RELEASE

May 30, 2018

Gazprom's financial information under International Financial Reporting Standards (IFRS) for the three months ended March 31, 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 three months ended March 31, 2018.

The table below presents the unaudited consolidated interim condensed statement of comprehensive income prepared in accordance with IFRS for the three months ended March 31, 2018 and for the three months ended March 31, 2017. All amounts are presented in millions of the Russian Rubles.

	Three months ended March 31,	
	2018	**2017**
Sales	2,138,331	1,815,301
Net gain (loss) from trading activity	7,001	(14,203)
Operating expenses	(1,651,346)	(1,477,862)
Impairment loss on financial assets	(26,405)	(29,187)
Operating profit	**467,581**	**294,049**
Finance income	91,380	183,132
Finance expense	(107,423)	(52,688)
Share of net income of associates and joint ventures	43,680	29,555
Profit before profit tax	**495,218**	**454,048**
Current profit tax expense	(46,842)	(67,080)
Deferred profit tax expense	(56,207)	(36,581)
Profit tax	(103,049)	(103,661)
Profit for the period	**392,169**	**350,387**
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	28,077	(26,807)
Remeasurements of post-employment benefit obligations	(11,363)	(36,570)
Total items that will not be reclassified to profit or loss	**16,714**	**(63,377)**
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive income of associates and joint ventures	1,488	447
Translation differences	12,463	(81,672)
Gain (loss) from cash flow hedges, net of tax	7,084	(2,214)
Total items that may be reclassified subsequently to profit or loss	**21,035**	**(83,439)**
Other comprehensive income (loss) for the period, net of tax	**37,749**	**(146,816)**

Total comprehensive income for the period	**429,918**	**203,571**
Profit for the period attributable to:		
Owners of PJSC Gazprom	371,623	333,453
Non-controlling interest	20,546	16,934
	392,169	**350,387**
Total comprehensive income for the period attributable to:		
Owners of PJSC Gazprom	406,874	191,166
Non-controlling interest	23,044	12,405
	429,918	**203,571**

Total sales (net of excise tax, VAT and customs duties) increased by RUB 323,030 million, or 18 %, to RUB 2,138,331 million for the three months ended March 31, 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 and refined products.

More detailed information concerning the main items of the sales structure for the three months ended March 31, 2018 and March 31, 2017 is presented in the table below.

RUB million (unless indicated otherwise)	**Three months ended March 31,**	
	2018	**2017**
Sales of gas		
Europe and Other countries		
Net sales (net of excise tax and customs duties)	758,307	593,879
Volumes in bcm	71.5	65.6
Average price, RUB per mcm (including excise tax and customs duties)	13,155.2	11,226.3
Former Soviet Union countries		
Net sales (net of customs duties)	111,479	102,135
Volumes in bcm	14.1	12.5
Average price, RUB per mcm (including customs duties)	8,809.8	9,089.7
Russian Federation		
Net sales (net of VAT)	350,547	312,255
Volumes in bcm	88.2	81.7
Average price, RUB per mcm (net of VAT)	3,974.2	3,819.9
Total sales of gas		
Retroactive gas price adjustments	192	(249)
Net sales (net of excise tax, VAT and customs duties)	1,220,525	1,008,020
Volumes in bcm	173.8	159.8
Net sales of refined products (net of excise tax, VAT and customs duties)	469,544	393,663
Electric and heat energy net sales (net of VAT)	175,486	159,990
Net sales of crude oil and gas condensate (net of VAT and customs duties)	150,472	138,837
Gas transportation net sales (net of VAT)	58,653	58,587
Other revenues (net of VAT)	63,651	56,204
Total sales (net of excise tax, VAT and customs duties)	**2,138,331**	**1,815,301**

Net sales of gas increased by RUB 212,505 million, to RUB 1,220,525 million for the three months ended March 31, 2018 compared to the same period of the prior year. The change was mainly due to the growth in average US Dollar prices (including excise tax and customs duties) in the Europe and Other countries and the growth in volumes of gas sold in all geographic segments for the three months ended March 31, 2018 compared to the same period of the prior year.

Net sales of gas to Europe and Other countries increased by RUB 164,428 million, or 28 %, to RUB 758,307 million for the three months ended March 31, 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 17 % and the increase in volumes of the gas sold by 9 %, or 5.9 bcm.

Net sales of gas to Former Soviet Union countries increased by RUB 9,344 million, or 9 %, to RUB 111,479 million for the three months ended March 31, 2018 compared to the same period of the prior year. The change was due to the increase in volumes of gas sold by 13 %, or 1.6 bcm, that was partially compensated by the decrease in average Russian Ruble prices (including customs duties) by 3 %.

Net sales of gas in the Russian Federation increased by RUB 38,292 million, or 12 %, to RUB 350,547 million for the three months ended March 31, 2018 compared to the same period of the prior year. This change is explained by the increase in volumes of gas sold by 8 %, or 6.5 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 75,881 million, or 19 %, to RUB 469,544 million for the three months ended March 31, 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 volumes sold by the Gazprom neft Group to customers in the Russian Federation and Former Soviet Union countries.

Operating expenses increased by RUB 173,484 million, or 12 %, to RUB 1,651,346 million for the three months ended March 31, 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 81,871 million, or 26 % for the three months ended March 31, 2018 compared to the same period of the prior year. The change was mainly due to an increase in volumes of gas purchased from external suppliers and an increase in average gas and oil prices.

The line item "Taxes other than on income" increased by RUB 27,594 million, or 9 %, for the three months ended March 31, 2018 compared to the same period of the prior year. The increase is mainly due to an increase in mineral extraction tax by RUB 15,391 million, or 7 %, for the three months ended March 31, 2018 compared to the same period of the prior year.

For the three months ended March 31, 2018 the balance of foreign excange differences reflected in "Net finance income (loss)" produced the loss in the amount of RUB 21,098 million compared to the gain of RUB 123,205 million for the same period of the prior year, which decreased the profit attributable to owners of PJSC Gazprom.

Profit attributable to the owners of PJSC Gazprom for the three months ended March 31, 2018 totalled RUB 371,623 million which is by RUB 38,170 million, or 11 %, 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 and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) increased by RUB 12,190 million, or 1 %, from RUB 2,397,511 million as of December 31, 2017 to RUB 2,409,701 million as of March 31, 2018. The change was mainly due to an increase in the amount of long-term borrowings 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 three months ended March 31, 2018 can be found on the PJSC Gazprom's site (www.gazprom.ru).

INFORMATION DIRECTORATE, PJSC GAZPROM

www.gazprom.ru

Media

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

pr@gazprom.ru

Investment Community

+7 812 609-41-29

ir@gazprom.ru

PJSC GAZPROM

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

31 MARCH 2018

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Report on Review of 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 31 March 2018 and the related consolidated interim condensed statements of comprehensive income for the three months ended 31 March 2018, the consolidated interim condensed statements of cash flows and changes in equity for the three months ended 31 March 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.

ФБК

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	S.M. Shapiguzov (by virtue of the Charter, audit qualification certificate 01-001230, ORNZ 21606043397)
Engagement partner	K.S. Shirikova, ACCA (audit qualification certificate 01-000712, ORNZ 21606042126)

Date of the Report on Review:

29 May 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 31 MARCH 2018
(in millions of Russian Rubles)

Notes		31 March 2018	31 December 2017
	Assets		
	Current assets		
6	Cash and cash equivalents	951,055	869,007
	Restricted cash	703	2,943
21	Short-term financial assets	30,987	31,057
7	Accounts receivable and prepayments	1,163,923	1,122,724
8	Inventories	612,689	772,314
	VAT recoverable	109,249	119,881
12	Other current assets	722,904	551,340
		3,591,510	**3,469,266**
	Non-current assets		
9	Property, plant and equipment	12,700,244	12,545,079
	Goodwill	106,429	105,469
10	Investments in associates and joint ventures	893,778	867,445
11	Long-term accounts receivable and prepayments	683,867	669,286
21	Long-term financial assets	297,367	268,432
12	Other non-current assets	313,658	313,793
		14,995,343	**14,769,504**
	Total assets	**18,586,853**	**18,238,770**
	Liabilities and equity		
	Current liabilities		
	Accounts payable and provisions for liabilities and charges	1,180,724	1,378,182
	Current profit tax payable	15,306	59,922
	Taxes and fees payable	286,213	276,607
	Short-term borrowings, promissory notes and current portion of long-term borrowings	778,568	874,805
		2,260,811	**2,589,516**
	Non-current liabilities		
13	Long-term borrowings, promissory notes	2,582,188	2,391,713
20	Provisions for liabilities and charges	487,164	469,453
14	Deferred tax liabilities	756,204	699,413
	Other non-current liabilities	68,602	73,194
		3,894,158	**3,633,773**
	Total liabilities	**6,154,969**	**6,223,289**
	Equity		
15	Share capital	325,194	325,194
15	Treasury shares	(235,919)	(235,919)
	Retained earnings and other reserves	11,936,487	11,539,811
		12,025,762	**11,629,086**
	Non-controlling interest	406,122	386,395
	Total equity	**12,431,884**	**12,015,481**
	Total liabilities and equity	**18,586,853**	**18,238,770**

A.B. Miller
Chairman of the Management Committee
___ _____ 2018

E.A. Vasilieva
Chief Accountant
___ _____ 2018

The accompanying notes on pages 9 to 40 are an integral part of these consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2018
(in millions of Russian Rubles)

