financial guarantees ¹	-	3,427
Other payables ²	<u>455,585</u>	<u>296,180</u>
	1,227,963	1,076,965
Non-financial liabilities		
Advances received	148,324	108,921
Accruals and deferred income	<u>1,895</u>	<u>11,119</u>
	<u>150,219</u>	<u>120,040</u>
Total accounts payable, accruals and provisions for liabilities and charges	1,378,182	1,197,005

¹ As of 31 December 2016 provision under financial guarantees includes accrual related to financial guarantee contract issued to Gazprombank (Joint-stock Company) for Ostchem Holding Limited. As of 31 December 2017 the guarantee agreement was terminated (see Note 27 and 35).

² As of 31 December 2017 and 31 December 2016 other payables include RUB 111,607 million and RUB 112,256 million of accruals for probable price adjustments related to natural gas deliveries made from 2013 to 2017, respectively.

Fair values of these liabilities approximate the carrying values.

19 TAXES AND FEES PAYABLE

	31 December	
	2017	2016
VAT	103,698	81,859
MET	96,320	65,776
Property tax	35,240	30,615
Excise tax	21,432	18,858
Other taxes	<u>19,917</u>	<u>18,136</u>
Total taxes and fees payable	276,607	215,244

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

	31 December	
	2017	2016
Short-term borrowings and promissory notes:		
Borrowings and promissory notes denominated in Russian Rubles	74,374	44,352
Foreign currency denominated borrowings	<u>11,807</u>	<u>16,280</u>
	86,181	60,632
Current portion of long-term borrowings (see Note 21)	<u>788,624</u>	<u>386,448</u>
Total short-term borrowings, promissory notes and current portion of long-term borrowings	874,805	447,080

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

	31 December	
	2017	2016
Fixed rate short-term borrowings denominated in Russian Rubles	8.82 %	10.48 %
Fixed rate foreign currency denominated short-term borrowings	7.47 %	7.78 %
Variable rate short-term borrowings denominated in Russian Rubles	9.72 %	11.81 %
Variable rate foreign currency denominated short-term borrowings	3.05 %	2.73 %

Fair values of these liabilities approximate the carrying values.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

21 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	31 December 2017	2016
Long-term borrowings and promissory notes payable to:				
Bank of China Limited, London branch	Euro	2021	137,186	126,414
Loan participation notes issued in April 2009 ¹	US Dollar	2019	131,865	138,863
Loan participation notes issued in September 2012 ²	US Dollar	2022	87,461	92,102
Loan participation notes issued in October 2007 ¹	Euro	2018	87,456	81,035
Loan participation notes issued in November 2013 ²	US Dollar	2023	86,875	91,485
Loan participation notes issued in March 2007 ¹	US Dollar	2022	76,424	80,480
China Construction Bank Corporation, Beijing branch ³	US Dollar	2020	75,699	92,627
Loan participation notes issued in August 2007 ¹	US Dollar	2037	73,968	77,893
Loan participation notes issued in March 2013 ¹	Euro	2020	70,702	65,512
Loan participation notes issued in April 2004 ¹	US Dollar	2034	70,163	73,886
Loan participation notes issued in October 2015 ¹	Euro	2018	69,539	64,434
Loan participation notes issued in November 2016 ¹	Euro	2023	68,530	63,353
J.P. Morgan Europe Limited ³	Euro	2022	68,256	-
	British Pound			
Loan participation notes issued in April 2017 ^{1, 4}	Sterling	2024	67,474	-
Loan participation notes issued in April 2008 ¹	US Dollar	2018	64,507	67,930
Loan participation notes issued in July 2013 ¹	Euro	2018	62,985	58,361
Loan participation notes issued in July 2012 ¹	US Dollar	2022	58,883	62,008
J.P. Morgan Europe Limited ³	Euro	2020	54,522	-
Loan participation notes issued in February 2014 ¹	Euro	2021	53,224	49,317
Mizuho Bank Ltd. ³	US Dollar	2019	53,130	93,228
Loan participation notes issued in February 2013 ¹	US Dollar	2028	52,874	55,680
Loan participation notes issued in April 2013 ²	Euro	2018	52,684	48,817
Loan participation notes issued in November 2017 ¹	Euro	2024	51,194	-
Credit Agricole CIB	Euro	2022	48,138	-
Loan participation notes issued in February 2013 ¹	US Dollar	2020	46,795	49,278
PJSC Sberbank	US Dollar	2018	43,776	46,099
Loan participation notes issued in March 2017 ¹	US Dollar	2027	43,261	-
	British Pound			
Loan participation notes issued in September 2013 ^{1, 4}	Sterling	2020	41,651	38,593
Loan participation notes issued in March 2013 ¹	Euro	2025	35,611	32,997
Loan participation notes issued in November 2011 ¹	US Dollar	2021	35,470	37,353
Loan participation notes issued in November 2016 ^{1, 4}	Swiss Franc	2021	31,923	29,492
Loan participation notes issued in July 2017 ^{1, 4}	Swiss Franc	2022	31,272	-
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	29,641	29,863
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	29,438	29,513
UniCredit Bank S.p.A.	Euro	2022	27,135	-
Russian bonds issued in October 2017 ²	Russian Ruble	2022	25,371	-
UniCredit Bank Austria AG	Euro	2021	23,908	19,172
Alfa-Bank (Joint Stock Company)	US Dollar	2019	23,052	24,271
Gazprombank (Joint-stock Company)	US Dollar	2019	20,736	21,836
Wintershall Nederland Transport and Trading B.V. ⁵	Euro	2035	20,555	-
Uniper Gas Transportation & Finance B.V. ⁵	Euro	2035	20,555	-
OMV Gas Marketing Trading & Finance B.V. ⁵	Euro	2035	20,554	-
Shell Exploration and Production (LXXI) B.V. ⁵	Euro	2035	20,554	-
Engie Energy Management Holding Switzerland AG ⁵	Euro	2035	20,554	-
VTB Bank (Europe) S.E.	Euro	2027	19,640	-
Gazprombank (Joint-stock Company)	US Dollar	2019	19,008	20,017
Gazprombank (Joint-stock Company)	US Dollar	2019	17,856	18,804
Bank of America Securities Limited	US Dollar	2018	17,453	18,368
PJSC Sberbank	Euro	2020	16,591	15,373
PJSC Sberbank	Euro	2022	15,736	7,713
Russian bonds issued in February 2017 ⁶	Russian Ruble	2027	15,501	-
Russian bonds issued in February 2017 ⁶	Russian Ruble	2027	15,501	-
Russian bonds issued in August 2017 ²	Russian Ruble	2024	15,476	-

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	31 December 2017	2016
Russian bonds issued in March 2016 ²	Russian Ruble	2046	15,427	15,344
Russian bonds issued in April 2017 ²	Russian Ruble	2022	15,276	-
Russian bonds issued in November 2013 ⁷	Russian Ruble	2043	15,059	15,111
Russian bonds issued in November 2013 ⁷	Russian Ruble	2043	15,059	15,111
BANK ROSSIYA	Russian Ruble	2022	15,012	-
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,001	9,809
BNP Paribas S.A. ³	Euro	2022	14,069	15,644
Deutsche Bank Luxembourg S.A.	Euro	2022	13,818	-
UniCredit Bank Austria AG	US Dollar	2018	11,526	12,135
Commerzbank International S.A.	US Dollar	2018	11,522	24,265
Russian bonds issued in February 2011 ²	Russian Ruble	2021	10,371	10,368
Russian bonds issued in August 2016 ²	Russian Ruble	2046	10,319	10,317
Russian bonds issued in March 2016 ²	Russian Ruble	2046	10,303	10,378
Russian bonds issued in April 2009 ²	Russian Ruble	2019	10,184	10,182
Russian bonds issued in June 2016 ²	Russian Ruble	2046	10,064	10,062
Russian bonds issued in December 2017 ²	Russian Ruble	2024	10,021	-
Gazprombank (Joint-stock Company)	Russian Ruble	2019	10,000	-
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
UniCredit Bank Austria AG	Euro	2019	9,548	14,745
Citibank International plc ³	US Dollar	2021	7,420	10,042
J.P. Morgan Europe Limited ³	US Dollar	2018	3,601	18,962
Loan participation notes issued in July 2012 ¹	Euro	2017	-	92,019
Loan participation notes issued in November 2006 ¹	Euro	2017	-	33,185
Loan participation notes issued in March 2007 ¹	Euro	2017	-	32,191
PJSC VTB Bank	Russian Ruble	2017	-	29,800
PJSC Sberbank	Russian Ruble	2017	-	19,802
PJSC Sberbank	Russian Ruble	2017	-	15,068
PJSC Sberbank	Russian Ruble	2017	-	15,067
PJSC VTB Bank	Russian Ruble	2017	-	14,654
PJSC Sberbank	Euro	2017	-	14,388
PJSC Sberbank	Russian Ruble	2017	-	12,511
PJSC Sberbank	Russian Ruble	2017	-	12,511
Bank of America Securities Limited	Euro	2017	-	11,541
Russian bonds issued in February 2013 ⁶	Russian Ruble	2017	-	10,279
Russian bonds issued in December 2012 ²	Russian Ruble	2017	-	10,075
PJSC Sberbank	Russian Ruble	2017	-	10,009
Gazprombank (Joint-stock Company)	Russian Ruble	2017	-	10,000
Other long-term borrowings, promissory notes	Various	Various	468,424	291,249
Total long-term borrowings, promissory notes			3,180,337	2,768,991
Less: current portion of long-term borrowings			(788,624)	(386,448)
			2,391,713	2,382,543

¹ Issuer of these bonds is Gaz Capital S.A.

² Issuer of these bonds is PJSC Gazprom Neft.

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

⁴ 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 exchange rates set in the agreements).

⁵ Borrowings were obtained for financing of the Nord Stream 2 project.

⁶ Issuer of these bonds is Gazprom capital LLC.

⁷ Issuer of these bonds is PJSC Gazprom

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	31 December	
	2017	2016
Long-term borrowings and promissory notes denominated in Russian Rubles (including current portion of RUB 142,484 million and RUB 69,489 million as of 31 December 2017 and 31 December 2016, respectively)	558,509	427,014
denominated in foreign currency (including current portion of RUB 646,140 million and RUB 316,959 million as of 31 December 2017 and 31 December 2016, respectively)	<u>2,621,828</u>	<u>2,341,977</u>
	3,180,337	2,768,991

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

	31 December	
Due for repayment	2017	2016
Between one and two years	481,070	708,355
Between two and five years	1,087,239	956,731
After five years	<u>823,404</u>	<u>717,457</u>
	2,391,713	2,382,543

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,355,672 million and RUB 2,086,181 million and fair value of RUB 2,605,734 million and RUB 2,209,883 million as of 31 December 2017 and 31 December 2016, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 824,665 million and RUB 682,810 million and fair value is RUB 837,266 million and RUB 702,251 million as of 31 December 2017 and 31 December 2016, respectively.

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

	31 December	
	2017	2016
Fixed rate long-term borrowings denominated in Russian Rubles	8.81 %	10.41 %
Fixed rate foreign currency denominated long-term borrowings	5.59 %	5.43 %
Variable rate long-term borrowings denominated in Russian Rubles	6.51 %	9.20 %
Variable rate foreign currency denominated long-term borrowings	3.28 %	3.72 %

As of 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 & 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 30,000 million issued by Gazprom Capital LLC in February 2017 due in 2027 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.

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

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom Neft in February 2011 due in 2021 bondholders partially executed the right of early redemption in February 2018 at par, including interest accrued. All executed bonds were sold at the secondary market.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

21 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

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

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

22 PROFIT TAX

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

Notes		Year ended 31 December	
		2017	2016
	Profit before profit tax	1,018,006	1,285,138
	Theoretical tax charge calculated at applicable tax rates	(203,601)	(257,028)
	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	(12,253)	(1,659)
24, 27	Provision for post-employment benefit obligations	(9,704)	(10,192)
13	Provision for impairment of assets under construction	(2,990)	(12,525)
	Non-operating expenses	(19,774)	(14,035)
	Social expenses	(6,338)	(5,619)
	Other non-deductible expenses	(25,779)	(7,192)
15	Non-taxable share of net income of associates and joint ventures	25,388	16,574
	Changes in tax policy regarding making of impairment allowance of accounts receivable	-	-
	Other non-taxable income	3,924	3,642
	Profit tax	(251,127)	(288,034)

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

	Differences recognition and reversals recognised			Differences recognition and reversals recognised			Year ended 31 December 2017
	Year ended 31 December 2015	in profit or loss	in other comprehensive income	Year ended 31 December 2016	in profit or loss	in other comprehensive income	
Property, plant and equipment	(686,070)	(64,303)	-	(750,373)	(80,862)	-	(831,235)
Financial assets	377	3,020	(1,461)	1,936	(7,661)	1,151	(4,574)
Account receivables	28,559	10,606	-	39,165	7,906	-	47,071
Inventories	(14,743)	3,124	-	(11,619)	2,712	-	(8,907)
Tax losses carry forward	18,356	(12,697)	-	5,659	7,682	-	13,341
Retroactive gas price adjustments	20,600	2,157	-	22,757	(297)	-	22,460
Accounts payable	-	-	-	-	53,859	-	53,859
Other deductible temporary differences	14,517	(11,828)	1,283	3,972	7,351	(2,751)	8,572
Total net deferred tax liabilities	(618,404)	(69,921)	(178)	(688,503)	(9,310)	(1,600)	(699,413)

Taxable temporary differences recognised for the years ended 31 December 2017 and 31 December 2016 include the effect of depreciation premium on certain property, plant and equipment. A deferred tax liability related to property, plant and equipment was recognised in the amount of RUB 44,723 million and RUB 14,742 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the years ended 31 December 2017 and 31 December 2016.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

22 PROFIT TAX (continued)

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. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies within the CGT to the extent those losses and profits are recognised for tax purposes in the reporting year and, thus, are included into the tax base of the CGT. Tax assets recognised on losses prior to the formation of the CGT are written off.

23 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Fair value	31 December	
	2017	2016
Assets		
Commodity contracts	73,273	100,021
Foreign currency derivatives and currency and interest rate swaps	<u>1,504</u>	<u>1,565</u>
	74,777	101,586
Liabilities		
Commodity contracts	58,181	100,111
Foreign currency derivatives and currency and interest rate swaps	20,680	46,330
Other derivatives	<u>13,188</u>	<u>3,948</u>
	92,049	150,389

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

24 PROVISIONS FOR LIABILITIES AND CHARGES

	31 December	
	2017	2016
Provision for post-employment benefit obligations	258,132	236,852
Provision for decommissioning and site restoration costs	202,616	161,764
Other	<u>8,705</u>	<u>7,618</u>
Total provisions for liabilities and charges	469,453	406,234

Provision for decommissioning and site restoration costs changed due to decrease in discount rate from 8.54 % to 8.47 % as of 31 December 2016 and 31 December 2017, respectively, and change in other estimations.

The Group operates post-employment 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, NPF GAZFOND, and post-retirement 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.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Principal actuarial assumptions used:

	31 December	
	2017	2016
Discount rate (nominal)	7.6 %	8.5 %
Future salary and pension increases (nominal)	5.0 %	6.0 %
Retirement age, years	females 55, males 58	
Turnover ratio p.a.	Age-related curve, 3.8 % pa on average	

Weighted-average duration of obligations is 12 years.

The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old men and 28.5 years for a 55 year old women in 2017 and 2016.

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

	31 December 2017		31 December 2016	
	Funded benefits - provided through NPF GAZFOND	Unfunded liabilities - other benefits	Funded benefits - provided through NPF GAZFOND	Unfunded liabilities - other benefits
Present value of benefit obligations	(422,641)	(258,132)	(372,845)	(236,852)
Fair value of plan assets	449,814	-	393,344	-
Net balance assets (liabilities)	27,173	(258,132)	20,499	(236,852)

The net pension assets related to benefits provided through plan NPF GAZFOND in the amount of RUB 27,173 million and RUB 20,499 million as of 31 December 2017 and 31 December 2016, respectively, are included within other non-current assets.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2017 and 31 December 2016 are as follows:

	Funded liabilities - benefits provided through NPF GAZFOND	Fair value of plan assets	Net (assets) liabilities	Unfunded liabilities - other post-employment benefits
Opening balance as of 31 December 2016	372,845	(393,344)	(20,499)	236,852
Current service cost	14,966	-	14,966	12,703
Past service cost	1,878	-	1,878	1,134
Net interest expense (income)	31,678	(33,641)	(1,963)	19,804
Total expenses included in staff costs	48,522	(33,641)	14,881	33,641
Remeasurements:				
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 net interest income	-	(17,972)	(17,972)	-
Exchange differences	-	-	-	220
Total recognised in other comprehensive loss	15,273	(17,972)	(2,699)	7,763
Benefits paid	(13,999)	13,999	-	(20,124)
Employer's contributions	-	(18,856)	(18,856)	-
Closing balance as of 31 December 2017	422,641	(449,814)	(27,173)	258,132

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

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

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

	31 December 2017		31 December 2016	
	Fair value	Percent in plan assets, %	Fair value	Percent in plan assets, %
Quoted plan assets, including	231,468	51.5 %	185,271	47.1 %
Mutual funds	60,610	13.5 %	57,579	14.6 %
Bonds	108,236	24.1 %	49,065	12.5 %
Shares	62,622	13.9 %	78,627	20.0 %
Unquoted plan assets, including	218,346	48.5 %	208,073	52.9 %
Shares	177,016	39.3 %	171,949	43.7 %
Deposits	18,843	4.2 %	16,541	4.2 %
Mutual funds	18,400	4.1 %	17,553	4.5 %
Other securities	<u>4,087</u>	<u>0.9 %</u>	<u>2,030</u>	<u>0.5 %</u>
Total plan assets	449,814	100 %	393,344	100 %

The amount of ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB 32,490 million and RUB 38,599 million as of 31 December 2017 and 31 December 2016, respectively.

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

For the years ended 31 December 2017 and 31 December 2016 actual return on plan assets was a gain of RUB 51,613 million and RUB 40,087 million, respectively, primarily caused by the change in fair value of plan assets.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

24 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2017 is presented below:

	Increase (decrease) of defined benefit obligation	Increase (decrease) of defined benefit obligation, %
Mortality rates lower by 20 %	24,634	3.7 %
Mortality rates higher by 20 %	(20,550)	(3.1 %)
Discount rate lower by 1 pp	63,240	9.4 %
Discount rate higher by 1 pp	(53,561)	(8.0 %)
Benefit growth lower by 1 pp	(55,628)	(8.3 %)
Benefit growth higher by 1 pp	64,708	9.7 %
Staff turnover lower by 1 pp for all ages	32,166	4.8 %
Staff turnover higher by 1 pp for all ages	(28,194)	(4.2 %)
Retirement ages lower by 1 year	29,837	4.5 %
Retirement ages higher by 1 year	(29,691)	(4.4 %)

The Group expects to contribute RUB 42,100 million to the defined benefit plans in 2018.

Retirement benefit plan parameters and related risks

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

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

25 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 31 December 2017 and 31 December 2016 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Rubles.

Dividends

In 2017 PJSC Gazprom declared and paid dividends in the nominal amount of 8.04 Russian Rubles per share for the year ended 31 December 2016. In 2016 PJSC Gazprom declared and paid dividends in the nominal amount of 7.89 Russian Rubles per share for the year ended 31 December 2015.

Treasury shares

As of 31 December 2017 and 31 December 2016 subsidiaries of PJSC Gazprom held 1,573 million ordinary shares of PJSC Gazprom including American depositary receipts, which are accounted for as treasury shares.

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

In June 2017 the Group has pledged until 1 November 2018 American depositary receipts as security of liabilities in the amount of 506 million PJSC Gazprom's ordinary shares.

Shares of PJSC Gazprom including American depositary receipts held by the subsidiaries represent 6.6 % of PJSC Gazprom shares as of 31 December 2017 and 31 December 2016.

