

August 29, 2018

**Gazprom's financial information under International Financial Reporting Standards (IFRS)
for the six months ended June 30, 2018**

Today PJSC Gazprom issued its unaudited consolidated interim condensed financial information prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) for the six months ended June 30, 2018.

The table below presents the unaudited consolidated interim condensed statement of comprehensive income prepared in accordance with IFRS for the six months ended June 30, 2018 and for the six months ended June 30, 2017. All amounts are presented in millions of the Russian Rubles.

	Six months ended June 30,	
	2018	2017
Sales	3,971,555	3,209,934
Net loss from trading activity	(2,294)	(20,327)
Operating expenses	(3,035,649)	(2,661,902)
Impairment loss on financial assets	<u>(54,339)</u>	<u>(43,354)</u>
Operating profit	879,273	484,351
Finance income	259,939	236,044
Finance expense	(394,832)	(239,627)
Share of net income of associates and joint ventures	<u>91,583</u>	<u>55,969</u>
Profit before profit tax	835,963	536,737
Current profit tax expense	(103,221)	(83,162)
Deferred profit tax expense	<u>(69,191)</u>	<u>(45,521)</u>
Profit tax	(172,412)	(128,683)
Profit for the period	663,551	408,054
Other comprehensive income (loss):		
Items that will not be reclassified to profit or loss:		
Gain (loss) arising from change in fair value of financial assets at fair value through other comprehensive income, net of tax	71,006	(40,227)
Remeasurements of post-employment benefit obligations	<u>15,343</u>	<u>(14,236)</u>
Total items that will not be reclassified to profit or loss	86,349	(54,463)
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive income of associates and joint ventures	1,658	2,125
Translation differences	90,937	23,113
Gain (loss) from cash flow hedges, net of tax	<u>26,951</u>	<u>(4,423)</u>
Total items that may be reclassified subsequently to profit or loss	119,546	20,815
Other comprehensive income (loss) for the period, net of tax	205,895	(33,648)

Total comprehensive income for the period	869,446	374,406
Profit for the period attributable to:		
Owners of PJSC Gazprom	630,804	381,346
Non-controlling interest	<u>32,747</u>	<u>26,708</u>
	663,551	408,054
Total comprehensive income for the period attributable to:		
Owners of PJSC Gazprom	831,384	343,027
Non-controlling interest	<u>38,062</u>	<u>31,379</u>
	869,446	374,406

Total sales (net of excise tax, VAT and customs duties) increased by RUB 761,621 million, or 24 %, to RUB 3,971,555 million for the six months ended June 30, 2018 compared to the same period of the prior year. The increase in sales revenues was mainly due to an increase in sales of gas, refined products, crude oil and gas condensate.

More detailed information concerning the main items of the sales structure for the six months ended June 30, 2018 and June 30, 2017 is presented in the table below.

RUB million (unless indicated otherwise)	Six months ended June 30,	
	2018	2017
Sales of gas		
<i>Europe and Other countries</i>		
Net sales (net of excise tax and customs duties)	1,411,305	1,053,789
Volumes in bcm	128.5	119.1
Average price, RUB per mcm (including excise tax and customs duties)	13,858.9	11,117.2
<i>Former Soviet Union countries</i>		
Net sales (net of customs duties)	167,024	151,268
Volumes in bcm	20.6	18.4
Average price, RUB per mcm (including customs duties)	8,935.2	9,107.4
<i>Russian Federation</i>		
Net sales (net of VAT)	508,765	466,525
Volumes in bcm	129.6	124.1
Average price, RUB per mcm (net of VAT)	3,925.8	3,760.7
<i>Total sales of gas</i>		
Retroactive gas price adjustments	37,795	(7,304)
Net sales (net of excise tax, VAT and customs duties)	2,124,889	1,664,278
Volumes in bcm	278.7	261.6
Net sales of refined products (net of excise tax, VAT and customs duties)	991,573	780,812
Net sales of crude oil and gas condensate (net of VAT and customs duties)	345,656	273,298
Electric and heat energy net sales (net of VAT)	274,173	263,155
Gas transportation net sales (net of VAT)	113,754	117,482
Other revenues (net of VAT)	<u>121,510</u>	<u>110,909</u>
Total sales (net of excise tax, VAT and customs duties)	3,971,555	3,209,934

Net sales of gas increased by RUB 460,611 million, or 28 %, to RUB 2,124,889 million for the six months ended June 30, 2018 compared to the same period of the prior year. The change was mainly due to an increase in average prices (including excise tax and customs duties) in the Europe and Other countries and an increase in volumes of gas sold in all geographic segments for the six months ended June 30, 2018 compared to the same period of the prior year.

Net sales of gas to Europe and Other countries increased by RUB 357,516 million, or 34 %, to RUB 1 411 305 million for the six months ended June 30, 2018 compared to the same period of the prior year. The change was mainly due to the increase in average Russian Ruble prices (including excise tax and customs duties) by 25 % and the increase in volumes of the gas sold by 8 %, or 9.4 bcm.

Net sales of gas to Former Soviet Union countries increased by RUB 15,756 million, or 10 %, to RUB 167,024 million for the six months ended June 30, 2018 compared to the same period of the prior year. The change was due to the increase in volumes of gas sold by 12 %, or 2.2 bcm, that was partially compensated by the decrease in average Russian Ruble prices (including customs duties) by 2 %.

Net sales of gas in the Russian Federation increased by RUB 42,240 million, or 9 %, to RUB 508,765 million for the six months ended June 30, 2018 compared to the same period of the prior year. This change is explained by the increase in volumes of gas sold by 4 %, or 5.5 bcm, and the increase in average Russian Ruble prices (net of VAT) by 4 %.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RUB 210,761 million, or 27 %, to RUB 991,573 million for the six months ended June 30, 2018 compared to the same period of the prior year. The increase in sales of refined products was mainly due to an increase in average prices in all geographic segments and an increase in the Gazprom neft Group sales volumes.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RUB 72,358 million, or 26 %, to RUB 345,656 million for the six months ended June 30, 2018 compared to the same period of the prior year. The increase in sales of crude oil was mainly due to an increase in average prices by more than 30 % in all geographic segments that was partially compensated by a decrease in sales volumes.

Operating expenses increased by RUB 373,747 million, or 14 %, to RUB 3,035,649 million for the six months ended June 30, 2018 compared to the same period of the prior year.

The change in operating expenses is primarily explained by an increase in the item "Purchased gas and oil" by RUB 178,942 million, or 32 % for the six months ended June 30, 2018 compared to the same period of the prior year. The change was mainly due to an increase in volumes of gas and crude oil purchased from external suppliers and an increase in average gas and crude oil prices.

The line item "Taxes other than on income" increased by RUB 102,308 million, or 18 %, for the six months ended June 30, 2018 compared to the same period of the prior year. The increase is mainly due to an increase in mineral extraction tax by RUB 86,199 million, or 21 %, for the six months ended June 30, 2018 compared to the same period of the prior year.

For the six months ended June 30, 2018 the balance of foreign exchange differences reflected in "Net finance income (loss)" produced the loss in the amount of RUB 146,062 million compared to the loss of RUB 17,303 million for the same period of the prior year.

Profit attributable to the owners of PJSC Gazprom for the six months ended June 30, 2018 totalled RUB 630,804 million which is by RUB 249,458 million, or 65 %, more than for the same period of the prior year.

Net debt balance (defined as the sum of short-term borrowings, current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable, net of cash and cash equivalents) increased by RUB 35,836 million, or 1 %, from RUB 2,397,511 million as of December 31, 2017 to RUB 2,433,347 million as of June 30, 2018. The increase was mainly due to an increase in the amount of long-term borrowings denominated in Russian Ruble terms caused by the appreciation of US Dollar and Euro against the Russian Ruble that was partially compensated by an increase in cash and cash equivalents balances.

More detailed information on the IFRS consolidated interim condensed financial information for the six months ended June 30, 2018 can be found on the PJSC Gazprom's site (www.gazprom.ru).

www.gazprom.ru

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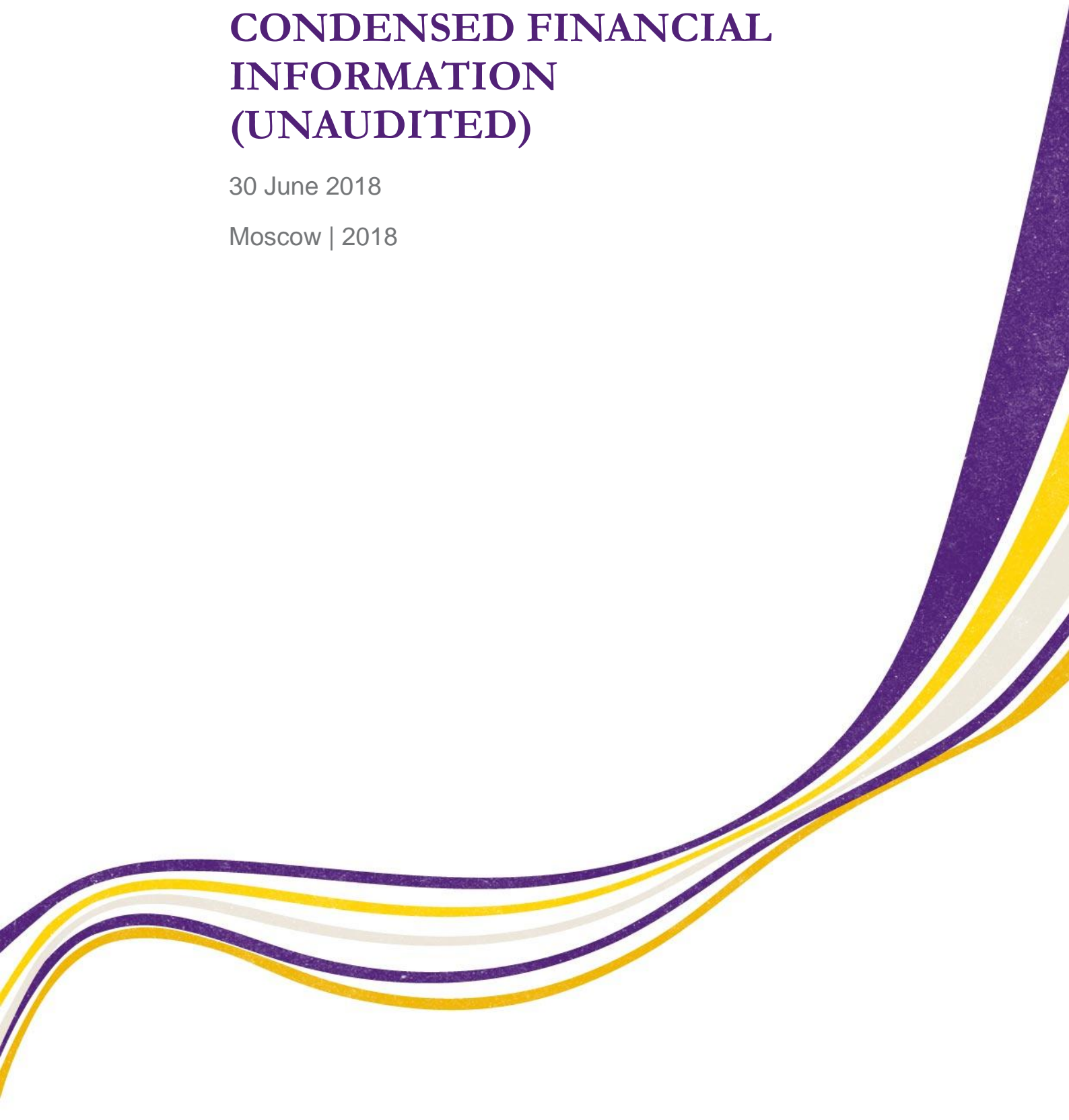


PJSC GAZPROM

**IFRS CONSOLIDATED INTERIM
CONDENSED FINANCIAL
INFORMATION
(UNAUDITED)**

30 June 2018

Moscow | 2018



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Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and the Board of Directors of PJSC Gazprom

Introduction

We have reviewed the accompanying consolidated interim condensed balance sheet of PJSC Gazprom and its subsidiaries as of 30 June 2018 and the related consolidated interim condensed statement of comprehensive income for the three and six months ended 30 June 2018, the consolidated interim condensed statements of cash flows and changes in equity for the six months ended 30 June 2018 and notes to the consolidated interim condensed financial information.

Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

President of FBK, LLC



Engagement partner



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

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

Date of the Report on Review:

28 August 2018

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, principal number of registration entry (ORNZ) – 11506030481.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (UNAUDITED)
AS OF 30 JUNE 2018
(in millions of Russian Rubles)

Notes		30 June 2018	31 December 2017
	Assets		
	Current assets		
6	Cash and cash equivalents	933,974	869,007
21	Short-term financial assets	30,814	31,057
7	Accounts receivable and prepayments	1,010,631	1,122,724
8	Inventories	773,921	772,314
	VAT recoverable	117,589	119,881
12	Other current assets	<u>723,029</u>	<u>554,283</u>
		3,589,958	3,469,266
	Non-current assets		
9	Property, plant and equipment	13,029,588	12,545,079
	Goodwill	106,941	105,469
10	Investments in associates and joint ventures	938,501	867,445
11	Long-term accounts receivable and prepayments	676,812	669,286
21	Long-term financial assets	339,746	268,432
12	Other non-current assets	<u>438,690</u>	<u>313,793</u>
		15,530,278	14,769,504
	Total assets	19,120,236	18,238,770
	Liabilities and equity		
	Current liabilities		
	Accounts payable and provisions for liabilities and charges	1,416,350	1,378,182
	Current profit tax payable	23,758	59,922
	Taxes and fees payable	275,998	276,607
	Short-term borrowings, promissory notes and current portion of long-term borrowings	<u>791,524</u>	<u>874,805</u>
		2,507,630	2,589,516
	Non-current liabilities		
13	Long-term borrowings, promissory notes	2,575,797	2,391,713
20	Provisions for liabilities and charges	488,819	469,453
14	Deferred tax liabilities	772,787	699,413
	Other non-current liabilities	<u>92,664</u>	<u>73,194</u>
		3,930,067	3,633,773
	Total liabilities	6,437,697	6,223,289
	Equity		
15	Share capital	325,194	325,194
15	Treasury shares	(235,919)	(235,919)
	Retained earnings and other reserves	<u>12,182,943</u>	<u>11,539,811</u>
		12,272,218	11,629,086
	Non-controlling interest	<u>410,321</u>	<u>386,395</u>
	Total equity	12,682,539	12,015,481
	Total liabilities and equity	19,120,236	18,238,770


A.B. Miller
Chairman of the Management Committee
28 August 2018



E.A. Vasilieva
Chief Accountant
28 August 2018

The accompanying notes on pages 9 to 41 are an integral part of these consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2018
(in millions of Russian Rubles)

Notes		Three months ended		Six months ended	
		30 June		30 June	
		2018	2017	2018	2017
16	Sales	1,833,224	1,394,633	3,971,555	3,209,934
	Net loss from trading activity	(9,295)	(6,124)	(2,294)	(20,327)
17	Operating expenses	(1,384,303)	(1,184,040)	(3,035,649)	(2,661,902)
	Impairment loss on financial assets	(27,934)	(14,167)	(54,339)	(43,354)
	Operating profit	411,692	190,302	879,273	484,351
18	Finance income	168,559	52,912	259,939	236,044
18	Finance expense	(287,409)	(186,939)	(394,832)	(239,627)
10	Share of net income of associates and joint ventures	47,903	26,414	91,583	55,969
	Profit before profit tax	340,745	82,689	835,963	536,737
	Current profit tax expense	(56,379)	(16,082)	(103,221)	(83,162)
	Deferred profit tax expense	(12,984)	(8,940)	(69,191)	(45,521)
	Profit tax	(69,363)	(25,022)	(172,412)	(128,683)
	Profit for the period	271,382	57,667	663,551	408,054
	Other comprehensive income (loss):				
	Items that will not be reclassified to profit or loss:				
	Gain (loss) arising from change in fair value of financial assets at fair value through other comprehensive income, net of tax	42,929	(13,420)	71,006	(40,227)
20	Remeasurements of post-employment benefit obligations	26,706	22,334	15,343	(14,236)
	Total items that will not be reclassified to profit or loss	69,635	8,914	86,349	(54,463)
	Items that may be reclassified subsequently to profit or loss:				
	Share of other comprehensive income of associates and joint ventures	170	1,678	1,658	2,125
	Translation differences	78,474	104,785	90,937	23,113
	Gain (loss) from cash flow hedges, net of tax	19,867	(2,209)	26,951	(4,423)
	Total items that may be reclassified subsequently to profit or loss	98,511	104,254	119,546	20,815
	Other comprehensive income (loss) for the period, net of tax	168,146	113,168	205,895	(33,648)
	Total comprehensive income for the period	439,528	170,835	869,446	374,406
	Profit for the period attributable to:				
	Owners of PJSC Gazprom	259,181	47,893	630,804	381,346
	Non-controlling interest	12,201	9,774	32,747	26,708
		271,382	57,667	663,551	408,054
	Total comprehensive income for the period attributable to:				
	Owners of PJSC Gazprom	424,510	151,861	831,384	343,027
	Non-controlling interest	15,018	18,974	38,062	31,379
		439,528	170,835	869,446	374,406
	Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)				
19		11.72	2.17	28.54	17.26

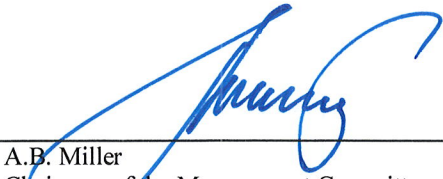

A.B. Miller
Chairman of the Management Committee
28 August 2018



E.A. Vasilieva
Chief Accountant
28 August 2018

The accompanying notes on pages 9 to 41 are an integral part of these consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2018
(in millions of Russian Rubles)

Notes	Six months ended 30 June	
	2018	2017
	Cash flows from operating activities	
	Profit before profit tax	835,963 536,737
	Adjustments to profit before profit tax for:	
17	Depreciation	318,547 303,303
18	Net finance expense	134,893 3,583
10	Share of net income of associates and joint ventures	(91,583) (55,969)
	Impairment loss on assets and provision for post-employment benefit obligations	82,780 76,280
17	Derivatives loss (gain)	16,155 (7,351)
	Other	6,295 879
	Total effect of adjustments	467,087 320,725
	Cash flows from operating activities before working capital changes	1,303,050 857,462
	Increase in non-current assets	(1,665) (1,847)
	Increase in non-current liabilities	1,762 19,972
	Changes in working capital	(214,657) (251,449)
	Profit tax paid	(140,996) (177,561)
	Net cash from operating activities	947,494 446,577
	Cash flows from investing activities	
	Capital expenditures	(791,128) (651,508)
18	Interest paid and capitalised	(65,350) (56,922)
	Net change in loans issued	12,692 3,185
	Investments in associates and joint ventures	(19,963) (84,366)
	Interest received	50,119 31,356
	Change in long-term financial assets at fair value through other comprehensive income	7,172 (296)
	Proceeds from associates and joint ventures	36,526 17,640
	Proceeds from the sale of associates	- 476
	Proceeds from the sale of subsidiary	580 -
	Placement of long-term bank deposits	(5,697) -
	Repayment of long-term bank deposits	42,788 -
	Other	(53,707) (8,584)
	Net cash used in investing activities	(785,968) (749,019)
	Cash flows from financing activities	
	Proceeds from long-term borrowings	493,945 540,971
	Repayment of long-term borrowings (including current portion of long-term borrowings)	(593,486) (340,643)
	Proceeds from short-term borrowings	29,894 58,700
	Repayment of short-term borrowings	(43,968) (52,615)
	Dividends paid	(6,647) (5,635)
18	Interest paid	(17,430) (22,744)
	Acquisition of non-controlling interests in subsidiaries	(138) (124)
	Other	2,943 1,177
	Net cash (used in) from financing activities	(134,887) 179,087
	Effect of foreign exchange rate changes on cash and cash equivalents	38,328 6,626
	Increase (decrease) in cash and cash equivalents	64,967 (116,729)
6	Cash and cash equivalents at the beginning of the period	869,007 896,728
6	Cash and cash equivalents at the end of the period	933,974 779,999


A.B. Miller
Chairman of the Management Committee
22 August 2018


E.A. Vasilieva
Chief Accountant
22 August 2018

The accompanying notes on pages 9 to 41 are an integral part of these consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
FOR THE SIX MONTHS ENDED 30 JUNE 2018
(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				
	Six months ended 30 June 2017							
	Balance as of 31 December 2016	22.1	325,194	(235,919)	11,005,256	11,094,531	347,308	11,441,839
	Profit for the period	-	-	-	381,346	381,346	26,708	408,054
	Other comprehensive income (loss):							
	Loss arising from change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	(40,227)	(40,227)	-	(40,227)
20	Remeasurements of post-employment benefit obligations	-	-	-	(14,219)	(14,219)	(17)	(14,236)
	Share of other comprehensive income of associates and joint ventures	-	-	-	2,125	2,125	-	2,125
	Translation differences	-	-	-	18,680	18,680	4,433	23,113
	(Loss) gain from cash flow hedges, net of tax	-	-	-	(4,678)	(4,678)	255	(4,423)
	Total comprehensive income for the six months ended 30 June 2017	-	-	-	343,027	343,027	31,379	374,406
	Return of social assets to governmental authorities	-	-	-	(14)	(14)	-	(14)
	Dividends declared	-	-	-	(177,680)	(177,680)	(13,247)	(190,927)
	Balance as of 30 June 2017	22.1	325,194	(235,919)	11,170,589	11,259,864	365,440	11,625,304
	Six months ended 30 June 2018							
	Balance as of 31 December 2017	22.1	325,194	(235,919)	11,539,811	11,629,086	386,395	12,015,481
4	Effect of changes in accounting policies	-	-	-	(13,086)	(13,086)	(140)	(13,226)
	Balance as of 1 January 2018 (restated)	22.1	325,194	(235,919)	11,526,725	11,616,000	386,255	12,002,255
	Profit for the period	-	-	-	630,804	630,804	32,747	663,551
	Other comprehensive income (loss):							
	Gain (loss) arising from change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	71,777	71,777	(771)	71,006
20	Remeasurements of post-employment benefit obligations	-	-	-	15,345	15,345	(2)	15,343
	Share of other comprehensive income of associates and joint ventures	-	-	-	1,658	1,658	-	1,658
	Translation differences	-	-	-	85,482	85,482	5,455	90,937
	Gain from cash flow hedges, net of tax	-	-	-	26,318	26,318	633	26,951
	Total comprehensive income for the six months ended 30 June 2018	-	-	-	831,384	831,384	38,062	869,446
	Change in non-controlling interest in subsidiaries	-	-	-	2,557	2,557	(2,929)	(372)
	Return of social assets to governmental authorities	-	-	-	(36)	(36)	-	(36)
	Dividends declared	-	-	-	(177,687)	(177,687)	(11,067)	(188,754)
	Balance as of 30 June 2018	22.1	325,194	(235,919)	12,182,943	12,272,218	410,321	12,682,539

A.B. Miller
Chairman of the Management Committee

28 August 2018

E.A. Vasilieva
Chief Accountant

28 August 2018

The accompanying notes on pages 9 to 41 are an integral part of these consolidated interim condensed financial information.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2018
(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 gas business is subject to seasonal fluctuations with peak demand in the first and fourth quarters of each year. Typically approximately 30 % of total annual gas volumes are shipped in the first calendar quarter and approximately 20 % in the second calendar quarter.

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 30 June 2018 – 62.7565 (as of 30 June 2017 – 59.0855);
- as of 31 December 2017 – 57.6002 (as of 31 December 2016 – 60.6569).

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

- as of 30 June 2018 – 72.9921 (as of 30 June 2017 – 67.4993);
- as of 31 December 2017 – 68.8668 (as of 31 December 2016 – 63.8111).

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the Government of the Russian Federation to sustain growth, and to change the tax, legal and regulatory 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

This consolidated interim condensed financial information is prepared in accordance with IAS 34 Interim Financial Reporting. The consolidated interim condensed financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (“IFRS”).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The significant accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2017, except for the application of new standards that became effective on 1 January 2018.

Application of new IFRSs

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

a) Classification and measurement of financial assets

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

Financial assets measured subsequently at amortised cost

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

There are no changes in classification of financial assets that previously were also measured at amortised cost.

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

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

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

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

These instruments were previously recognised by the Group in available-for-sale financial assets with changes in fair value recognised in other comprehensive income.

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

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss. Such financial assets of the Group mainly include derivative financial instruments and financial instruments held for trading, as well as some equity instruments for which the Group has not made a decision to recognise changes in fair value in other comprehensive income.

These instruments previously met the fair value with changes recognised through profit or loss criteria.

b) Impairment of financial assets

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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

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

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

The applying of the new model resulted in insignificant increase in the amount of the allowance for expected credit losses.

c) Classification and measurement of financial liabilities

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

- financial liabilities at fair value through profit or loss. Such liabilities, including derivative instruments, are measured subsequently at fair value;
- financial guarantee contracts. After initial recognition financial guarantee contracts are measured at the higher of the amount of loss allowance and the amount initially recognised less cumulative revenue recognised in accordance with IFRS 15 Revenue from Contracts with Customers;
- contingent consideration recognised in a business combination for which IFRS 3 Business Combinations is applied. Such contingent consideration is measured subsequently at fair value with changes recognised in profit or loss.