Notes		Three months ended 31 March 2018	2017
16	Sales	2,138,331	1,815,301
	Net gain (loss) from trading activity	7,001	(14,203)
17	Operating expenses	(1,651,346)	(1,477,862)
	Impairment loss on financial assets	(26,405)	(29,187)
	Operating profit	**467,581**	**294,049**
18	Finance income	91,380	183,132
18	Finance expense	(107,423)	(52,688)
10	Share of net income of associates and joint ventures	43,680	29,555
	Profit before profit tax	**495,218**	**454,048**
	Current profit tax expense	(46,842)	(67,080)
	Deferred profit tax expense	(56,207)	(36,581)
	Profit tax	(103,049)	(103,661)
	Profit for the period	**392,169**	**350,387**
	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	28,077	(26,807)
20	Remeasurements of post-employment benefit obligations	(11,363)	(36,570)
	Total items that will not be reclassified to profit or loss	**16,714**	**(63,377)**
	Items that may be reclassified subsequently to profit or loss:		
	Share of other comprehensive income of associates and joint ventures	1,488	447
	Translation differences	12,463	(81,672)
	Gain (loss) from cash flow hedges, net of tax	7,084	(2,214)
	Total items that may be reclassified subsequently to profit or loss	**21,035**	**(83,439)**
	Other comprehensive income (loss) for the period, net of tax	**37,749**	**(146,816)**
	Total comprehensive income for the period	**429,918**	**203,571**
	Profit for the period attributable to:		
	Owners of PJSC Gazprom	371,623	333,453
	Non-controlling interest	20,546	16,934
		392,169	**350,387**
	Total comprehensive income for the period attributable to:		
	Owners of PJSC Gazprom	406,874	191,166
	Non-controlling interest	23,044	12,405
		429,918	**203,571**
19	**Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)**	**16.82**	**15.09**

A.B. Miller
Chairman of the Management Committee
___ _____ 2018

E.A. Vasilieva
Chief Accountant
___ _____ 2018

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PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2018
(in millions of Russian Rubles)

Notes		Three months ended 31 March 2018	2017
	Cash flows from operating activities		
	Profit before profit tax	495,218	454,048
	Adjustments to profit before profit tax for:		
17	Depreciation	158,286	149,694
18	Net finance expense (income)	16,043	(130,444)
10	Share of net income of associates and joint ventures	(43,680)	(29,555)
	Impairment loss on assets and provision for post-employment benefit obligations	41,669	46,407
17	Derivatives loss (gain)	12,452	(10,021)
	Other	17,365	(1,775)
	Total effect of adjustments	202,135	24,306
	Cash flows from operating activities before working capital changes	697,353	478,354
	Decrease (increase) in non-current assets	13,594	(2,269)
	(Decrease) increase in non-current liabilities	(576)	5,399
	Changes in working capital	(147,341)	(292,621)
	Profit tax paid	(101,090)	(83,461)
	Net cash from operating activities	**461,940**	**105,402**
	Cash flows from investing activities		
	Capital expenditures	(435,765)	(321,487)
18	Interest paid and capitalised	(31,486)	(27,954)
	Net change in loans issued	4,038	3,333
	Investments in associates and joint ventures	(862)	(314)
	Interest received	37,527	18,896
	Change in long-term financial assets at fair value through other comprehensive income	855	(1,937)
	Proceeds from associates and joint ventures	14,282	4,779
	Proceeds from the sale of associates	-	476
	Proceeds from the sale of subsidiary	580	-
	Repayment of long-term bank deposits	(5,697)	-
	Other	(15,614)	(2,830)
	Net cash used in investing activities	**(432,142)**	**(327,038)**
	Cash flows from financing activities		
	Proceeds from long-term borrowings	244,342	196,395
	Repayment of long-term borrowings (including current portion of long-term borrowings)	(183,120)	(163,480)
	Proceeds from short-term borrowings	20,842	42,514
	Repayment of short-term borrowings	(21,657)	(19,106)
	Dividends paid	(1,832)	(1,829)
18	Interest paid	(13,288)	(19,900)
	Change in restricted cash	2,240	(91)
	Net cash from financing activities	**47,527**	**34,503**
	Effect of foreign exchange rate changes on cash and cash equivalents	4,723	(22,849)
	Increase (decrease) in cash and cash equivalents	**82,048**	**(209,982)**
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**	**951,055**	**686,746**

A.B. Miller
Chairman of the Management Committee
___ _____ 2018

E.A. Vasilieva
Chief Accountant
___ _____ 2018

The accompanying notes on pages 9 to 40 are an integral part of these consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
FOR THE THREE MONTHS ENDED 31 MARCH 2018
(in millions of Russian Rubles)

Notes		Attributable to the owners of PJSC Gazprom						
		Number of shares out-standing (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity
	Three months ended 31 March 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	-	-	-	333,453	333,453	16,934	350,387
	Other comprehensive income (loss):							
	Loss arising from change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	(26,807)	(26,807)	-	(26,807)
20	Remeasurements of post-employment benefit obligations	-	-	-	(36,570)	(36,570)	-	(36,570)
	Share of other comprehensive income of associates and joint ventures	-	-	-	447	447	-	447
	Translation differences	-	-	-	(76,925)	(76,925)	(4,747)	(81,672)
	(Loss) gain from cash flow hedges, net of tax	-	-	-	(2,432)	(2,432)	218	(2,214)
	Total comprehensive income for the three months ended 31 March 2017	**-**	**-**	**-**	**191,166**	**191,166**	**12,405**	**203,571**
	Return of social assets to governmental authorities	-	-	-	(7)	(7)	-	(7)
	Dividends declared	-	-	-	-	-	(763)	(763)
	Balance as of 31 March 2017	**22.1**	**325,194**	**(235,919)**	**11,196,415**	**11,285,690**	**358,950**	**11,644,640**
	Three months ended 31 March 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	-	-	-	371,623	371,623	20,546	392,169
	Other comprehensive income (loss):							
	Gain arising from change in fair value of financial assets at fair value through other comprehensive income, net of tax	-	-	-	28,077	28,077	-	28,077
20	Remeasurements of post-employment benefit obligations	-	-	-	(11,363)	(11,363)	-	(11,363)
	Share of other comprehensive income of associates and joint ventures	-	-	-	1,488	1,488	-	1,488
	Translation differences	-	-	-	10,231	10,231	2,232	12,463
	Gain from cash flow hedges, net of tax	-	-	-	6,818	6,818	266	7,084
	Total comprehensive income for the three months ended 31 March 2018	**-**	**-**	**-**	**406,874**	**406,874**	**23,044**	**429,918**
	Change in non-controlling interest in subsidiaries	-	-	-	2,888	2,888	(3,177)	(289)
	Balance as of 31 March 2018	**22.1**	**325,194**	**(235,919)**	**11,936,487**	**12,025,762**	**406,122**	**12,431,884**

A.B. Miller
Acting Chairman of the Management Committee
___ _____ 2018

E.A. Vasilieva
Chief Accountant
___ _____ 2018

The accompanying notes on pages 9 to 40 are an integral part of these consolidated interim condensed financial information.

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.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

- as of 31 March 2018 – 57.2649 (as of 31 March 2017 – 56.3779);
- 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 31 March 2018 – 70.5618 (as of 31 March 2017 – 60.5950);
- 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 / expense 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.

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

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.

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.

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

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.

	1 January 2018
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.

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

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 associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.

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

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.

5 SEGMENT INFORMATION (continued)

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 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	Transpor-tation	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 31 March 2018									
Total segment revenues	**233,275**	**273,655**	**1,312,059**	**14,467**	**314,356**	**471,506**	**175,486**	**90,537**	**2,885,341**
Inter-segment sales	226,694	215,002	98,115	13,387	163,884	1,962	-	-	719,044
External sales	6,581	58,653	1,213,944	1,080	150,472	469,544	175,486	90,537	2,166,297
Segment result	**8,520**	**7,227**	**237,493**	**3,241**	**74,874**	**27,902**	**36,401**	**9,783**	**405,442**
Depreciation	46,081	122,738	4,245	6,477	28,480	15,623	12,945	10,580	247,169
Share of net income (loss) of associates and joint ventures	1,695	5,743	(1,135)	-	28,120	762	63	8,432	43,680
Three months ended 31 March 2017									
Total segment revenues	**234,549**	**257,918**	**1,092,076**	**13,685**	**297,301**	**396,173**	**159,990**	**88,673**	**2,540,365**
Inter-segment sales	228,573	199,331	90,032	13,042	158,464	2,510	-	-	691,952
External sales	5,976	58,587	1,002,044	643	138,837	393,663	159,990	88,673	1,848,413
Segment result	**10,337**	**(12,400)**	**35,500**	**2,349**	**53,778**	**2,246**	**32,751**	**10,708**	**135,269**
Depreciation	47,830	130,058	4,318	7,104	28,516	14,105	12,414	9,756	254,101
Share of net income (loss) of associates and joint ventures	1,603	4,890	(749)	40	19,603	529	68	3,571	29,555

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 31 March 2018	2017
	Segment result for reportable segments	395,658	124,561
	Other segments' result	9,783	10,708
	Segment result	**405,441**	**135,269**
	Difference in depreciation[1]	88,883	104,407
	Expense associated with post-employment benefit obligations	(2,836)	(2,857)
18	Net finance (loss) income	(16,043)	130,444
10	Share of net income of associates and joint ventures	43,680	29,555
17	Derivatives (loss) gain	(12,452)	10,021
	Other	(11,455)	47,209
	Profit before profit tax per the consolidated interim condensed statement of comprehensive income	**495,218**	**454,048**

[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 31 March 2018	2017
External sales for reportable segments	2,075,760	1,759,740
External sales for other segments	90,537	88,673
Total external segment sales	**2,166,297**	**1,848,413**
Differences in external sales[1]	(27,966)	(33,112)
Total sales per the consolidated interim condensed statement of comprehensive income	**2,138,331**	**1,815,301**

[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 31 March 2018									
Segment assets	2,634,891	6,686,862	1,558,170	340,546	2,594,089	1,781,070	894,808	1,123,289	17,613,725
Investments in associates and joint ventures	28,202	153,367	17,875	2	494,607	21,285	1,511	176,929	893,778
Capital additions[1]	31,646	132,322	2,018	988	46,689	45,428	8,838	21,523	289,452
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 three months ended 31 March 2018.
[2] Capital additions for the year ended 31 December 2017.