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

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Ruble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under IAS 29 Financial Reporting in Hyperinflation Economies. Also, retained earnings and other reserves include translation differences arising on the translation of the net assets of foreign subsidiaries, associates and joint arrangements in the amount of RUB 634,067 million and RUB 617,922 million as of 31 December 2017 and 31 December 2016, 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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

25 EQUITY (continued)

these assets to governmental authorities and this process may continue. Social assets with a net book value of RUB 23 million and RUB 18 million have been transferred to governmental authorities for 2016 and 2017, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2017 the statutory profit of the parent company was RUB 100,298 million. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

26 SALES

	Year ended 31 December	
	2017	2016
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	875,685	819,924
Former Soviet Union (excluding Russian Federation)	323,037	340,437
Europe and other countries	<u>2,823,939</u>	<u>2,685,551</u>
	4,022,661	3,845,912
Customs duties	(581,109)	(537,059)
Excise tax	(51,873)	(39,258)
Retroactive gas price adjustments ¹	<u>(49,092)</u>	<u>33,175</u>
Total gas sales	3,340,587	3,302,770
Sales of refined products to customers in:		
Russian Federation	1,115,125	980,352
Former Soviet Union (excluding the Russian Federation)	117,635	88,883
Europe and other countries	<u>454,330</u>	<u>428,327</u>
Total sales of refined products	1,687,090	1,497,562
Sales of crude oil and gas condensate to customers in:		
Russian Federation	71,434	81,302
Former Soviet Union (excluding the Russian Federation)	29,770	23,528
Europe and other countries	<u>438,754</u>	<u>307,128</u>
Total sales of crude oil and gas condensate	539,958	411,958
Electric and heat energy sales:		
Russian Federation	487,283	461,908
Former Soviet Union (excluding the Russian Federation)	2,937	2,458
Europe and other countries	<u>13,599</u>	<u>17,350</u>
Total electric and heat energy sales	503,819	481,716
Gas transportation sales:		
Russian Federation	229,395	192,649
Former Soviet Union (excluding the Russian Federation)	2,433	2,689
Europe and other countries	<u>3,233</u>	<u>3,633</u>
Total gas transportation sales	235,061	198,971
Other revenues:		
Russian Federation	199,506	174,378
Former Soviet Union (excluding the Russian Federation)	6,212	5,858
Europe and other countries	<u>33,910</u>	<u>37,838</u>
Total other revenues	<u>239,628</u>	<u>218,074</u>
Total sales	<u>6,546,143</u>	<u>6,111,051</u>

¹ Retroactive gas price adjustments relate to gas deliveries in 2013-2016 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made.

The effects of retroactive gas price adjustments on sales for the years ended 31 December 2017 and 31 December 2016 were the decrease of sales by RUB 49,092 million and the increase of sales by RUB 33,175 million, respectively.

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 on sales 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).

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.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

27 OPERATING EXPENSES

	Year ended 31 December	
	2017	2016
Taxes other than on income	1,246,059	900,397
Purchased gas and oil	1,236,201	1,157,585
Staff costs	682,060	641,036
Depreciation	613,160	571,564
Transit of gas, oil and refined products	593,327	610,275
Materials	261,642	288,497
Cost of goods for resale, including refined products	207,689	185,441
Repairs and maintenance	154,785	147,608
Electricity and heating expenses	109,485	98,992
Rental expenses	37,723	30,152
Social expenses	34,461	35,516
Insurance expenses	30,491	29,967
Transportation services	27,253	28,923
Processing services	16,261	15,568
Research and development expenses	16,175	28,990
Foreign exchange rate differences on operating items	(14,487)	52,880
Derivatives (gain) loss	(18,344)	9,863
Other	610,787	414,638
	5,844,728	5,247,892
Change in finished goods, work in progress and other effects	<u>(130,638)</u>	<u>(2,909)</u>
Total operating expenses	5,714,090	5,244,983

Taxes other than on income consist of:

	Year ended 31 December	
	2017	2016
MET	915,228	613,662
Excise tax	162,140	144,648
Property tax	154,639	127,053
Other taxes	14,052	15,034
Total taxes other than profit tax	1,246,059	900,397

Gas purchase expenses included within purchased gas and oil amount to RUB 873,866 million and RUB 872,892 million for the years ended 31 December 2017 and 31 December 2016, respectively.

Staff costs include RUB 48,522 million and RUB 50,961 million of expenses associated with post-employment benefit obligations for the years ended 31 December 2017 and 31 December 2016, respectively (see Note 24).

The change in impairment and other provisions is presented below.

Notes		Year ended 31 December	
		2017	2016
	Change in allowance for investments	5,046	(596)
11	Change in allowance for inventory obsolescence	773	(2,976)
18, 35	Change in provision under financial guarantees	-	(50,736)
13	Change in allowance for impairment of property, plant and equipment	(22,692)	79,363
	Change in allowance for impairment of receivables	<u>(38,049)</u>	<u>118,815</u>
	Total change in impairment and other provisions	(54,922)	143,870

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

28 FINANCE INCOME AND EXPENSE

	Year ended 31 December	
	2017	2016
Foreign exchange gains	342,984	925,503
Interest income	<u>83,721</u>	<u>93,494</u>
Total finance income	426,705	1,018,997
Foreign exchange losses	353,712	471,814
Interest expense	<u>53,332</u>	<u>71,556</u>
Total finance expense	407,044	543,370

Total interest paid amounted to RUB 161,455 million and RUB 183,312 million for the years ended 31 December 2017 and 31 December 2016, respectively.

Foreign exchange gains and losses for the years ended 31 December 2017 and 31 December 2016 were recognised as a result of change in the US Dollar and Euro exchange rates against the Russian Ruble. Gains and losses primarily relate to revaluation of borrowings denominated in foreign currencies.

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

	Year ended 31 December	
	2017	2016
RAR profit for the year per consolidated statutory accounts	82,118	666,912
Effects of IFRS adjustments:		
Differences in depreciation of property, plant and equipment and intangible assets	451,406	370,692
Loan interest and foreign exchange losses capitalized	135,556	93,256
Reversal of goodwill amortisation	63,083	62,787
Classification of revaluation of available-for-sale financial assets	30,404	(62,132)
Impairment and other provisions, including provision for pension obligations	15,049	(113,994)
Differences in fixed assets disposal	7,272	1,103
Difference in share of net income of associates and joint ventures	(3,451)	(24,157)
Write-off of research and development expenses capitalized for RAR purposes	(2,480)	(5,488)
Other effects	<u>(12,078)</u>	<u>8,125</u>
IFRS profit for the year	766,879	997,104

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

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

There were 22.1 billion and 22.6 billion weighted average shares outstanding for the years ended 31 December 2017 and 31 December 2016, respectively.

There are no dilutive financial instruments outstanding in the Group.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

31 NET CASH FROM OPERATING ACTIVITIES

Notes		Year ended 31 December	
		2017	2016
	Profit before profit tax	1,018,006	1,285,138
	Adjustments to profit before profit tax for:		
27	Depreciation	613,160	571,564
28	Net finance income	(19,661)	(475,627)
15	Share of net income of associates and joint ventures	(126,940)	(82,872)
27	Change in provisions	(6,400)	194,831
27	Derivatives (gains) losses	(18,344)	9,863
	Gain on disposal of available-for-sale financial assets	(782)	(1,059)
	Other	(900)	(12,393)
	Total effect of adjustments	440,133	204,307
	Cash flows from operating activities before working capital changes	1,458,139	1,489,445
	(Increase) decrease in non-current assets	(6,973)	3,541
	Increase (decrease) in non-current liabilities	4,056	(8,821)
		1 455 222	1,484,165
	Changes in working capital:		
	Increase (decrease) in accounts receivable and prepayments	33,989	(98,791)
	(Increase) decrease in inventories	(51,996)	96,578
	(Increase) decrease in other current assets	(207,558)	159,473
	Increase (decrease) in accounts payable and accrued charges, excluding interest, dividends and capital construction	161,325	(33,497)
	Settlements on taxes and fees payable (other than profit tax)	43,190	59,923
	Increase in available-for-sale financial assets and financial assets held for trading	(19,601)	(952)
	Total effect of working capital changes	(40,651)	182,734
	Profit tax paid	(227,549)	(95,576)
	Net cash from operating activities	1,187,022	1,571,323

Total taxes and other similar payments paid in cash during 2016-2017:

	Year ended 31 December	
	2017	2016
MET	883,895	601,985
Customs duties	664,191	617,788
Excise	256,205	236,892
Profit tax	227,549	95,576
Property tax	149,236	120,391
Insurance contributions	126,307	117,503
VAT	93,862	53,771
Personal income tax	67,879	63,000
Other taxes	65,329	59,545
Total taxes paid	2,534,453	1,966,451

32 SUBSIDIARIES

Significant subsidiaries

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December ¹	
		2017	2016
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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

32

SUBSIDIARIES (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December ¹	
		2017	2016
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100
LLC Gazprom dobycha Nadym	Russia	100	100
LLC Gazprom dobycha Noyabrsk	Russia	100	100
LLC Gazprom dobycha Orenburg	Russia	100	100
LLC Gazprom dobycha Urengoy	Russia	100	100
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	Russia	100	100
LLC Gazprom dobycha Yamburg	Russia	100	100
LLC Gazprom invest	Russia	100	100
LLC Gazprom invest RGK	Russia	100	100
LLC Gazprom investgazifikatsiia	Russia	100	100
LLC Gazprom komplektatsiya	Russia	100	100
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. ²	Netherlands	100	100
Gazprom Neft Trading GmbH ²	Austria	100	100
LLC Gazprom neft shelf ²	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
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft Marine Bunker ²	Russia	100	100
JSC Gazpromneft-Aero ²	Russia	100	100
LLC Gazpromneft-Vostok ²	Russia	100	100
LLC Gazpromneft Corporate Sales ²	Russia	100	100
JSC Gazpromneft - MNPZ ²	Russia	100	100

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

32 SUBSIDIARIES (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December ¹	
		2017	2016
JSC Gazpromneft-Noyabrskneftegaz ²	Russia	100	100
JSC Gazpromneft - ONPZ ²	Russia	100	100
LLC Gazpromneft-Orenburg ²	Russia	100	100
LLC Gazpromneft Regional Sales ²	Russia	100	100
LLC Gazpromneft-Khantos ²	Russia	100	100
LLC Gazpromneft-Centr ²	Russia	100	100
LLC Gazpromneft-Yamal ²	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
Gazfin Cyprus Limited	Cyprus	100	100
LLC GPN-Invest ²	Russia	100	100
LLC GPN-Finans ²	Russia	100	100
LLC Zapolyarneft ²	Russia	100	100
JSC Mezhtregionenergosbyt	Russia	58	58
PJSC Mosenergo	Russia	53	53
PJSC MIPC	Russia	90	90
Naftna Industrija Srbije a.d. ²	Serbia	56	56
LLC Novourengosky gazohimicheskii kompleks	Russia	100	100
Nord Stream 2 AG	Switzerland	100	100
PJSC WGC-2	Russia	77	77
Rosingaz Limited	Cyprus	100	100
South Stream Transport B.V.	Netherlands	100	100
OJSC Severneftegazprom ³	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

¹ Cumulative share of the Group in charter capital of investees.

² Subsidiaries of PJSC Gazprom Neft.

³ Group's portion of voting shares.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

33 NON-CONTROLLING INTEREST

	Year ended 31 December	
	2017	2016
Non-controlling interest at the beginning of the year	347,308	325,036
Non-controlling interest share of net profit of subsidiaries ¹	52,577	45,467
Changes in interest in JSC Gazprom StroyTEK Salavat ²	(2,127)	-
Changes in interest in PJSC MIPC	(777)	-
Changes in interest in JSC Gazprom gazoraspredelenie Sever	(117)	2,644
Changes in interest in PJSC WGC-2	91	131
Changes in the non-controlling interest as a result of other acquisitions and disposals	(33)	676
Gain from cash flow hedges	796	1,361
(Loss) gain arising from change in fair value of available-for-sale financial assets	(7)	1
Remeasurements of post-employment benefit obligations	(82)	8
Dividends	(18,379)	(11,727)
Translation differences	7,145	(16,289)
Non-controlling interest at the end of the year	386,395	347,308

¹ Non-controlling interest share of net profit of subsidiaries includes share in impairment of assets in the amount of RUB 3,299 million and RUB 5,365 million for the years ended 31 December 2017 and 31 December 2016, respectively.

² Subsidiary of LLC Gazprom neftekhim Salavat.

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

	Country of primary operation	Percent of share capital held by non-controlling interest¹	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
As of and for the year ended 31 December 2017					
Gazprom Neft Group ²	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
As of and for the year ended 31 December 2016					
Gazprom Neft Group ²	Russia	4 %	20,412	114,916	1,377
Naftna Industrija Srbije a.d. Group	Serbia	46 %	4,183	62,044	1,049
Mosenergo Group	Russia	46 %	6,398	88,296	1,039
TGC-1 Group	Russia	48 %	4,088	62,701	452
WGC-2 Group	Russia	19 %	200	29,558	117

¹ Effective share held by non-controlling interest in charter capital of investments.

² Including non-controlling interest in Naftna Industrija Srbije a.d. Group.

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

33 NON-CONTROLLING INTEREST (continued)

	Gazprom Neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
<u>As of and for the year ended</u>					
<u>31 December 2017</u>					
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
Revenue	1,857,929	195,130	196,216	87,568	141,504
Profit for the year	294,784	13,997	23,470	10,047	4,776
Total 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)
<u>As of and for the year ended</u>					
<u>31 December 2016</u>					
Current assets	396,286	48,388	83,363	24,233	29,375
Non-current assets	2,357,154	195,271	201,377	155,517	220,817
Current liabilities	290,940	35,641	45,361	20,945	49,695
Non-current liabilities	864,337	57,136	33,696	33,552	60,053
Revenue	1,545,608	189,781	190,744	79,228	134,537
Profit for the year	201,763	7,483	13,482	8,453	809
Total comprehensive income for the year	187,873	7,483	12,789	8,065	527
Net cash from (used in):					
operating activities	397,128	22,896	31,690	14,162	24,266
investing activities	(382,981)	(15,894)	(23,668)	(8,949)	(14,064)
financing activities	(86,500)	(4,914)	(3,581)	(3,386)	(13,097)

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.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

34 RELATED PARTIES

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

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

Government (Russian Federation)

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

As of 31 December 2017 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. 11.859 % are owned JSC Rosneftegaz and JSC Rosgazifikatsiya controlled by Government.

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

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

Parties under control of the Government

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

As of 31 December 2017 prices of natural gas sales, gas transportation and electricity tariffs in Russia are regulated by the FAS.

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

As of 31 December 2017 and 31 December 2016 and for the years ended 31 December 2017 and 31 December 2016, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2017		Year ended 31 December 2017	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
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
Transactions and balances with other parties under control of the Government				
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	-	-	-
Available-for-sale long-term financial assets	5,711	-	-	-

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

34 RELATED PARTIES (continued)

	As of 31 December 2016		Year ended 31 December 2016	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	11,608	56,695	-	199,675
Insurance contributions	720	7,795	-	96,693
VAT recoverable / payable	322,643	72,557	-	-
Customs duties	16,183	-	-	-
Other taxes	2,457	116,769	-	763,267
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	76,955	-
Electricity and heating sales	-	-	154,923	-
Gas transportation sales	-	-	46,849	-
Other services sales	-	-	3,842	-
Accounts receivable	46,274	-	-	-
Oil and refined products transportation expenses	-	-	-	109,508
Accounts payable	-	13,381	-	-
Borrowings	-	345,604	-	-
Interest expense	-	-	-	11,467
Short-term financial assets	10,136	-	-	-
Available-for-sale long-term financial assets	8,087	-	-	-

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

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2017 and 31 December 2016. See Note 13 for net book values as of 31 December 2017 and 31 December 2016 of social assets vested to the Group at privatisation.

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

As of 31 December 2016 and for the year ended 31 December 2016 comparative data in the section "Parties under control of the Government" was adjusted in connection with the separate disclosure of balances and transactions with JSC Financial Settling Center ("JSC FSC").

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 final counterparty with automated information about transactions and outstanding balances with the ultimate consumers.

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

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

34 RELATED PARTIES (continued)

	As of 31 December 2016		Year ended 31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Transactions and balances with JSC FSC				
Electricity and heating sales	-	-	157,898	-
Purchased electricity and heating	-	-	-	24,686
Accounts receivable	7,219	-	-	-
Accounts payable	-	1,954	-	-

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RUB 4,537 million and RUB 4,685 million for the years ended 31 December 2017 and 31 December 2016, respectively.

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

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

According to Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel.

Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF GAZFOND, and a one-time retirement payment from the Group.

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

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

34 RELATED PARTIES (continued)

Associates and joint ventures

For the years ended 31 December 2017 and 31 December 2016 and as of 31 December 2017 and 31 December 2016 the Group had the following significant transactions and balances with associates and joint ventures.

	Year ended 31 December	
	2017	2016
	Revenues	
Gas sales		
Panrusgas Gas Trading Plc	46,715	38,041
JSV Moldovagaz	18,063	24,849
CJSC Gazprom YRGM Trading ¹	17,264	7,917
Bosphorus Gaz Corporation A.S.	15,128	15,376
JSC Latvijas Gaze	14,608	10,237
JSC Gazprom YRGM Development ¹	12,332	7,137
KazRosGas LLP	11,118	10,509
VEMEX s.r.o. and its subsidiaries	8,654	16,046
Prometheus Gas S.A.	7,454	806
JSC EUROPOL GAZ	2,347	4,759
PremiumGas S.p.A.	677	4,702
Gas transportation sales		
CJSC Gazprom YRGM Trading ¹	25,391	11,453
JSC Gazprom YRGM Development ¹	18,137	10,323
KazRosGas LLP	2,432	2,688
Gas condensate, crude oil and refined products sales		
OJSC NGK Slavneft and its subsidiaries	39,597	38,445
CJSC SOVEKS	5,377	3,696
LLC Poliom	2,931	1,800
LLC NPP Neftekhimia	2,732	2,379
Sakhalin Energy Investment Company Ltd.	2,118	2,054
Operator services sales and other services sales		
OJSC NGK Slavneft and its subsidiaries	4,486	663
JSC Messoyakhaneftegaz	4,389	4,538
Gas refining services sales		
KazRosGas LLP	8,137	8,169
Interest income		
Gazprombank (Joint-stock Company)	39,507	39,167
JSC Messoyakhaneftegaz	6,352	5,480
	Expenses	
Purchased gas		
CJSC Gazprom YRGM Trading ¹	54,752	24,566
LLC SeverEnergiya and its subsidiaries	43,980	49,393
JSC Gazprom YRGM Development ¹	39,154	22,089
KazRosGas LLP	30,264	32,567
Sakhalin Energy Investment Company Ltd.	17,525	11,811
CJSC Northgas	2,732	8,512
VEMEX s.r.o. and its subsidiaries	465	3,885
Purchased transit of gas		
Nord Stream AG	71,047	79,002
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	30,699	38,035
JSC EUROPOL GAZ	12,572	16,613
JSV Moldovagaz	3,499	3,587
Purchased crude oil and refined products		
OJSC NGK Slavneft and its subsidiaries	114,674	96,427

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

34 RELATED PARTIES (continued)

	Year ended 31 December	
	2017	2016
JSC Messoyakhaneftegaz	29,699	6,351
Sakhalin Energy Investment Company Ltd.	18,380	19,090
Purchased services of gas and gas condensate products		
JSC Achimgaz	31,027	27,994
Purchased refining services		
OJSC NGK Slavneft and its subsidiaries	13,719	13,313
Purchased transit of crude oil and oil refinery products		
OJSC NGK Slavneft and its subsidiaries	6,252	6,766
JSC Messoyakhaneftegaz	3,863	771
Interest expense		
Gazprombank (Joint-stock Company) and its subsidiaries	11,736	10,750

¹ CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development are not associates and joint ventures.

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

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Gazprombank (Joint-stock Company)	17,380	-	14,306	-
KazRosGas LLP	5,457	-	3,287	-
OJSC NGK Slavneft and its subsidiaries	5,304	-	8,286	-
Panrusgas Gas Trading Plc	4,023	-	3,175	-
LLC Yamal razvitie	3,459	-	-	-
Bosphorus Gaz Corporation A.S.	2,603	-	-	-
CJSC Gazprom YRGM Trading	2,327	-	1,167	-
JSC Gazprom YRGM Development	1,662	-	1,052	-
Sakhalin Energy Investment Company Ltd.	1,045	-	2,733	-
JSC Messoyakhaneftegaz	796	-	40,530	-
VEMEX s.r.o. and its subsidiaries	521	-	1,518	-
Wintershall Noordzee B.V.	-	-	5,811	-
Wintershall AG	-	-	2,125	-
Cash balances				
Gazprombank (Joint-stock Company)	388,436	-	518,084	-
OJSC Belgazprombank	19,320	-	917	-
Other current assets				
Gazprombank (Joint-stock Company)	290,322	-	100,015	-
OJSC Belgazprombank	7,436	-	968	-
Other non-current assets				
Gazprombank (Joint-stock Company)	-	-	42,230	-
Long-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	24,414	-	18,962	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	13,768	-	12,757	-
Gazprombank (Joint-stock Company)	9,599	-	745	-
Wintershall Noordzee B.V.	5,595	-	-	-
OJSC Belgazprombank	4,957	-	4,957	-
LLC Yamal razvitie	4,483	-	15,722	-
JSC Evroteck-Yugra	1,514	-	-	-

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

34 RELATED PARTIES (continued)

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts payable				
OJSC NGK Slavneft and its subsidiaries	-	31,164	-	4,094
CJSC Gazprom YRGM Trading	-	7,927	-	4,490
JSC Messoyakhaneftegaz	-	6,928	-	3,694
Nord Stream AG	-	6,172	-	5,723
Sakhalin Energy Investment Company Ltd.	-	5,710	-	2,948
JSC Gazprom YRGM Development	-	5,662	-	3,682
JSC Achimgaz	-	3,195	-	3,025
LLC SeverEnergiya and its subsidiaries	-	2,963	-	3,436
KazRosGas LLP	-	2,079	-	4,186
JSC EUROPOL GAZ	-	2,078	-	2,100
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	-	1,957	-	124
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	80,807	-	31,797
Long-term borrowings				
Gazprombank (Joint-stock Company)	-	87,511	-	88,850

Accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 2,603 million and RUB nil million as of 31 December 2017 and 31 December 2016, respectively, net of impairment allowance of RUB 5,935 million and RUB 7,802 million as of 31 December 2017 and 31 December 2016, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 31 December 2017 and 31 December 2016 net of impairment allowance of RUB 6,058 million and RUB 6,380 million as of 31 December 2017 and 31 December 2016, respectively.