The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

The Group previously applied similar classification and measurement of financial liabilities.

d) Hedge accounting

The Group's management has made a decision to apply the hedge accounting requirements of IFRS 9 Financial Instruments.

The Group applies hedge accounting to derivatives designated as hedging instruments. The Group applies the cash flow hedge accounting model to manage variability in cash flows that results from fluctuations in foreign exchange rates attributable to highly probable forecast transactions.

A qualifying instrument must be designated in its entirety as a hedging instrument.

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

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

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

Previously the Group applied hedge accounting to the same derivatives designated as hedging instruments.

Thus, application of IFRS 9 Financial Instruments has not had a significant effect on the consolidated interim condensed financial information of the Group. The Group applied IFRS 9 Financial Instruments retrospectively and used an option not to restate prior periods in respect of new requirements. The effect of applying IFRS 9 Financial Instruments was recognised in the opening balance of retained earnings and other reserves and non-controlling interest in the consolidated interim condensed statement of changes in equity of the Group as at 1 January 2018.

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES
(continued)

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

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

Revenue is recognised as the obligation to perform is fulfilled by transferring a promised good or service to a customer. As asset is transferred when the control over such asset is passed to the customer.

Except for the requirement for more detailed disclosure of revenue by geographic segments (see Note 16), application of IFRS 15 Revenue from Contracts with Customers has not had a significant effect on the consolidated interim condensed financial information of the Group. Therefore, comparative data and opening balance of retained earnings and other reserves and non-controlling interest as at 1 January 2018 have not been restated.

Application of Interpretations and Amendments to existing Standards

A number of interpretations and amendments to current IFRSs became effective for the periods beginning on or after 1 January 2018:

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

The Group has reviewed these interpretations and amendments to standards while preparing consolidated interim condensed financial information. The interpretations and amendments to standards have no significant impact on the Group's consolidated interim condensed 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 2019. In particular, the Group has not early adopted the standards and amendments:

- 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.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investment in the

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4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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 amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify how obtaining control (or joint control) of a business that is a joint operation should be accounted if the organisation already holds an interest in that business.
- The amendments to IAS 19 Employee Benefits (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs.

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

5 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 interim condensed financial information is not included within the

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5 SEGMENT INFORMATION (continued)

operating segments which are reviewed by the Governing bodies on a central basis. Financial income and expense are not allocated to the operating segments.

	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
Six months ended									
<u>30 June 2018</u>									
Total segment revenues	<u>475,817</u>	<u>555,197</u>	<u>2,262,023</u>	<u>30,642</u>	<u>671,353</u>	<u>995,386</u>	<u>274,173</u>	<u>173,775</u>	<u>5,438,366</u>
Inter-segment sales	462,315	441,443	150,636	28,617	325,697	3,813	-	-	1,412,521
External sales	13,502	113,754	2,111,387	2,025	345,656	991,573	274,173	173,775	4,025,845
Segment result	<u>29,063</u>	<u>13,749</u>	<u>382,959</u>	<u>7,111</u>	<u>154,804</u>	<u>119,839</u>	<u>40,599</u>	<u>24,107</u>	<u>772,231</u>
Depreciation	93,574	247,708	8,488	13,069	56,523	27,952	26,131	24,387	497,832
Share of net income (loss) of associates and joint ventures	3,636	12,325	(188)	-	68,321	2,303	82	5,104	91,583
Six months ended									
<u>30 June 2017</u>									
Total segment revenues	<u>466,756</u>	<u>525,596</u>	<u>1,790,122</u>	<u>29,113</u>	<u>570,975</u>	<u>785,387</u>	<u>263,155</u>	<u>171,349</u>	<u>4,602,453</u>
Inter-segment sales	455,367	408,114	137,233	27,589	297,677	4,575	-	-	1,330,555
External sales	11,389	117,482	1,652,889	1,524	273,298	780,812	263,155	171,349	3,271,898
Segment result	<u>38,406</u>	<u>(2,354)</u>	<u>159,318</u>	<u>5,135</u>	<u>119,184</u>	<u>13,032</u>	<u>41,650</u>	<u>3,042</u>	<u>377,413</u>
Depreciation	94,063	262,127	8,532	14,294	57,979	27,801	24,483	20,845	510,124
Share of net income of associates and joint ventures	3,237	9,243	467	55	32,768	1,263	181	8,755	55,969
	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
Three months ended									
<u>30 June 2018</u>									
Total segment revenues	<u>242,542</u>	<u>281,542</u>	<u>949,964</u>	<u>16,175</u>	<u>356,997</u>	<u>523,880</u>	<u>98,687</u>	<u>83,238</u>	<u>2,553,025</u>
Inter-segment sales	235,621	226,441	52,521	15,230	161,813	1,851	-	-	693,477
External sales	6,921	55,101	897,443	945	195,184	522,029	98,687	83,238	1,859,548
Segment result	<u>20,543</u>	<u>6,522</u>	<u>145,466</u>	<u>3,870</u>	<u>79,930</u>	<u>91,937</u>	<u>4,198</u>	<u>14,324</u>	<u>366,790</u>
Depreciation	47,493	124,970	4,243	6,592	28,043	12,329	13,186	13,807	250,663
Share of net income (loss) of associates and joint ventures	1,941	6,582	947	-	40,201	1,541	19	(3,328)	47,903
Three months ended									
<u>30 June 2017</u>									
Total segment revenues	<u>232,207</u>	<u>267,678</u>	<u>698,046</u>	<u>15,428</u>	<u>273,674</u>	<u>389,214</u>	<u>103,165</u>	<u>82,676</u>	<u>2,062,088</u>
Inter-segment sales	226,794	208,783	47,201	14,547	139,213	2,065	-	-	638,603
External sales	5,413	58,895	650,845	881	134,461	387,149	103,165	82,676	1,423,485
Segment result	<u>28,069</u>	<u>10,046</u>	<u>123,818</u>	<u>2,786</u>	<u>65,406</u>	<u>10,786</u>	<u>8,899</u>	<u>(7,666)</u>	<u>242,144</u>
Depreciation	46,233	132,069	4,214	7,190	29,463	13,696	12,069	11,089	256,023
Share of net income of associates and joint ventures	1,634	4,353	1,216	15	13,165	734	113	5,184	26,414

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5 SEGMENT INFORMATION (continued)

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

Notes	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Segment result for reportable segments	352,466	249,810	748,124	374,371
Other segments' result	14,324	(7,666)	24,107	3,042
Segment result	366,790	242,144	772,231	377,413
Difference in depreciation ¹	90,402	102,414	179,285	206,821
Expenses associated with post-employment benefit obligations	(4,980)	(4,038)	(7,816)	(6,895)
18 Net finance loss	(118,850)	(134,027)	(134,893)	(3,583)
10 Share of net income of associates and joint ventures	47,903	26,414	91,583	55,969
Derivatives loss	(3,703)	(2,670)	(16,155)	7,351
Other	(36,817)	(147,548)	(48,272)	(100,339)
Profit before profit tax	340,745	82,689	835,963	536,737

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.

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

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
External sales for reportable segments	1,776,310	1,340,809	3,852,070	3,100,549
External sales for other segments	83,238	82,676	173,775	171,349
Total external segment sales	1,859,548	1,423,485	4,025,845	3,271,898
Differences in external sales ¹	(26,324)	(28,852)	(54,290)	(61,964)
Total sales per the consolidated interim condensed statement of comprehensive income	1,833,224	1,394,633	3,971,555	3,209,934

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.

	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 30 June 2018									
Segment assets	2,667,397	6,721,911	1,559,606	338,127	2,750,578	1,862,976	859,790	1,149,491	17,909,876
Investments in associates and joint ventures	26,566	161,068	19,445	2	540,520	20,065	1,568	169,267	938,501
Capital additions ¹	82,059	287,657	16,727	4,125	103,856	119,906	20,202	46,805	681,337
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 ²	216,450	498,550	51,675	37,694	330,424	225,240	58,110	86,457	1,504,600

¹ Capital additions for the six months ended 30 June 2018.

² Capital additions for the year ended 31 December 2017.

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5 SEGMENT INFORMATION (continued)

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

Notes		30 June 2018	31 December 2017
	Segment assets for reportable segments	16,760,385	16,516,348
	Other segments' assets	<u>1,149,491</u>	<u>1,131,509</u>
	Total segment assets	17,909,876	17,647,857
	Differences in property, plant and equipment, net ¹	(1,711,297)	(1,967,878)
	Borrowing interest capitalised	759,917	714,392
6	Cash and cash equivalents	933,974	869,007
21	Short-term financial assets	30,814	31,057
	VAT recoverable	117,589	119,881
	Other current assets	723,029	554,283
21	Long-term financial assets	339,746	268,432
	Goodwill	106,941	105,469
	Other non-current assets	438,690	313,793
	Inter-segment assets	(761,122)	(742,369)
	Other	<u>232,079</u>	<u>324,846</u>
	Total assets per the consolidated interim condensed balance sheet	19,120,236	18,238,770

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 (except provision for decommissioning and site restoration costs), 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.

		30 June 2018	31 December 2017
	Distribution of gas	744,684	841,706
	Refining	455,206	337,170
	Production of gas	281,233	329,521
	Transportation	221,815	306,235
	Production of crude oil and gas condensate	209,947	217,805
	Electric and heat energy generation and sales	76,184	82,315
	Gas storage	21,420	24,416
	Other segments	<u>257,703</u>	<u>287,748</u>
	Total segment liabilities	2,269,869	2,426,916

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

Notes		30 June 2018	31 December 2017
	Segment liabilities for reportable segments	2,010,489	2,139,168
	Other segments' liabilities	<u>257,703</u>	<u>287,748</u>
	Total segment liabilities	2,268,192	2,426,916
	Current profit tax payable	23,758	59,922
	Short-term borrowings, promissory notes and current portion of long-term borrowings	791,524	874,805
13	Long-term borrowings, promissory notes	2,575,797	2,391,713
	Long-term provisions for liabilities and charges (except provision for decommissioning and site restoration costs)	275,422	266,837
14	Deferred tax liabilities	772,787	699,413
	Other non-current liabilities	92,664	73,194
	Dividends	188,671	5,099
	Inter-segment liabilities	(761,122)	(742,369)
	Other	<u>210,004</u>	<u>167,759</u>
	Total liabilities per the consolidated interim condensed balance sheet	6,437,697	6,223,289

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6 CASH AND CASH EQUIVALENTS

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

	30 June 2018	31 December 2017
Cash on hand and bank balances payable on demand	733,302	508,585
Term deposits with original maturity of three months or less	<u>200,672</u>	<u>360,422</u>
Total cash and cash equivalents	933,974	869,007

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2018	31 December 2017
Trade receivables	698,960	758,150
Other receivables	116,447	136,980
Loans receivables	100,359	149,302
Advances and prepayments	<u>94,865</u>	<u>78,292</u>
Total accounts receivable and prepayments	1,010,631	1,122,724

Accounts receivables are presented net of allowance for expected credit losses of RUB 875,810 million and RUB 781,978 million, prepayments are presented net of impairment allowance of RUB 13,084 million and RUB 12,542 million as of 30 June 2018 and 31 December 2017, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million and RUB nil million net of allowance for expected credit losses of RUB 112,384 million and RUB 80,231 million as of 30 June 2018 and 31 December 2017, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 4,731 million and RUB 4,974 million as of 30 June 2018 and 31 December 2017, respectively.