5 SEGMENT INFORMATION (continued)

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

Notes		31 March 2018	31 December 2017
	Segment assets for reportable segments	16,490,436	16,516,348
	Other segments' assets	1,123,289	1,131,509
	Total segment assets	**17,613,725**	**17,647,857**
	Differences in property, plant and equipment, net[1]	(1,792,730)	(1,967,878)
	Borrowing interest capitalised	736,901	714,392
6	Cash and cash equivalents	951,055	869,007
	Restricted cash	703	2,943
21	Short-term financial assets	30,987	31,057
	VAT recoverable	109,249	119,881
	Other current assets	722,904	551,340
21	Long-term financial assets	297,367	268,432
	Goodwill	106,429	105,469
	Other non-current assets	313,658	313,793
	Inter-segment assets	(711,938)	(742,369)
	Other	208,543	324,846
	Total assets per the consolidated interim condensed balance sheet	**18,586,853**	**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.

	31 March 2018	31 December 2017
Distribution of gas	758,369	841,444
Refining	381,066	335,114
Production of gas	282,569	329,521
Transportation	217,890	306,235
Production of crude oil and gas condensate	207,455	213,298
Electric and heat energy generation and sales	84,826	82,315
Gas storage	5,076	9,154
Other segments	251,006	287,029
Total segment liabilities	**2,188,257**	**2,404,110**

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

Notes		31 March 2018	31 December 2017
	Segment liabilities for reportable segments	1,937,251	2,117,081
	Other segments' liabilities	251,006	287,029
	Total segment liabilities	**2,188,257**	**2,404,110**
	Current profit tax payable	15,306	59,922
	Short-term borrowings, promissory notes and current portion of long-term borrowings	778,568	874,805
13	Long-term borrowings, promissory notes	2,582,188	2,391,713
	Provisions for liabilities and charges	302,161	288,903
14	Deferred tax liabilities	756,204	699,413
	Other non-current liabilities	68,602	73,194
	Dividends	3,300	5,099
	Inter-segment liabilities	(711,938)	(742,369)
	Other	172,321	168,499
	Total liabilities per the consolidated interim condensed balance sheet	**6,154,969**	**6,223,289**

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.

	31 March 2018	31 December 2017
Cash on hand and bank balances payable on demand	760,595	508,585
Term deposits with original maturity of three months or less	190,460	360,422
Total cash and cash equivalents	**951,055**	**869,007**

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2018	31 December 2017
Trade receivables	865,123	758,150
Short-term loans	108,049	149,302
Advances and prepayments	76,559	78,292
Other receivables	114,192	136,980
Total accounts receivable and prepayments	**1,163,923**	**1,122,724**

Accounts receivables and prepayments are presented net of allowance for expected credit losses of RUB 818,207 million and RUB 794,520 million as of 31 March 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 97,905 million and RUB 80,231 million as of 30 March 2018 and 31 December 2017, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 4,844 million and RUB 4,974 million as of 31 March 2018 and 31 December 2017, respectively.

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	(5,458,960)	(40,835)	-	(5,499,795)
Net book value as of 31 December 2016	**8,870,507**	**54,394**	**2,577,846**	**11,502,747**
Three months ended 31 March 2017				
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
Depreciation	(146,889)	(631)	-	(147,520)
Additions	14,885	191	229,254	244,330
Translation differences	(34,257)	(25)	(15,581)	(49,863)
Transfers	46,136	30	(46,166)	-
Disposals	(3,093)	-	(1,252)	(4,345)
Change in impairment allowance	-	-	(5,464)	(5,464)
Net book value as of 31 March 2017	**8,747,289**	**53,959**	**2,738,637**	**11,539,885**
Nine months ended 31 December 2017				
Net book value as of 31 March 2017	8,747,289	53,959	2,738,637	11,539,885
Depreciation	(452,267)	(1,870)	-	(454,137)
Additions	131,959	552	1,311,045	1,443,556
Translation differences	35,097	39	37,120	72,256
Transfers	648,854	1,293	(650,147)	-
Disposals	(41,943)	(518)	(42,176)	(84,637)
Change in impairment allowance	37,640	-	(9,484)	28,156
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	(6,058,116)	(43,336)	-	(6,101,452)
Net book value as of 31 December 2017	**9,106,629**	**53,455**	**3,384,995**	**12,545,079**
Three months ended 31 March 2018				
Net book value as of 31 December 2017	9,106,629	53,455	3,384,995	12,545,079
Depreciation	(156,631)	(609)	-	(157,240)
Additions	21,881	-	301,679	323,560
Translation differences	5,312	17	11,937	17,266
Transfers	61,587	40	(61,627)	-
Disposals	(6,741)	(9,924)	(7,892)	(24,557)
Change in impairment allowance	-	-	(3,864)	(3,864)
Net book value as of 31 March 2018	**9,032,037**	**42,979**	**3,625,228**	**12,700,244**
As of 31 March 2018				
Cost	15,246,784	86,924	3,625,228	18,958,936
Accumulated depreciation	(6,214,747)	(43,945)	-	(6,258,692)
Net book value as of 31 March 2018	**9,032,037**	**42,979**	**3,625,228**	**12,700,244**

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Operating assets are presented net of allowance for impairment of RUB 157,933 million and RUB 157,849 million as of 31 March 2018 and 31 December 2017, respectively.

Assets under construction are presented net of allowance for impairment of RUB 190,234 million and RUB 185,145 million as of 31 March 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 140 million and RUB 148 million as of 31 March 2018 and 31 December 2017, respectively.

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of 31 March 2018	Carrying value as of 31 December 2017	Share of the income (loss) of associates and joint ventures for the three months ended 31 March 2018	Share of the income (loss) of associates and joint ventures for the three months ended 31 March 2017
22	Sakhalin Energy Investment Company Ltd.	Associate	182,794	169,242	14,110	9,946
22, 23	Gazprombank (Joint-stock Company) and its subsidiaries[1]	Associate	143,502	145,603	8,392	3,897
22	OJSC NGK Slavneft and its subsidiaries	Joint venture	142,415	140,548	1,867	2,097
22	JSC Arcticgas[2]	Joint venture	112,303	105,157	6,509	4,375
22	Nord Stream AG	Joint venture	74,611	79,288	4,368	3,696
22	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	48,095	45,436	1,534	1,383
22	JSC Achimgaz	Joint venture	35,860	33,509	2,351	1,807
22	JSC EUROPOL GAZ	Associate	29,920	29,588	(159)	(246)
22	JSC Messoyakhaneftegas	Joint venture	22,246	17,965	4,281	2,210
	Wintershall AG	Associate	16,040	15,645	60	1
22	CJSC Northgas	Joint venture	13,523	12,786	737	946
22	KazRosGas LLP	Joint venture	8,326	9,435	(1,054)	(1,115)
22	Wintershall Noordzee B.V.	Joint venture	6,625	6,532	171	54
	Other (net of allowance for impairment of RUB 25,164 million and RUB 21,795 million as of 31 March 2018 and 31 December 2017, respectively)		57,518	56,711	513	504
			893,778	**867,445**	**43,680**	**29,555**

[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 LLC SeverEnergy, a subsidiary of LLC Yamal razvitie, were reorganized in the form of the merger with JSC Arcticgas.

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.

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

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 31 March 2018		Three months ended 31 March 2018	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint-stock Company) and its subsidiaries[1]	48 %	Russia	6,051,704	5,573,640	59,464	17,533
Sakhalin Energy Investment Company Ltd.[2]	50 %	Russia	1,002,858	637,269	90,334	28,220
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	498,067	215,549	65,342	3,946
Nord Stream AG[3]	51 %	Russia, Germany	436,560	290,262	18,825	8,565
JSC Arcticgas	50 %	Russia	406,140	203,375	41,971	13,937
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	266,132	162,687	14,078	3,119
JSC Messoyakhaneftegas	50 %	Russia	180,621	136,547	23,209	8,562
JSC Achimgaz	50 %	Russia	83,055	11,334	8,147	4,703
Wintershall AG[4]	49 %	Libya	70,431	46,942	1,448	122
JSC EUROPOL GAZ	48 %	Poland	66,313	3,982	4,866	(366)
CJSC Northgas	50 %	Russia	59,701	31,718	5,340	1,474
Wintershall Noordzee B.V.	50 %	Netherlands	51,362	38,475	3,116	342
KazRosGaz LLP	50 %	Kazakhstan	24,764	9,276	11,875	(2,109)

[1] Presented revenue of Gazprombank (Joints-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		Three months ended 31 March 2017	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint-stock Company) and its subsidiaries[1]	48 %	Russia	5,439,664	4,957,243	52,774	10,479
Sakhalin Energy Investment Company Ltd.[2]	50 %	Russia	944,134	605,649	83,486	19,891
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	489,098	210,804	58,039	4,402
Nord Stream AG[3]	51 %	Russia, Germany	437,421	281,955	16,860	7,248
JSC Arcticgas	50 %	Russia	401,450	212,622	36,172	9,343
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	252,107	155,126	9,205	475
JSC Messoyakhaneftegas	50 %	Russia	171,124	135,612	12,327	4,421
JSC Achimgaz	50 %	Russia	78,206	11,188	6,823	4,069
Wintershall AG[4]	49 %	Libya	67,904	44,818	4,537	1
JSC EUROPOL GAZ	48 %	Poland	64,993	3,353	4,218	(545)
CJSC Northgas	50 %	Russia	58,730	32,221	5,867	1,891
Wintershall Noordzee B.V.	50 %	Netherlands	50,550	38,271	2,592	108
KazRosGaz LLP	50 %	Kazakhstan	30,824	11,953	11,098	(2,230)

[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.