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 31 December 2017 and 31 December 2016 net of impairment allowance of RUB 339,481 million and RUB 342,765 million as of 31 December 2017 and 31 December 2016, respectively.

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 are subject to influence of changes in economic or other factors. The amount of secured borrowings was RUB 60,000 million and RUB nil million as of 31 December 2017 and 31 December 2016, respectively.

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

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 35.

35 COMMITMENTS AND CONTINGENCIES

Financial guarantees

Notes	31 December	
	2017	2016
Outstanding guarantees issued for:		
LLC Stroygazconsulting	81,710	-
Blackrock Capital Investments Limited	1,572	4,968
18, 27 Ostchem Holding Limited	-	3,427
Other	24,781	36,362
Total financial guarantees	108,063	44,757

In 2017 and 2016 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 27 million and USD 87 million as of 31 December 2017 and 31 December 2016, respectively, as well as amounts denominated in Euros of EUR 33 million and EUR 66 million as of 31 December 2017 and 31 December 2016, respectively.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

35 COMMITMENTS AND CONTINGENCIES (continued)

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by JSC EUROPOL GAZ. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 31 December 2017 and 31 December 2016 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 1,572 million (USD 27 million) and RUB 4,968 million (USD 82 million), respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts of Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2017 and 31 December 2016 the above guarantee amounted to RUB nil million and RUB 3,427 million, respectively, and was fully provided. As of 31 December 2017 the guarantee agreement was terminated.

In December 2017 the Group provided guarantees to Gazprombank (Joint-stock Company) related to debts of LLC Stroygazconsulting under its credit facilities. As of 31 December 2017 the guarantees amounted to RUB 81,710 million.

Other

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

Capital commitments

The total investment program related to gas, oil and power assets for 2018 is RUB 1 981 965 million.

Operating lease commitments

As of 31 December 2017 and 31 December 2016 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 2017 no loss is expected to result from these long-term commitments.

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 tax, currency and customs legislation in the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 December 2017 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

36 OPERATING RISKS (continued)

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

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

On 21 July 2014 both cases were consolidated. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016.

On 31 May 2017 the arbitrators delivered an interim (separate) decision on certain key legal issues. On 7 November 2017 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to review stated interim (separate) decision and to cancel it partially. The final decision on the case was delivered on 22 December 2017. The arbitrators recognised that the basic provisions of the 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 penalty interest for the period from 22 December 2017 to the date of such payment amounting at the rate 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 review stated final decision of 22 December 2017 and to cancel it partially.

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

(2) to acknowledge that certain provisions of the 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 the 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 of arbitration. On 11 December 2014

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

36 OPERATING RISKS (continued)

the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz of Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. 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 response 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 the Contract No. KP for purchase and sale of natural gas in 2009-2019 totaling USD 44 million without interest. The final award in the case was delivered on 28 February 2018. The arbitration court rejected a request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of the Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the European Union to the Contract. The arbitration court rejected a request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under the Contract No. TKGU to PJSC Ukrtransgaz or to another gas transportation system operator. The arbitration court satisfied the demand of NJSC Naftogaz of Ukraine to oblige PJSC Gazprom to pay 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 counterclaims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million to NJSC Naftogaz of Ukraine. Expenses for recognition of the liabilities under the award are presented in the line "Operating expenses" in the consolidated statement of comprehensive income (see Note 27). The amount of the liability is presented in the line "Accounts payable and provisions for liabilities and charges" of the consolidated balance sheet. On 29 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to review stated final award of 28 February 2018 and to cancel it partially.

In March 2018 following the arbitration proceeding PJSC Gazprom sent a notice to NJSC Naftogaz of Ukraine about an imbalance in the rights and obligations under the Contract and elimination of injustice. In case of the failure to come to an agreement PJSC Gazprom has the right to apply to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, for final dispute resolution.

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 2017 – RUB 99,726 million). PJSC Gazprom did not agree to the claims and on 9 November 2012 filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness statement and expert statement.

On 22 June 2016 the arbitration court made a final decision which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including claims on unfair pricing of gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania has filed appeal with the Court of Appeal of Stockholm, Sweden, to cancel the Final arbitration decision of 22 June 2016. On 4 April 2017 PJSC Gazprom officially received this appeal. On 9 June 2017 PJSC Gazprom filed a response to the appeal with the Court of Appeal of Stockholm, Sweden. The Ministry of Energy of the Republic of Lithuania submitted its detailed written opinions of the case on 10 October 2017. PJSC Gazprom is keeping on analysing received documents and is preparing its legal position. The hearings of the case are scheduled for June 2018.

In August 2012 the European Commission launched a formal stage of investigation into a potential breach of the EU antitrust law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The adoption by the European Commission the Statement of Objections is one of the stages of the ongoing antitrust investigation and it doesn't recognise PJSC Gazprom guilty of any violation of the EU antitrust legislation. The European Commission extended the deadline for providing a formal response to the Statement of Objections until September 2015. A formal response to the Statement of Objections of the European Commission was sent by PJSC Gazprom at the end of September 2015. In September 2015

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

36 OPERATING RISKS (continued)

PJSC Gazprom filed its proposal of antitrust investigation settlement to the European Commission. In December 2015 PJSC Gazprom's representatives and the European Commission took part in closed-door oral hearings where PJSC Gazprom provided arguments which rendered the raised claims groundless. An oral hearing is just one of the stages of the ongoing antitrust investigation. On 27 December 2016 PJSC Gazprom forwarded to the European Commission a formal proposal for the settlement of the investigation (commitments). On 13 March 2017 the European Commission launched a market test process of the commitments upon which it will be able to rightfully accept the commitments and close the investigation without recognising the Gazprom Group guilty of violating the antitrust law of the European Union. On 29 May 2017 the European Commission and PJSC Gazprom officials held a joint meeting where the European party communicated key takeaways of the market test exercise and where the parties agreed to hold a series of working meetings to settle the issues that, in the EC's opinion, have not been addressed thus far, drawing on the market test findings. The parties currently are keeping on consulting on technical issues. Currently it's impossible to assess a potential negative impact of this ongoing investigation on activity of PJSC Gazprom in Europe and on financial position of PJSC Gazprom as a whole.

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

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 2017 – RUB 42,353 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for June 2019.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 31 December 2017 – RUB 176,192 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an action with the Kiev Economic Court against the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the action was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which left the primary court's award unchanged based on the decision of 18 May 2016. On 7 June 2016 PJSC Gazprom filed a cassation appeal with the Ukraine's Higher Economic Court. On 13 July 2016 the Ukraine's Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the judgements in the case delivered by the lower-level courts.

On 13 September 2016 the Supreme Court of Ukraine rejected to move the petition forward to review the judgements delivered in the case by the lower-level courts. On 7 October 2016 the Kiev Economic Court determined to initiate proceedings in the case in view of the application filed by the Antimonopoly Committee of Ukraine along with a claim to impose a penalty in the amount of about USD 3 billion on PJSC Gazprom, a fine in the amount of about USD 3 billion and a demand to enforce PJSC Gazprom to fulfil a portion of its decision which pertains to the performance of the terms and conditions to the fullest extent of the Contract No. TKGU regarding the volumes of gas intended for transit purposes. On 5 December 2016 the Court satisfied the claims of the Antimonopoly Committee of Ukraine to the fullest extent. On 22 February 2017 the Court dismissed the appeal of PJSC Gazprom keeping the first-instance court's decision in force. On 14 March 2017 PJSC Gazprom filed with the Ukraine's Higher Economic Court a cassation appeal on the decision of the Kiev Economic Court dated 5 December 2016 and the ruling of the Kiev Economic Court of Appeal dated 22 February 2017. As a result of the Ukraine's Higher Economic Court sitting session held on 16 May 2017 the cassation appeal of PJSC Gazprom was left unsatisfied. On 11 August 2017 PJSC Gazprom filed with the Supreme Court of Ukraine an appeal with a demand to cancel decisions of lower courts. On 11 September 2017 the Supreme Court of Ukraine left these decisions in force and the appeal of PJSC Gazprom was unsatisfied. In April 2017 the Antimonopoly Committee of Ukraine filed a demand with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of Ukrainian hryvnia 171,932 million (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office Orders of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover the amount of Ukrainian hryvnia 189,125 million (at the exchange rate as of 31 December 2017 – RUB 387,621 million), including an execution fee of Ukrainian hryvnia 17,193 million (at the exchange rate as of 31 December 2017 – RUB 35,238 million), the seizure of

36 OPERATING RISKS (continued)

the accounts of the Kiev-based Branch of PJSC Gazprom, dividends due to PJSC Gazprom from the participation in JSC Gaztransit, the stocks of JSC Gaztransit owned by PJSC Gazprom, the stocks of PJSC YUZHNIIGIPROGAZ Institute, a participation stake in LLC Gazprom sbyt Ukraine, the 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 mechanisms to restore its violated rights.

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

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

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

Based on the complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal proceedings and recognise PJSC Gazprom guilty of violation of the antitrust law of the European Union. These claims relate to issues covered by the European Commission investigation of PJSC Gazprom and LLC Gazprom export activities in the countries of Central and Eastern Europe, which formal phase was initiated in 2012. It is currently impossible to assess a potential negative impact of this ongoing investigation of PJSC Gazprom in Europe and on a financial position of PJSC Gazprom.

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

Sanctions

From 2014 the EU, the United States ("U.S.") and some other countries introduced a series of sanctions against the Russian Federation and some Russian entities. Some of these sanctions are aimed directly against PJSC Gazprom, PJSC Gazprom Neft and 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 U.S. incorporated entities (including their foreign branches) or any person or entity in the U.S. or related with the territory of U.S. from:

- 1) transacting in, providing financing for, or otherwise dealing 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 Russian 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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

36 OPERATING RISKS (continued)

technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction includes the Yuzhno-Kirinskoye field located in the Sea of Okhotsk. According to the changes from 31 October 2017 the scope of the stated prohibition 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 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 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 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 interest in capital.

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

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

1) provision of drilling, wells testing, logging and completion and services and supply of specialised floating vessels necessary for deep water oil exploration and production, and (or) Arctic oil exploration and production, and shale oil projects in Russia, as well as the direct or indirect financing, financial assistance, technical and brokerage services in relation to these activities;

2) purchasing, selling, providing 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), excluding PJSC Gazprom;

3) purchase, sale, provision of investment services for or assisting in the issuance of, or other dealings with transferable securities and money market instruments issued by some Russian energy companies, including PJSC Gazprom Neft but excluding PJSC Gazprom, after 12 September 2014 with maturity of more than 30 days;

4) providing after 12 September 2014 directly or indirectly or being part of any arrangement to make new loans or credit with a maturity of more than 30 days to a number of Russian companies (including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for loans or credit that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and the Russian Federation or for loans that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for legal entities established in the EU, whose proprietary rights are owned for more than 50 percent by any entity referred to above.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

36 OPERATING RISKS (continued)

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

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

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

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.

Notes		Russian Ruble	US dollar	Euro	Other	Total
	<u>As of 31 December 2017</u>					
	Financial assets					
	Current					
8	Cash and cash equivalents	478,401	201,232	162,436	26,938	869,007
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
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	121,411	2,026	33,254	1,642	158,333
17	Available-for-sale long-term financial assets (excluding equity securities)	249	-	-	-	249
	Total financial assets	1,164,022	336,253	440,088	162,509	2,102,872
	Financial liabilities					
	Current					
18	Accounts payable (excluding derivative financial instruments)	706,795	261,772	148,179	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
	Non-current					
21	Long-term borrowings, promissory notes	416,025	933,435	841,633	200,620	2,391,713
	Total financial liabilities	1,339,678	1,454,853	1,356,497	279,111	4,430,139

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

37 FINANCIAL RISK FACTORS (continued)

Notes		Russian Ruble	US dollar	Euro	Other	Total
	As of 31 December 2016					
	Financial assets					
	Current					
8	Cash and cash equivalents	539,158	249,143	90,458	17,969	896,728
9	Short-term financial assets (excluding equity securities)	11,094	-	-	-	11,094
10	Trade and other accounts receivable	506,332	187,767	216,638	97,249	1,007,986
	Non-current					
16	Long-term accounts receivable (excluding prepayments)	130,556	6,573	39,068	1,298	177,495
17	Available-for-sale long-term financial assets (excluding equity securities)	311	-	-	-	311
	Total financial assets	1,187,451	443,483	346,164	116,516	2,093,614
	Financial liabilities					
	Current					
18	Accounts payable (excluding derivative financial instruments)	692,907	126,497	96,091	67,056	982,551
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	113,841	108,334	223,953	952	447,080
	Non-current					
21	Long-term borrowings, promissory notes	357,525	1,192,238	705,741	127,039	2,382,543
	Total financial liabilities	1,164,273	1,427,069	1,025,785	195,047	3,812,174

See discussion of derivative financial instruments in Note 23.

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

As of 31 December 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 223,620 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 195,208 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. 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 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 183,626 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 145,508 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. 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	
		2017	2016
21	At fixed rate	2,355,672	2,086,181
21	At variable rate	824,665	682,810
		3,180,337	2,768,991

37 FINANCIAL RISK FACTORS (continued)

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

During the years ended 31 December 2017 and 31 December 2016 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2017, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 41,233 million for 2017, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2016, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 34,141 million for 2016, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

(c) Commodity price risk

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

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

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2017, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 246,490 million for 2017. As of 31 December 2016, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 248,285 million for 2016.

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

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

(d) Securities price risk

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

As of 31 December 2017 and 31 December 2016, if London Stock Exchange equity index, which affects the major part of Group's equity securities, had decreased by 10 % with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RUB 26,839 million and RUB 29,442 million lower, respectively.

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

Credit risk

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

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

37 FINANCIAL RISK FACTORS (continued)

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

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

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

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

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

Notes		31 December	
		2017	2016
8	Cash and cash equivalents	869,007	896,728
9	Debt securities	30,851	11,094
10, 16	Long-term and short-term trade and other accounts receivable	1,202,765	1,185,481
35	Financial guarantees	108,063	44,757
	Total maximum exposure to credit risk	2,210,686	2,138,060

Liquidity risk

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

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

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

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<u>As of 31 December 2017</u>					
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 and provision under financial guarantees)	1,118,632	44,989	-	-	-
Financial guarantees	10,765	5,916	912	3,223	87,247
<u>As of 31 December 2016</u>					
Short-term and long-term loans and borrowings and promissory notes	348,178	247,864	829,565	1,172,128	1,022,573
Accounts payable (excluding derivative financial instruments and provision under financial guarantees)	907,675	71,449	-	-	-
Financial guarantees	7,162	7,528	8,877	13,147	8,043

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.

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

37 FINANCIAL RISK FACTORS (continued)

Reconciliation of liabilities arising from financing activities

	Short-term and long-term debt	Dividends	Other liabilities from financing activities	Total
As of 31 December 2016	2,829,623	3,029	43,051	2,875,703
<u>Cash flows, including:</u>				
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 cash flow hedges	-	-	(956)	(956)
Translation differences	25,103	-	-	25,103
Other non-cash movements	<u>21,981</u>	<u>(2,114)</u>	<u>(997)</u>	<u>18,870</u>
As of 31 December 2017	3,266,518	5,099	31,065	3,302,682

	Short-term and long-term debt	Dividends	Other liabilities from financing activities	Total
As of 31 December 2015	3,442,215	4,969	79,722	3,526,906
<u>Cash flows, including:</u>				
Proceeds from borrowings (net of costs directly related to the receipt)	673,406	-	-	673,406
Repayment of borrowings	(734,697)	-	(28,686)	(763,383)
Interest paid (in financing activities)	(48,528)	-	(2,307)	(50,835)
Dividends paid	-	(186,337)	-	(186,337)
Finance expense	59,366	-	2,307	61,673
Dividends declared	-	186,099	-	186,099
Change in fair value of cash flow hedges	-	-	(7,984)	(7,984)
Translation differences	(544,032)	-	(1)	(544,033)
Other non-cash movements	<u>(18,107)</u>	<u>(1,702)</u>	<u>-</u>	<u>(19,809)</u>
As of 31 December 2016	2,829,623	3,029	43,051	2,875,703

Capital risk management

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

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

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

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

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

37 FINANCIAL RISK FACTORS (continued)

The net debt to adjusted EBITDA ratios at 31 December 2017 and 31 December 2016 were as follows:

	31 December	
	2017	2016
Total debt	3,266,518	2,829,623
Less: cash and cash equivalents	<u>(869,007)</u>	<u>(896,728)</u>
Net debt	2,397,511	1,932,895
Adjusted EBITDA	1,466,910	1,322,199
Net debt / Adjusted EBITDA ratio	1.63	1.46

PJSC Gazprom has an investment grade credit rating of BB+ (stable outlook) by Standard & Poor's and BBB- (stable outlook) by Fitch Ratings as of 31 December 2017.

38 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a) Financial instruments in Level 1

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

b) Financial instruments in Level 2

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

c) Financial instruments in Level 3

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

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

As of 31 December 2017 and 31 December 2016 the Group had the following assets and liabilities that are measured at fair value:

Notes	31 December 2017			Total
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non- observable inputs (Level 3)	
9 Financial assets held for trading:				
Bonds	30,758	-	-	30,758
Equity securities	206	-	-	206
9 Available-for-sale financial assets:				
Promissory notes	-	93	-	93
Total short-term financial assets	30,964	93	-	31,057
17 Available-for-sale financial assets:				
Equity securities	215,733	43,594	8,856	268,183
Promissory notes	-	249	-	249
Total available-for-sale long-term financial assets	215,733	43,843	8,856	268,432
23 Derivative financial instruments	11,946	60,854	1,977	74,777
Total assets	258,643	104,790	10,833	374,266
23 Derivative financial instruments	7,258	82,317	2,474	92,049
Total liabilities	7,258	82,317	2,474	92,049

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

38 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the year ended 31 December 2017 and 31 December 2016 the Group did not write off any losses incurred as a result of a decrease in the fair value of available-for-sale financial assets, from other comprehensive income to profit or loss.

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

PJSC GAZPROM
NOTES TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2017
(in millions of Russian Rubles)

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, in the event of a default by the counterparty (such as bankruptcy), net counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

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

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
<u>As of 31 December 2017</u>				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,535,132	332,367	1,202,765	64,696
Derivative financial instruments	364,018	289,241	74,777	1,010
Financial liabilities				
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
<u>As of 31 December 2016</u>				
Financial assets				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,495,199	309,718	1,185,481	41,835
Derivative financial instruments	580,355	478,769	101,586	60,855
Financial liabilities				
Accounts payable (excluding derivative financial instruments)	1,292,269	309,718	982,551	41,835
Derivative financial instruments	629,158	478,769	150,389	60,855

40 POST BALANCE SHEET EVENTS

Borrowings

In January 2018 the Group obtained a long-term loan from UniCredit S.p.A. in the amount of EUR 300 million at an interest rate of EURIBOR + 1.95 % due in 2022 under the agreement concluded in November 2017.

In January 2018 the Group obtained long-term loans in the amount of RUB 51,250 million due in 2023.

In February 2018 the Group issued Russian bonds in the amount of RUB 30,000 million at an interest rate of 7.15 % due in 2025.

In March 2018 the Group issued Loan Participation Notes in the amount of 750 million of Swiss Francs at an interest rate of 1.45 % due in 2023 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In March 2018 the Group issued Russian bonds in the amount of RUB 25,000 million at an interest rate of 7.2 % due in 2024.

In March 2018 the Group issued Loan Participation Notes in the amount of EUR 750 million at an interest rate of 2.5 % due in 2026 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In March 2018 the subsidiary Nord Stream 2 AG issued 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 & Finance B.V. in the amount of EUR 404 million, within the terms of the long-term financing agreement, signed between the parties in April 2017.