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9 PROPERTY, PLANT AND EQUIPMENT

	Total operating assets (including production licenses)	Social assets	Assets under construction	Total
As of 31 December 2016				
Cost	14,329,467	95,229	2,577,846	17,002,542
Accumulated depreciation	<u>(5,458,960)</u>	<u>(40,835)</u>	<u>-</u>	<u>(5,499,795)</u>
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
Six months ended 30 June 2017				
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
Depreciation	(298,650)	(1,252)	-	(299,902)
Additions	22,265	52	565,310	587,627
Translation differences	6,810	21	17,191	24,022
Transfers	136,734	80	(136,814)	-
Disposals	(9,044)	-	(4,775)	(13,819)
Change in impairment allowance	<u>-</u>	<u>-</u>	<u>(5,157)</u>	<u>(5,157)</u>
Net book value as of 30 June 2017	8,728,622	53,295	3,013,601	11,795,518
Six months ended 31 December 2017				
Net book value as of 30 June 2017	8,728,622	53,295	3,013,601	11,795,518
Depreciation	(300,506)	(1,249)	-	(301,755)
Additions	124,579	691	974,989	1,100,259
Translation differences	(5,970)	(7)	4,348	(1,629)
Transfers	558,256	1,243	(559,499)	-
Disposals	(35,992)	(518)	(38,653)	(75,163)
Change in impairment allowance	<u>37,640</u>	<u>-</u>	<u>(9,791)</u>	<u>27,849</u>
Net book value as of 31 December 2017	9,106,629	53,455	3,384,995	12,545,079
As of 31 December 2017				
Cost	15,164,745	96,791	3,384,995	18,646,531
Accumulated depreciation	<u>(6,058,116)</u>	<u>(43,336)</u>	<u>-</u>	<u>(6,101,452)</u>
Net book value as of 31 December 2017	9,106,629	53,455	3,384,995	12,545,079
Six months ended 30 June 2018				
Net book value as of 31 December 2017	9,106,629	53,455	3,384,995	12,545,079
Depreciation	(314,485)	(1,169)	-	(315,654)
Additions	42,440	-	717,786	760,226
Translation differences	42,175	50	33,884	76,109
Transfers	134,184	414	(134,598)	-
Disposals	(11,212)	(9,794)	(10,844)	(31,850)
Change in impairment allowance	<u>-</u>	<u>-</u>	<u>(4,322)</u>	<u>(4,322)</u>
Net book value as of 30 June 2018	8,999,731	42,956	3,986,901	13,029,588
As of 30 June 2018				
Cost	15,372,332	87,461	3,986,901	19,446,694
Accumulated depreciation	<u>(6,372,601)</u>	<u>(44,505)</u>	<u>-</u>	<u>(6,417,106)</u>
Net book value as of 30 June 2018	8,999,731	42,956	3,986,901	13,029,588

Operating assets are presented net of allowance for impairment of RUB 158,054 million and RUB 157,849 million as of 30 June 2018 and 31 December 2017, respectively.

Assets under construction are presented net of allowance for impairment of RUB 192,402 million and RUB 185,145 million as of 30 June 2018 and 31 December 2017, respectively. The change in impairment allowance of assets under construction is mainly attributable to impairment allowance charge for objects planned for liquidation and translation differences.

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 99 million and RUB 148 million as of 30 June 2018 and 31 December 2017, respectively.

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10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of		Share of the income (loss) of associates and joint ventures for the six months ended 30 June	
			30 June 2018	31 December 2017	2018	2017
22, 23	Sakhalin Energy Investment Company Ltd.	Associate	204,558	169,242	30,493	16,095
22	PJSC NGK Slayneft and its subsidiaries	Joint venture	146,917	140,548	6,369	2,526
22, 23	Gazprombank (Joint-stock Company) and its subsidiaries ¹	Associate	135,782	145,603	5,048	8,961
22	JSC Arcticgas ²	Joint venture	123,447	105,157	17,653	7,762
22, 23	Nord Stream AG	Joint venture	82,045	79,288	8,771	7,281
22	WIGA Transport Beteiligungs- GmbH & Co. KG and its subsidiaries	Associate	47,756	45,436	3,009	2,460
22	JSC Achimgaz	Joint venture	36,164	33,509	4,806	4,203
22	JSC EUROPOL GAZ	Associate	30,526	29,588	545	(558)
22	JSC Messoyakhaneftegaz	Joint venture	29,336	17,965	11,371	4,172
22	Wintershall AG	Associate	16,716	15,645	145	(1)
22	CJSC Northgas	Joint venture	10,395	12,786	1,709	1,631
22	KazRosGas LLP	Joint venture	9,589	9,435	(579)	193
22	Wintershall Noordzee B.V.	Joint venture	7,251	6,532	75	(100)
	Other (net of allowance for impairment of RUB 25,674 million and RUB 21,795 million as of 30 June 2018 and 31 December 2017, respectively)		<u>58,019</u>	<u>56,711</u>	<u>2,168</u>	<u>1,344</u>
			938,501	867,445	91,583	55,969

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

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10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

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.

	Percent of share capital held	Country of primary operations	As of 30 June 2018		Six months ended 30 June 2018	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint-stock Company) and its subsidiaries ¹	48 %	Russia	5,987,310	5,527,281	124,767	24,246
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	1,021,267	612,151	192,448	60,986
PJSC NGK Slavneft and its subsidiaries	50 %	Russia	518,584	226,342	148,009	13,359
Nord Stream AG ³	51 %	Germany	444,694	283,821	38,682	17,197
JSC Arcticgas	50 %	Russia	415,942	190,888	94,019	36,226
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	272,330	167,928	30,445	6,137
JSC Messoyakhaneftegaz	50 %	Russia	183,662	125,408	54,086	22,742
JSC Achimgaz	50 %	Russia	88,173	15,845	16,491	9,611
Wintershall AG ⁴	49 %	Libya	76,563	52,404	5,371	295
JSC EUROPOL GAZ	48 %	Poland	66,394	2,801	7,983	1,095
Wintershall Noordzee B.V.	50 %	Netherlands	52,965	39,784	6,625	150
CJSC Northgas	50 %	Russia	52,779	31,052	11,081	3,419
KazRosGaz LLP	50 %	Kazakhstan	27,907	8,727	22,601	(259)

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

² Country of incorporation is Bermuda Islands.

³ Country of incorporation is Switzerland.

⁴ Country of incorporation is Germany.

	Percent of share capital held	Country of primary operations	As of 31 December 2017		Six months ended 30 June 2017	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint-stock Company) and its subsidiaries ¹	48 %	Russia	5,439,664	4,957,243	103,892	27,406
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	944,134	605,649	153,702	32,190
PJSC NGK Slavneft and its subsidiaries	50 %	Russia	489,098	210,804	111,410	5,445
Nord Stream AG ³	51 %	Germany	437,421	281,955	33,796	14,277
JSC Arcticgas	50 %	Russia	401,450	212,622	67,892	16,568
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	252,107	155,126	17,437	2,629
JSC Messoyakhaneftegaz	50 %	Russia	171,124	135,612	24,051	8,344
JSC Achimgaz	50 %	Russia	78,206	11,188	14,747	8,860
Wintershall AG ⁴	49 %	Libya	67,904	44,818	4,609	(2)
JSC EUROPOL GAZ	48 %	Poland	64,993	3,353	6,889	(1,200)
CJSC Northgas	50 %	Russia	58,730	32,221	10,889	3,262
Wintershall Noordzee B.V.	50 %	Netherlands	50,550	38,271	4,531	(200)
KazRosGaz LLP	50 %	Kazakhstan	30,824	11,953	21,633	386

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

² Country of incorporation is Bermuda Islands.

³ Country of incorporation is Switzerland.

⁴ Country of incorporation is Germany.

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11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2018	31 December 2017
Long-term accounts receivable and prepayments	154,861	183,894
Advances for assets under construction	<u>521,951</u>	<u>485,392</u>
Total long-term accounts receivable and prepayments	676,812	669,286

Long-term accounts receivable are presented net of allowance for expected credit losses of RUB 9,219 million and RUB 8,810 million as of 30 June 2018 and 31 December 2017, respectively. Prepayments and advances for assets under construction are presented net of impairment allowance of RUB 7,599 million and RUB 7,508 million as of 30 June 2018 and 31 December 2017, respectively.

12 OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets are provided in the table below.

Notes	30 June 2018	31 December 2017
Short-term deposits	495,658	327,969
Prepaid VAT	109,660	150,511
21 Derivative financial instruments	101,719	55,202
Prepaid profit tax	9,054	6,271
Other	<u>6,938</u>	<u>14,330</u>
Total other current assets	723,029	554,283

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

Notes	30 June 2018	31 December 2017
Intangible assets	51,616	52,174
21 Derivative financial instruments	43,860	19,575
20 Net pension assets	40,581	27,173
VAT recoverable related to assets under construction	40,274	36,681
Long-term deposits	7,584	1,559
Other	<u>254,775</u>	<u>176,631</u>
Total other non-current assets	438,690	313,793

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	30 June 2018	31 December 2017
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009 ¹	US Dollar	2019	143,669	131,865
Bank of China Limited, London branch	Euro	2021	125,041	137,186
Loan participation notes issued in September 2012 ²	US Dollar	2022	95,291	87,461
Loan participation notes issued in November 2013 ²	US Dollar	2023	94,653	86,875
Loan participation notes issued in March 2007 ¹	US Dollar	2022	83,265	76,424
Loan participation notes issued in August 2007 ¹	US Dollar	2037	80,590	73,968
Loan participation notes issued in April 2004 ¹	US Dollar	2034	76,444	70,163
Loan participation notes issued in October 2015 ¹	Euro	2018	75,378	69,539
Loan participation notes issued in November 2016 ¹	Euro	2023	73,853	68,530
Loan participation notes issued in March 2013 ¹	Euro	2020	73,690	70,702
J.P. Morgan Europe Limited ³	Euro	2022	72,443	68,256
British Pound				
Loan participation notes issued in April 2017 ^{1, 4}	Sterling	2024	71,593	67,474
China Construction Bank Corporation, Beijing branch ³	US Dollar	2020	68,840	75,699
Loan participation notes issued in July 2013 ¹	Euro	2018	67,964	62,985
Loan participation notes issued in July 2012 ¹	US Dollar	2022	64,154	58,883
Loan participation notes issued in February 2013 ¹	US Dollar	2028	57,607	52,874
Loan participation notes issued in February 2014 ¹	Euro	2021	55,419	53,224
Loan participation notes issued in November 2017 ¹	Euro	2024	54,949	51,194
Loan participation notes issued in March 2018 ¹	Euro	2026	54,566	-
Credit Agricole CIB	Euro	2022	51,103	48,138

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13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	30 June 2018	31 December 2017
Loan participation notes issued in February 2013 ¹	US Dollar	2020	50,984	46,795
UniCredit Bank S.p.A.	Euro	2022	50,748	27,135
J.P. Morgan Europe Limited ³	Euro	2020	48,185	54,522
Loan participation notes issued in March 2017 ¹	US Dollar	2027	47,209	43,261
Loan participation notes issued in March 2018 ¹	Swiss Franc	2023	47,067	-
	British Pound			
Loan participation notes issued in September 2013 ^{1, 4}	Sterling	2020	44,145	41,651
Credit Agricole CIB	Euro	2023	43,497	-
Loan participation notes issued in November 2011 ¹	US Dollar	2021	38,645	35,470
Mizuho Bank Ltd. ³	US Dollar	2019	38,595	53,130
Loan participation notes issued in March 2013 ¹	Euro	2025	36,941	35,611
Loan participation notes issued in November 2016 ^{1, 4}	Swiss Franc	2021	34,336	31,923
Loan participation notes issued in July 2017 ^{1, 4}	Swiss Franc	2022	33,558	31,272
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	32,147	29,641
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	32,095	29,438
Russian bonds issued in March 2018 ²	Russian Ruble	2024	25,528	-
Russian bonds issued in October 2017 ²	Russian Ruble	2022	25,366	25,371
Alfa-Bank (Joint Stock Company)	US Dollar	2019	25,116	23,052
UniCredit Bank Austria AG	Euro	2021	23,426	23,908
Wintershall Nederland Transport and Trading B.V. ⁵	Euro	2035	23,223	20,555
Uniper Gas Transportation & Finance B.V. ⁵	Euro	2035	23,223	20,555
OMV Gas Marketing Trading & Finance B.V. ⁵	Euro	2035	23,222	20,554
Shell Exploration and Production (LXXI) B.V. ⁵	Euro	2035	23,222	20,554
Engie Energy Management Holding Switzerland AG ⁵	Euro	2035	23,221	20,554
Gazprombank (Joint-stock Company)	US Dollar	2019	22,592	20,736
Gazprombank (Joint-stock Company)	US Dollar	2019	20,710	19,008
VTB Bank (Europe) S.E.	Euro	2027	19,721	19,640
Gazprombank (Joint-stock Company)	US Dollar	2019	19,455	17,856
Bank of America Securities Limited	US Dollar	2018	19,052	17,453
PJSC Sberbank	Euro	2020	17,582	16,591
PJSC Sberbank	Euro	2022	17,492	15,736
Russian bonds issued in February 2017 ⁶	Russian Ruble	2027	15,497	15,501
Russian bonds issued in February 2017 ⁶	Russian Ruble	2027	15,497	15,501
Russian bonds issued in August 2017 ²	Russian Ruble	2024	15,473	15,476
Russian bonds issued in April 2017 ²	Russian Ruble	2022	15,273	15,276
BANK ROSSIYA	Russian Ruble	2022	15,267	15,012
Russian bonds issued in November 2013 ⁷	Russian Ruble	2043	15,053	15,059
Russian bonds issued in November 2013 ⁷	Russian Ruble	2043	15,053	15,059
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,000	15,001
Deutsche Bank Luxembourg S.A.	Euro	2022	14,645	13,818
Wintershall Nederland Transport and Trading B.V. ⁵	Euro	2019	13,784	3,119
OMV Gas Marketing Trading & Finance B.V. ⁵	Euro	2019	13,783	3,119
Shell Exploration and Production (LXXI) B.V. ⁵	Euro	2019	13,783	3,119
Uniper Gas Transportation & Finance B.V. ⁵	Euro	2019	13,783	3,119
BNP Paribas S.A. ³	Euro	2022	13,420	14,069
PJSC Sberbank	Euro	2023	12,588	-
UniCredit Bank Austria AG	US Dollar	2018	12,557	11,526
Russian bonds issued in August 2016 ²	Russian Ruble	2046	10,317	10,319
Russian bonds issued in February 2011 ²	Russian Ruble	2021	10,314	10,371
Russian bonds issued in February 2018 ⁶	Russian Ruble	2028	10,241	-
Russian bonds issued in February 2018 ⁶	Russian Ruble	2028	10,241	-
Russian bonds issued in June 2016 ²	Russian Ruble	2046	10,061	10,064
Russian bonds issued in December 2017 ²	Russian Ruble	2024	10,019	10,021
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2020	8,400	10,000
Commerzbank International S.A.	US Dollar	2018	6,273	11,522

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13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	30 June 2018	31 December 2017
Russian bonds issued in April 2009 ²	Russian Ruble	2019	118	10,184
Loan participation notes issued in October 2007 ¹	Euro	2018	-	87,456
Loan participation notes issued in April 2008 ¹	US Dollar	2018	-	64,507
Loan participation notes issued in April 2013 ²	Euro	2018	-	52,684
PJSC Sberbank	US Dollar	2018	-	43,776
Russian bonds issued in March 2016 ²	Russian Ruble	2018	-	15,427
Russian bonds issued in March 2016 ²	Russian Ruble	2018	-	10,303
Other long-term borrowings, promissory notes	Various	Various	504,695	476,517
Total long-term borrowings, promissory notes			3,291,950	3,180,337
Less: current portion of long-term borrowings			(716,153)	(788,624)
			2,575,797	2,391,713

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.