11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2018	31 December 2017
Long-term accounts receivable and prepayments	165,375	183,894
Advances for assets under construction	518,492	485,392
Total long-term accounts receivable and prepayments	**683,867**	**669,286**

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of allowance for expected credit losses of RUB 16,021 million and RUB 16,318 million as of 31 March 2018 and 31 December 2017, respectively.

12 OTHER CURRENT AND NON-CURRENT ASSETS

As of 31 March 2018 and 31 December 2017 other current assets include:

- short-term deposits in the amount of RUB 571,468 million and RUB 327,969 million;
- prepaid VAT in the amount of RUB 74,467 million and RUB 150,511 million;
- derivative financial instruments in the amount of RUB 49,728 million and RUB 55,202 million (see Note 21);
- prepaid profit tax in the amount of RUB 15,713 million and RUB 6,271 million.

As of 31 March 2018 and 31 December 2017 other non-current assets include:

- intangible assets in the amount of RUB 51,164 million and RUB 52,174 million;
- VAT recoverable related to assets under construction totalling RUB 39,797 million and RUB 36,681 million;
- net pension assets in the amount of RUB 23,900 million and RUB 27,173 million (see Note 20);
- derivative financial instruments in the amount of RUB 13,314 million and RUB 19,575 million (see Note 21);
- long-term deposits in the amount of RUB 7,289 million and RUB 1,559 million.

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	31 March 2018	31 December 2017
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009[1]	US Dollar	2019	134,077	131,865
Bank of China Limited, London branch	Euro	2021	119,616	137,186
Loan participation notes issued in November 2013[2]	US Dollar	2023	87,658	86,875
Loan participation notes issued in September 2012[2]	US Dollar	2022	86,012	87,461
Loan participation notes issued in March 2007[1]	US Dollar	2022	74,767	76,424
Loan participation notes issued in August 2007[1]	US Dollar	2037	72,233	73,968
Loan participation notes issued in October 2015[1]	Euro	2018	72,055	69,539
Loan participation notes issued in April 2004[1]	US Dollar	2034	71,236	70,163
Loan participation notes issued in November 2016[1]	Euro	2023	70,801	68,530
Loan participation notes issued in March 2013[1]	Euro	2020	70,640	70,702
J.P. Morgan Europe Limited[3]	Euro	2022	70,311	68,256
Loan participation notes issued in April 2017[1, 4]	British Pound Sterling	2024	69,749	67,474
Loan participation notes issued in April 2008[1]	US Dollar	2018	65,414	64,507
Loan participation notes issued in July 2013[1]	Euro	2018	65,115	62,985
China Construction Bank Corporation, Beijing branch[3]	US Dollar	2020	61,975	75,699
Loan participation notes issued in July 2012[1]	US Dollar	2022	57,832	58,883
J.P. Morgan Europe Limited[3]	Euro	2020	56,298	54,522
Loan participation notes issued in April 2013[2]	Euro	2018	54,363	52,684
Loan participation notes issued in February 2014[1]	Euro	2021	53,099	53,224
Loan participation notes issued in November 2017[1]	Euro	2024	52,783	51,194
Loan participation notes issued in March 2018[1]	Euro	2026	52,427	-

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	31 March 2018	31 December 2017
Loan participation notes issued in February 2013[1]	US Dollar	2028	51,928	52,874
Credit Agricole CIB	Euro	2022	49,049	48,138
UniCredit Bank S.p.A.	Euro	2022	49,024	27,135
Loan participation notes issued in February 2013[1]	US Dollar	2020	46,081	46,795
Loan participation notes issued in March 2018[1]	Swiss Franc	2023	44,670	-
PJSC Sberbank	US Dollar	2018	44,309	43,776
Loan participation notes issued in March 2017[1]	US Dollar	2027	42,489	43,261
Loan participation notes issued in September 2013[1, 4]	British Pound Sterling	2020	42,213	41,651
Loan participation notes issued in March 2013[1]	Euro	2025	35,327	35,611
Mizuho Bank Ltd.[3]	US Dollar	2019	35,220	53,130
Loan participation notes issued in November 2011[1]	US Dollar	2021	34,748	35,470
Loan participation notes issued in November 2016[1, 4]	Swiss Franc	2021	32,950	31,923
Loan participation notes issued in July 2017[1,4]	Swiss Franc	2022	32,241	31,272
Loan participation notes issued in October 2013[1]	Swiss Franc	2019	30,412	29,641
Loan participation notes issued in March 2016[1]	Swiss Franc	2018	30,284	29,438
Russian bonds issued in October 2017[2]	Russian Ruble	2022	25,855	25,371
Russian bonds issued in March 2018[2]	Russian Ruble	2024	25,079	-
UniCredit Bank Austria AG	Euro	2021	24,521	23,908
Alfa-Bank (Joint Stock Company)	US Dollar	2019	22,918	23,052
Wintershall Nederland Transport and Trading B.V.[5]	Euro	2035	21,743	20,555
Uniper Gas Transportation & Finance B.V.[5]	Euro	2035	21,743	20,555
OMV Gas Marketing Trading & Finance B.V.[5]	Euro	2035	21,742	20,554
Shell Exploration and Production (LXXI) B.V.[5]	Euro	2035	21,742	20,554
Engie Energy Management Holding Switzerland AG[5]	Euro	2035	21,742	20,554
Gazprombank (Joint-stock Company)	US Dollar	2019	20,615	20,736
VTB Bank (Europe) S.E.	Euro	2027	20,173	19,640
Gazprombank (Joint-stock Company)	US Dollar	2019	18,897	19,008
Gazprombank (Joint-stock Company)	US Dollar	2019	17,752	17,856
Bank of America Securities Limited	US Dollar	2018	17,542	17,453
PJSC Sberbank	Euro	2020	16,999	16,591
PJSC Sberbank	Euro	2022	16,679	15,736
Russian bonds issued in April 2017[2]	Russian Ruble	2022	15,597	15,276
BANK ROSSIYA	Russian Ruble	2022	15,278	15,012
Russian bonds issued in November 2013[6]	Russian Ruble	2043	15,196	15,059
Russian bonds issued in November 2013[6]	Russian Ruble	2043	15,196	15,059
Russian bonds issued in February 2017[7]	Russian Ruble	2027	15,165	15,501
Russian bonds issued in February 2017[7]	Russian Ruble	2027	15,165	15,501
Russian bonds issued in August 2017[2]	Russian Ruble	2024	15,165	15,476
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,000	15,001
BNP Paribas S.A.[3]	Euro	2022	14,473	14,069
Deutsche Bank Luxembourg S.A.	Euro	2022	14,156	13,818
UniCredit Bank Austria AG	US Dollar	2018	11,583	11,526
Russian bonds issued in April 2009[2]	Russian Ruble	2019	10,386	10,184
Russian bonds issued in June 2016[2]	Russian Ruble	2046	10,312	10,064
Russian bonds issued in December 2017[2]	Russian Ruble	2024	10,211	10,021
Russian bonds issued in February 2011[2]	Russian Ruble	2021	10,125	10,371
Russian bonds issued in August 2016[2]	Russian Ruble	2046	10,082	10,319
Russian bonds issued in February 2018[7]	Russian Ruble	2028	10,063	-
Russian bonds issued in February 2018[7]	Russian Ruble	2028	10,063	-
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2020	10,000	10,000
Commerzbank International S.A.	US Dollar	2018	5,724	11,522
Loan participation notes issued in October 2007[1]	Euro	2018	-	87,456
Russian bonds issued in March 2016[2]	Russian Ruble	2018	-	15,427
Russian bonds issued in March 2016[2]	Russian Ruble	2018	-	10,303

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	31 March 2018	31 December 2017
Other long-term borrowings, promissory notes	Various	Various	560,698	488,993
Total long-term borrowings, promissory notes			**3,274,786**	**3,180,337**
Less: current portion of long-term borrowings			(692,598)	(788,624)
			2,582,188	**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 PJSC Gazprom.
[7] Issuer of these bonds is Gazprom capital LLC.

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

Due for repayment	31 March 2018	31 December 2017
Between one and two years	601,296	481,070
Between two and five years	1,066,552	1,087,239
After five years	914,340	823,404
	2,582,188	**2,391,713**

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,477,975 million and RUB 2,355,672 million and fair value of RUB 2,684,660 million and RUB 2,605,734 million as of 31 March 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 796,811 million and RUB 824,665 million and fair value is RUB 810,666 million and RUB 837,266 million as of 31 March 2018 and 31 December 2017, respectively.

As of 31 March 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.

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

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

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 three months ended 31 March 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.