PJSC GAZPROM
INVESTORS RELATIONS

The Company may be contacted at its registered office:

PJSC Gazprom
Nametkina Str., 16
V-420, GSP-7, 117997, Moscow
Russia

Telephone: +7 (812) 609-41-29

Facsimile: +7 (812) 609-43-34

www.gazprom.ru (in Russian)

www.gazprom.com (in English)

**MANAGEMENT REPORT
PJSC GAZPROM
FOR 2017**

CONTENTS

THE GROUP'S POSITION IN THE GLOBAL ENERGY INDUSTRY.....	3
OPERATING RESULTS	4
Reserves and Development of Hydrocarbons.....	4
Transportation.....	13
Underground Gas Storage.....	16
Distribution of Gas.....	18
Refining	21
Power Generation	23
INNOVATION-DRIVEN DEVELOPMENT	26
PERSONNEL	27
OCCUPATIONAL SAFETY	28
ENVIRONMENTAL PROTECTION.....	29
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION	32
SHAREHOLDING STRUCTURE AND STOCK MARKET OF PJSC GAZPROM.....	42
CORPORATE GOVERNANCE.....	44
RISK MANAGEMENT	51
BRANCHES AND REPRESENTATIVE OFFICES OF PJSC GAZPROM.....	56
CONVERSION TABLE.....	57
GLOSSARY OF KEY TERMS AND ABBREVIATIONS	58
CONTACTS.....	60

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 2017. 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 2017 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. 17% of global gas reserves) and gas production (ca. 12% of global gas production). Gazprom’s share in total Russian production stands at 68% for gas and 11% for oil and gas condensate (including the Group’s share in production volumes of entities in which Gazprom has investments classified as joint operations).

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 2017, the combined length of trunk pipelines and connections operated by the Group’s gas transportation subsidiaries in Russia totalled 172.05 thousand km.

In Russia, Gazprom Group accounts for 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 34.2%.

The Group also owns electricity generating assets, which provide approximately 15% of all the electrical power generated in Russia. Gazprom is the largest Russian heat producer.

Gazprom Group’s key operational and financial indicators for 2017 and 2016 are presented in the tables below:

	As at and for the year ended 31 December		Change, %
	2017	2016	
Reserves of hydrocarbons under PRMS standards⁽¹⁾			
Proved and probable gas reserves, bcm	24,146.57	23,855.11	1.2
Proved and probable gas condensate reserves, mm tonnes	1,105.68	1,018.94	8.5
Proved and probable crude oil reserves, mm tonnes	1,360.02	1,378.72	–1.4
Total proved and probable hydrocarbon reserves ⁽²⁾ , bboe	175.72	173.26	1.4
Operating indicators			
Natural and associated petroleum gas production ⁽¹⁾ , bcm	472.1	420.1	12.4
Crude oil production ⁽¹⁾ , mm tonnes	48.6	47.2	3.0
Unstable gas condensate production ⁽¹⁾ , mm tonnes	15.9	15.9	–
Total hydrocarbon production ^{(1),(2)} , mm boe	3,550.2	3,202.5	10.9
Natural and associated petroleum gas processing, bcm	30.8	31.0	–0.6
Liquid hydrocarbons refining, mm tonnes	64.1	65.9	–2.7
Electricity generation, billion kWh	156.55	157.51	–0.6

	As at and for the year ended 31 December		Change, %
	2017	2016	
Key financial results, RUB mm			
Sales revenue	6,546,143	6,111,051	7.1
Operating profit	870,623	725,580	20.0
Profit for the year attributable to the owners of PJSC Gazprom	714,302	951,637	–24.9
Adjusted EBITDA	1,466,910	1,322,199	10.9
Balance Sheet highlights, RUB mm			
Cash and cash equivalents	869,007	896,728	–3.1
Total debt	3,266,518	2,829,623	15.4
Net debt	2,397,511	1,932,895	24.0
Total assets	18,238,770	16,918,938	7.8
Total equity (including non-controlling interest)	12,015,481	11,441,839	5.0
Ratios			
Earnings per share for profit attributable to the owners of PJSC Gazprom, RUB	32.32	42.19	–23.4
Total debt to equity ratio (including non-controlling interest)	0.27	0.25	8.0
Adjusted EBITDA margin, %	22.4	21.6	3.7
Profit margin for the year attributable to the owners of PJSC Gazprom, %	10.9	15.6	–30.1

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	
	2017	2016
Production of gas		
Assets, RUB million	2,677,231	2,636,296
Share in the Group's total assets, %	15.2	15.7
Production of oil and gas condensate		
Assets, RUB million	2,516,019	2,310,960
Share in the Group's total assets, %	14.3	13.8
	For the year ended 31 December	
	2017	2016
Production of gas		
Capital expenditures, RUB million	216,450	235,161
Share in the Group's total capital expenditures, %	14.4	17.3
Production of oil and gas condensate		
Capital expenditures, RUB million	330,424	326,366
Share in the Group's total capital expenditures, %	22.0	24.0

Reserves

According to an audit of Gazprom Group's hydrocarbon reserves under PRMS standards performed by DeGolyer and MacNaughton, as at 31 December 2017 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 175.72 bboe. The audit covered 94.1% of gas reserves, 92.7% of condensate reserves, and 93.5% of oil reserves in A, B₁, and C₁ 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:

		As at 31 December	
		2017	2016
Gas			
Share of A+B ₁ +C ₁ reserves covered by the audit under PRMS standards ⁽¹⁾ , %		94.1	95.4
Proved			
	bcm	18,253.39	18,596.47
	bboe	118.46	120.69
Probable			
	bcm	5,893.18	5,258.64
	bboe	38.25	34.13
Proved and probable			
	bcm	24,146.57	23,855.11
	bboe	156.71	154.82
Gas condensate			
Share of A+B ₁ +C ₁ reserves covered by the audit under PRMS standards ⁽¹⁾ , %		92.7	93.5
Proved			
	mm tonnes	797.75	759.23
	bboe	6.52	6.21
Probable			
	mm tonnes	307.93	259.71
	bboe	2.52	2.12
Proved and probable			
	mm tonnes	1,105.68	1,018.94
	bboe	9.04	8.33
Oil			
Share of A+B ₁ +C ₁ reserves covered by the audit under PRMS standards ⁽¹⁾ , %		93.5	93.3
Proved			
	mm tonnes	736.80	789.56
	bboe	5.40	5.79
Probable			
	mm tonnes	623.22	589.16
	bboe	4.57	4.32
Proved and probable			
	mm tonnes	1,360.02	1,378.72
	bboe	9.97	10.11

	As at 31 December	
	2017	2016
Total		
Share of A+B ₁ +C ₁ reserves covered by the audit under PRMS standards ⁽¹⁾ , %	94.0	95.2
Proved, bboe ⁽²⁾	130.38	132.69
Probable, bboe ⁽²⁾	45.34	40.57
Proved and probable, bboe ⁽²⁾	175.72	173.26

Notes:

- (1) The A+B₁+C₁ reserve classification accepted in Russia is based on geological data analysis and estimates the actual hydrocarbon reserves contained in geological formations. Under the new Classification of Reserves and Resources of Oil and Flammable Gases, approved by the Ministry of Natural Resources and Environment of the Russian Federation (Decree No. 477 dated 1 November 2013) and effective from 1 January 2016, A+B₁+C₁ categories comprise explored reserves of high geological certainty and correspond to the previously used A+B+C₁ categories. PRMS standards take into account not only the probability of hydrocarbon presence in geological formations but also 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 2.46 bboe from the previous estimate as at 31 December 2016. 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 an audit of the Yuzhno-Lunskoye, Zemlyanskoye, Novosamarskoye, Severo-Samburgskoye, and Kamennomysskoye (onshore) fields, as well as re-estimation of reserves contained in the Malyginskoye field, Achimov deposits of the Urengoyeskoye field, and Cenomanian deposits of the Yamburgskoye field.

The bulk of the Group's hydrocarbon reserves is concentrated within its licence areas in Russia. International reserves of the Group are seen as insignificant.

As at 31 December 2017, Gazprom Group held 265 subsoil licences for conducting geological surveys, prospecting, exploration, and production of hydrocarbons in the Russian Federation. These licence blocks aggregately cover the area of 547.5 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 2017, Gazprom Group's A+B₁+C₁ hydrocarbon reserves in Russia were 35,355.4 bcm of natural gas, 1,595.6 mm tonnes of gas condensate, and 2,045.3 mm tonnes of oil, including the share in the reserves of entities in which Gazprom Group has investments classified as joint operations – 24.3 bcm of gas, 2.8 mm tonnes of gas condensate, and 183.2 mm tonnes of oil.

The Group's share in A+B₁+C₁ hydrocarbon reserves of associates and joint ventures as at 31 December 2017 was 1,003.8 bcm of natural and associated gas, 100.8 mm tonnes of gas condensate, and 578.3 mm tonnes of oil.

The table below shows changes to A+B₁+C₁ 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 2017:

	Natural gas, bcm	Gas condensate, mm tonnes	Oil, mm tonn es	Total, mm boe
Reserves as at 31 December 2016	36,443.9	1,534.9	2,078.5	264,311.8
including non-controlling interests⁽¹⁾	622.3	4.2	68.6	4,575.9
Exploration-based additions to reserves	852.9	95.6	3.3	6,341.5
Transfer of reserves discovered in 2017 to the Russian open acreage ⁽²⁾ , to the books of other companies; acquisition from other companies	-46.4	—	1.2	-292.3
Obtaining of licences	12.8	1.9	—	98.6
Licence returns	-0.1	—	—	-0.6
Acquisition of assets	—	—	—	—
Disposal of assets	—	—	-9.4	-68.9
Re-estimation	-1,437.8	-24.8	19.8	-9,389.1
Production (including losses)	-469.9 ⁽³⁾	-12.0 ⁽⁴⁾	-48.1	-3,500.4
Reserves as at 31 December 2017	35,355.4	1,595.6	2,045.3	257,500.6
including non-controlling interests⁽¹⁾	517.9	4.2	71.2	3,917.4

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 (C₅₊). In 2017, Gazprom Group produced 15.9 mm tons of unstable gas condensate.

Re-estimation of reserves

Accounting for reserves under the new Russian Classification of Reserves and Resources of Oil and Flammable Gases using gas recovery factors (GRFs) since January 2016 was a major factor behind the changes in A+B₁+C₁ natural gas reserves vs the estimate as at 31 December 2016. As at 31 December 2017, Gazprom completed the GRF estimation for fields containing 19% of Gazprom Group's A+B₁+C₁ reserves (Kirinskoye, Bovanenkovskoye, Yen-Yakhinskoye, Yamburgskoye (Cenomanian), Yuzhno-Russkoye (Cenomanian and Turonian), and Chayandinskoye). Following the GRF re-estimation, the reported recoverable reserves of natural gas decreased by 1,281.6 bcm.

Exploration

The table below shows summary information on the exploration activities completed in 2017 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 2017

	In Russia	Abroad⁽¹⁾
Exploration drilling, thousand m	85.9	18.4
Completed exploration wells, units	36	8
including successful wells	31	5
2D seismic surveys, thousand km	—	—
3D seismic surveys, thousand square km	18.7	1.2
Financing for exploration (including VAT), RUB billion	82.6	4.1

Note.

⁽¹⁾ 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 12.8 thousand m, with four exploration wells completed and flowing, and 3D seismic was acquired on 0.2 thousand square km.

In 2017, exploration-driven additions to Gazprom Group's A+B₁+C₁ hydrocarbon reserves in Russia totalled 852.9 bcm of natural gas, 95.6 mm tonnes of gas condensate, and 3.3 mm tonnes of oil. The bulk of this growth in gas reserves was concentrated at the Tambeyskoye (395.5 bcm) and Malyginskoye (201.1 bcm) fields on the Yamal Peninsula, and in the Achimov deposits of the Urengoyetskoye field in the Yamal-Nenets Autonomous Area (194.9 bcm). In 2017, reserves were estimated at 48.9 bcm of gas for the Yuzhno-Lunskoye field within the Kirinsky prospect on the Sea of Okhotsk continental shelf.

C₁+C₂ reserves grew during the reporting year at the Tambey cluster fields (Tambeyskoye and Malyginskoye) from 2.6 tcm as at 31 December 2016 to 7.7 tcm as at 31 December 2017 (including 7.4 tcm within PJSC Gazprom's licence blocks). Gazprom's surveys found that the Severo-Tambeyskoye, Zapadno-Tambeyskoye, and Tasiyskoye fields, previously considered to be separate fields, are in fact one and the same Tambeyskoye field.

The Group discovered four fields during 2017 – Yuzhno-Lunskoye (the Sea of Okhotsk continental shelf), Salairskoye (the Krasnoyarsk Territory), Alexander Zhagrin (the Khanty-Mansi Autonomous Area – Yugra), and Novozarinskoye (the Orenburg Region), and 47 new deposits at previously discovered fields in the Yamal-Nenets Autonomous Area, Khanty-Mansi Autonomous Area – Yugra, and in the Tomsk, Irkutsk, and Orenburg Regions. In addition, entities in which Gazprom has investments classified as joint operations discovered the Melimovskoye field in the Tomsk Region, as well as five deposits in the Khanty-Mansi Autonomous Area – Yugra, and in the Tomsk Region.

Gazprom completed the construction of a 2,700 m exploration well within the Ayashsky licence block on the Russian Sea of Okhotsk continental shelf (Sakhalin-3 project) during the reporting year. When tested, the well produced commercial oil flow, and reserves will be estimated in 2018.

The reserve replacement ratio for the Group's assets in Russia was 1.82 for natural gas, and 1.64 for gas condensate and oil.

During 2017, 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 Romania and Iraq, as well as 3D seismic surveys in Serbia. The exploration programmes discovered three fields in Serbia, and one field in Romania.

Exploration campaigns across projects not operated by Gazprom Group resulted in the discovery of Winchelsea field in 2017.

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
For the year ended 31 December 2017				
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 production volumes of associates and joint ventures	27.0	5.0	10.9	296.0
For the year ended 31 December 2016				
Production of Gazprom Group, including the share in production volumes of entities in which Gazprom has investments classified as joint operations	420.1	15.9	47.2	3,202.5
Gazprom Group's share in the production volumes of associates and joint ventures	27.2	5.2	9.9	291.6

In 2017, Gazprom Group produced 472.1 bcm of natural and associated gas in Russia, up 12.4% year-on-year, including the share in production volumes of entities in which Gazprom has investments classified as joint operations (1.1 bcm of natural and associated gas).

Gazprom Group produced 48.6 mm tonnes of oil, including the share in production volumes of entities in which Gazprom has investments classified as joint operations (7.6 mm tonnes). The production increase was driven by higher oil production from the Novoportovskoye and Prirazlomnoye fields following the drilling of production wells with a total production of 8.6 mm tonnes.

Gazprom Group produced 15.9 mm tonnes of gas condensate in 2017.

In 2017, associates and joint ventures produced 27.0 bcm of natural and associated gas, 5.0 mm tonnes of gas condensate, and 10.9 mm tonnes of oil (share attributable to Gazprom Group). Oil production increased due to higher production from JSC Messoyakhneftegaz-operated Vostochno-Messoyakhskoye field, put into commercial development in 2H 2016. The company is owned by PJSC Gazprom Neft and PJSC Rosneft as equal shareholders.

Naftna Industrija Srbije (NIS), a Serbian subsidiary of Gazprom Neft Group, produced 1.0 mm tonnes of oil and 0.5 bcm of natural and associated gas in 2017.

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):

	As at 31 December 2017	
	In Russia	Abroad
Fields in commercial development	136	46
Fields in pilot development	18	2
Gas production wells (active)	7,438	81
Oil production wells (active)	7,358	737

In addition, as at 31 December 2017, entities in which Gazprom has investments classified as joint operations had 35 fields in commercial development, and six fields under pilot development.

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:

- projects within licence blocks 05–2 and 05–3 in the Vietnamese section of the South China Sea bed (49% held by Gazprom Group). Total gas production in 2017 from the Moc Tinh and Hai Thach fields was 2.0 bcm of gas.
- Ipati and Aquio licence blocks in Bolivia (20% held by Gazprom Group). Total gas production in 2017 from the Incahuasi field was 2.5 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 2017, a total 3.8 mm tonnes of oil were produced from the Badra field, and gas supplies were started to Az-Zubaidiya power station supplying electric power to several provinces across Iraq and the capital city of Baghdad.

Wintershall Noordzee B.V. joint venture (50% held by the Group) produced 0.8 bcm of gas in 2017. The company also started the commercial development of the Ravn oil field in the Danish North Sea.

In Lybia, the Group's associate Wintershall AG (50% owned by the Group) operates nine fields on oil concessions C96 and C97, with production interruptions due to the unstable political situation in the country. A total 1.5 mm tonnes of oil and 0.2 bcm of associated petroleum gas were produced in 2017.

Major capex projects

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

As part of its gas production capex projects, Gazprom commissioned in 2017 two booster compressor stations at the Zapolyarnoye OGCF (Phase 1) and the Bovanenkovskoye OGCF (Phase 2, Stage 1) with combined capacity of 176 MW, and added new, 16 MW gas pumping unit to the booster compressor station (Phase 2) at the Zapadno-Tarkosalinskoye OGCF.

As part of oil production initiatives, the following facilities were commissioned to improve APG utilisation rates:

- a gas compressor station at the Shinginskoye field with an annual capacity of 150 mmcm and two vacuum compressor stations at the Shinginskoye and Luginetskoye groups of fields

- a gas pipeline to bring gas from the Orenburgskoye OGCF's Eastern block to the Orenburg GPP
- a CGTU with an annual capacity of 3.6 bcm at the Novoportovskoye field, to support APG treatment and utilisation through re-injection into a reservoir to maintain formation pressure.

Apart from that, new production wells were commissioned in Russia: 37 gas wells, and 666 oil wells. Production drilling totalled 240.8 thousand m for gas, and 2,559.5 thousand m for oil.

Outside Russia, a CGTU (Phase 1) and an export gas pipeline were commissioned as part of the Badra field development project in Iraq.

Oil and gas condensate sales

In 2017, Gazprom Group sold 27.6 mm tonnes of crude oil and stable gas condensate, up by 2.9 mm tonnes, or 11.7%, year-on-year, with total net sales revenue (net of VAT and customs duties) reaching RUB 540.0 bn, up by RUB 128.0 bn, or 31.1% year-on-year, a significant increase over 2016 driven mostly by increased revenue from sales to Europe and other countries due to higher prices and sales volumes.

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, %
	2017 ⁽¹⁾	2016 ⁽¹⁾	
Russia	4.3	5.9	-27.1
including Gazprom Neft Group	2.8	4.4	-36.4
FSU countries	1.7	1.7	—
including Gazprom Neft Group	1.7	1.7	—
Europe and other countries	21.6	17.1	26.3
including Gazprom Neft Group	19.3	13.6	41.9
Total	27.6	24.7	11.7

Note.

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

Higher sales to Europe and other countries in 2017 were attributable to increased oil production from the Novoportovskoye and Prirazlomnoye fields, and start-up of production from the Vostochno-Messoyakhskoye field in Russia, as well as oil production growth in Iraq, and decline in oil refining volumes. Lower sales in the domestic market were due to lower cost-efficiency of oil trading operations.

Gazprom Group's performance is affected by the global and domestic oil prices. According to PLATTS, the average price of Urals crude (average quotes of Urals Mediterranean and Urals Rotterdam) was USD 53.06 per barrel in 2017, up by 26% year-on-year.

Crude oil benchmark	January	February	March	April	May	June
USD per barrel						
Brent ⁽¹⁾	54.67	55.11	51.56	52.53	50.43	46.52
Urals ⁽²⁾	53.30	53.68	49.92	51.30	49.33	45.88
Urals-Brent spread	1.37	1.43	1.65	1.23	1.10	0.64

Crude oil benchmark	July	August	September	October	November	December
USD per barrel						
Brent ⁽¹⁾	48.56	51.64	56.05	57.36	62.62	64.19
Urals ⁽²⁾	47.90	50.89	53.84	56.34	61.78	63.45
Urals-Brent spread	0.66	0.75	2.20	1.02	0.84	0.74

Notes:

⁽¹⁾ Based on daily average Brent quotes calculated as the average between the highest and lowest intraday prices.

⁽²⁾ Based on daily average quotes of Urals Mediterranean and Urals Rotterdam calculated as the average between the highest and lowest intraday prices.

Events in the reporting year

A framework was established in 2017 to expand Russian-Iranian cooperation. During 2017, Gazprom and Iranian companies signed a number of agreements for cooperation in exploration, production, transportation, processing, and marketing of hydrocarbons. The documents provide a framework to further expand bilateral partnerships across the entire value chain from production to marketing.