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

Due for repayment	30 June 2018	31 December 2017
Between one and two years	502,646	481,070
Between two and five years	1,012,397	1,087,239
After five years	1,060,754	823,404
	2,575,797	2,391,713

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,480,351 million and RUB 2,355,672 million and fair value of RUB 2,633,111 million and RUB 2,605,734 million as of 30 June 2018 and 31 December 2017, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 811,599 million and RUB 824,665 million and fair value is RUB 816,120 million and RUB 837,266 million as of 30 June 2018 and 31 December 2017, respectively.

As of 30 June 2018 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 2018 due in 2028 issuer can execute the right of early redemption in February 2025.

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by Gazprom Capital LLC in February 2017 due in 2027 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.

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Note 19).

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14 PROFIT TAX

Profit tax is recognised based on the estimated average annual effective profit tax rate applied to the profit before tax for the six months ended 30 June 2018. 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.

	30 June 2018	Differences recognition and reversals	31 December 2017	30 June 2017	Differences recognition and reversals	31 December 2016
Tax effects of taxable temporary differences:						
Property, plant and equipment	(861,728)	(30,493)	(831,235)	(798,126)	(47,753)	(750,373)
Inventories	<u>(5,596)</u>	<u>3,311</u>	<u>(8,907)</u>	<u>(7,930)</u>	<u>3,689</u>	<u>(11,619)</u>
	(867,324)	(27,182)	(840,142)	(806,056)	(44,064)	(761,992)
Tax effects of deductible temporary differences:						
Financial assets	1,946	6,520	(4,574)	2,281	345	1,936
Tax losses carried forward	17,156	3,815	13,341	7,044	1,385	5,659
Retroactive gas price adjustments	7,966	(14,494)	22,460	21,215	(1,542)	22,757
Account receivables	60,338	13,267	47,071	36,113	(3,052)	39,165
Accounts payable	-	(53,859)	53,859	-	-	-
Other deductible temporary differences	<u>7,131</u>	<u>(1,441)</u>	<u>8,572</u>	<u>5,994</u>	<u>2,022</u>	<u>3,972</u>
	94,537	(46,192)	140,729	72,647	(842)	73,489
Total net deferred tax liabilities	(772,787)	(73,374)	(699,413)	(733,409)	(44,906)	(688,503)

Taxable temporary differences recognised for the six months ended 30 June 2018 and 30 June 2017 include the effect of depreciation premium on certain property, plant and equipment. The negative tax effect on these differences for the six months ended 30 June 2018 was RUB 2,328 million and it was offset by an increase in the current profit tax by the corresponding amount and therefore no net impact on profit for the six months ended 30 June 2018. The positive tax effect on these differences for the six months ended 30 June 2017 amounted to RUB 15,373 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on profit for the six months ended 30 June 2017.

15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 30 June 2018 and 31 December 2017 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Rubles.

Treasury shares

As of 30 June 2018 and 31 December 2017 subsidiaries of PJSC Gazprom held 1,573 million ordinary shares of PJSC Gazprom including American depositary receipts in the amount of 639 million PJSC Gazprom's ordinary shares, which are accounted for as treasury shares.

In June 2017 the Group 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 30 June 2018 and 31 December 2017.

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

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SALES

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Gas sales gross of excise tax and customs duties to customers in:				
Russian Federation	158,218	154,270	508,765	466,525
Former Soviet Union (excluding Russian Federation)	59,966	53,509	183,779	167,194
Europe and other countries	<u>840,226</u>	<u>587,005</u>	<u>1,780,324</u>	<u>1,323,605</u>
	1,058,410	794,784	2,472,868	1,957,324
Customs duties	(179,942)	(121,116)	(359,664)	(262,951)
Excise tax	(11,707)	(10,355)	(26,110)	(22,791)
Retroactive gas price adjustments ¹	<u>37,603</u>	<u>(7,055)</u>	<u>37,795</u>	<u>(7,304)</u>
Total gas sales	904,364	656,258	2,124,889	1,664,278
Sales of refined products to customers in:				
Russian Federation	326,212	271,151	618,607	510,899
Former Soviet Union (excluding Russian Federation)	40,779	21,277	77,069	42,460
Europe and other countries	<u>155,038</u>	<u>94,721</u>	<u>295,897</u>	<u>227,453</u>
Total sales of refined products	522,029	387,149	991,573	780,812
Sales of crude oil and gas condensate to customers in:				
Russian Federation	20,501	18,344	31,391	41,457
Former Soviet Union (excluding Russian Federation)	9,819	7,099	19,084	14,255
Europe and other countries	<u>164,864</u>	<u>109,018</u>	<u>295,181</u>	<u>217,586</u>
Total sales of crude oil and gas condensate	195,184	134,461	345,656	273,298
Electric and heat energy sales				
Russian Federation	94,667	99,326	265,339	254,817
Former Soviet Union (excluding Russian Federation)	622	733	1,754	1,500
Europe and other countries	<u>3,398</u>	<u>3,106</u>	<u>7,080</u>	<u>6,838</u>
Total electric and heat energy sales	98,687	103,165	274,173	263,155
Gas transportation sales				
Russian Federation	53,773	57,413	111,297	114,597
Former Soviet Union (excluding Russian Federation)	733	589	1,424	1,245
Europe and other countries	<u>595</u>	<u>893</u>	<u>1,033</u>	<u>1,640</u>
Total gas transportation sales	55,101	58,895	113,754	117,482
Other revenues				
Russian Federation	45,916	46,036	96,770	92,553
Former Soviet Union (excluding Russian Federation)	1,819	1,391	3,784	2,764
Europe and other countries	<u>10,124</u>	<u>7,278</u>	<u>20,956</u>	<u>15,592</u>
Total other revenues	57,859	54,705	121,510	110,909
Total sales	1,833,224	1,394,633	3,971,555	3,209,934

¹ Retroactive gas price adjustments relate to gas deliveries in previous years 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 three and six months ended 30 June 2018 recorded as an increase of sales by RUB 37,603 million and RUB 37,795 million, respectively.

The effects of retroactive gas price adjustments on sales for the three and six months ended 30 June 2017 recorded as a decrease of sales by RUB 7,055 million and RUB 7,304 million, respectively.

These effects are due to change of related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information.

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17 OPERATING EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Purchased gas and oil	345,766	248,695	744,542	565,600
Taxes other than on income	345,866	271,152	668,485	566,177
Staff costs	189,010	171,393	378,771	341,074
Depreciation	160,261	153,609	318,547	303,303
Transit of gas, oil and refined products	156,894	140,818	303,483	287,831
Materials	73,670	64,918	128,545	124,513
Cost of goods for resale, including refined products	61,625	55,835	123,749	112,839
Electricity and heating expenses	25,122	22,954	57,608	53,084
Repairs and maintenance	32,943	35,776	52,676	59,183
Rental expenses	9,699	10,218	19,466	20,880
Transportation services	7,855	7,930	16,961	15,736
Social expenses	7,343	8,620	16,440	15,220
Derivatives loss (gain)	3,703	2,670	16,155	(7,351)
Insurance expenses	8,085	7,167	15,592	14,532
Processing services	4,963	3,895	9,121	7,451
Research and development expenses	1,714	109	7,529	6,207
Impairment loss on non-financial assets	1,505	4,667	5,158	10,850
Foreign exchange rate differences on operating items	9,821	(9,647)	(8,791)	(8,760)
Other	78,058	68,283	176,723	177,832
	1,523,903	1,269,062	3,050,760	2,666,201
Change in inventories of finished goods, work in progress and other effects	<u>(139,600)</u>	<u>(85,022)</u>	<u>(15,111)</u>	<u>(4,299)</u>
Total operating expenses	1,384,303	1,184,040	3,035,649	2,661,902

Staff costs include RUB 11,672 million and RUB 23,283 million of expenses associated with post-employment benefit obligations for the three and six months ended 30 June 2018, respectively, and RUB 11,039 million and RUB 22,076 million of expenses associated with post-employment benefit obligations for the three and six months ended 30 June 2017, respectively (see Note 20).

18 FINANCE INCOME AND EXPENSE

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Foreign exchange gain	149,780	30,595	223,091	191,381
Interest income	<u>18,779</u>	<u>22,317</u>	<u>36,848</u>	<u>44,663</u>
Total finance income	168,559	52,912	259,939	236,044
Foreign exchange loss	274,744	171,103	369,153	208,684
Interest expense	<u>12,665</u>	<u>15,836</u>	<u>25,679</u>	<u>30,943</u>
Total finance expense	287,409	186,939	394,832	239,627

Total interest paid amounted to RUB 38,006 million and RUB 82,780 million for the three and six months ended 30 June 2018, respectively, and RUB 31,812 million and RUB 79,666 million for the three and six months ended 30 June 2017, respectively.

Foreign exchange gain and loss for the six month ended 30 June 2018 and 30 June 2017 were recognised as a result of change in Euro and the US Dollar exchange rates against the Russian Ruble. Gain and loss primarily relate to revaluation of borrowings denominated in foreign currencies.

19 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 for the period by dividing the profit attributable to the owners of PJSC Gazprom by the weighted average number of ordinary shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 15).

There were 22.1 billion weighted average shares outstanding for the three and six months ended 30 June 2018 and for the three and six months ended 30 June 2017.

There are no dilutive financial instruments outstanding in the Group.

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20 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2018	31 December 2017
Provision for post-employment benefit obligations	264,448	258,132
Provision for decommissioning and site restoration costs	213,397	202,616
Other	<u>10,974</u>	<u>8,705</u>
Total provisions for liabilities and charges	488,819	469,453

The Group operates post-employment benefits system, which is recorded as defined benefit plan in the consolidated interim condensed financial information 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 net pension assets related to benefits, provided by NPF GAZFOND, are presented within other non-current assets in the consolidated interim condensed balance sheet in the amount of RUB 40,581 million and RUB 27,173 million as of 30 June 2018 and 31 December 2017, respectively (see Note 12).

In accordance with IAS 19 Employee Benefits, pension assets are recorded at estimated fair value subject to certain limitations. As of 30 June 2018 and 31 December 2017 management estimated the fair value of these assets at RUB 473,135 million and RUB 449,814 million, respectively. The pension assets comprise shares of PJSC Gazprom, shares of Gazprombank (Joint-stock Company) and other assets held by NPF GAZFOND.

Provision for post-employment benefit obligations recognised in the consolidated interim condensed balance sheet is presented below.

	30 June 2018		31 December 2017	
	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	(432,554)	(264,448)	(422,641)	(258,132)
Fair value of plan assets	<u>473,135</u>	<u>-</u>	<u>449,814</u>	<u>-</u>
Net balance assets (liabilities)	40,581	(264,448)	27,173	(258,132)

The amounts associated with post-employment benefit obligations recognised in operating expenses are presented below.