	31 March 2018	Differences recognition and reversals	31 December 2017	31 March 2017	Differences recognition and reversals	31 December 2016
Tax effects of taxable temporary differences:						
Property, plant and equipment	(852,321)	(21,086)	(831,235)	(787,227)	(36,854)	(750,373)
Inventories	(8,648)	259	(8,907)	(9,359)	2,260	(11,619)
	(860,969)	**(20,827)**	**(840,142)**	**(796,586)**	**(34,594)**	**(761,992)**
Tax effects of deductible temporary differences:						
Financial assets	1,818	6,392	(4,574)	2,228	292	1,936
Tax losses carried forward	15,047	1,706	13,341	6,116	457	5,659
Retroactive gas price adjustments	23,810	1,350	22,460	22,222	(535)	22,757
Account receivables	50,925	3,854	47,071	30,256	(8,909)	39,165
Accounts payable	-	(53,859)	53,859	-	-	-
Other deductible temporary differences	13,165	4,593	8,572	10,568	6,596	3,972
	104,765	**(35,964)**	**140,729**	**71,390**	**(2,099)**	**73,489**
Total net deferred tax liabilities	**(756,204)**	**(56,791)**	**(699,413)**	**(725,196)**	**(36,693)**	**(688,503)**

Taxable temporary differences recognised for the three months ended 31 March 2018 and 31 March 2017 include the effect of depreciation premium on certain property, plant and equipment. A deferred tax liability related to property, plant and equipment was recognised in the amount of RUB 1,451 million and RUB 19,356 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the three months ended 31 March 2018 and 31 March 2017.

15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 31 March 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 31 March 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 31 March 2018 and 31 December 2017.

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

16 SALES

	Three months ended 31 March	
	2018	**2017**
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	350,547	312,255
Former Soviet Union (excluding Russian Federation)	123,813	113,685
Europe and other countries	940,098	736,600
	1,414,458	1,162,540
Customs duties	(179,722)	(141,835)
Excise tax	(14,403)	(12,436)
Retroactive gas price adjustments[1]	192	(249)
Total gas sales	1,220,525	1,008,020
Sales of refined products to customers in:		
Russian Federation	292,395	239,748
Former Soviet Union (excluding Russian Federation)	36,290	21,183
Europe and other countries	140,859	132,732
Total sales of refined products	469,544	393,663
Sales of crude oil and gas condensate to customers in:		
Russian Federation	10,890	23,113
Former Soviet Union (excluding Russian Federation)	9,265	7,156
Europe and other countries	130,317	108,568
Total sales of crude oil and gas condensate	150,472	138,837
Electric and heat energy sales:		
Russian Federation	170,672	155,491
Former Soviet Union (excluding the Russian Federation)	1,132	767
Europe and other countries	3,682	3,732
Total electric and heat energy sales	175,486	159,990
Gas transportation sales:		
Russian Federation	57,524	57,184
Former Soviet Union (excluding the Russian Federation)	691	656
Europe and other countries	438	747
Total gas transportation sales	58,653	58,587
Other revenues:		
Russian Federation	50,854	46,517
Former Soviet Union (excluding the Russian Federation)	1,965	1,373
Europe and other countries	10,832	8,314
Total other revenues	63,651	56,204
Total sales	**2,138,331**	**1,815,301**

[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 months ended 31 March 2018 recorded as an increase of sales by RUB 192 million.

The effects of retroactive gas price adjustments on sales for the three months ended 31 March 2017 recorded as a decrease of sales by RUB 249 million.

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

17 OPERATING EXPENSES

	Three months ended 31 March	
	2018	2017
Purchased gas and oil	398,776	316,905
Taxes other than on income	322,619	295,025
Staff costs	189,761	169,681
Depreciation	158,286	149,694
Transit of gas, oil and refined products	146,589	147,013
Cost of goods for resale, including refined products	62,124	57,004
Materials	54,875	59,595
Electricity and heating expenses	32,486	30,130
Repairs and maintenance	19,733	23,407
Derivatives loss (gain)	12,452	(10,021)
Rental expenses	9,767	10,662
Transportation services	9,106	7,806
Social expenses	9,097	6,600
Insurance expenses	7,507	7,365
Research and development expenses	5,815	7,398
Processing services	4,158	3,556
Impairment loss on non-financial assets	3,653	6,183
Foreign exchange rate differences on operating items	(18,612)	887
Other	98,665	108,249
	1,526,857	**1,397,139**
Changes in finished goods, work in progress and other effects	124,489	80,723
Total operating expenses	**1,651,346**	**1,477,862**

Staff costs include RUB 11,611 million and RUB 11,037 million of expenses associated with post-employment benefit obligations for the three months ended 31 March 2018 and 31 March 2017, respectively (see Note 20).

18 FINANCE INCOME AND EXPENSE

	Three months ended 31 March	
	2018	2017
Foreign exchange gain	73,311	160,786
Interest income	18,069	22,346
Total finance income	**91,380**	**183,132**
Foreign exchange loss	94,409	37,581
Interest expense	13,014	15,107
Total finance expense	**107,423**	**52,688**

Total interest paid amounted to RUB 44,774 million and RUB 47,854 million for the three months ended 31 March 2018 and 31 March 2017, respectively.

Foreign exchange gain and loss for the three month ended 31 March 2018 and 31 March 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 months ended 31 March 2018 and 31 March 2017.

There are no dilutive financial instruments outstanding in the Group.

20 PROVISIONS FOR LIABILITIES AND CHARGES

	31 March 2018	31 December 2017
Provision for post-employment benefit obligations	269,498	258,132
Provision for decommissioning and site restoration costs	208,149	202,616
Other	9,517	8,705
Total provisions for liabilities and charges	**487,164**	**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 23,900 million and RUB 27,173 million as of 31 March 2018 and 31 December 2017, respectively.

In accordance with IAS 19 Employee Benefits, pension assets are recorded at estimated fair value subject to certain limitations. As of 31 March 2018 and 31 December 2017 management estimated the fair value of these assets at RUB 467,238 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.

	31 March 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	(443,338)	(269,498)	(422,641)	(258,132)
Fair value of plan assets	467,238	-	449,814	-
Net balance assets (liabilities)	**23,900**	**(269,498)**	**27,173**	**(258,132)**

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

	Three months ended 31 March	
	2018	2017
Current service cost	7,264	6,441
Net interest expense	4,347	4,596
Total expenses included in staff costs	**11,611**	**11,037**

The principal assumptions used for the evaluation of post-employment benefit obligations for the three months ended 31 March 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 decrease in the discount rate from 7.6 % to 7.3 % resulted in recognition of an actuarial loss of RUB 19,649 million in other comprehensive income for the three months ended 31 March 2018.

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

	Three months ended 31 March	
	2018	2017
Actuarial loss	(19,649)	(24,686)
Return on plan assets excluding amounts included in interest income	8,366	(12,045)
Translation differences	(80)	161
Total	**(11,363)**	**(36,570)**

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

	31 March 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	10,482	37,835	1,411	49,728
Bonds	30,642	-	-	30,642
Equity securities	251	-	-	251
Financial assets at fair value through other comprehensive income:				
Promissory notes	-	94	-	94
Total short-term financial assets at fair value	**41,375**	**37,929**	**1,411**	**80,715**
Financial assets at fair value through profit or loss:				
Derivative financial instruments	3,302	9,048	964	13,314
Equity securities	-	-	1,839	1,839
Financial assets at fair value through other comprehensive income:				
Equity securities	243,636	43,594	8,046	295,276
Promissory notes	-	252	-	252
Total long-term financial assets at fair value	**246,938**	**52,894**	**10,849**	**310,681**
Total financial assets	**288,313**	**90,823**	**12,260**	**391,396**
Financial liabilities at fair value through profit or loss:				
Short-term derivative financial instruments	7,892	51,534	1,226	60,652
Long-term derivative financial instruments	667	22,932	224	23,823
Total financial liabilities at fair value	**8,559**	**74,466**	**1,450**	**84,475**

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 31 March 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 237,969 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 31 March 2018 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. 11.859 % are owned JSC Rosneftegaz and JSC Rosgazifikatsiya controlled by Government.

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 31 March 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 31 March 2018 and 31 December 2017 and for the three months ended 31 March 2018 and 2017, the Group had the following significant transactions and balances with the Government and parties under the Government control:

	As of 31 March 2018		Three month ended 31 March 2018	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	12,774	8,205	-	44,114
Insurance contributions	870	12,278	-	39,735
VAT recoverable / payable	217,043	102,023	-	-
Customs duties	7,812	-	-	-
Other taxes	6,036	143,692	-	300,965
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	48,169	-
Electricity and heating sales	-	-	65,304	-
Gas transportation sales	-	-	11,537	-
Other services sales	-	-	1,486	-
Accounts receivable	58,746	-	-	-
Oil and refined products transportation expenses	-	-	-	32,009
Accounts payable	-	17,132	-	-
Borrowings	-	212,079	-	-
Interest expense	-	-	-	3,293
Short-term financial assets	27,291	-	-	-
Long-term financial assets	5,655	-	-	-

	As of 31 December 2017		Three months ended 31 March 2017	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with the Government				
Current profit tax	4,088	53,112	-	62,921
Insurance contributions	1,359	7,689	-	31,881
VAT recoverable / payable	300,567	90,632	-	-
Customs duties	16,249	-	-	-
Other taxes	4,029	153,784	-	280,359
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	38,860	-
Electricity and heating sales	-	-	58,848	-
Gas transportation sales	-	-	12,061	-
Other services sales	-	-	948	-
Accounts receivable	43,701	-	-	-
Oil and refined products transportation expenses	-	-	-	32,054
Accounts payable	-	17,201	-	-

22 RELATED PARTIES (continued)

	As of 31 December 2017		Three months ended 31 March 2017	
	Assets	Liabilities	Revenues	Expenses
Borrowings	-	226,565	-	-
Interest expense	-	-	-	5,189
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 three months ended 31 March 2018 and 2017. See Note 9 for net book values as of 31 March 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 31 March 2018		Three months ended 31 March 2018	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with JSC FSC				
Electricity and heating sales	-	-	45,222	-
Purchased electricity and heating	-	-	-	7,081
Accounts receivable	5,880	-	-	-
Accounts payable	-	1,627	-	-

	As of 31 December 2017		Three month ended 31 March 2017	
	Assets	Liabilities	Revenues	Expenses
Transactions and balances with JSC FSC				
Electricity and heating sales	-	-	42,494	-
Purchased electricity and heating	-	-	-	7,036
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.