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 of 471 bcm of gas per year (excluding the share in production volumes of entities in which Gazprom has investments classified as joint operations).

One of Gazprom's key production objectives is to achieve target production rates for the existing fields, bring online new fields in the Nadym-Pur-Taz region, further explore the deposits in deep-lying Achimov and Jurassic sediments and above the Cenomanian sediments in fields under development in the Yamal-Nenets Autonomous Area, and launch production at unique, large fields in the Yamal Peninsula and on the continental shelf in Russian northern seas to sustain and increase hydrocarbon production levels. Gazprom consistently adds production capacity within the Nadym-Pur-Taz region and the Bovanenkovskoye field in the Yamal Peninsula.

Strategic priority gas production regions over the longer term include the Yamal Peninsula (Cenomanian-Aptian deposits of the Kharasaveyskoye field, Neocomian-Jurassic deposits of the Bovanenkovskoye and Kharasaveyskoye fields, and the Kruzenshternskoye field), and 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).

Gazprom is making consistent progress in building gas production hubs in Russia's Eastern regions, with the Chayandinskoye oil and gas condensate field being the core field for the Yakutsk gas production hub, and the Irkutsk gas production hub being formed around the Kovyktinskoye gas and condensate field. 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.

Gazprom Neft Group aims to increase its annual hydrocarbon production to 100 mm tonnes of oil equivalent by 2020 and sustain this rate through 2025, maintaining a proved reserve life of at least 15 years. To achieve these targets, Gazprom Neft Group intends to maximise the profitability of the remaining resource extraction at its active production sites through the roll-out of best development optimisation practices, the reduction of the cost of tested production technologies, and the adoption and commercial introduction of new technologies. The company contemplates a new production hub in the northern part of the Yamal-Nenets Autonomous Area. Gazprom Neft Group treats unconventional reserves as a growth opportunity and will expand this asset class as an important component of its portfolio.

Transportation

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

	As at 31 December	
	2017	2016
Assets, RUB million	6,721,549	6,596,937
Share in the Group's total assets, %	38.1	39.3
	For the year ended 31 December	
	2017	2016
Capital expenditures, RUB million	498,550	406,828
Share in the Group's total capital expenditures, %	33.1	30.0

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 2017, the combined length of trunk pipelines and connections operated by the Group's gas transportation subsidiaries in Russia totalled 172.05 thousand km (taking into account technological jumpers). The gas transportation system (GTS) comprises 254 compressor stations, equipped with a total 3,844 gas pumping units with a combined capacity of 46,700 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 2017	
	Length, thousand km	Share, %
10 years or less	17.31	10.1
11 to 20 years	16.22	9.4
21 to 30 years	40.85	23.8
31 to 40 years	55.13	32.0
41 to 50 years	24.81	14.4
Over 50 years	17.73	10.3
Total	172.05	100.0

During 2017, a total 672.1 bcm of gas were supplied into Gazprom's GTS in Russia, up 8% year-on-year. The growth was driven by higher demand and subsequent increase in gas supplies by Gazprom and non-Group companies. In 2017, the amount of natural gas consumed for the GTS' own operational needs was 37.3 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 2017, the volume of gas transported via Gazprom Group's GTS in Russia by companies outside Gazprom Group was 137.9 bcm (129.0 bcm in 2016).

All overhauls of the gas transportation system facilities scheduled for the reporting year under the relevant targeted comprehensive repair programmes were completed in full.

Gazprom Group subsidiaries own the gas transportation systems in Belarus, Armenia, and Kyrgyzstan. OJSC Gazprom transgaz Belarus is the Group's core gas transportation asset abroad, supplying natural gas to consumers in Belarus, and carrying transit supplies of gas to Europe and

Russia's Kaliningrad Region. Daily requests by PJSC Gazprom to transport Russian natural gas through Belarus were satisfied in full.

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

(bcm)	For the year ended 31 December	
	2017	2016
Belarus		
(OJSC Gazprom transgaz Belarus and the Yamal – Europe trunk gas pipeline)	61.2	60.3
including gas in transit	42.2	41.7

Gas transportation services in foreign countries are provided to the Group by a number of entities in which Gazprom has a non-controlling interest. Nord Stream and Blue Stream, offshore cross-border pipeline systems constructed with the Group'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.

Offshore cross-border pipeline systems constructed with the Group's involvement secured gas supplies to consumers in Northwest and Central Europe (Nord Stream, 51.0 bcm of gas in 2017, up 16.0% year-on-year) and Turkey (Blue Stream, 15.9 bcm in 2017, up 21% year-on-year). The increase in gas volumes transported through Nord Stream in 2017 followed the resolution of issues related to the use of the OPAL pipeline capacity for transit supplies while gas volumes carried via Blue Stream increased in response to higher demand from Turkish consumers.

Major capex projects

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

A total 640.2 km of new trunk gas pipelines and connections were commissioned in Russia in 2017. Gazprom made investments in upgrades to its gas transportation infrastructure, commissioning in 2017 three gas pumping units with a total capacity of 40 MW, 100.2 km of linear section trunk pipelines and connections, and six gas distribution stations.

Events in the reporting year

In April and June 2017, financing agreements were signed with ENGIE, OMV, Shell, Uniper, and Wintershall for the Nord Stream 2 offshore pipeline project. The European energy companies committed to provide long-term financing for 50% of the total cost of the project.

Construction of the TurkStream gas pipeline commenced in May 2017.

Outlook for the Transportation segment

Expansion of PJSC Gazprom's gas transportation capacity is done in tandem and close coordination with the development of gas production and storage, and also takes into account the degree of readiness to receive gas shown by new consumers, as well as export projects.

Timelines for commissioning new and upgrading existing gas transportation facilities are scheduled with a long-term perspective and depend on their effective utilisation periods and the need to maintain optimal throughput of the existing GTS. This approach helps prevent introducing excess capacity, ensure efficient and flexible use of PJSC Gazprom's investments, and optimise gas transportation costs.

Apart from greenfield gas transmission projects, Gazprom also upgrades and retrofits its existing gas transportation facilities.

Gazprom is decommissioning excess capacity of the Central Gas Transmission Corridor to improve operational efficiency of its gas transmission capacity taking into account the diversification of its

gas export routes. Excess capacity is slated for retirement taking into account the need to have required back-up capacity available to maintain the reliability of the transportation network in the future.

To ensure gas supplies to the domestic market and meet its obligations under export contracts, PJSC Gazprom is implementing a number of gas transmission projects.

The Bovanenkovo – Ukhta and Ukhta – Torzhok trunk gas pipeline systems are intended to carry gas from the Yamal fields.

To diversify export routes for Russian pipeline gas supplies to PJSC Gazprom's traditional European market, Gazprom continued to implement its Nord Stream 2 project. The new pipeline, to be laid from Russia to Germany across the Baltic Sea will comprise two offshore strings with a capacity of 27.5 bcm each. Western and Central European countries are the project's target markets. Pipeline capacity additions are planned along the Gryazovets – Volkhov – Russian Baltic Sea Coast route to support gas supplies via Nord Stream 2. The Nord Stream 2 project is proceeding on schedule, with both strings expected to be commissioned in Q4 2019.

In the reporting year, PJSC Gazprom continued to focus on the TurkStream project to supply Russia's natural gas across the Black Sea to Turkey, and further to its neighbouring countries.

As part of its consistent efforts to ensure geographic diversification of routes for Russian gas exports, Gazprom pays particular attention to pipeline gas supplies from Russia to China.

Gazprom has been constructing the Power of Siberia trunk gas pipeline project since 2014 to transmit gas from Yakutsk and Irkutsk gas production hubs to consumers in Russia's Far East and in China. According to a schedule set out in the EPC-contract, construction of an underwater crossing of the Amur River commenced from the Chinese side in September 2017, and from the Russian side in April 2017. Construction of the pipeline's tunnel crossing line 1 was completed in November 2017.

The project is pursued to meet Russia's obligations under the 2014 agreement for Russian pipeline gas supplies to China via the eastern route. The sales and purchase agreement provides for exports of 38 bcm of gas per year over 30 years, and came into full force in May 2015. In July 2017, PJSC Gazprom and China National Petroleum Corporation (CNPC) signed a supplementary agreement to the contract, providing for the delivery of natural gas supplies into China's gas transportation system to commence before or on 20 December 2019.

In May 2015, PJSC Gazprom and CNPC signed the Heads of Agreement for pipeline gas supplies to China via the Power of Siberia 2 gas pipeline.

In addition, PJSC Gazprom and CNPC signed in December 2017 the Heads of Agreement for natural gas supplies from Russia's Far East to China. The document outlines the basic parameters of future supplies, namely the volumes, the term of the contract, the starting date of supplies, the ramp-up period, and the cross-border point location.

Underground Gas Storage

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

	As at 31 December	
	2017	2016
Assets, RUB million	347,929	393,482
Share in the Group's total assets, %	2.0	2.3

	For the year ended 31 December	
	2017	2016
Capital expenditures, RUB million	37,694	35,542
Share in the Group's total capital expenditures, %	2.5	2.6

A network of underground gas storage facilities (UGSFs) is an integral part of the country's Unified Gas Supply System (UGSS). Storage facilities offset any fluctuations in demand, whether seasonal, weekly or daily, accounting for 20% to 40% of Gazprom's total supplies during the heating season. Peak and base load gas storage facilities improve reliability of the UGSS infrastructure, and optimise technical parameters and capital intensity of gas transportation systems.

In Russia, Gazprom operates 22 UGSFs in 26 geological structures: 17 facilities in depleted gas deposits, eight in aquifers, and one in a salt cavern. The storage facilities are located in 19 regions. Their operation is supported by 19 compressor stations with an aggregate capacity of 948.5 MW, and the operating well stock of 2,694 units.

As at 31 December 2017, the Group's UGSFs in Russia had an aggregate total gas storage capacity of 74.9 bcm. During 2017, withdrawal and injection amounts for Russian UGSFs totalled 45.5 bcm and 44.2 bcm of gas, respectively.

The maximum aggregate daily deliverability was registered on 8 February 2017 at 590.5 mmcm. By the start of the 2017/2018 withdrawal season, the potential maximum daily deliverability was increased to 805.3 mmcm of gas, an increase of 4 mmcm from the previous year. By the 2017/2018 withdrawal season, operating gas reserves in Russian UGSFs increased by 0.086 bcm from the previous season to 72.2 bcm.

The improved performance in 2017 was driven by a recovery in target well productivity, and by renovations of the existing Punginskoye, Sovkhoznoye, Severo-Stavropolskoye, and Kaliningradskoye UGSFs.

As a means to build strategic natural gas inventories, underground gas storage facilities are indispensable for addressing transit risks inherent to exports.

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 2017, the operating gas reserves in FSU-based UGSFs totalled 3.0 bcm, with a daily deliverability of 55.6 mmcm.

To secure reliable and flexible gas supplies, Gazprom's export projects make 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).

In 2017, Gazprom's own gas storage capacity in far abroad European countries totalled 5.03 bcm, with an aggregate daily deliverability of 83.3 mmcm of gas. In 2017, a total of 8.6 bcm of gas were pumped into UGSFs in far abroad European countries, with a total gas withdrawal of 4.3 bcm.

The Group's gas storage facilities are marketed mostly through a standalone business in the European market, operated by astora GmbH & Co. KG, part of Gazprom Germania Group. As at 31 December 2017, astora GmbH & Co. KG leased out 0.8 bcm of working gas capacity at Jemgum and Haidach UGSFs to companies outside Gazprom Group, which makes up ca. 12% of available gas storage capacity.

Major capex projects

The bulk of capital expenditures for underground gas storage in Russia was used towards salt cavern construction at the Kaliningradskoye and Volgogradskoye UGSFs, renovation of the Sovkhoznoye UGSF and the existing capacity to transmit gas from the Severo-Stavropolskoye UGSFs, as well as production drilling at underground gas storage facilities. New capacity was commissioned at the Punginskoye, Kaliningradskoye, and Sovkhoznoye UGSFs in 2017, increasing the aggregate total gas storage capacity by 1.3 bcm, with a 32.0 MW compressor station launched at the Punginskoye UGSF, 24 wells connected, and renovation of gas production facilities and the gas treatment unit completed at the Krasnodarskoye UGSF.

Outlook for the Gas storage segment

Gazprom's forward-looking plans provide for further expansion of its UGSF network with a focus on the following areas:

- Sustaining the capacity levels achieved for the UGSF network through renovation and replacement of worn-out and obsolete fixed assets, as well as de-bottlenecking of UGSFs and the GTS
- Improving the flexibility of Russia's UGSF system by constructing small, peak load balancing gas storage facilities in salt caverns to maintain deliverability rates during increased gas withdrawal periods through to 1 February (the date of the calculated indicator of the maximum seasonal lowering of the ambient air temperature)
- Providing underground gas storage capacity to the regions where such capacity is in short supply (new UGSFs are planned for construction in the Northwestern, Siberian, and Far Eastern Federal Districts of the Russian Federation)

A total of 47 UGSF capex projects are planned in Russia (including well workovers and drilling, expansion and upgrades of the GTS connections), of which 36 projects aim to sustain the achieved capacity through upgrades and retrofits, four to expand existing capacity, and seven to construct new gas storage facilities (peak load balancing facilities and facilities in the regions with a shortage of storage capacity).

Plans until 2030 include commissioning total gas storage capacity of 4.77 bcm and 11 compressor plants with an aggregate capacity of 228 MW, and connecting 130 wells.

A major focus of the Group's investment programmes is on expanding its underground gas storage system to ensure uninterrupted gas supply to European consumers during autumn/winter peak demand periods and during repairs at GTS, as well to boost gas sales from foreign-based underground gas storage facilities. In terms of international underground gas storage expansion, the challenge is to expand Gazprom Group's UGSFs in foreign countries to an aggregate working gas capacity equal to at least 5% of annual export volumes by 2030, with a focus on constructing own storage capacity. Gazprom is planning to further expand aggregate working gas capacity by adding new capacity to the Katarina UGSF in Germany and Dambořice UGSF in the Czech Republic based on their respective expansion schedules.

Distribution of Gas

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

	As at 31 December	
	2017	2016
Assets, RUB million	1,669,202	1,557,089
Share in the Group's total assets, %	9.5	9.3

	For the year ended 31 December	
	2017	2016
Capital expenditures, RUB million	51,675	41,785
Share in the Group's total capital expenditures, %	3.4	3.1

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

(bcm)	For the year ended 31 December		Change, %
	2017	2016	
Russia	229.9	214.9	7.0
FSU countries ⁽¹⁾	35.0	33.2	5.4
Europe and other countries ⁽¹⁾	242.0	228.3	6.0
Total	506.9	476.4	6.4

Note:

- ⁽¹⁾ 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 2017, Gazprom Group sold 242.0 bcm of natural gas to Europe and other countries, up by 13.7 bcm, or 6.0%, year-on-year. Net sales revenue (net of excise tax and customs duties) was RUB 2,221.2 bn, up 3.8% year-on-year.

The natural gas sold to Europe and other countries in 2017 accounted for 48% of Gazprom Group's total gas sales (48% in 2016) and 66% of total revenue from gas sales (65% in 2016).

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 194.4 bcm, up by 15.1 bcm, or 8.4%, 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 34.2% for 2017.

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

The significant increase in supplies was mainly driven by higher natural gas consumption in Europe (above all, in electricity generation), with domestic gas production in the region growing only marginally year-on-year. The increase was also supported by PJSC Gazprom's competitive gas prices.

Gas withdrawals demonstrated a significant growth in Germany and Turkey, while in Italy gas withdrawals dropped due to increased alternative supplies.

LNG sales from Gazprom Group's trading portfolio totalled 3.34 mm tonnes, or 4.46 bcm, in 2017. Another country, Spain, was added to the list of destination markets for LNG supplies out of the Group's trading portfolio.

Corporates in Asia Pacific, in particular in Japan (36%) and China (19%), were the key buyers of LNG from Gazprom Group's trading portfolio in 2017, just like in previous years.

Gazprom is the largest natural gas supplier on the Russian market. In 2017, gas consumption in Russia totalled 468.0 bcm, up by 2.5% year-on-year. This growth was mostly driven by lower temperatures in 2H 2017.

In 2017, Gazprom Group sold 229.9 bcm of gas to consumers in the Russian Federation, with net sales revenue (excluding VAT) at RUB 875.7 bn, up by 6.8% year-on-year. Natural gas sold to Russian consumers in 2017 accounted for 45% (45% in 2016) of Gazprom Group's total gas sales and ca. 26% of total revenue from gas sales (25% in 2016).

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 2017, Gazprom Group sold 35.0 bcm of gas to the FSU countries, with net sales revenue (net of customs duties) at RUB 292.8 bn, down by 5.4% year-on-year.

Natural gas sold to the FSU countries in 2017 and 2016 accounted for 7% of Gazprom Group's total gas sales, and 9% of gas sales revenue.

The increase in gas supplies to FSU countries in 2017 resulted from higher demand and gas withdrawals in Belarus and the Baltic states, and the resumption of gas supplies to Azerbaijan.

Domestic natural gas prices

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

	For the year ended 31 December	
	2017	2016
	(net of VAT)	
RUB per mcm	3,808.3	3,815.5

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 2017, wholesale gas prices for subsequent resale to household consumers were 5% 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. These prices are differentiated between consumer groups (prices of gas purchased for resale to households vs industrial consumers), as well as by price zone, based on the relative distance from the gas production region to the consumer.

The Forecast of Russia's Socio-economic Development drafted by the Russian Ministry of Economic Development and approved by the Government in September 2017 assumes increases in domestic regulated wholesale gas prices by 3.4% from 1 July 2018, by 3.1% from 1 July 2019, and by 3.0% from 1 July 2020.

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 2018 and 2020, annual average increase vs the previous year:

	2018	2019	2020
Change in the average regulated wholesale prices for all Russian consumer groups, %	3.4	3.1	3.0
Change in the average regulated wholesale prices for all consumers excluding households, %	3.4	3.1	3.0
Change in the average regulated wholesale prices for households, %	3.4	3.1	3.0

To promote market-driven pricing principles, PJSC Gazprom is actively in exchange-based gas trade at the Saint Petersburg International Mercantile Exchange (SPIMEX). In 2017,

PJSC Gazprom sold 17.5 bcm of gas through the exchange-based trading channel, the maximum allowed it is allowed to sell in this 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:

	For the year ended 31 December	
	2017	2016
	(including excise tax and customs duties)	
Natural gas sales to Europe and other countries ⁽¹⁾		
USD per mcm ⁽²⁾	200.2	176.0
RUB per mcm	11,670.5	11,763.3
Natural gas sales to FSU countries ⁽¹⁾		
USD per mcm ⁽²⁾	158.4	153.6
RUB per mcm	9,237.0	10,263.1

Notes:

(1) (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

In 2017, Gazprom Group continued 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. LNG will be marketed as an off-mains solution and as an NGV and bunker fuel, or supplied as necessary to an LNG regasification terminal in the Kaliningrad Region.

The Group's investments in gas infrastructure expansion in Russia account for the bulk of capital expenditures for the Distribution of gas segment. As part of the Programme for Expansion of Gas Infrastructure in Russian Regions, the Group completed the construction of 121 inter-community gas pipelines in 2017, spanning a total of 1,848 km across 32 Russian regions and supplying gas to 207 locations. 51.8 thousand households and 173 boiler houses, with a total annual gas consumption of 0.4 bcm, will be ready to receive gas as soon as regional administrations fully meet their commitments.

Events in the reporting year

In 2017, the starting date was finalised for natural gas supplies to China via the eastern route: in July 2017, PJSC Gazprom and China National Petroleum Corporation (CNPC) signed a supplementary agreement to the the gas sales and purchase agreement, providing for the delivery of the first gas via the eastern route into China's gas transmission system before or on 20 December 2019.

PJSC Gazprom and Shell continued their joint Baltic LNG project: in June 2017, the two companies signed the Joint Study Framework Agreement for the Baltic LNG project and the Heads of Agreement to set up a joint venture which will construct and operate the planned LNG plant in the Leningrad Region.

Also during the year, positive opinions were obtained from Russia's Main Directorate of State Expert Review (GlavgosExpertiza) for the Sakhalin-2 T3 project, including for design documents developed to Russian standards for the expansion of the project's gas transportation system and LNG plant, and construction of a LNG loading berth.

Refining

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

	As at 31 December	
	2017	2016
Assets, RUB million	1,715,485	1,361,161
Share in the Group's total assets, %	9.7	8.1
	For the year ended 31 December	
	2017	2016
Capital expenditures, RUB million	225,240	193,243
Share in the Group's total capital expenditures, %	15.0	14.2

Processing of hydrocarbons and production of refined products

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

	For the year ended 31 December	
	2017 ⁽¹⁾	2016 ⁽¹⁾
Natural and associated gas, bcm	30.8	31.0
Liquid hydrocarbon feedstocks, mm tonnes	64.1	65.9

Note:

⁽¹⁾ Excluding tolling arrangements.