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Current service cost	7,262	6,441	14,526	12,882
Net interest expense	<u>4,410</u>	<u>4,598</u>	<u>8,757</u>	<u>9,194</u>
Total expenses included in staff costs	11,672	11,039	23,283	22,076

The principal assumptions used for the evaluation of post-employment benefit obligations for the three and six months ended 30 June 2018 were the same as those applied for the year ended 31 December 2017 with exception of the discount rate based on the interest rates of government securities. The increase in the discount rate from 7.3 % to 7.8 % resulted in recognition of an actuarial gain of RUB 30,985 million in other comprehensive income for the three months ended 30 June 2018. The increase in the discount rate from 7.6 % to 7.8 % resulted in recognition of an actuarial gain of RUB 11,336 million in other comprehensive income for the six months ended 30 June 2018.

Remeasurements of post-employment benefit obligations to be recognised in other comprehensive income are presented below.

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
Actuarial gains (losses)	30,985	(6,991)	11,336	(31,677)
Return on plan assets excluding amounts included in interest expense	(4,164)	29,693	4,202	17,648
Translation differences	<u>(115)</u>	<u>(368)</u>	<u>(195)</u>	<u>(207)</u>
Total	26,706	22,334	15,343	(14,236)

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21 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 receivable are fair valued at Level 3 (see Note 11), long-term borrowings – Level 2 (see Note 13).

As of 30 June 2018 and 31 December 2017 the Group had the following assets and liabilities that are measured at fair value:

	30 June 2018			
	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)	Total
Financial assets at fair value through profit or loss:				
Derivative financial instruments	13,996	86,414	1,309	101,719
Bonds	30,440	-	-	30,440
Equity securities	281	-	-	281
Financial assets at fair value through other comprehensive income:				
Promissory notes	-	93	-	93
Total short-term financial assets at fair value	44,717	86,507	1,309	132,533
Financial assets at fair value through profit or loss:				
Derivative financial instruments	10,631	33,201	28	43,860
Equity securities	-	-	1,848	1,848
Financial assets at fair value through other comprehensive income:				
Equity securities	287,652	43,594	6,397	337,643
Promissory notes	-	255	-	255
Total long-term financial assets at fair value	298,283	77,050	8,273	383,606
Total financial assets	343,000	163,557	9,582	516,139
Financial liabilities at fair value through profit or loss:				
Short-term derivative financial instruments	7,862	93,286	2,760	103,908
Long-term derivative financial instruments	847	42,191	567	43,605
Total financial liabilities at fair value	8,709	135,477	3,327	147,513

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21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

Financial assets at fair value through profit or loss primarily comprise marketable equity and debt securities intended to generate short-term profits through trading.

As of 30 June 2018 and 31 December 2017 long-term financial assets at fair value through other comprehensive income include PJSC NOVATEK shares in the amount of RUB 282,300 million and RUB 210,010 million, respectively.

22 RELATED PARTIES

For the purpose of these consolidated interim condensed financial information, 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 30 June 2018 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. 11.859 % are owned JSC Rosneftgaz and JSC Rosgazifikatsiya controlled by Government.

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22 RELATED PARTIES (continued)

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 of the Russian Federation imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government-controlled prices.

Parties under the Government control

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

As of 30 June 2018 prices of natural gas sales, gas transportation and electricity tariffs in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS").

Bank borrowings 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 30 June 2018 and 31 December 2017 and for the three and six months ended 30 June 2018 and for the three and six months ended 30 June 2017, the Group had the following significant transactions and balances with the Government and parties under the Government control:

	As of 30 June 2018		Three months ended 30 June 2018		Six months ended 30 June 2018	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	6,240	18,633	-	54,468	-	98,582
Insurance contributions	838	11,016	-	35,618	-	75,353
VAT recoverable / payable	259,073	101,796	-	-	-	-
Customs duties	7,682	-	-	-	-	-
Other taxes	265	142,332	-	321,975	-	622,940
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	23,231	-	71,400	-
Electricity and heating sales	-	-	28,380	-	93,684	-
Gas transportation sales	-	-	10,569	-	22,106	-
Other services sales	-	-	1,722	-	3,208	-
Accounts receivable	46,311	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	29,939	-	61,948
Accounts payable	-	16,447	-	-	-	-
Borrowings	-	163,971	-	-	-	-
Interest expense	-	-	-	2,894	-	6,187
Short-term financial assets	25,844	-	-	-	-	-
Long-term financial assets	5,340	-	-	-	-	-

	As of 31 December 2017		Three months ended 30 June 2017		Six months ended 30 June 2017	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	4,088	53,112	-	12,076	-	74,997
Insurance contributions	1,359	7,689	-	26,335	-	58,216
VAT recoverable / payable	300,567	90,632	-	-	-	-
Customs duties	16,249	-	-	-	-	-
Other taxes	4,029	153,784	-	253,615	-	533,974
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	18,910	-	57,770	-
Electricity and heating sales	-	-	31,979	-	90,827	-
Gas transportation sales	-	-	12,230	-	24,291	-
Other services sales	-	-	788	-	1,736	-
Accounts receivable	43,701	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	28,761	-	60,815
Accounts payable	-	17,201	-	-	-	-

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22 RELATED PARTIES (continued)

	As of 31 December 2017		Three months ended 30 June 2017		Six months ended 30 June 2017	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Borrowings	-	226,565	-	-	-	-
Interest expense	-	-	-	4,509	-	9,698
Short-term financial assets	27,472	-	-	-	-	-
Long-term financial assets	5,711	-	-	-	-	-

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

See the consolidated interim condensed statement of changes in equity for returns of social assets to governmental authorities during for the six months ended 30 June 2018 and 2017. See Note 9 for net book values as of 30 June 2018 and 31 December 2017 of social assets vested to the Group at privatisation.

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 presented below.

	As of 30 June 2018		Three months ended 30 June 2018		Six months ended 30 June 2018	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with JSC FSC						
Electricity and heating sales	-	-	30,872	-	76,094	-
Purchased electricity and heating	-	-	-	5,790	-	12,871
Accounts receivable	3,805	-	-	-	-	-
Accounts payable	-	1,228	-	-	-	-

	As of 31 December 2017		Three months ended 30 June 2017		Six months ended 30 June 2017	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with JSC FSC						
Electricity and heating sales	-	-	33,249	-	75,743	-
Purchased electricity and heating	-	-	-	5,652	-	12,688
Accounts receivable	6,030	-	-	-	-	-
Accounts payable	-	1,856	-	-	-	-

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies. Directors, who are governmental officials, 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 provided medical insurance and liability insurance for key management personnel.

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22 RELATED PARTIES (continued)

Associates and joint ventures

For the three and six months ended 30 June 2018 and 30 June 2017 and as of 30 June 2018 and 31 December 2017 the Group had the following significant transactions and balances with associates and joint ventures.

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	Income		Income	
Gas sales				
Panrusgaz Gas Trading Plc	15,332	10,990	25,921	22,156
JSV Moldovagaz	4,476	2,214	12,529	8,384
CJSC Gazprom YRGM Trading ¹	3,683	4,323	7,650	9,004
KazRosGas LLP	985	433	6,761	6,364
Bosphorus Gaz Corporation A.S.	1,064	2,748	6,738	9,190
JSC Gazprom YRGM Development ¹	2,630	3,087	5,464	6,431
Prometheus Gas S.A.	2,418	1,727	4,477	3,475
VEMEX s.r.o. and its subsidiaries	1,014	1,992	2,016	4,809
JSC EUROPOL GAZ	672	596	1,247	1,187
JSC Latvijas Gaze	770	3,162	981	7,135
Gas transportation sales				
CJSC Gazprom YRGM Trading ¹	6,202	6,187	12,882	12,886
JSC Gazprom YRGM Development ¹	4,429	4,419	9,201	9,204
KazRosGas LLP	733	589	1,424	1,244
Gas condensate, crude oil and refined products sales				
PJSC NGK Slavneft and its subsidiaries	11,548	9,332	22,296	20,690
CJSC SOVEX	1,818	1,201	3,025	2,404
LLC Poliom	1,076	686	2,154	1,538
LLC NPP Neftekhimia	1,011	573	2,039	1,146
Sakhalin Energy Investment Company Ltd.	429	515	1,985	1,376
Operator services sales and other services sales				
JSC Messoyakhaneftegaz	1,196	1,185	2,136	2,616
PJSC NGK Slavneft and its subsidiaries	568	2,910	1,137	3,108
Gas refining services sales				
KazRosGas LLP	2,663	1,997	5,396	4,222
Interest income				
Gazprombank (Joint-stock Company) and its subsidiaries	9,453	12,695	18,265	22,837
JSC Messoyakhaneftegaz	168	1,658	551	3,297
Purchased gas				
CJSC Gazprom YRGM Trading ¹	15,211	13,200	30,916	27,537
JSC Gazprom YRGM Development ¹	10,868	9,437	22,100	19,709
KazRosGas LLP	7,865	8,776	14,419	14,553
JSC Arcticgas	10,042	12,816	13,862	21,144
Sakhalin Energy Investment Company Ltd.	3,564	2,328	7,254	4,339
CJSC Northgas	1,537	1,205	2,831	1,205

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22 RELATED PARTIES (continued)

	Three months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	Expenses		Expenses	
Purchased transit of gas				
Nord Stream AG	19,802	17,267	38,531	33,978
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	8,688	6,405	16,979	13,648
JSC EUROPOL GAZ	3,163	2,821	6,208	5,464
JSV Moldovagaz	624	781	1,652	1,804
Purchased crude oil and refined products				
PJSC NGK Slavneft and its subsidiaries	41,183	23,411	73,454	49,406
JSC Messoyakhaneftegaz	15,436	6,231	27,038	11,581
Sakhalin Energy Investment Company Ltd.	3,553	4,163	3,555	6,587
Purchased services of gas and gas condensate extraction				
JSC Achimgaz	8,344	7,924	16,491	14,747
Purchased processing services				
PJSC NGK Slavneft and its subsidiaries	3,686	3,302	7,075	6,362
Purchased transit of crude oil and oil refinery products				
JSC Messoyakhaneftegaz	1,330	941	2,509	1,735
PJSC NGK Slavneft and its subsidiaries	889	1,355	1,793	3,326
Interest expense				
Gazprombank (Joint-stock Company) and its subsidiaries	3,039	2,582	5,976	5,035

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.

	As of 30 June 2018		As of 31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Gazprombank (Joint-stock Company)	12,087	-	17,380	-
Panrusgas Gas Trading Plc	7,246	-	4,023	-
PJSC NGK Slavneft and its subsidiaries	4,513	-	5,304	-
CJSC Gazprom YRGM Trading	3,380	-	2,327	-
JSC Gazprom YRGM Development	2,414	-	1,662	-
JSC Achimgaz	2,207	-	61	-
Bosphorus Gaz Corporation A.S.	1,348	-	2,603	-
KazRosGas LLP	1,260	-	5,457	-
Prometheus Gas S.A.	1,046	-	9	-
Sakhalin Energy Investment Company Ltd.	420	-	1,045	-
JSC Arcticgas	-	-	3,459	-
Cash balances				
Gazprombank (Joint-stock Company) and its subsidiaries	405,353	-	388,436	-
OJSC Belgazprombank	6,215	-	19,320	-
Other current assets				
Gazprombank (Joint-stock Company)	465,327	-	290,322	-
OJSC Belgazprombank	2,743	-	7,436	-

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22 RELATED PARTIES (continued)

	As of 30 June 2018		As of 31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Other non-current assets				
OJSC Belgazprombank	6,275	-	-	-
Long-term accounts receivable and prepayments				
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	14,575	-	13,768	-
Gazprombank (Joint-stock Company)	11,398	-	9,599	-
Wintershall Noordzee B.V.	5,926	-	5,595	-
OJSC Belgazprombank	4,957	-	4,957	-
JSC Messoyakhaneftegaz	2,864	-	24,414	-
JSC Evroteck-Yugra	2,024	-	1,514	-
JSC Arcticgas	-	-	4,483	-
Short-term accounts payable				
PJSC NGK Slavneft and its subsidiaries	-	43,667	-	31,164
Nord Stream AG	-	6,548	-	6,172
JSC Messoyakhaneftegaz	-	6,539	-	6,928
CJSC Gazprom YRGM Trading	-	5,645	-	7,927
JSC Arcticgas	-	4,803	-	2,963
Sakhalin Energy Investment Company Ltd.	-	4,265	-	5,710
JSC Achimgaz	-	4,263	-	3,195
JSC Gazprom YRGM Development	-	4,033	-	5,662
KazRosGas LLP	-	2,720	-	2,079
JSC Latvijas Gaze	-	1,672	-	293
Prometheus Gas S.A.	-	1,279	-	-
JSC EUROPOL GAZ	-	1,021	-	2,078
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	-	694	-	1,957
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	83,250	-	80,807
Long-term borrowings				
Gazprombank (Joint-stock Company)	-	91,118	-	87,511

Accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 1,348 million and RUB 2,603 million as of 30 June 2018 and 31 December 2017, respectively, net of allowance for expected credit losses of RUB 3,052 million and RUB 5,935 million as of 30 June 2018 and 31 December 2017, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 30 June 2018 and 31 December 2017 net of allowance for expected credit losses of RUB 6,601 million and RUB 6,058 million as of 30 June 2018 and 31 December 2017, respectively.