22 RELATED PARTIES (continued)

Associates and joint ventures

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

	Three months ended 31 March	
	2018	2017
	Revenues	
Gas sales		
Panrusgas Gas Trading Plc	10,589	11,166
JSV Moldovagaz	8,053	6,170
KazRosGas LLP	5,776	5,931
Bosphorus Gaz Corporation A.S.	5,674	6,442
CJSC Gazprom YRGM Trading[1]	3,967	4,681
JSC Gazprom YRGM Development[1]	2,834	3,344
Prometheus Gas S.A.	2,059	1,748
VEMEX s.r.o. and its subsidiaries	1,002	2,817
JSC Latvijas Gaze	211	3,973
Gas transportation sales		
CJSC Gazprom YRGM Trading[1]	6,680	6,699
JSC Gazprom YRGM Development[1]	4,772	4,785
Gas condensate, crude oil and refined products sales		
OJSC NGK Slavneft and its subsidiaries	10,748	11,358
Sakhalin Energy Investment Company Ltd.	1,556	861
JSC SOVEKS	1,207	1,203
LLC Poliom	1,078	852
LLC NPP Neftekhimia	1,028	573
Operator services sales and other services sales		
JSC Messoyakhaneftegas	940	1,431
Gas refining services sales		
KazRosGas LLP	2,733	2,225
Interest income		
Gazprombank (Joint-stock Company) and its subsidiaries	8,812	10,142
JSC Messoyakhaneftegas	383	1,639
	Expenses	
Purchased gas		
CJSC Gazprom YRGM Trading[1]	15,705	14,337
JSC Gazprom YRGM Development[1]	11,232	10,272
KazRosGas LLP	6,554	5,777
JSC Arcticgas	3,820	8,328
Sakhalin Energy Investment Company Ltd.	3,690	2,011
CJSC Northgas	1,294	-
Purchased transit of gas		
Nord Stream AG	18,729	16,711
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	8,291	7,243
JSC EUROPOL GAZ	3,045	2,643
JSV Moldovagaz	1,028	1,023
Purchased crude oil and refined products		
OJSC NGK Slavneft and its subsidiaries	32,271	25,995
JSC Messoyakhaneftegas	11,602	5,350
Sakhalin Energy Investment Company Ltd.	2	2,424

22 RELATED PARTIES (continued)

	Three months ended 31 March	
	2018	2017
Purchased services of gas and gas condensate products		
JSC Achimgaz	8,147	6,823
Purchased refining services		
OJSC NGK Slavneft and its subsidiaries	3,389	3,060
Purchased transit of crude oil and oil refinery products		
JSC Messoyakhaneftegas	1,179	794
OJSC NGK Slavneft and its subsidiaries	904	1,971
Interest expense		
Gazprombank (Joint-stock Company) and its subsidiaries	2,937	2,453

[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 31 March 2018		As of 31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Gazprombank (Joint-stock Company)	7,130	-	17,380	-
Panrusgas Gas Trading Plc	5,609	-	4,023	-
OJSC NGK Slavneft and its subsidiaries	4,286	-	5,304	-
CJSC Gazprom YRGM Trading	3,600	-	2,327	-
KazRosGas LLP	3,172	-	5,457	-
Sakhalin Energy Investment Company Ltd.	2,672	-	1,045	-
JSC Gazprom YRGM Development	2,571	-	1,662	-
Bosphorus Gaz Corporation A.S.	2,431	-	2,603	-
JSC Arcticgas	-	-	3,459	-
Cash balances				
Gazprombank (Joint-stock Company) and its subsidiaries	485,658	-	388,436	-
OJSC Belgazprombank	13,245	-	19,320	-
Other current assets				
Gazprombank (Joint-stock Company)	518,586	-	290,322	-
OJSC Belgazprombank	15,558	-	7,436	-
Other non-current assets				
OJSC Belgazprombank	5,719	-	-	-
Long-term accounts receivable and prepayments				
JSC Messoyakhaneftegas	14,297	-	24,414	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	14,090	-	13,768	-
Gazprombank (Joint-stock Company)	11,398	-	9,599	-
Wintershall Noordzee B.V.	5,714	-	5,595	-
OJSC Belgazprombank	4,957	-	4,957	-
JSC Evroteck-Yugra	1,514	-	1,514	-
JSC Arcticgas	638	-	4,483	-

22 RELATED PARTIES (continued)

	As of 31 March 2018		As of 31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts payable				
OJSC NGK Slavneft and its subsidiaries	-	36,334	-	31,164
JSC Messoyakhaneftegas	-	9,172	-	6,928
CJSC Gazprom YRGM Trading	-	6,452	-	7,927
Nord Stream AG	-	6,330	-	6,172
JSC Gazprom YRGM Development	-	4,611	-	5,662
JSC Achimgaz	-	3,551	-	3,195
KazRosGas LLP	-	2,384	-	2,079
JSC Arcticgas	-	1,207	-	2,963
JSC EUROPOL GAZ	-	1,056	-	2,078
Sakhalin Energy Investment Company Ltd.	-	961	-	5,710
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	-	743	-	1,957
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	81,501	-	80,807
Long-term borrowings				
Gazprombank (Joint-stock Company)	-	87,174	-	87,511

Accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 2,431 million and RUB 2,603 million as of 31 March 2018 and 31 December 2017, respectively, net of allowance for expected credit losses of RUB 2,950 million and RUB 5,935 million as of 31 March 2018 and 31 December 2017, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 31 March 2018 and 31 December 2017 net of allowance for expected credit losses of RUB 6,023 million and RUB 6,058 million as of 31 March 2018 and 31 December 2017, respectively.

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 31 March 2018 and 31 December 2017 net of allowance for expected credit losses of RUB 343,634 million and RUB 339,481 million as of 31 March 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 31 March 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 31 March 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

23 COMMITMENTS AND CONTINGENCIES (continued)

NJSC Naftogaz of Ukraine. The corrected amount of claim of PJSC Gazprom against NJSC Naftogaz of Ukraine exceeded USD 37,000 million. This amount includes the outstanding payment for the gas supplied in May-June 2014, and take-or-pay obligations for 2012-2016, and penalty interest for late payment for the gas supplied.

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

On 21 July 2014 both cases were consolidated. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. On 31 May 2017 the arbitrators delivered an interim (separate) decision on certain key legal issues. On 7 November 2017 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to review stated interim (separate) decision and to cancel it partially. The final decision on the case was delivered on 22 December 2017. The arbitrators recognised that the basic provisions of the Contract No. KP were valid and satisfied the majority of the claims filed by PJSC Gazprom seeking payment for the gas supplied, which initiated the proceedings, and obliged NJSC Naftogaz of Ukraine:

1) to pay PJSC Gazprom the overdue debt for the gas supplied amounting to USD 2,019 million, and penalty interest for the period from 22 December 2017 to the date of such payment amounting at the rate 0.03 % for each day of delay;

2) starting from 2018 to buy and pay for 5 billion cubic meters of gas annually or in case of the failure to buy this quantity to pay for 80 % of this volume.

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

On 21 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to review stated final decision of 22 December 2017 and to cancel it partially.

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

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

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

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

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

On 28 November 2014 PJSC Gazprom filed its response to the request of arbitration. On 11 December 2014 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

23 COMMITMENTS AND CONTINGENCIES (continued)

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 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 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 31 March 2018 – RUB 102,181 million). PJSC Gazprom did not agree to the claims and on 9 November 2012 filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness statement and expert statement. On 22 June 2016 the arbitration court made a final decision which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including claims on unfair pricing of gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania has filed appeal with the Court of Appeal of Stockholm, Sweden, to cancel the Final arbitration decision of 22 June 2016. On 4 April 2017 PJSC Gazprom officially received this appeal. On 9 June 2017 PJSC Gazprom filed a response to the appeal with the Court of Appeal of Stockholm, Sweden. The Ministry of Energy of the Republic of Lithuania submitted its detailed written opinions of the case on 10 October 2017. PJSC Gazprom is keeping on analysing received documents and is preparing its legal position. The hearings of the case are scheduled for June 2018.