In 2017, Gazprom Group (including its equity share of the APG processing volumes of LLC Yuzhno-Priobskiy GPZ, classified as joint operations) processed 30.8 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 down by 2.7% to 64.1 mm tonnes mainly due to lower processing volumes at Gazprom Neft Group's facilities due to renovation projects and scheduled overhauls.

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

	For the year ended 31 December			
	2017 ⁽¹⁾		2016 ⁽¹⁾	
	Total	including abroad	Total	including abroad
Dry gas, bcm	23.6	—	24.0	—
Liquefied petroleum gases, mm tonnes	3.5	0.1	3.5	0.1
including Gazprom Neft Group	0.7	0.1	0.9	0.1
Natural gas liquids, mm tonnes	1.3	—	1.8	—
Stable gas condensate and crude oil, mm tonnes	8.7	—	8.2	—
Oil products, mm tonnes	49.4	3.4	50.2	3.1
including Gazprom Neft Group	38.4	3.4	38.8	3.1
including Gazprom neftekhim Salavat Group	5.2	—	5.5	—
Helium, mmcm	5.1	—	5.1	—
Sulphur, mm tonnes	5.0	0.0 ⁽²⁾	4.9	0.0 ⁽²⁾
including Gazprom Neft Group	0.1	0.0 ⁽²⁾	0.2	0.0 ⁽²⁾

Notes:

⁽¹⁾ Excluding tolling arrangements.

⁽²⁾ Less than 0.05.

Sales of refined products

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

(mm tonnes)	For the year ended 31 December		Change, %
	2017 ^{(1), (2)}	2016 ^{(1), (2)}	
Russia	41.0	41.2	–0.5
including Gazprom Neft Group	28.0	27.8	0.7
FSU countries	3.6	3.6	–
including Gazprom Neft Group	2.5	2.5	–
Europe and other countries	21.5	23.3	–7.7
including Gazprom Neft Group	13.0	14.4	–9.7
Total	66.1	68.1	–2.9

Notes:

(1) Excluding intra-group sales. Sales of own products and products purchased from third parties.

(2) Excluding helium.

In 2017, Gazprom Group's sales of oil and gas refined products were 66.1 mm tonnes, down by 2.0 mm tons, or 2.9% year-on-year.

Total sales of refined oil and gas products by Gazprom Group declined in 2017 due to a lower output of refined products resulting from scheduled overhauls at Gazprom Neft Group's refineries.

Major capex projects

Gazprom Group's capital expenditures for the Refining segment were directed towards the following projects in 2017:

- projects to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region: construction of the Urengoy – Surgut gas condensate pipeline (Line 2), and the 107 km – 288 km section; construction of a stabilisation unit for Achimov deposit condensate from the Nadym-Pur-Taz region; construction of the Urengoy – Purpe oil and condensate pipeline, and the Urengoy oil pumping station;
- construction of the Amur GPP;
- renovation of Phase 1 and Phase 2 of the Astrakhan Gas Processing Plant into an integrated operation;
- construction and upgrade of oil refining and petrochemical facilities at Gazprom neftekhim Salavat Group, including the construction of a hydrogen unit with a pressure swing adsorption (PSA) facility; a pentane-hexane fraction isomerisation plant, a catalytic cracking complex, a sulphide and alkaline waste neutralisation unit, a propane-propylene processing unit, and an elemental sulphur production unit;
- construction and upgrades of production facilities at Moscow Refinery (comprehensive upgrade of a catalytic cracking unit, and the construction of Euro+ combined refining unit), and at Omsk Refinery (construction of a primary refining unit).

Outlook for the Refining segment

To process the projected volumes of liquid hydrocarbons extracted through natural gas production at gas and condensate fields in Western Siberia, Gazprom implementing a number of projects, including a capacity expansion and upgrade project at the Urengoy Condensate Pre-Transportation Preparation Plant to ramp it up to design capacity; construction of Achimov deposit condensate and oil treatment and transport facilities, completion of the construction of uncompleted sections of the Urengoy – Surgut gas condensate pipeline, and upgrades and retrofits of the Surgut Condensate Stabilisation Plant.

PJSC Gazprom continues to implement a project to construct a gas chemical complex near Novy Urengoy, with gases recovered from de-ethanized gas condensate in the Nadym-Pur-Taz region to be used as a key feedstock.

Upgrade of the motor fuel production facilities is planned at the Astrakhan GPP to increase their output while ensuring compliance with Class 5 standards of the Technical Regulations.

Construction commenced in August 2017 for the core production facilities of a gas processing and helium complex of the Amur GPP near Svobodny in the Amur Region, to be supplied via the Power of Siberia gas pipeline with gas from the Yakutia and Irkutsk gas production hubs currently developed by PJSC Gazprom under the Eastern Gas Programme. When online, the Amur Gas Processing Plant will become Russia's No. 1 and the world's No. 2 gas processing facility by production capacity (42 bcm per year), and also the global leader in helium production (up to 60 mmcm per year). The plant will be an essential part of the process chain of natural gas supply to China via the Power of Siberia gas pipeline.

Implementing refinery upgrade programmes and improvements to operational performance remain to be Gazprom Neft Group's strategic priority in the development of its Russian oil refinery business. The company completed Phase 1 of a major refinery upgrade programme, improving the quality of its refined products, with all motor fuels produced by Gazprom Neft Group now meeting Euro 5 standards. The company continues the implementation of its key projects to increase the refining depth and yields for light products. Operational excellence initiatives and projects to reduce environmental footprint have been continued. The target scale of Gazprom Neft Groups's distribution business should ensure marketing of 100% of the oil products produced by own refineries via controlled sales channels to maximise the coverage of the entire value chain in the oil business.

Power Generation

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

	As at 31 December	
	2017	2016
Assets, RUB million	868,933	990,120
Share in the Group's total assets, %	4.9	5.9
	For the year ended 31 December	
	2017	2016
Capital expenditures, RUB million	58,110	63,485
Share in the Group's total capital expenditures, %	3.9	4.7

Gazprom Group is Russia's largest owner of generating assets. Power stations operated by Gazprom energoholding Group, in which Gazprom Group's key generating assets (PJSC Mosenergo, PJSC TGC-1, PJSC MIPC, and PJSC WGC-2) are consolidated, account for ca. 16% (ca. 39 GW) of the total installed capacity of Russia's Unified Energy System (UES).

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:

	As at 31 December 2017	
	Installed electrical capacity, GW	Installed heat capacity, thousand Gcal/h
Gazprom energoholding Group including	38.82	67.81
PJSC Mosenergo	12.87	42.76
PJSC MIPC	—	4.28
PJSC WGC-2	19.00	4.16
PJSC TGC-1	6.95	13.65
LLC TSK Novaya Moskva and LLC TSK Mosenergo	—	2.96
Other generating assets in Russia and abroad	1.38	2.22
Total	40.20	70.03

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

(billion kWh)	For the year ended 31 December	
	2017	2016
Gazprom energoholding Group including	150.81	153.83
PJSC Mosenergo	57.87	59.07
PJSC MIPC	—	—
PJSC WGC-2	63.43	67.09
PJSC TGC-1	29.51	27.67
Other generating assets in Russia and abroad	5.74	3.68
Total	156.55	157.51

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)	For the year ended 31 December	
	2017	2016
Gazprom energoholding Group ⁽¹⁾ including	120.77	123.36
PJSC Mosenergo	79.45	81.83
PJSC MIPC	5.79	6.09
PJSC WGC-2	6.76	6.90
PJSC TGC-1	24.71	24.44
LLC TSK Novaya Moskva and LLC TSK Mosenergo	4.06	4.10
Other generating assets in Russia and abroad	6.57	6.12
Total	127.34	129.48

⁽¹⁾ Starting from 2017, 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.

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.

During 2017, the Group generated 155.46 billion kWh of electricity (in 2016 – 156.73 billion kWh of electricity) and 127.34 million Gcal of heat (in 2016 – 129.48 million Gcal of heat) at its generating assets in Russia. The decline in electricity generation by the Group by 0.8% was due to the load factors of generating assets requested by the UES System Operator and its optimised operation modes. Heat generation decrease by 1.7% year-on-year was due to warmer temperatures during the heating season.

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

Outside Russia, Gazprom Group generated 1.09 billion kWh of electricity, up by 39.7% year-on-year (0.78 billion kWh in 2016), mostly due to increased power output from Unit 5 at Hrazdan TPP due to the actual operation of the power system in Armenia and the extension of the repair of the Armenian nuclear power station.

Gazprom Group, acting via Gazprom Marketing & Trading, supplies electricity to end consumers.

Major capex projects

Gazprom Group's investment programme is one of the biggest in the Russian power industry. The launch of the Grozny TPP in 2019 will complete the implementation of LLC Gazprom energoholding's ambitious investment programme to build new generating capacity in line with its obligations under capacity supply agreements (CSAs). The CSA investment programme implemented by the Group companies is expected to add 8.9 GW of new capacity in Russia between 2007 and 2019, with total investments under the programme for the same period exceeding RUB 450 bn (inclusive of VAT).

The bulk of this capex was spent in 2017 on the construction of the second start-up complex facilities at the Troitskaya GRES and two new GTU-180 power unit projects at the Grozny TTP, capacity expansion upgrade to the PSU-420 power unit at PJSC WGC-2-operated Cherepovetskaya GRES, and equipment upgrade of Power Unit 9 at CHPP-22 operated by PJSC Mosenergo.

Outside Russia, PJSC Centerenergyholding, part of Gazprom energoholding Group, is constructing through a joint project with NIS (a Serbian subsidiary of Gazprom Neft Group) a power station with an installed capacity of approximately 200 MW in Pančevo, Serbia. The project aims to meet the power and heat needs of Pančevo Refinery, and sell power and heat in the Serbian electricity market and via European energy exchanges. The project is currently in the FEED stage, with custom specifications approved for core equipment. The contract provides for the construction to be completed in 2020.

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. Gazprom Group's Power Generation Strategy was adopted in 2007.

Strategic objectives in the power generation business include:

- optimisation of the generation capacity mix
- business diversification for the Group's generating companies
- diversification of tariff regulation risks
- fuel mix diversification
- operational excellence and cost optimisation.

Gazprom Group is developing its long-term power generation strategy until 2027; this effort includes analyses of the following:

- the results of the implementation of the Group's strategy adopted in 2007
- the Group's operational and capex performance and improvement potential
- opportunities to develop the power generation business.

Gazprom Group's new, long-term power generation strategy is expected to be approved in mid-2018.

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.

Gazprom's track record of achievement has been driven to a large extent by R&D carried out for the Group by in-house R&D centres, research organisations in related industries, subdivisions of the Russian Academy of Sciences, and higher education institutions.

PJSC Gazprom's Innovative Development Programme until 2025 was approved by Resolution of PJSC Gazprom's Board of Directors No. 2762 dated 21 June 2016 and is a fundamental instrument for long-term planning and management of innovations, embedded into Gazprom's strategic development planning, and containing nine priority technology targets. Once delivered, the overall potential economic effect from the priority technology targets will exceed RUB 450 bn. The Programme covers the gas, oil, and power generation businesses of Gazprom Group and is an efficient tool for innovation through optimising and concentrating the Group's diverse resources and putting in place such innovative development mechanisms as research and development (R&D) programmes, intellectual property management, joint R&D initiatives and partnerships, training and career enhancement programmes, and innovative project portfolio management.

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

- 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.

Gazprom's advanced projects for production and transportation of gas and liquid hydrocarbons are unrivalled in terms of technical sophistication. The harsh climatic conditions and geology of field developments in the Yamal Peninsula, northern seas, and Eastern Siberia require the development and use of fundamentally new technologies, equipment, and operating principles to ensure that hydrocarbon production in these regions is viable.

Gazprom has in place an extensive innovation management framework consistently improved by the Group. A new R&D planning framework has been put in place to improve performance of R&D investments and cut project leadtimes.

In the reporting year, PJSC Gazprom also approved and put in place the Corporate Framework for Management of Innovations at Subsidiaries of PJSC Gazprom to promote company-wide principles for managing innovations at PJSC Gazprom's subsidiaries.

Gazprom 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.

A strong focus is placed on R&D and pre-investment studies. The Group allocates significant amounts for its annual R&D budgets, and R&D results are applied in its priority projects.

In 2017, RUB 8.2 bn worth of R&D was carried under R&D projects commissioned by Gazprom Group entities (RUB 6.3 bn in 2016).

In 2017, Gazprom implemented over 325 R&D results across its facilities, with an expected economic effect totalling over RUB 310 bn.

PERSONNEL

Governed by the standards of the International Labour Organisation, Gazprom Group 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.

As at 31 December 2017, the total headcount of the Group was 469.6 thousand employees (467.4 thousand in 2016). The headcount grew by 2.2 thousand people in 2017 as Gazprom ramped up its production operations.

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

	As at 31 December 2017
Women	29.3
Men	70.7

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

	As at 31 December 2017
Under 30 years	15.3
30 to 40 years	31.3
40 to 50 years	28.6
50 years and older	24.8

Gazprom 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 and support deployment of new technologies and expansion of the Group's regional footprint. Training is mostly provided in educational organisations of the Group, in training and production centres of Gazprom subsidiaries, and at Russia's leading universities. Focused and consistent succession management is a key priority in talent pool management.

In 2017, 342.9 thousand employees of Gazprom Group were trained under career enhancement and retraining programmes.

The Remuneration Management Policy for Employees of PJSC Gazprom's Entities 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.

Gazprom's social policy provides it with a competitive advantage, raises its profile in the employment market, and seeks to attract and retain best talent over the long term.

The key principle that underlies the implementation of PJSC Gazprom's social policy is the use of social partnership mechanism, i.e. a constructive dialogue between employees and employers on the matters related to the regulation of social and labour relations. Gazprom Interregional Trade Union, which is part of the Russian Oil, Gas and Construction Workers' Union, represents the interests of Gazprom Group's employees.

The key aspects of employees' social security are set out in the General Collective Bargaining Agreement of PJSC Gazprom and in the collective bargaining agreements of Gazprom's subsidiaries, and provide for a set of employee social support measures, including social benefits, personal insurance, and healthcare benefits.

OCCUPATIONAL SAFETY

Gazprom puts the health and safety of its employees at the top of its agenda. The Group companies have in place a top-level framework to ensure workplace safety. Gazprom's Unified Occupational Health and Safety Management System was successfully recertified in 2017 to OHSAS 18001:2007 standards.

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.

These objectives are achieved through prevention of injuries, occupational diseases, accidents, incidents, fires, and fire outbreaks through:

- hazard identification
- occupational risk assessments and management
- awareness raising among employees and employee representatives, and their involvement in the occupational health and safety management system.

Gazprom also seeks to improve employee safety during off hours.

The Unified Occupational Health and Safety Management System is part of PJSC Gazprom's integrated management system developed and introduced to manage OHS risks and meet PJSC Gazprom's objectives and commitments under its occupational Health, Industrial and Fire Safety Policy. The scope of the Unified Occupational Health and Safety Management System covers PJSC Gazprom, its gas exploration, production, processing, transportation, and underground storage, and energy subsidiaries, as well as subsidiaries supporting the operation of the Russian UGSS, with a total headcount of around 325 thousand employees.

Gazprom Group is compliant with the occupational safety laws of the Russian Federation, Gazprom's internal regulations, and the international standards adopted by Gazprom, including requirements applicable to management systems.

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.

Since 2014, the Unified Occupational Health and Safety Management System has been regularly audited for compliance to OHSAS 18001:2007 by the Russian Register Certification Association (a member of the International Certification Bodies Association – IQNet). The scope of this certification exercise includes PJSC Gazprom and its 26 subsidiaries engaged in gas production, transportation, and underground storage, as well as in gas, gas condensate and oil processing/refining. Gazprom successfully passed a recertification audit in 2017.

Gazprom annually expands the certification scope by including new entities. By the end of 2017, the number of subsidiaries certified to OHSAS 18001:2007 reached 51 entities, with their total headcount over 300 thousand people.

PJSC Gazprom makes consistent efforts to reduce injuries, accidents, and fires. The Group is currently implementing a range of programmes and plans to ensure accident-free operation of hazardous facilities, improve working conditions, and prevent accidents and fires, resulting in steadily declining accident rates.

The 2017 targets for occupational health, industrial and fire safety were mostly met.

The number of injuries was reduced by 41% between 2015 and 2017 – from 103 to 61. During 2017, accidents mainly included traffic accidents and same-level falls. The number of accidents and incidents at hazardous facilities decreased by 53% in 2017 versus 2015 – from 55 to 26.

Gazprom Neft Group benefits from a vertically integrated industrial safety management system compliant with ISO 14001, ISO 9001, and OHSAS 18001 international standards.

Gazprom Neft Group's operations are aligned with the corporate policy on industrial, fire and transport safety, environmental protection, health and workplace safety, and civil protection, and are coordinated at the Corporate Centre level by the Occupational Safety Department. Gazprom Neft Group's occupational health and safety (OHS) management system has been integrated with its operations management system (OMS). The Joint Committee for OMS and OHS was launched at PJSC Gazprom Neft in 2017, comprising members of the company's Management Committee and heads of operations. OHS committees have also been established in individual business segments and PJSC Gazprom Neft's subsidiaries.

At Gazprom energoholding Group and its subsidiaries, occupational health and safety issues are addressed in line with the requirements of Russian laws and applicable statutory regulations. CEOs of generating companies are responsible for compliance with these requirements, while relevant activities are coordinated by Chief Engineers of subsidiaries and branches (power plants).

ENVIRONMENTAL PROTECTION

Gazprom prioritises care for the environment in everything it does – both in major projects and day-to-day tasks. The Group employs technical solutions that keep environmental impact from its operations to a minimum.

PJSC Gazprom also puts care for the environment at the top of its agenda when implementing projects both in Russia and abroad. Sustainable use of natural resources and environmental protection are the core principles that underpin PJSC Gazprom's operations as a socially and environmentally responsible energy company.

Gazprom Group's subsidiaries operating abroad are also committed to minimising their environmental footprint in strict compliance with the local regulations and provisions of PJSC Gazprom's Environmental Policy.

The Environmental Policy is the primary document governing the PJSC Gazprom's environmental activities. It is updated on an ongoing basis to comply with changing legislation and address new environmental challenges. The updated version of the Environmental Policy approved by resolution of the PJSC Gazprom's Management Committee in 2015 reflects key trends in environmental protection, energy efficiency, and greenhouse gas (GHG) reduction. The Environmental Policy sets out additional commitments to environmental safety that Gazprom undertakes in developing hydrocarbon fields on the Russian continental shelf and in the Russian Arctic and in minimising the risks of negative impact on the environment, including on particularly vulnerable natural sites and areas, and features of high conservation value.

The Environmental Management System (EMS) is a key tool to implement PJSC Gazprom's Environmental Policy. PJSC Gazprom's EMS underwent a recertification audit in December 2017, receiving a certificate of compliance with ISO 14001:2015, valid until December 2020.

PJSC Gazprom's 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.

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.

Five out of the six set targets set for 2017–2019 were met in 2017:

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 5.03%
2.	Reduction of specific emissions of nitrogen oxides	All subsidiaries engaged in natural gas transportation	Down 4.06%
3.	Reduction of waste and effluent water discharge into surface water bodies	All subsidiaries	Down 18.02%
4.	Reduction of landfill share	All subsidiaries	Down 5.71%
5.	Reduction of above-limit impact charges	All subsidiaries	Up 6.58%
6.	Reduction of specific fuel & energy consumption for own operational needs (at comparable transportation volumes)	All subsidiaries engaged in natural gas transportation	Down 0.62%

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	
	2017	2016
Air pollutant emissions, thousand tonnes	2,795.9	2,868.5
Waste water discharge into surface water bodies, mmcm	3,905.3	3,855.5
Waste generation, thousand tonnes	4,130.3	4,289.8
Area of land disturbed during the year, thousand ha	42.2	27.0
Area of land rehabilitated, thousand ha	19.6	42.5

The Group companies disturbed 42.2 ha of land in 2017, up by 56% year-on-year. During 2017, 87.3 ha of land were contaminated due to pipeline ruptures at Gazprom Group facilities. The land was disturbed as a result of construction, maintenance, and exploration operations. Substantial stretches of land were affected by the construction of the Power of Siberia trunk gas pipeline.

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	
	2017	2016
Total current environmental protection costs	34.47	34.10
Capital expenditures for environmental protection and sustainable use of natural resources	35.58	22.54
Negative environmental impact charges	0.77	0.82
Total	70.82	57.46

In 2017, Gazprom Group's total environmental protection costs increased by 23%, driven mostly by higher capital expenditures for environmental protection and sustainable use of natural resources.