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 30 June 2018 and 31 December 2017 net of allowance for expected credit losses of RUB 378,610 million and RUB 339,481 million as of 30 June 2018 and 31 December 2017, 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 as of 30 June 2018 and 31 December 2017.

Investments in associates and joint ventures are disclosed in Note 10.

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 23.

23 COMMITMENTS AND CONTINGENCIES

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 30 June 2018 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

Legal proceedings

On 16 June 2014 PJSC Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NJSC Naftogaz of Ukraine to recover unpaid debt for gas supplied under 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;

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(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 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. The amount of liabilities under the award is presented in the line "Accounts payable and provisions for liabilities and charges" in the consolidated interim condensed 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. On 13 June 2018 the court ruled to suspend the arbitration ruling and on 28 June 2018 the court confirmed the ruling to suspend the arbitration ruling that obliged PJSC Gazprom to pay USD 2,560 million awarded by the arbitrators. On 29 May 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking actions to enforce the arbitration ruling in Switzerland. On 5 June 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking similar actions in the Netherlands. On 22 June 2018 PJSC Gazprom received an order of the High Court of Justice (the United Kingdom) dated 18 June 2018 for the seizure of PJSC Gazprom's assets in the United Kingdom as requested by NJSC Naftogaz of Ukraine as part of its efforts to enforce the above mentioned arbitration ruling and a ruling of the court of the first instance dated 8 June 2018 on the enforcement of this decision. PJSC Gazprom is currently contesting in Swedish, Dutch and British courts the actions taken by NJSC Naftogaz to enforce the arbitration ruling of 28 February 2018, including the seizure of assets.

On 30 May 2018 the shares in Blue Stream Pipeline Company B.V. owned by PJSC Gazprom and the debt owed by Blue Stream Pipeline Company B.V. to PJSC Gazprom were seized pursuant to the judgement of the District Court of Amsterdam dated 30 May 2018.

On 5 March 2018 PJSC Gazprom informed NJSC Naftogaz of Ukraine about the need to restore the balance between the interests of the parties under gas supply and transit contracts disrupted by earlier rulings of the Stockholm arbitration court and suggested negotiating this issue. Negotiations were unsuccessful, therefore, on 20 April 2018 PJSC Gazprom addressed the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, with a request for arbitration seeking amendment or termination of contracts with NJSC Naftogaz of Ukraine for gas supply and transit through the Ukraine in order to restore the balance between contractual obligations and elimination of imbalance between liabilities of the parties. On 22 May 2018 NJSC Naftogaz filed a response to this request for arbitration and counter-claims in respect of the gas supply and transit contracts. The procedural schedule is not currently compiled.

On 10 July 2018 NJSC Naftogaz of Ukraine addressed the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, with a request for arbitration to change the tariff for gas transit through Ukraine starting from 18 March 2018 and to oblige PJSC Gazprom to pay USD 11,580 million for the period from 18 March 2018 until the expiration date of the effective gas transit contract (until 31 December 2019). PJSC Gazprom filed a response to this request for arbitration on 14 August 2018. The procedural schedule is not currently compiled.

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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 30 June 2018 – RUB 105,700 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 May 2019.

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 30 June 2018 – RUB 44,890 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 30 June 2018 – RUB 205,052 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

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Ukrainian hryvnia 189,125 million (at the exchange rate as of 30 June 2018 – RUB 451,114 million), including an execution fee of Ukrainian hryvnia 17,193 million (at the exchange rate as of 30 June 2018 – RUB 41,010 million), the seizure of 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 as a whole.

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

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.

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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 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

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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.

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.

Financial guarantees

	30 June 2018	31 December 2017
Outstanding guarantees issued for:		
Nord Stream AG	130,905	128,913
LLC Stroygazconsulting	93,803	81,710
Sakhalin Energy Investment Company Ltd.	73,074	78,563
Other	<u>27,433</u>	<u>26,353</u>
Total financial guarantees	<u>325,215</u>	<u>315,539</u>

For the six months ended 30 June 2018 and in 2017 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 1,164 million and USD 1,391 million as of 30 June 2018 and 31 December 2017, respectively, as well as amounts denominated in Euros of EUR 1,926 million and EUR 1,905 million as of 30 June 2018 and 31 December 2017, respectively.

In June 2008 the Group pledged the shares of Sakhalin Energy Investment Company Ltd. to the bank-agent Mizuho Bank Ltd. under the loan obligations of Sakhalin Energy Investment Company Ltd. As of 30 June 2018 and 31 December 2017 the amount of Sakhalin Energy Investment Company Ltd. obligations up to the amount of the Group's share (50 %) amounted to RUB 73,074 million (USD 1,164 million) and RUB 78,563 million (USD 1,364 million), respectively.

In March 2010 the Group pledged the shares of Nord Stream AG to the bank-agent Societe Generale under the obligations of Nord Stream AG of the project financing arrangement. As of 30 June 2018 and 31 December 2017 the amount of Nord Stream AG obligations up to the amount of the Group's share (51 %) amounted to RUB 130,905 million (EUR 1,793 million) and RUB 128,913 million (EUR 1,872 million), respectively.

In December 2017 the Group provided guarantees to Gazprombank (Joint-stock Company) related to debts of LLC Stroygazconsulting under its credit facilities. As of 30 June 2018 and 31 December 2017 the guarantees amounted to RUB 93,803 million and RUB 81,710 million, respectively.

Capital commitments

The total investment program related to gas, oil and power assets for 2018 is RUB 2,057,668 million.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 2018
(in millions of Russian Rubles)

23 COMMITMENTS AND CONTINGENCIES (continued)

Operating lease commitments

As of 30 June 2018 and 31 December 2017 the Group does not have significant liabilities related to operating leases.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 30 June 2018 no loss is expected to result from these long-term commitments.

24 POST BALANCE SHEET EVENTS

Borrowings

In July 2018 the Group obtained a long-term loan from Russian bank in the amount of RUB 48,050 million due in 2023 under the agreement concluded in June 2018.

In July 2018 the Group issued Russian bonds in the total amount of RUB 30,000 million at an interest rate of 8.10 % due in 2048.

In July 2018 the Group issued Russian bonds in the amount of RUB 10,000 million at an interest rate of 8.10 % due in 2033.

PJSC GAZPROM
INVESTORS RELATIONS

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited consolidated interim condensed financial information for the six months ended June 30, 2018. This consolidated interim condensed financial information is prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. The consolidated interim condensed financial information for the six months ended June 30, 2018 should be read in conjunction with the consolidated financial statements for the year ended December 31, 2017 prepared in accordance with International Financial Reporting Standards.

OVERVIEW

We are one of the world's largest gas and oil companies in terms of reserves, market capitalization and production. Our revenues are primarily derived from sales of natural gas, crude oil and other hydrocarbon products to Western and Central Europe, the Russian Federation and other Former Soviet Union countries.

We divide our operations into the following principal activities:

- 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 comprise production of other products and sales of various goods, works, and services.

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 June 30, 2018 – 62.7565 (as of June 30, 2017 – 59.0855);
- as of December 31, 2017 – 57.6002 (as of December 31, 2016 – 60.6569).

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

- as of June 30, 2018 – 72.9921 (as of June 30, 2017 – 67.4993);
- as of December 31, 2017 – 68.8668 (as of December 31, 2016 – 63.8111).

The average exchange rates of RUB for the six months ended June 30, 2018 and for the six months ended June 30, 2017 were:

- to USD – 59.3536 and 57.9862, respectively;
- to EUR – 71.8223 and 62.7187, respectively.

RESULTS OF OPERATION

(RUB million)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Sales	1,833,224	1,394,633	3,971,555	3,209,934
Net loss from trading activity	(9,295)	(6,124)	(2,294)	(20,327)
Operating expenses	(1,384,303)	(1,184,040)	(3,035,649)	(2,661,902)
Impairment loss on financial assets	<u>(27,934)</u>	<u>(14,167)</u>	<u>(54,339)</u>	<u>(43,354)</u>
Operating profit	411,692	190,302	879,273	484,351
Finance income	168,559	52,912	259,939	236,044
Finance expense	(287,409)	(186,939)	(394,832)	(239,627)
Share of net income of associates and joint ventures	<u>47,903</u>	<u>26,414</u>	<u>91,583</u>	<u>55,969</u>
Profit before profit tax	340,745	82,689	835,963	536,737
Current profit tax expense	(56,379)	(16,082)	(103,221)	(83,162)
Deferred profit tax expense	<u>(12,984)</u>	<u>(8,940)</u>	<u>(69,191)</u>	<u>(45,521)</u>
Profit tax	(69,363)	(25,022)	(172,412)	(128,683)
Profit for the period	271,382	57,667	663,551	408,054
Other comprehensive income (loss):				
Items that will not be reclassified to profit or loss:				
Gain (loss) arising from change in fair value of financial assets at fair value through other comprehensive income, net of tax	42,929	(13,420)	71,006	(40,227)
Remeasurements of post-employment benefit obligations	<u>26,706</u>	<u>22,334</u>	<u>15,343</u>	<u>(14,236)</u>
Total items that will not be reclassified to profit or loss	69,635	8,914	86,349	(54,463)
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive income of associates and joint ventures	170	1,678	1,658	2,125
Translation differences	78,474	104,785	90,937	23,113
Gain (loss) from cash flow hedges, net of tax	<u>19,867</u>	<u>(2,209)</u>	<u>26,951</u>	<u>(4,423)</u>
Total items that may be reclassified subsequently to profit or loss	98,511	104,254	119,546	20,815
Other comprehensive income (loss) for the period, net of tax	<u>168,146</u>	<u>113,168</u>	<u>205,895</u>	<u>(33,648)</u>
Total comprehensive income for the period	439,528	170,835	869,446	374,406
Profit for the period attributable to:				
Owners of PJSC Gazprom	259,181	47,893	630,804	381,346
Non-controlling interest	<u>12,201</u>	<u>9,774</u>	<u>32,747</u>	<u>26,708</u>
	271,382	57,667	663,551	408,054
Total comprehensive income for the period attributable to:				
Owners of PJSC Gazprom	424,510	151,861	831,384	343,027
Non-controlling interest	<u>15,018</u>	<u>18,974</u>	<u>38,062</u>	<u>31,379</u>
	439,528	170,835	869,446	374,406

Sales

The following table sets out volumes and realized prices:

(RUB million unless indicated otherwise)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Sales of gas				
<i>Europe and Other countries</i>				
Gross sales ⁽¹⁾	840,226	587,005	1,780,324	1,323,605
Customs duties	(175,521)	(116,740)	(342,909)	(247,025)
Excise tax	(11,707)	(10,355)	(26,110)	(22,791)
Net sales	652,998	459,910	1,411,305	1,053,789
Volumes in bcm	57.0	53.5	128.5	119.1
Average price, US Dollar per mcm ⁽²⁾ (including excise tax and customs duties) ⁽³⁾	238.4	192.4	233.1	192.1
Average price, RUB per mcm ⁽²⁾ (including excise tax and customs duties)	14,741.1	10,983.3	13,858.9	11,117.2
<i>Former Soviet Union countries</i>				
Gross sales ⁽¹⁾	59,966	53,509	183,779	167,194
Customs duties	(4,421)	(4,376)	(16,755)	(15,926)
Net sales	55,545	49,133	167,024	151,268
Volumes in bcm	6.5	5.9	20.6	18.4
Average price, US Dollar per mcm ⁽²⁾ (including customs duties) ⁽³⁾	148.9	160.2	150.3	157.4
Average price, RUB per mcm ⁽²⁾ (including customs duties)	9,205.7	9,145.3	8,935.2	9,107.4
<i>Russian Federation</i>				
Gross sales (net of VAT)	158,218	154,270	508,765	466,525
Net sales	158,218	154,270	508,765	466,525
Volumes in bcm	41.4	42.4	129.6	124.1
Average price, RUB per mcm ⁽²⁾ (net of VAT)	3,822.8	3,646.3	3,925.8	3,760.7
<i>Total sales of gas</i>				
Gross sales (net of VAT)	1,058,410	794,784	2,472,868	1,957,324
Customs duties	(179,942)	(121,116)	(359,664)	(262,951)
Excise tax	(11,707)	(10,355)	(26,110)	(22,791)
Retroactive gas price adjustments	37,603	(7,055)	37,795	(7,304)
Net sales	904,364	656,258	2,124,889	1,664,278
Volumes in bcm	104.9	101.8	278.7	261.6
Net sales of refined products (net of excise tax, VAT and customs duties)	522,029	387,149	991,573	780,812
Net sales of crude oil and gas condensate (net of VAT and customs duties)	195,184	134,461	345,656	273,298
Electric and heat energy net sales (net of VAT)	98,687	103,165	274,173	263,155
Gas transportation net sales (net of VAT)	55,101	58,895	113,754	117,482
Other revenues (net of VAT)	57,859	54,705	121,510	110,909
Total sales (net of excise tax, VAT and customs duties)	1,833,224	1,394,633	3,971,555	3,209,934

Notes:

⁽¹⁾ VAT is not charged on sales to Europe and Other countries as well as Former Soviet Union countries.