In December 2015 South Stream Transport B.V., the subsidiary of the Group, was served with an official notification by the Secretariat of the Arbitration Court of the International Chamber of Commerce stating that Saipem S.p.A. submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by the latter of the agreement dated 14 March 2014 for the construction of the "South Stream" pipeline. The amount of current claims of Saipem S.p.A. to South Stream Transport B.V. is about EUR 615 million (at the exchange rate as of 31 March 2018 – RUB 43,396 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for June 2019.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 31 March 2018 – RUB 187,073 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

23 COMMITMENTS AND CONTINGENCIES (continued)

judgements in the case delivered by the lower-level courts. On 13 September 2016 the Supreme Court of Ukraine rejected to move the petition forward to review the judgements delivered in the case by the lower-level courts. On 7 October 2016 the Kiev Economic Court determined to initiate proceedings in the case in view of the application filed by the Antimonopoly Committee of Ukraine along with a claim to impose a penalty in the amount of about USD 3 billion on PJSC Gazprom, a fine in the amount of about USD 3 billion and a demand to enforce PJSC Gazprom to fulfil a portion of its decision which pertains to the performance of the terms and conditions to the fullest extent of the Contract No. TKGU regarding the volumes of gas intended for transit purposes. On 5 December 2016 the Court satisfied the claims of the Antimonopoly Committee of Ukraine to the fullest extent. On 22 February 2017 the Court dismissed the appeal of PJSC Gazprom keeping the first-instance court's decision in force. On 14 March 2017 PJSC Gazprom filed with the Ukraine's Higher Economic Court a cassation appeal on the decision of the Kiev Economic Court dated 5 December 2016 and the ruling of the Kiev Economic Court of Appeal dated 22 February 2017. As a result of the Ukraine's Higher Economic Court sitting session held on 16 May 2017 the cassation appeal of PJSC Gazprom was left unsatisfied. On 11 August 2017 PJSC Gazprom filed with the Supreme Court of Ukraine an appeal with a demand to cancel decisions of lower courts. On 11 September 2017 the Supreme Court of Ukraine left these decisions in force and the appeal of PJSC Gazprom was unsatisfied. In April 2017 the Antimonopoly Committee of Ukraine filed a demand with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of Ukrainian hryvnia 171,932 million (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office Orders of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover the amount of Ukrainian hryvnia 189,125 million (at the exchange rate as of 31 March 2018 – RUB 411,561 million), including an execution fee of Ukrainian hryvnia 17,193 million (at the exchange rate as of 31 March 2018 – RUB 37,414 million), the seizure of the accounts of the Kiev-based Branch of PJSC Gazprom, dividends due to PJSC Gazprom from the participation in JSC Gaztranzit, the stocks of JSC Gaztranzit 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 breach of anti-monopoly laws of Poland due to financing of Nord Stream 2 AG. In

23 COMMITMENTS AND CONTINGENCIES (continued)

accordance with this notification PJSC Gazprom is obliged to prepare and send a response to the charges brought by Poland's anti-monopoly office within 21 days upon receipt of the notification. PJSC Gazprom is considering the notification received.

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

Sanctions

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

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

1) transacting in, providing financing for, or otherwise dealing with new debt of longer than 90 days maturity (from 28 November 2017 – 60 days maturity) or newly issued share capital, property or rights to property in respect of a number of Russian energy companies, including PJSC Gazprom Neft;

2) transacting in, providing financing for, or otherwise dealing with new debt of longer than 30 days maturity (from 28 November 2017 – 14 days maturity) or newly issued share capital, property or rights to property in respect of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);

3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or 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.

23 COMMITMENTS AND CONTINGENCIES (continued)

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

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

2) purchasing, selling, providing of investment services for or assistance in the issuance of, or other dealings with transferable securities and money market instruments with a maturity of more than 90 days issued from 1 August 2014 to 12 September 2014 or more than 30 days, issued after 12 September 2014 by certain Russian companies in banking sector, including Gazprombank (Joint-stock Company), excluding PJSC Gazprom;

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

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

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

	31 March 2018	31 December 2017
Outstanding guarantees issued for:		
LLC Stroygazconsulting	81,880	81,710
Other	21,491	26,353
Total financial guarantees	**103,371**	**108,063**

For the three months ended 31 March 2018 and in 2017 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 14 million and USD 27 million as of 31 March 2018 and 31 December 2017, respectively, as well as amounts denominated in Euros of EUR 54 million and EUR 33 million as of 31 March 2018 and 31 December 2017, 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 31 March 2018 and 31 December 2017 the guarantees amounted to RUB 81,880 million and RUB 81,710 million, respectively.

Capital commitments

The total investment program related to gas, oil and power assets for 2018 is RUB 2,012,620 million.

23 COMMITMENTS AND CONTINGENCIES (continued)

Operating lease commitments

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

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 March 2018 no loss is expected to result from these long-term commitments.

24 POST BALANCE SHEET EVENTS

Borrowings

In May 2018 the Group signed an agreement to obtain a long-term loan from Credit Agricole CIB in the amount of EUR 600 million at an interest rate of EURIBOR + 1.6 % due in 2023.

In May 2018 the Group signed agreement to obtain long-term loan from PJSC Sberbank in the total amount of EUR 485 million at an interest rate of EURIBOR + 1.77 % due in 2023. In May 2018 under that agreement the Group obtained EUR 73 million.

PJSC GAZPROM
INVESTORS RELATIONS

The Company may be contacted at its registered office:

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

Telephone: +7 (812) 609-41-29
Facsimile: +7 (812) 609-43-34
www.gazprom.ru (in Russian)
www.gazprom.com (in English)

MANAGEMENT'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 three months ended March 31, 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 three months ended March 31, 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 March 31, 2018 – 57.2649 (as of March 31, 2017 – 56.3779);
- 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 March 31, 2018 – 70.5618 (as of March 31, 2017 – 60.5950);
- as of December 31, 2017 – 68.8668 (as of December 31, 2016 – 63.8111).

The average exchange rates of RUB for the three months ended 31 March, 2018 and for the nine months ended 31 March, 2017 were:

- to USD – 56.8803 and 58.8366, respectively;
- to EUR – 69.8727 and 62.6474, respectively.

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RESULTS OF OPERATION

(RUB million)	Three months ended March 31, 2018	2017
Sales	2,138,331	1,815,301
Net gain (loss) from trading activity	7,001	(14,203)
Operating expenses	(1,651,346)	(1,477,862)
Impairment loss on financial assets	(26,405)	(29,187)
Operating profit	**467,581**	**294,049**
Finance income	91,380	183,132
Finance expense	(107,423)	(52,688)
Share of net income of associates and joint ventures	43,680	29,555
Profit before profit tax	**495,218**	**454,048**
Current profit tax expense	(46,842)	(67,080)
Deferred profit tax expense	(56,207)	(36,581)
Profit tax	(103,049)	(103,661)
Profit for the period	**392,169**	**350,387**
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	28,077	(26,807)
Remeasurements of post-employment benefit obligations	(11,363)	(36,570)
Total items that will not be reclassified to profit or loss	**16,714**	**(63,377)**
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive income of associates and joint ventures	1,488	447
Translation differences	12,463	(81,672)
Gain (loss) from cash flow hedges, net of tax	7,084	(2,214)
Total items that may be reclassified subsequently to profit or loss	**21,035**	**(83,439)**
Other comprehensive income (loss) for the period, net of tax	**37,749**	**(146,816)**
Total comprehensive income for the period	**429,918**	**203,571**
Profit for the period attributable to:		
Owners of PJSC Gazprom	371,623	333,453
Non-controlling interest	20,546	16,934
	392,169	**350,387**
Total comprehensive income for the period attributable to:		
Owners of PJSC Gazprom	406,874	191,166
Non-controlling interest	23,044	12,405
	429,918	**203,571**

Sales

The following table sets out volumes and realized prices:

(RUB million unless indicated otherwise)	Three months ended March 31, 2018	2017
Sales of gas		
Europe and Other countries		
Gross sales [1]	940,098	736,600
Customs duties	(167,388)	(130,285)
Excise tax	(14,403)	(12,436)
Net sales	758,307	593,879
Volumes in bcm	71.5	65.6
Average price, US Dollar per mcm [2] (including excise tax and customs duties) [3]	231.5	191.3
Average price, RUB per mcm [2] (including excise tax and customs duties)	13,155.2	11,226.3
Former Soviet Union countries		
Gross sales [1]	123,813	113,685
Customs duties	(12,334)	(11,550)
Net sales	111,479	102,135
Volumes in bcm	14.1	12.5
Average price, US Dollar per mcm [2] (including customs duties) [3]	155.0	154.9
Average price, RUB per mcm [2] (including customs duties)	8,809.8	9,089.7
Russian Federation		
Gross sales (net of VAT)	350,547	312,255
Net sales	350,547	312,255
Volumes in bcm	88.2	81.7
Average price, RUB per mcm [2] (net of VAT)	3,974.2	3,819.9
Total sales of gas		
Gross sales (net of VAT)	1,414,458	1,162,540
Customs duties	(179,722)	(141,835)
Excise tax	(14,403)	(12,436)
Retroactive gas price adjustments	192	(249)
Net sales	1,220,525	1,008,020
Volumes in bcm	173.8	159.8
Net sales of refined products (net of excise tax, VAT and customs duties)	469,544	393,663
Electric and heat energy net sales (net of VAT)	175,486	159,990
Net sales of crude oil and gas condensate (net of VAT and customs duties)	150,472	138,837
Gas transportation net sales (net of VAT)	58,653	58,587
Other revenues (net of VAT)	63,651	56,204
Total sales (net of excise tax, VAT and customs duties)	**2,138,331**	**1,815,301**

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 323,030 million, or 18 %, to RUB 2,138,331 million for the three months ended March 31, 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 and refined products.

Net sales of gas accounted for 57 % of total net sales for the three months ended March 31, 2018 (56 % for the same period of the prior year).

Net sales of gas increased by RUB 212,505 million, or 21 %, from RUB 1,008,020 million for the three months ended March 31, 2017 to RUB 1,220,525 million for the three months ended March 31, 2018.