Gazprom Group's capital expenditures for environmental protection and sustainable use of natural resources were up 58% in 2017, and spent under Gazprom's major capex construction projects.

The Group paid RUB 11.41 mm of fines in 2017, including RUB 3.42 mm paid for breaches identified by audits in previous years. A total of RUB 91.13 mm were paid by the Group in compensation for environmental damage including for previous years.

Corporate Climate Policy

The implementation of PJSC Gazprom's programmes for expansion of regional gas infrastructure and promotion of transportation conversion to natural gas contributes to lower national GHG emissions and decarbonisation of natural gas importing countries.

Taking into account the Plan for Ratification of the Paris Climate Agreement approved by the Government of the Russian Federation, PJSC Gazprom assessed the potential for cutting emissions by the Group's key business segments as part of developing a roadmap for corporate GHG reduction, which helped PJSC Gazprom decide on further actions to reduce its carbon footprint.

PJSC Gazprom uses secondary, alternative, and renewable sources of energy (subject to their viability) to generate energy for own operational needs and for marketing to external customers to reduce GHG emissions.

Independent auditors confirmed that PJSC Gazprom employs a highly mature corporate system for GHG monitoring, reporting, and management, which is compliant with the requirements of international GHG reporting standards and provides all stakeholders with unbiased information on GHG emissions.

PJSC Gazprom was for the sixth time ranked as Russia's best energy sector company in the climate change list of the Carbon Disclosure Project (CDP).

In 2017, GHG emissions from Gazprom Group's facilities totalled 233.9 mm tonnes of CO₂ equivalent, up 2.5% year-on-year. The growth was due to increased production across all production operations segments and a higher number of subsidiaries covered by the reporting.

In 2017, major steps were taken to enhance data objectivity for assessments of the carbon footprint of the Russian natural gas exports to far abroad countries. Germany's Federal Environment Agency (UBA) approved the carbon footprint profile submitted by PJSC Gazprom for Russian supplies of natural gas to Central Europe (which average 12.2 kg of CO₂ equivalent / GJ, and 9.3 kg of CO₂ equivalent / GJ for supplies via Nord Stream), which will improve the accuracy of data inputs used for regulation of the energy sector and development of forecasts for Germany's low-carbon development.

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, 2017 – 57.6002;
- as of December 31, 2016 – 60.6569.

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, 2017 – 68.8668;
- as of December 31, 2016 – 63.8111.

The average exchange rates of RUB for the year ended December 31, 2017 and for the year ended December 31, 2016 were:

- to US Dollar – 58.3529 and 67.0349, respectively;
- to Euro – 65.9014 and 74.2310, respectively.

Results of Operation

(RUB million)	Year ended December 31,	
	2017	2016
Sales	6,546,143	6,111,051
Net (loss) gain from trading activity	(16,352)	3,382
Operating expenses	(5,714,090)	(5,244,983)
Change in impairment and other provisions	<u>54,922</u>	<u>(143,870)</u>
Operating profit	870,623	725,580
Finance income	426,705	1,018,997
Finance expense	(407,044)	(543,370)
Share of net income of associates and joint ventures	126,940	82,872
Gain on disposal of available-for-sale financial assets	<u>782</u>	<u>1,059</u>
Profit before profit tax	1,018,006	1,285,138
Current profit tax expense	(241,817)	(218,113)
Deferred profit tax expense	<u>(9,310)</u>	<u>(69,921)</u>
Profit tax	(251,127)	(288,034)
Profit for the year	766,879	997,104
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Remeasurements of post-employment benefit obligations	<u>(5,064)</u>	<u>33,118</u>
Total items that will not be reclassified to profit or loss	(5,064)	33,118
Items that will be reclassified subsequently to profit or loss:		
(Loss) gain arising from change in fair value of available-for-sale financial assets, net of tax	(30,404)	62,133
Share of other comprehensive income (loss) of associates and joint ventures	2,967	(6,397)
Translation differences	23,290	(297,703)
Gain from cash flow hedges, net of tax	<u>13,601</u>	<u>49,196</u>
Total items that may be reclassified subsequently to profit or loss	9,454	(192,771)
Other comprehensive income (loss) for the year, net of tax	4,390	(159,653)
Total comprehensive income for the year	771,269	837,451
Profit for the year attributable to:		
Owners of PJSC Gazprom	714,302	951,637
Non-controlling interest	<u>52,577</u>	<u>45,467</u>
	766,879	997,104
Total comprehensive income for the year attributable to:		
Owners of PJSC Gazprom	710,840	806,903
Non-controlling interest	<u>60,429</u>	<u>30,548</u>
	771,269	837,451

Sales

The following table sets out volumes and realized prices:

	Year ended December 31,	
	2017	2016
(RUB million unless indicated otherwise)		
Sales of gas		
<i>Europe and Other countries</i>		
Gross sales ⁽¹⁾	2,823,939	2,685,551
Customs duties	(550,849)	(506,266)
Excise tax	(51,873)	(39,258)
Net sales	2,221,217	2,140,027
Volumes in bcm	242.0	228.3
Average price, US Dollar per mcm (including excise tax and customs duties) ⁽²⁾	200.2	176.0
Average price, RUB per mcm (including excise tax and customs duties)	11,670.5	11,763.3
<i>Former Soviet Union countries</i>		
Gross sales ⁽¹⁾	323,037	340,437
Customs duties	(30,260)	(30,793)
Net sales	292,777	309,644
Volumes in bcm	35.0	33.2
Average price, US Dollar per mcm (including customs duties) ⁽²⁾	158.4	153.6
Average price, RUB per mcm (including customs duties)	9,237.0	10,263.1
<i>Russian Federation</i>		
Gross sales (net of VAT)	875,685	819,924
Net sales	875,685	819,924
Volumes in bcm	229.9	214.9
Average price, RUB per mcm (net of VAT)	3,808.3	3,815.5
<i>Total sales of gas</i>		
Gross sales (net of VAT)	4,022,661	3,845,912
Customs duties	(581,109)	(537,059)
Excise tax	(51,873)	(39,258)
Retroactive gas price adjustments	(49,092)	33,175
Net sales	3,340,587	3,302,770
Volumes in bcm	506.9	476.4
Net sales of refined products (net of excise tax, VAT and customs duties)	1,687,090	1,497,562
Net sales of crude oil and gas condensate (net of VAT and customs duties)	539,958	411,958
Electric and heat energy net sales (net of VAT)	503,819	481,716
Gas transportation net sales (net of VAT)	235,061	198,971
Other revenues (net of VAT)	239,628	218,074
Total sales (net of excise tax, VAT and customs duties)	6,546,143	6,111,051

Notes:

⁽¹⁾ VAT is not charged on sales to Europe and Other countries as well as Former Soviet Union countries.

⁽²⁾ Calculated on the basis of average exchange rate between RUB and US Dollar.

Total sales (net of excise tax, VAT and customs duties) increased by RUB 435,092 million, or 7%, to RUB 6,546,143 million for the year ended December 31, 2017 compared to the prior year. The increase in sales was mainly driven by an increase in sales of refined products and crude oil.

Net sales of gas accounted for 51% of total net sales for the year ended December 31, 2017 (54% for the prior year).

Net sales of gas increased by RUB 37,817 million, or 1%, from RUB 3,302,770 million for the year ended December 31, 2016 to RUB 3,340,587 million for the year ended December 31, 2017.

Net sales of gas to Europe and Other countries increased by RUB 81,190 million, or 4%, to RUB 2,221,217 million for the year ended December 31, 2017 compared to the prior year. The change was driven by the increase in volumes of gas sold by 6% that was partially compensated by the 1% decrease in average Russian Ruble prices (including excise tax and customs duties) for the year ended December 31, 2017 compared to the prior year. At the same time the average US Dollar prices increased by 14% compared to the prior year.

Net sales of gas to Former Soviet Union countries decreased by RUB 16,867 million, or 5%, to RUB 292,777 million for the year ended December 31, 2017 compared to the prior year. The change was due to the decrease in average Russian Ruble prices (including customs duties) by 10% that was partially compensated by the increase in volumes of gas sold by 5% for the year ended December 31, 2017.

Net sales of gas in the Russian Federation increased by RUB 55,761 million, or 7%, to RUB 875,685 million for the year ended December 31, 2017 compared to the prior year. This change is mainly explained by the 7% increase in volumes of gas sold.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RUB 189,528 million, or 13%, to RUB 1,687,090 million for the year ended December 31, 2017 compared to the prior year. The increase in sales of refined products was due to an increase in average prices.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RUB 128,000 million, or 31%, to RUB 539,958 million for the year ended December 31, 2017 compared to the prior year. The increase in sales of crude oil was mainly due to an increase in volumes of crude oil sold by Gazprom Neft Group to customers in Europe and Other countries, which was due to crude oil production growth at Novoport, East-Messoyakhskoye and Prirazlomnoye fields and reduction of crude oil delivery to refineries and also due to an increase in average prices in all geographic segments.

Operating expenses

Operating expenses increased by RUB 469,107 million, or 9% for the year ended December 31, 2017 to RUB 5,714,090 million compared to RUB 5,244,983 million for the prior year. Operating expenses as a percentage of sales increased from 86% for the year ended December 31, 2016 to 87% for the year ended December 31, 2017. The table below presents a breakdown of operating expenses in each period:

(RUB million)	Year ended December 31,	
	2017	2016
Taxes other than on income	1,246,059	900,397
Purchased gas and oil	1,236,201	1,157,585
Staff costs	682,060	641,036
Depreciation	613,160	571,564
Transit of gas, oil and refined products	593,327	610,275
Materials	261,642	288,497
Cost of goods for resale, including refined products	207,689	185,441
Repairs and maintenance	154,785	147,608
Electricity and heating expenses	109,485	98,992
Rental expenses	37,723	30,152
Social expenses	34,461	35,516
Insurance expenses	30,491	29,967
Transportation services	27,253	28,923
Processing services	16,261	15,568
Research and development expenses	16,175	28,990
Foreign exchange rate differences on operating items	(14,487)	52,880
Derivatives (gain) loss	(18,344)	9,863
Other	610,787	414,638
	5,844,728	5,247,892
Change in finished goods, work in progress and other effects	(130,638)	(2,909)
Total operating expenses	5,714,090	5,244,983

Taxes other than on income

Taxes other than on income consist of:

(RUB million)	Year ended December 31,	
	2017	2016
Mineral extraction tax (MET)	915,228	613,662
Excise tax	162,140	144,648
Property tax	154,639	127,053
Other taxes	14,052	15,034
Taxes other than on income	1,246,059	900,397

Mineral extraction tax increased by RUB 301,566 million or 49% to RUB 915,228 million for the year ended December 31, 2017 compared to RUB 613,662 million for the prior year, mainly as a result of changes in the elements of the natural gas and crude oil MET formulas introduced with effect from January 1, 2017.

Property tax increased by RUB 27,586 million, or 22%, to RUB 154,639 million for the year ended December 31, 2017 compared to RUB 127,053 million for the prior year. The change was mainly due to the revaluation of fixed assets as of December 31, 2016 used for the purposes of calculating the tax base for property tax as well as an increase in the tax rate on trunk pipelines, power transmission lines and their integral technological part facilities from 1.3% in 2016 to 1.6% in 2017.

Purchased gas and oil

Cost of purchased gas and oil increased by RUB 78,616 million, or 7%, to RUB 1,236,201 million for the year ended December 31, 2017 compared to RUB 1,157,585 million for the prior year.

Cost of purchased gas increased by RUB 974 million to RUB 873,866 million for the year ended December 31, 2017 compared to RUB 872,892 million for the prior year. The change was due to an increase in volumes of gas purchased from external suppliers that was compensated by a decrease in cost of gas purchased by GAZPROM Germania Group in Russian Ruble terms.

Cost of purchased oil included in the purchased gas and oil increased by RUB 77,642 million, or 27%, to RUB 362,335 million for the year ended December 31, 2017 compared to RUB 284,693 million for the prior year. This change was mainly related to an increase in prices of oil.

Depreciation

Depreciation increased by RUB 41,596 million, or 7%, to RUB 613,160 million for the year ended December 31, 2017 compared to RUB 571,564 million for the prior year. The increase was primarily due to the growth in the fixed assets base.

Transit of gas, oil and refined products

Transit of gas, oil and refined products expenses decreased by RUB 16,948 million, or 3% to RUB 593,327 million for the year ended December 31, 2017 compared to RUB 610,275 million for the prior year. This decrease was mainly due to a decrease in transit of gas expenses in Russian Ruble terms.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by RUB 22,248 million, or 12%, to RUB 207,689 million for the year ended December 31, 2017 compared to RUB 185,441 million for the prior year. The increase was mainly due to an increase in volumes of petroleum products purchases in Gazprom Neft Group connected with a refining decline caused by scheduled maintenance in own refineries.

Foreign exchange rate differences on operating items

Foreign exchange rate gain on operating items amounted to RUB 14,487 million for the year ended December 31, 2017 compared to a net loss of RUB 52,880 million for the prior year. This change was mainly explained by the depreciation of US Dollar against the Russian Ruble by 5% and by the appreciation of Euro against the Russian Ruble by 8% for the year ended December 31, 2017 compared to the depreciation of US Dollar and Euro against the Russian Ruble by 17% and 20%, respectively, for the prior year.

Other operating expenses

Other operating expenses increased by RUB 196,149 million, or 47%, to RUB 610,787 million for the year ended December 31, 2017 compared to RUB 414,638 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 expense, services from gas distribution companies, bank charges, security services, legal and consulting services, charity and financial aid, and advertising.

Change in finished goods, work in progress and other effects

The line item Change in finished goods, work in progress and other effects decreased by RUB 127,729 million to the negative amount of RUB 130,638 million for the year ended December 31, 2017 compared to the negative amount of RUB 2,209 million for the prior year. The change in this line item is explained by an increase in the balances of finished goods for the year ended December 31, 2017 compared to the prior year.

Change in impairment and other provisions

The line item Change in impairment and other provisions decreased by RUB 198,792 million, or 138%, to the negative amount of RUB 54,922 million for the year ended December 31, 2017 compared to the positive amount of RUB 143,870 million for the prior year. This change was mainly caused by reverse of impairment allowance for doubtful accounts receivable of NJSC Naftogaz Ukraine for the year ended December 31, 2017.

Operating profit

As a result of the factors discussed above, operating profit increased by RUB 145,043 million, or 20%, to RUB 870,623 million for the year ended December 31, 2017 compared to RUB 725,580 million for the prior year. The operating profit margin increased from 12% for the year ended December 31, 2016 to 13% for the year ended December 31, 2017.

Net finance income

(RUB million)	Year ended December 31,	
	2017	2016
Foreign exchange gain	342,984	925,503
Foreign exchange loss	(353,712)	(471,814)
Net exchange (loss) gain	(10,728)	453,689
Interest income	83,721	93,494
Interest expense	(53,332)	(71,556)
Net finance income	19,661	475,627

The net foreign exchange loss of RUB 10,728 million for the year ended December 31, 2017 compared to the net foreign exchange gain of RUB 453,689 million for the prior year were explained by the depreciation of US Dollar against the Russian Ruble by 5% and by the appreciation of Euro against the Russian Ruble by 8% for the year ended December 31, 2017 compared to the depreciation of US Dollar and Euro against the Russian Ruble by 17% and 20%, respectively, for the prior year.

Interest income decreased by RUB 9,773 million, or 10%, to RUB 83,721 million for the year ended December 31, 2017 compared to RUB 93,494 million for the prior year.

Interest expense decreased by RUB 18,224 million, or 25%, to RUB 53,332 million for the year ended December 31, 2017 compared to RUB 71,556 million for the prior year.

Share of net income of associates and joint ventures

Share of net income of associates and joint ventures increased by RUB 44,068 million, or 53%, to RUB 126,940 million for the year ended December 31, 2017 compared to RUB 82,872 million for the prior year. This change was mainly caused by an increase in the share of net income of Sakhalin Energy Investment Company Ltd and JSC Messoyakhaneftegaz.

Profit tax

Total profit tax decreased by RUB 36,907 million, or 13%, to RUB 251,127 million for the year ended December 31, 2017 compared to RUB 288,034 million for the prior year. The effective profit tax rate was 24.7% and 22.4% for the years ended December 31, 2017 and 2016, respectively.

The change in the effective profit tax rate was mainly driven by an increase in non-deductible expenses for tax purposes for the year ended December 31, 2017 compared to the prior year.

Profit for the year attributable to owners of PJSC Gazprom

As a result of the factors discussed above, profit for the year attributable to owners of PJSC Gazprom decreased by RUB 237,335 million, or 25%, from RUB 951,637 million for the year ended December 31, 2016 to RUB 714,302 million for the year ended December 31, 2017.

Profit for the year attributable to non-controlling interest

Profit for the year attributable to non-controlling interest increased by RUB 7,110 million, or 16%, to RUB 52,577 million for the year ended December 31, 2017 compared to RUB 45,467 million for the prior year.

Liquidity and capital resources

The following table summarises the cash flows for the year ended December 31, 2017 and 2016:

(RUB million)	Year ended December 31,	
	2017	2016
Net cash from operating activities	1,187,022	1,571,323
Net cash used in investing activities	(1,368,131)	(1,445,965)
Net cash from (used in) financing activities	149,944	(460,479)

Net cash from operating activities

Net cash from operating activities decreased by RUB 384,301 million, or 24%, to RUB 1,187,022 million for the year ended December 31, 2017 compared to RUB 1,571,323 million for the prior year. This change was mainly driven by a replace of cash on short-term deposits included within other current assets and increase in profit tax paid.

Net cash used in investing activities

Net cash used in investing activities decreased by RUB 77,834 million, or 5%, to RUB 1,368,131 million for the year ended December 31, 2017 compared to RUB 1,445,965 million for the prior year. The change was mainly due to the cash received from closed long-term bank deposits for the year ended December 31, 2017 compared to the placement of cash on long-term bank deposits for the prior year that was partially compensated by an increase in investments in associates and joint ventures.

Net cash from (used in) financing activities

Net cash from financing activities amounted to RUB 149,944 million for the year ended December 31, 2017 compared to net cash used in financing activities amounted to RUB 460,479 million for the prior year. This change was mainly due to an increase in proceeds from borrowings.

Working Capital

The working capital surplus (current assets less current liabilities) was RUB 879,750 million as of December 31, 2017 and RUB 1,312,538 million as of December 31, 2016. The decrease in the working capital by RUB 432,788 million in the year ended December 31, 2017 was primarily due to an increase 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, we are dependent on the short-term credit markets to finance our working capital.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segments for the years ended December 31, 2017 and 2016 in Russian Ruble terms, amounted to the following:

(RUB million)	Year ended December 31,	
	2017	2016
Transportation	498,550	406,828
Production of crude oil and gas condensate	330,424	326,366
Refining	225,240	193,243
Production of gas	216,450	235,161
Electric and heat energy generation and sales	58,110	63,485
Distribution of gas	51,675	41,785
Gas storage	37,694	35,542
All other segments	86,457	54,926
Total	1,504,600	1,357,336

Total capital expenditures increased by RUB 147,264 million, or 11%, from RUB 1,357,336 million for the year ended December 31, 2016 to RUB 1,504,600 million for the year ended December 31, 2017.

Debts

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 and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) increased by RUB 464,616 million, or 24%, from RUB 1,932,895 million as of December 31, 2016 to RUB 2,397,511 million as of December 31, 2017. This increase was due to an increase in long-term borrowings.