⁽²⁾ One mcm is equivalent to 35,316 cubic feet.

⁽³⁾ 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 761,621 million, or 24 %, to RUB 3,971,555 million for the six months ended June 30, 2018 compared to the same period of the prior year. The increase in sales revenues was mainly due to an increase in sales of gas, refined products, crude oil and gas condensate.

Net sales of gas accounted for 54 % of total net sales for the six months ended June 30, 2018 (52 % for the same period of the prior year).

Net sales of gas increased by RUB 460,611 million, or 28 %, from RUB 1,664,278 million for the six months ended June 30, 2017 to RUB 2,124,889 million for the six months ended June 30, 2018.

Net sales of gas to Europe and Other countries increased by RUB 357,516 million, or 34 %, to RUB 1,411,305 million for the six months ended June 30, 2018 compared to the same period of the prior year. The change was driven by the increase in average Russian Ruble prices (including excise tax and customs duties), by 25 % and the increase in volumes of the gas sold by 8 % for the six months ended June 30, 2018 compared to the same period of the prior year. At the same time the average US Dollar prices increased by 21 % compared to the same period of the prior year.

Net sales of gas to Former Soviet Union countries increased by RUB 15,756 million, or 10 %, to RUB 167,024 million for the six months ended June 30, 2018 compared to the same period of the prior year. The change was due to the increase in volumes of gas sold by 12 % that was partially compensated by the decrease in average Russian Ruble prices (including customs duties) by 2 % for the six months ended June 30, 2018.

Net sales of gas in the Russian Federation increased by RUB 42,240 million, or 9 %, to RUB 508,765 million for the six months ended June 30, 2018 compared to the same period of the prior year. This change is explained by the increase in volumes of gas sold by 4 % and the increase in average Russian Ruble prices (net of VAT) by 4 %.

Net sales of refined products (net of excise tax, VAT and customs duties) increased by RUB 210,761 million, or 27 %, to RUB 991,573 million for the six months ended June 30, 2018 compared to the same period of the prior year. The increase in sales of refined products was mainly due to an increase in average prices in all geographic segments and an increase in the Gazprom нефт Group sales volumes.

Net sales of crude oil and gas condensate (net of VAT and customs duties) increased by RUB 72,358 million, or 26 %, to RUB 345,656 million for the six months ended June 30, 2018 compared to the same period of the prior year. The increase in sales of crude oil was mainly due to an increase in average prices by more than 30 % in all geographic segments that was partially compensated by a decrease in sales volumes.

Operating expenses

Operating expenses increased by RUB 373,747 million, or 14 % for the six months ended June 30, 2018 to RUB 3,035,649 million compared to RUB 2,661,902 million for the same period of the prior year. Operating expenses as a percentage of sales decreased from 83 % for the six months ended June 30, 2017 to 76 % for the six months ended June 30, 2018. The table below presents a breakdown of operating expenses in each period:

(RUB million)	Three months ended June, 30		Six months ended June, 30	
	2018	2017	2018	2017
Purchased gas and oil	345,766	248,695	744,542	565,600
Taxes other than on income	345,866	271,152	668,485	566,177
Staff costs	189,010	171,393	378,771	341,074
Depreciation	160,261	153,609	318,547	303,303
Transit of gas, oil and refined products	156,894	140,818	303,483	287,831
Materials	73,670	64,918	128,545	124,513
Cost of goods for resale, including refined products	61,625	55,835	123,749	112,839
Electricity and heating expenses	25,122	22,954	57,608	53,084
Repairs and maintenance	32,943	35,776	52,676	59,183
Rental expenses	9,699	10,218	19,466	20,880
Transportation services	7,855	7,930	16,961	15,736
Social expenses	7,343	8,620	16,440	15,220
Derivatives loss (gain)	3,703	2,670	16,155	(7,351)
Insurance expenses	8,085	7,167	15,592	14,532
Processing services	4,963	3,895	9,121	7,451
Research and development expenses	1,714	109	7,529	6,207
Impairment loss on non-financial assets	1,505	4,667	5,158	10,850
Foreign exchange rate differences on operating items	9,821	(9,647)	(8,791)	(8,760)
Other	78,058	68,283	176,723	177,832
	1,523,903	1,269,062	3,050,760	2,666,201
Change in inventories of finished goods, work in progress and other effects	(139,600)	(85,022)	(15,111)	(4,299)
Total operating expenses	1,384,303	1,184,040	3,035,649	2,661,902

Purchased gas and oil

Cost of purchased gas and oil increased by RUB 178,942 million, or 32 %, to RUB 744,542 million for the six months ended June 30, 2018 compared to RUB 565,600 million for the same period of the prior year.

Cost of purchased gas increased by RUB 113,937 million, or 28 %, to RUB 523,779 million for the six months ended June 30, 2018 compared to RUB 409,842 million for the same period of the prior year. The change was due to an increase in average prices and an increase in volumes of gas purchased from external suppliers.

Cost of purchased oil included in the purchased gas and oil increased by RUB 65,005 million, or 42 %, to RUB 220,763 million for the six months ended June 30, 2018 compared to RUB 155,758 million for the same period of the prior year. This change was mainly due to an increase in prices of oil.

Taxes other than on income

Taxes other than on income consist of:

(RUB million)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Mineral extraction tax	259,326	188,518	492,748	406,549
Excise tax	40,279	39,558	85,126	74,591
Property tax	41,756	36,093	83,662	76,008
Other taxes	<u>4,505</u>	<u>6,983</u>	<u>6,949</u>	<u>9,029</u>
Taxes other than on income	345,866	271,152	668,485	566,177

Mineral extraction tax (MET) increased by RUB 86,199 million or 21 % to RUB 492,748 million for the six months ended June 30, 2018 compared to RUB 406,549 million for the same period of the prior year, mainly as a result of an increase in crude oil prices and an increase in the coefficient of the crude oil MET formula for the six months ended June, 30 2018 compared to the same period of the prior year.

Cost of goods for resale, including refined products

Cost of goods for resale, including refined products increased by RUB 10,910 million or 10 % to RUB 123,749 million for the six months ended June 30, 2018 compared to the RUB 112,839 million for the same period of the prior year mainly due to an increase in gas condensate for resale purchases in the GAZPROM Germania Group.

Derivatives loss (gain)

Derivatives loss amounted to RUB 16,155 million for the six months ended June 30, 2018 compared to derivatives gain amounted to RUB 7,351 million for the same period of the prior year. Derivatives loss (gain) occurred as a result of the revaluation of derivatives, mainly contracts for purchase / sale of goods, as at the reporting date.

Impairment loss on financial assets

Impairment loss on financial assets increased by RUB 10,985 million, or 25 %, to RUB 54,339 million for the six months ended June 30, 2018 compared to RUB 43,354 million for the same period of the prior year. The change is mainly due to the increase in the amount of the allowance for expected credit losses on receivables NJSC Naftogaz of Ukraine and JSV Moldovagaz.

Operating profit

As a result of the factors discussed above, operating profit increased by RUB 394,922 million, or 82 %, to RUB 879,273 million for the six months ended June 30, 2018 compared to RUB 484,351 million for the same period of the prior year. The operating profit margin increased from 15 % for the six months ended June 30, 2017 to 22 % for the six months ended June 30, 2018.

Net finance expense

(RUB million)	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Foreign exchange gain	149,780	30,595	223,091	191,381
Foreign exchange loss	(274,744)	(171,103)	(369,153)	(208,684)
Net foreign exchange loss	(124,964)	(140,508)	(146,062)	(17,303)
Interest income	18,779	22,317	36,848	44,663
Interest expense	(12,665)	(15,836)	(25,679)	(30,943)
Net finance expense	(118,850)	(134,027)	(134,893)	(3,583)

The net foreign exchange loss increased by RUB 128,759 million to RUB 146,062 million for the six months ended June 30, 2018 compared to the net foreign exchange loss of RUB 17,303 million for the same period of the prior year. The change is due to the appreciation of US Dollar and Euro against the Russian Ruble by 9 % and 6 %, respectively, for the six months ended June 30, 2018 compared to the depreciation of US Dollar against the Russian Ruble by 3 % and appreciation of Euro against the Russian Ruble by 6 % for the same period of the prior year.

Interest income decreased by RUB 7,815 million, or 17 %, to RUB 36,848 million for the six months ended June 30, 2018 compared to RUB 44,663 million for the same period of the prior year.

Interest expense decreased by RUB 5,264 million, or 17 %, to RUB 25,679 million for the six months ended June 30, 2018 compared to RUB 30,943 million for the same period of the prior year.

Share of net income of associates and joint ventures

Share of net income of associates and joint ventures increased by RUB 35,614 million, or 64 %, to RUB 91,583 million for the six months ended June 30, 2018 compared to RUB 55,969 million for the same period of the prior year. This change was mainly caused by an increase in the share of net income of Sakhalin Energy Investment Company Ltd., JSC Arcticgas and JSC Messoyakhaneftegaz.

Profit tax

Total profit tax increased by RUB 43,729 million, or 34 %, to RUB 172,412 million for the six months ended June 30, 2018 compared to RUB 128,683 million for the same period of the prior year. The effective profit tax rate was 20.6 % and 24.0 % for the six months ended June 30, 2018 and June 30, 2017, respectively.

Profit for the period attributable to owners of PJSC Gazprom

As a result of the factors discussed above, profit attributable to owners of PJSC Gazprom increased by RUB 249,458 million, or 65 %, to RUB 630,804 million for the six months ended June 30, 2018 compared to RUB 381,346 million for the same period of the prior year.

Profit for the period attributable to non-controlling interest

Profit attributable to non-controlling interest increased by RUB 6,039 million, or 23 %, to RUB 32,747 million for the six months ended June 30, 2018 compared to RUB 26,708 million for the same period of the prior year.

Liquidity and capital resources

The following table summarises the cash flows for the six months ended June 30, 2018 and June 30, 2017:

(RUB million)	Six months ended June 30,	
	2018	2017
Net cash from operating activities	947,494	446,577
Net cash used in investing activities	(785,968)	(749,019)
Net cash (used in) from financing activities	(134,887)	179,087

Net cash from operating activities

Net cash from operating activities increased by RUB 500,917 million to RUB 947,494 million for the six months ended June 30, 2018 compared to RUB 446,577 million for the same period of the prior year. This change was mainly driven by an increase in cash from operating activities before working capital changes and by a decrease in a replace of cash on short-term deposits included within other current assets compared to the same period of the prior year.

Net cash used in investing activities

Net cash used in investing activities increased by RUB 36,949 million, or 5 %, to RUB 785,968 million for the six months ended June 30, 2018 compared to RUB 749,019 million for the same period of the prior year. The change was mainly due to an increase of capital expenditures for the six months ended June 30, 2018 compared to the same period of the prior year.

Net cash (used in) from financing activities

Net cash used in financing activities amounted to RUB 134,887 million for the six months ended June 30, 2018 compared to RUB 179,087 million of net cash from financing activities for the same period of the prior year. This change is mainly due to the excess of repayment of borrowings over proceeds from borrowings for the six months ended June 30, 2018, compared to the excess of proceeds from borrowings over repayment of borrowings for the same period of the prior year.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segments for the six months ended June 30, 2018 and June 30, 2017 in Russian Ruble terms, amounted to the following:

(RUB million)	Six months ended June 30,	
	2018	2017
Transportation	287,657	173,888
Refining	119,906	96,770
Production of crude oil and gas condensate	103,856	171,080
Production of gas	82,059	52,464
Electric and heat energy generation and sales	20,202	15,536
Distribution of gas	16,727	11,766
Gas storage	4,125	6,611
All other segments	<u>46,805</u>	<u>11,472</u>
Total	681,337	539,587

Total capital expenditures increased by RUB 141,750 million, or 26 %, from RUB 539,587 million for the six months ended June 30, 2017 to RUB 681,337 million for the six months ended June 30, 2018.

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) increased by RUB 35,836 million, or 1 %, from RUB 2,397,511 million as of December 31, 2017 to RUB 2,433,347 million as of June 30, 2018. The change was mainly due to an increase in the amount of long-term borrowings denominated in Russian Ruble terms caused by the appreciation of US Dollar and Euro against the Russian Ruble that was partially compensated by an increase in cash and cash equivalents balances.