Net sales of gas to Europe and Other countries increased by RUB 164,428 million, or 28 %, to RUB 758,307 million for the three months ended March 31, 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 17 % and the increase in volumes of the gas sold by 9 % for the three months ended 31 March 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 9,344 million, or 9 %, to RUB 111,479 million for the three months ended March 31, 2018 compared to the same period of the prior year. The change was due to the increase in volumes of gas sold by 13 % that was partially compensated by the decrease in average Russian Ruble prices (including customs duties) by 3 % for the three months ended March 31, 2018.

Net sales of gas in the Russian Federation increased by RUB 38,292 million, or 12 %, to RUB 350,547 million for the three months ended March 31, 2018 compared to the same period of the prior year. This change is explained by the increase in volumes of gas sold by 8 % 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 75,881 million, or 19 %, to RUB 469,544 million for the three months ended March 31, 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 to customers in the Russian Federation and Former Soviet Union countries.

Operating expenses

Operating expenses increased by RUB 173,484 million, or 12 % for the three months ended March 31, 2018 to RUB 1,651,346 million compared to RUB 1,477,862 million for the same period of the prior year. Operating expenses as a percentage of sales decreased from 81 % for the three months ended March 31, 2017 to 77 % for the three months ended March 31, 2018. The table below presents a breakdown of operating expenses in each period:

(RUB million)	Three months ended 31 March	
	2018	**2017**
Purchased gas and oil	398,776	316,905
Taxes other than on income	322,619	295,025
Staff costs	189,761	169,681
Depreciation	158,286	149,694
Transit of gas, oil and refined products	146,589	147,013
Cost of goods for resale, including refined products	62,124	57,004
Materials	54,875	59,595
Electricity and heating expenses	32,486	30,130
Repairs and maintenance	19,733	23,407
Derivatives loss (gain)	12,452	(10,021)
Rental expenses	9,767	10,662
Transportation services	9,106	7,806
Social expenses	9,097	6,600
Insurance expenses	7,507	7,365
Research and development expenses	5,815	7,398
Processing services	4,158	3,556
Impairment loss on non-financial assets	3,653	6,183
Foreign exchange rate differences on operating items	(18,612)	887
Other	98,665	108,249
	1,526,857	**1,397,139**
Change in finished goods, work in progress and other effects	124,489	80,723
Total operating expenses	**1,651,346**	**1,477,862**

Purchased gas and oil

Cost of purchased gas and oil increased by RUB 81,871 million, or 26 %, to RUB 398,776 million for the three months ended March 31, 2018 compared to RUB 316,905 million for the same period of the prior year.

Cost of purchased gas increased by RUB 61,307 million, or 25 %, to RUB 302,014 million for the three months ended March 31, 2018 compared to RUB 240,707 million for the same period of the prior year. The change was due to an increase in volumes of gas purchased from external suppliers and an increase in average prices.

Cost of purchased oil included in the purchased gas and oil increased by RUB 20,564 million, or 27 %, to RUB 96,762 million for the three months ended March 31, 2018 compared to RUB 76,198 million for the same period of the prior year. This change was mainly due to an increase in oil prices.

Taxes other than on income

Taxes other than on income consist of:

(RUB million)	Three months ended 31 March	
	2018	**2017**
Mineral extraction tax	233,422	218,031
Excise tax	44,847	35,033
Property tax	41,906	39,915
Other taxes	2,444	2,046
Taxes other than on income	**322,619**	**295,025**

Mineral extraction tax (MET) increased by RUB 15,391 million or 7 % to RUB 233,422 million for the three months ended March 31, 2018 compared to RUB 218,031 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 three months ended 31 March 2018 compared to the same period of the prior year.

Derivatives loss (gain)

Derivatives loss amounted to RUB 12,452 million for the three months ended March 31, 2018 compared to derivatives gain amounted to RUB 10,021 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.

Foreign exchange rate differences on operating items

Foreign exchange rate gain on operating items amounted to RUB 18,612 million for the three months ended March 31, 2018 compared to a net loss of RUB 887 million for the same period of the prior year. This change was mainly explained by the depreciation of US Dollar against the Russian Ruble by 1 % and by the appreciation of Euro against the Russian Ruble by 2 % for the three months ended March 31, 2018 compared to the depreciation of US Dollar and Euro against the Russian Ruble by 7 % and 5 %, respectively, for the same period of the prior year.

Other operating expenses

Other operating expenses decreased by RUB 9,584 million, or 9 %, to RUB 98,665 million for the three months ended March 31, 2018 compared to RUB 108,249 million for the same period of the prior year. Other expenses include gas and gas condensate production expenses, services from gas distribution companies, bank charges, security services, legal and consulting services, charity, financial aid and advertising.

Change in finished goods, work in progress and other effects

The line item Change in finished goods, work in progress and other effects increased by RUB 43,766 million to the RUB 124,489 million for the three months ended March 31, 2018 compared to the RUB 80,723 million for the same period of the prior year. The change in this line item is explained by the fact that a decrease in the balances of finished goods for the three months ended March 31, 2018 was more than a decrease in the balances of finished goods for the same period of the prior year.

Impairment loss on financial assets

Impairment loss on financial assets decreased by RUB 2,782 million, or 10 %, to RUB 26,405 million for the three months ended March 31, 2018 compared to RUB 29,187 million for the same period of the prior year.

Operating profit

As a result of the factors discussed above, operating profit increased by RUB 173,532 million, or 59 %, to RUB 467,581 million for the three months ended March 31, 2018 compared to RUB 294,049 million for the same period of the prior year. The operating profit margin increased from 16 % for the three months ended March 31, 2017 to 22 % for the three months ended March 31, 2018.

Net finance (expense) income

(RUB million)	Three months ended 31 March	
	2018	**2017**
Foreign exchange gain	73,311	160,786
Foreign exchange loss	(94,409)	(37,581)
Net exchange (loss) gain	(21,098)	123,205
Interest income	18,069	22,346
Interest expense	(13,014)	(15,107)
Net finance (expense) income	**(16,043)**	**130,444**

The net foreign exchange loss of RUB 21,098 million for the three months ended March 31, 2018 compared to the net foreign exchange gain of RUB 123,205 million for the same period of the prior year were explained by the depreciation of US Dollar against the Russian Ruble by 1 % and by the appreciation of Euro against the Russian Ruble by 2 % for the three months ended March 31, 2018 compared to the depreciation of US Dollar and Euro against the Russian Ruble by 7 % and 5 %, respectively, for the same period of the prior year.

Interest income decreased by RUB 4,277 million, or 19 %, to RUB 18,069 million for the three months ended March 31, 2018 compared to RUB 22,346 million for the same period of the prior year.

Interest expense decreased by RUB 2,093 million, or 14 %, to RUB 13,014 million for the three months ended March 31, 2018 compared to RUB 15,107 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 14,125 million, or 48 %, to RUB 43,680 million for the three months ended March 31, 2018 compared to RUB 29,555 million for the same period of the prior year. This change was mainly caused by an increase in the share of net income of Gazprombank (Joint-stock Company) and its subsidiaries and Sakhalin Energy Investment Company Ltd.

Profit tax

Total profit tax decreased by RUB 612 million, or 1 %, to RUB 103,049 million for the three months ended March 31, 2018 compared to RUB 103,661 million for the same period of the prior year. The effective profit tax rate was 20.8 % and 22.8 % for the three months ended March 31, 2018 and March 31, 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 38,170 million, or 11 %, to RUB 371,623 million for the three months ended March 31, 2018 compared to RUB 333,453 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 3,612 million, or 21 %, to RUB 20,546 million for the three months ended March 31, 2018 compared to RUB 16,934 million for the same period of the prior year.

Liquidity and capital resources

The following table summarises the cash flows for the three months ended March 31, 2018 and March 31, 2017:

(RUB million)	Three months ended 31 March	
	2018	**2017**
Net cash from operating activities	461,940	105,402
Net cash used in investing activities	(432,142)	(327,038)
Net cash from financing activities	47,527	34,503

Net cash from operating activities

Net cash from operating activities increased by RUB 356,538 million to RUB 461,940 million for the three months ended March 31, 2018 compared to RUB 105,402 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 105,104 million, or 32 %, to RUB 432,142 million for the three months ended March 31, 2018 compared to RUB 327,038 million for the same period of the prior year. The change was mainly due to an increase of capital expenditures for the three months ended March 31, 2018 compared to the same period of the prior year.

Net cash from financing activities

Net cash from financing activities increased by RUB 13,024 million, or 38 %, to RUB 47,527 million for the three months ended March 31, 2018 compared to RUB 34,503 million for the same period of the prior year. This change was mainly due to an increase in proceeds from long-term borrowings.

Capital expenditures

Total capital expenditures (excluding the effect of acquisitions of subsidiaries) by segments for the three months ended March 31, 2018 and 2017 in Russian Ruble terms, amounted to the following:

(RUB million)	Three months ended 31 March	
	2018	**2017**
Transportation	132,322	59,210
Production of crude oil and gas condensate	46,689	83,242
Refining	45,428	37,056
Production of gas	31,646	27,153
Electric and heat energy generation and sales	8,838	7,665
Distribution of gas	2,018	5,539
Gas storage	988	2,547
All other segments	21,523	4,057
Total	**289,452**	**226,469**

Total capital expenditures increased by RUB 62,983 million, or 28 %, from RUB 226,469 million for the three months ended March 31, 2017 to RUB 289,452 million for the three months ended March 31, 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 and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations) increased by RUB 12,190 million, or 1 %, from RUB 2,397,511 million as of December 31, 2017 to RUB 2,409,701 million as of March 31, 2018. The change was mainly due to an increase in the amount of long-term borrowings that was partially compensated by an increase in cash and cash equivalents balances.