The following table shows borrowings and promissory notes as of December 31, 2017 and December 31, 2016:

(RUB million unless indicated otherwise)

	As of December 31,	
	2017	2016
Long-term borrowings		
Fixed interest rate borrowings	2,355,672	2,086,181
Weighted average interest rates for fixed rate borrowings	6.26%	6.34%
Variable interest rate borrowings	824,665	682,810
Weighted average interest rates for variable rate borrowings	3.54%	4.11%
Total long-term borrowings	3,180,337	2,768,991
Russian Ruble denominated borrowings	558,509	427,014
Foreign currency denominated borrowings	2,621,828	2,341,977
Total long-term borrowings	3,180,337	2,768,991
Less: current portion of long-term borrowings	(788,624)	(386,448)
Total long-term debt obligations	2,391,713	2,382,543
Short-term borrowings		
Fixed interest rate borrowings	47,789	39,037
Weighted average interest rates for fixed rate borrowings	8.49%	9.75%
Variable interest rate borrowings	38,392	21,595
Weighted average interest rates for variable rate borrowings	8.19%	6.67%
Total short-term borrowings	86,181	60,632
Russian Ruble denominated borrowings	74,374	44,352
Foreign currency denominated borrowings	11,807	16,280
Total short-term borrowings	86,181	60,632
Add: current portion of long-term borrowings	788,624	386,448
Total short-term debt obligations	874,805	447,080
Total borrowings	3,266,518	2,829,623

The following table shows the breakdown by currency of foreign currency denominated long-term borrowings as of December 31, 2017 and December 31, 2016 as well as the same balances expressed in Russian rubles:

	As of December 31,	
	2017	2016
U.S. dollar denominated (expressed in millions of U.S. dollars)	20,544	21,291
Euro denominated (expressed in millions of U.S. dollars) ⁽¹⁾	20,953	15,212
Other currencies denominated (expressed in millions of U.S. dollars)	4,021	2,107
Total long-term foreign currency denominated borrowings expressed in millions of U.S. dollars	45,518	38,610
Total long-term foreign currency denominated borrowings expressed in millions of Russian Rubles⁽²⁾	2,621,828	2,341,977

Notes:

(1) Converted at euro to U.S. dollar exchange rates of 1.20 and 1.05 as of December 31, 2017 and as of December 31, 2016, 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, 2017 and December 31, 2016:

(RUB million)

	As of December 31,	
	2017	2016
Between one and two years	481,070	708,355
Between two and five years	1,087,239	956,731
After five years	823,404	717,457
Total	2,391,713	2,382,543

SHAREHOLDING STRUCTURE AND STOCK MARKET OF PJSC GAZPROM

PJSC Gazprom's charter 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 Government 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	
	2017	2016
The Russian Federation represented by the Federal Agency for State Property Management	38.37	38.37
JSC ROSNEFTEGAZ ⁽¹⁾	10.97	10.97
JSC Rosgazifikatsiya ⁽¹⁾	0.89	0.89
ADR holders ⁽²⁾	25.20	26.86
Other registered holders	24.57	22.91

Notes:

⁽¹⁾ As at 31 December 2016 and 31 December 2017, the cumulative share in PJSC Gazprom directly or indirectly controlled by the Russian Federation and calculated by direct addition totals 50.23% and is owned through the full ownership of JSC ROSNEFTEGAZ which also holds a 74.55% stake in JSC Rosgazifikatsiya.

⁽²⁾ The Bank of New York Mellon issued ADRs on PJSC Gazprom's shares.

As at 31 December 2017, the holders of American depositary receipts (ADRs) on the PJSC Gazprom's shares accounted for about 25.2% of PJSC Gazprom's charter capital.

As at 31 December 2017, 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 1,573 million ordinary shares of PJSC Gazprom, or 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.

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 (LSE) 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		Change, %
	2017	2016	
Moscow Exchange			
Share closing price, RUB			
at year-end	130.50	154.55	–15.6
minimum	115.35	124.60	–7.4
maximum	157.97	168.47	–6.2
Average daily trading volume, mm	28.87	29.91	–3.5
Average daily trading volume, RUB bn	3.72	4.31	–13.7
LSE			
ADR closing price, USD			
at year-end	4.41	5.05	–12.7
minimum	3.85	3.02	27.5
maximum	5.27	5.27	–
Average daily trading volume, mm	11.96	15.89	–24.7
Average daily trading volume, USD mm	53.11	68.56	–22.5

In 2017, PJSC Gazprom's market capitalisation decreased by 15.6% year-on-year; as at 31 December 2017, its capitalisation stood at RUB 3.1 tn.

As at 31 December 2017, dividend payouts in 2017 based on PJSC Gazprom's performance results for 2016 were as follows:

	Accrued, RUB thousand	Paid, RUB thousand	Unpaid, RUB thousand ⁽¹⁾	Unpaid to accrued, %
Total	190,327,942	189,948,536	379,406	0.20
including dividends on shares:				
held by the Russian Federation represented by the Federal Agency for State Property Management	73,035,261	73,035,261	–	–
held by individuals and corporate entities whose rights to shares are accounted for in the register	27,108,579	26,910,213	198,366	0.73
held by individuals and corporate entities whose rights to shares are accounted for by the depository maintaining a nominee holder account in the issuer's register ⁽²⁾	90,183,954	90,003,062	180,892	0.20
held by unidentified persons	148	–	148	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 90,183,954 thousand in dividends to nominee holders on 3 August 2017 in execution of the Annual General Shareholders Meeting resolutions on dividend payouts based on PJSC Gazprom's 2016 results, which was held on 30 June 2017. As at 31 December 2017, 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 180,892 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
- Regulations on the General Shareholders Meeting of PJSC Gazprom
- 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
- Procedure for Providing Information about PJSC Gazprom to Shareholders
- 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 2017

In 2017, PJSC Gazprom continued to improve its standards.

In particular, the resolution of PJSC Gazprom's Annual General Shareholders Meeting dated 30 June 2017 (Minutes No. 1) updated a number of key documents: the Articles of Association, Regulations on the Board of Directors of PJSC Gazprom, Regulations on the Management Committee of PJSC Gazprom, and Regulations on the Chairman of the Management Committee of PJSC Gazprom were amended and a new version of PJSC Gazprom's Corporate Governance Code was approved.

PJSC Gazprom developed the new version of its Corporate Governance Code in line with recommendations of the Russian Corporate Governance Code, recommended by the Bank of Russia, applicable Russian laws, Articles of Association of PJSC Gazprom, Regulations on the Board of Directors of PJSC Gazprom, and other internal documents of PJSC Gazprom.

In addition, the Board of Directors of PJSC Gazprom approved a new version of the Regulations on the Information Disclosure of PJSC Gazprom by Resolution No. 2921 dated 29 March 2017 and incorporating, inter alia, recommendations of the Russian Corporate Governance Code.

In 2017, PJSC Gazprom conducted a scheduled independent audit of its corporate governance practice, involving an independent assessment of the performance of Gazprom's Board of Directors, the Audit Committee of PJSC Gazprom's Board of Directors, and the Nomination and Remuneration Committee of the Board of Directors of PJSC Gazprom.

Auditors' approaches to the corporate governance practice and, accordingly, the performance of the Board of Directors and its committees are based on Russian and international best practices and meet, inter alia, recommendations of the Russian Corporate Governance Code, rules of Russian stock exchanges, guidelines of Russian federal executive authorities (the Ministry of Economic Development and Federal Agency for State Property Management), and national risk management and social responsibility standards.

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. Key principles underlying PJSC Gazprom's corporate governance are set forth in the Code of Corporate Governance of PJSC Gazprom, the new version of which was approved by the General Shareholders Meeting of PJSC Gazprom on 30 June 2017.

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. The Department of the Management Committee Administration responsible for internal audit performs fair assessment of the internal control performance and develops recommendations for improvement. PJSC Gazprom's financial and business performance is independently reviewed by an external auditor.

To preview most important matters of PJSC Gazprom's business reserved to the Board of Directors, the Board set up the Audit Committee and the Nomination and Remuneration Committee of the Board of Directors of PJSC Gazprom.

The Board of Directors established the Commission on Strengthening Financial Discipline for Domestic Gas Supplies in 2017.

PJSC Gazprom has in place the role of the Corporate Secretary whose responsibilities are distributed, to the extent recommended by the Russian Corporate Governance Code, among the following business units of PJSC Gazprom, in line with the regulations governing their functions:

- Department of the Management Committee Administration (Yury Nosov)
- Secretariat of the Management Committee Administration (Nikolai Kruglikov)
- Department Directorate (Alexey Finikov)
- Department Directorate Division (Maksim Babich).

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 led by Andrey Kruglov, Deputy Chairman of the Management Committee. The Committee also includes heads of business units responsible for development and implementation of the relevant strategy.

To monitor the compliance of PJSC Gazprom and its employees with the laws on countering the misuse of insider information and market manipulation and the compliance with insider laws and regulations applicable, PJSC Gazprom set up a business unit responsible for insider information, which reports to PJSC Gazprom's Board of Directors.

Membership of the Board of Directors and the Management Committee

As at 31 December 2017, the membership of PJSC Gazprom's Board of Directors was as follows:

Name	Year of birth	Position
Viktor A. Zubkov	1941	Chairman of PJSC Gazprom's Board of Directors; 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 at Gazprombank (Joint-stock Company)
Timur A. Kulibaev	1966	Chairman of the 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 I.M. Gubkin Russian State Oil and Gas University (a federal state budget-funded educational institution of higher professional education, national research university)
Vladimir A. Mau	1959	Rector of the Russian Presidential Academy of National Economy and Public Administration (a federal state budget-funded institution of higher education)
Alexander V. Novak	1971	Minister of Energy of the Russian Federation
Dmitry N. Patrushev	1977	Member of the supervisory board of JSC Rosselkhozbank, chairman of the management board of JSC Rosselkhozbank
Mikhail L. Sereda	1970	Deputy Chairman of the Management Committee – Head of PJSC Gazprom's Management Committee Administration

Changes to the Board of Directors in 2017 were as follows:

Name	Change
Denis V. Manturov	Member of PJSC Gazprom's Board of Directors since 30 June 2017

In 2017, the Board held a total of 59 meetings, including 12 meetings held in person and 47 meetings held in absentia. At these meetings, 180 resolutions were passed, including 49 resolutions in person and 131 resolutions in absentia.

In 2017, the Audit Committee of PJSC Gazprom's Board of Directors continued its work. The Audit Committee reports to PJSC Gazprom's Board of Directors. As at 31 December 2017, 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 8 meetings, including 3 meetings held in person. The most important matters discussed by the Committee in 2017 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.

PJSC Gazprom's Nomination and Remuneration Committee of the Board of Directors started to operate under its action plan in January 2017. As at 31 December 2017, 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 2017, the Committee held 10 meetings, including one meeting held in person. The Committee reviewed the following matters: election of members of PJSC Gazprom's Management Committee; approval of the PJSC Gazprom's actual 2016 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 2017; remuneration of members of PJSC Gazprom's Board of Directors and Audit Commission; assessment of Directors' performance, etc.

Members of PJSC Gazprom's Management Committee as at 31 December 2017:

Name	Year of birth	Position
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
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)
Igor Y. Fyodorov	1965	Head of Department (legal support)
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. Mikhaleenko	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
Vsevolod V. Cherepanov	1966	Head of Department (hydrocarbon exploration and production)

Changes to the Management Committee in 2017 were as follows:

Name	Change
Nikolai N. Dubik	The powers of a Management Committee member terminated by Resolution of PJSC Gazprom's Board of Directors No. 2955 dated 19 May 2017.
Alexander N. Kozlov	The powers of a Management Committee member terminated by Resolution of PJSC Gazprom's Board of Directors No. 3062 dated 26 December 2017.

Remuneration of key executives

The General Shareholders Meeting has the authority to resolve on payment, and determine amounts of, remuneration to members of the Board of Directors during their time in office. 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 executive bodies (Chairman and members 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 4,537 mm and RUB 4,685 mm for the years ended on 31 December 2017 and 31 December 2016, 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 2017 liability insurance programme for directors, officers, and PJSC Gazprom are as follows:

- insurance coverage: USD 100 mm
- insurance premium: USD 900 thousand.

Persons insured:

- members of the Board of Directors (excluding directors who hold public office)
- PJSC Gazprom's Management Committee members
- heads of PJSC Gazprom's Departments who are not members of PJSC Gazprom's Management Committee.

Risks insured:

- risk of third-party claims against the insured for losses arising from unintentional errors made by the insured in their management roles
- 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.

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 2017, members of the Board of Directors, Management Committee, and the Chairman of the Management Committee had a shareholding of 0.012454% in PJSC Gazprom's equity.

Internal control system and audit

PJSC Gazprom's internal controls is a system of internal control bodies and methods, rules of conduct, and actions of employees aimed at achieving PJSC Gazprom's goals.

Goals, objectives, internal controls, their operation, and PJSC Gazprom's management bodies and persons responsible for internal control are set forth in the Regulations on the Internal Control System of PJSC Gazprom (approved by Resolution of the Board of Directors No. 2315 dated 25 February 2014, as amended by Resolution of the Board of Directors No. 2848 dated 15 November 2016).

The internal control system is designed to provide reasonable assurance that PJSC Gazprom:

- performs efficiently
- ensures the completeness, timeliness, and fairness of all types of accounting and reporting at PJSC Gazprom
- complies with applicable laws
- prevents and counters corruption
- protects its assets (including data assets).

Internal control is exercised by PJSC Gazprom's Board of Directors, Audit Committee of PJSC Gazprom's Board of Directors, PJSC Gazprom's Audit Commission, executive bodies (the Management Committee and Chairman of the Management Committee), heads of business units, and other employees of PJSC Gazprom.

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.

A 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 2017 was announced on 20 February 2017.

LLC FBK won the public tender among audit firms to conduct statutory annual audit of PJSC Gazprom and was approved as auditor by the Annual General Shareholders Meeting of PJSC Gazprom on 30 June 2017. The contract price offered by the winner was RUB 208,000,000 (exclusive of VAT) and was approved by Resolution of the Board of Directors No. 2951 dated 19 May 2017.

In 2017, LLC FBK provided other audit-related services to PJSC Gazprom outside its audit contract. In 2017, a fee of RUB 20,917,045.11 (inclusive of VAT) was paid for other audit-related services.

Anti-corruption efforts

PJSC Gazprom has procedures in place to ensure compliance with anti-corruption laws.

PJSC Gazprom's management is consistently focused on improving its procedures for preventing and revealing corrupt practices in Gazprom Group. PJSC Gazprom's Board of Directors reviews preventing and countering corruption on an annual basis.

PJSC Gazprom has adopted its Code of Corporate Ethics developed with due account for Russian and international corporate governance best practices. The PJSC Gazprom's Code of Corporate Ethics provides for corporate values and determines the fundamental rules of business conduct stemming from such values, which rule out any conflicts of interest or corrupt practices, as well as

cases of nepotism, with relatives directly or indirectly reporting to each other. 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.

PJSC Gazprom's management, including members of the Management Committee and the Board of Directors, who are PJSC Gazprom's employees, signed up to the Code of Corporate Ethics of PJSC Gazprom.

The permanent Corporate Ethics Commission of PJSC Gazprom is responsible for supervising compliance with the Code's requirements and provisions.

The Commission reviews reports on an ongoing basis as required by applicable laws of the Russian Federation. In some cases, reports so received are forwarded to PJSC Gazprom's subsidiaries to be reviewed on the merits by the respective subsidiary's corporate ethics commission. The results of such reviews are communicated to Commission members. In 2017, the Commission received no reports on any conflict of interest of members of the Board of Directors of PJSC Gazprom, members of the Management Committee of PJSC Gazprom, and/or the Chairman of PJSC Gazprom's Management Committee.

The Commission's performance is reported to the Chairman of PJSC Gazprom's Management Committee on an annual basis.

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 with respect to entertainment expenses, business gift expenses, charity, and other activities involving corporate risk exposure.

RISK MANAGEMENT

PJSC Gazprom's risk management system is defined as an aggregate of the organisational structure, internal regulations, corporate culture standards, guidelines, and procedures aimed at providing adequate assurances that PJSC Gazprom's goals will be achieved, and supporting the management and employees of PJSC Gazprom's business units and subsidiaries in decision making in an uncertain environment. As an integral part of PJSC Gazprom's corporate governance framework, it covers all management levels and business lines across PJSC Gazprom.

PJSC Gazprom's risk management system complies with the principles set forth in the Russian Code of Corporate Governance.

PJSC Gazprom's business units and subsidiaries are charged with risk identification and assessment, development and implementation of risk management activities, monitoring of risks and activities.

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 revenue from energy sales PJSC Gazprom diversifies its markets and sales 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

PJSC Gazprom ensures reliable and flexible gas supplies through long-term contracts. Additionally, 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 and import substitution to reduce the impact the economic restrictions against Russia have on PJSC Gazprom.

Natural gas transit risks

Gas transmission via third countries is associated with the risk of the counterparties defaulting on their transit obligations, 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 to reduce the reliance on transit countries, including 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 as a natural monopoly are regulated by Federal Law No. 147-FZ On Natural Monopolies dated 17 August 1995. The Government holds an interest of over 50% in the equity of PJSC Gazprom.

Risk management / mitigation

PJSC Gazprom is consistently engaged in intensive dialogue with government authorities to improve the pricing policy and taxation of companies in the gas industry; 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 still 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 build an effective region-specific marketing policy.

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 the most 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 aggressive policies of subsidising renewable energy are 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, and relevant requirements are strictly complied with.

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, tracking proposed amendments to regulations at the earlier drafting stages, and submits its proposals while communicating with government authorities.

Financial risks

Foreign exchange and interest rate risks

High exchange rate volatility coupled with income and expenses denominated in different currencies affect PJSC Gazprom's performance.

Risk management / mitigation

To minimise losses from exchange rate volatility, PJSC Gazprom hedges its foreign exchange and interest rate risks. In addition, PJSC Gazprom complies with the Bank of Russia's instructions on

the ratio assets and liabilities denominated in foreign currency and accounts for the foreign exchange risk using earnings at risk (EaR) assessment.

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 credit rating calculated by PJSC Gazprom, subsidiaries, and entities. Performance of contractual obligations is monitored.

Market risks

If oil prices and gas exchange quotations drop, 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, 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 related to occupational health and industrial safety

PJSC Gazprom's performance on the efficiency of 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.

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 lowest price bids are selected, helps cut the costs of procurement and sourcing of feedstock, materials, spare parts, works, and services.

To control the cost of procurement from a sole supplier (contractor, service provider), Gazprom Group's Central Procurement Office and PJSC Gazprom's Budget Committee review the pricing procedure and fairness of prices of contracts (with changes and amendments) to be signed by

Gazprom Group based on customer estimates, optimise such prices, establish price limits (additional agreements), match the prices of the signed contracts (additional agreements) against the set prices.

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 subsidiaries' property interests, which includes property insurance (including offshore facilities), business interruption insurance for GPPs, 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 and the accuracy of reserve estimates.

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 only 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. PJSC Gazprom's EMS successfully passed a recertification audit in December 2017 for ISO 14001:2015.

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 2017:

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

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)
1 kilometre	Approximately 0.62 miles

GLOSSARY OF KEY TERMS AND ABBREVIATIONS

Terms and abbreviations	Description
A+B ₁ +C ₁ 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 ₁ reserves. Recovery factors for oil, gas, and gas condensate reserves are determined based on field geology with account for existing technologies
Adjusted EBITDA	Earnings before interest, taxes, depreciation, and amortization adjusted by changes in impairment provisions and other provisions
ADR of PJSC Gazprom	American Depositary Receipt issued for PJSC Gazprom shares
APG	Associated petroleum gas
Associate	Entity 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
Brent	Benchmark brand of crude oil produced in the North sea
CCO	Competitive Capacity Outtake
CHPP	Combined heat and power plant
CSA	Capacity Supply Agreement
cubic m	A cubic metre of natural gas measured at 1 Pa pressure and 20°C.
EMS	Environmental Management System
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, GPZ	Gas and/or condensate processing plant
GRES	State district power station
GTS	Gas Transportation System
GW	Gigawatt
ha	Hectare
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
LSE	London Stock Exchange
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 and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations
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
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
Urals	Russian brand of export crude oil mixture
UGSF	Underground gas storage facility
UGSS	Unified Gas Supply System of Russia
USA	United States of America
USD	United States (US) dollars
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, 190000, 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 (in Russian)

www.gazprom.com (in English)

E-mail

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

Shareholders Relations

Phone: +7 812 609 7657 (for shareholders of PJSC Gazprom)

Contact for investors

Investors Relations

Ivan Khromushin

Phone: +7 812 609 4129

Fax: +7 812 609 4334

E-mail: 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 and postal address: 44/1 Myasnitskaya str., bld. 2 AB, Moscow, 101990, Russian Federation

Phone: +7 495 737 5353 Fax: +7 495 737 5347

Website: 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

Depository bank (PJSC Gazprom ADRs)

Bank of New York Mellon

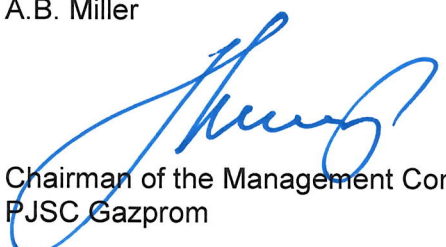
Website: www.bnymellon.com

Responsibility Statement

We confirm, to the best of our knowledge, that

- the consolidated financial statements of PJSC Gazprom prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017 give a true and fair view of the assets, liabilities, financial position and financial results of PJSC Gazprom and its subsidiaries (the "Group");
- the management report included in this Annual Financial Report of PJSC Gazprom for 2017 presents a fair review of the development and the results of the Group's operations, the position of the Group and a description of the principal risks and uncertainties related to the Group's activity.

A.B. Miller



Chairman of the Management Committee
PJSC Gazprom

E.A. Vasilieva



Deputy Chairman
of the Management Committee
Chief Accountant
PJSC Gazprom