

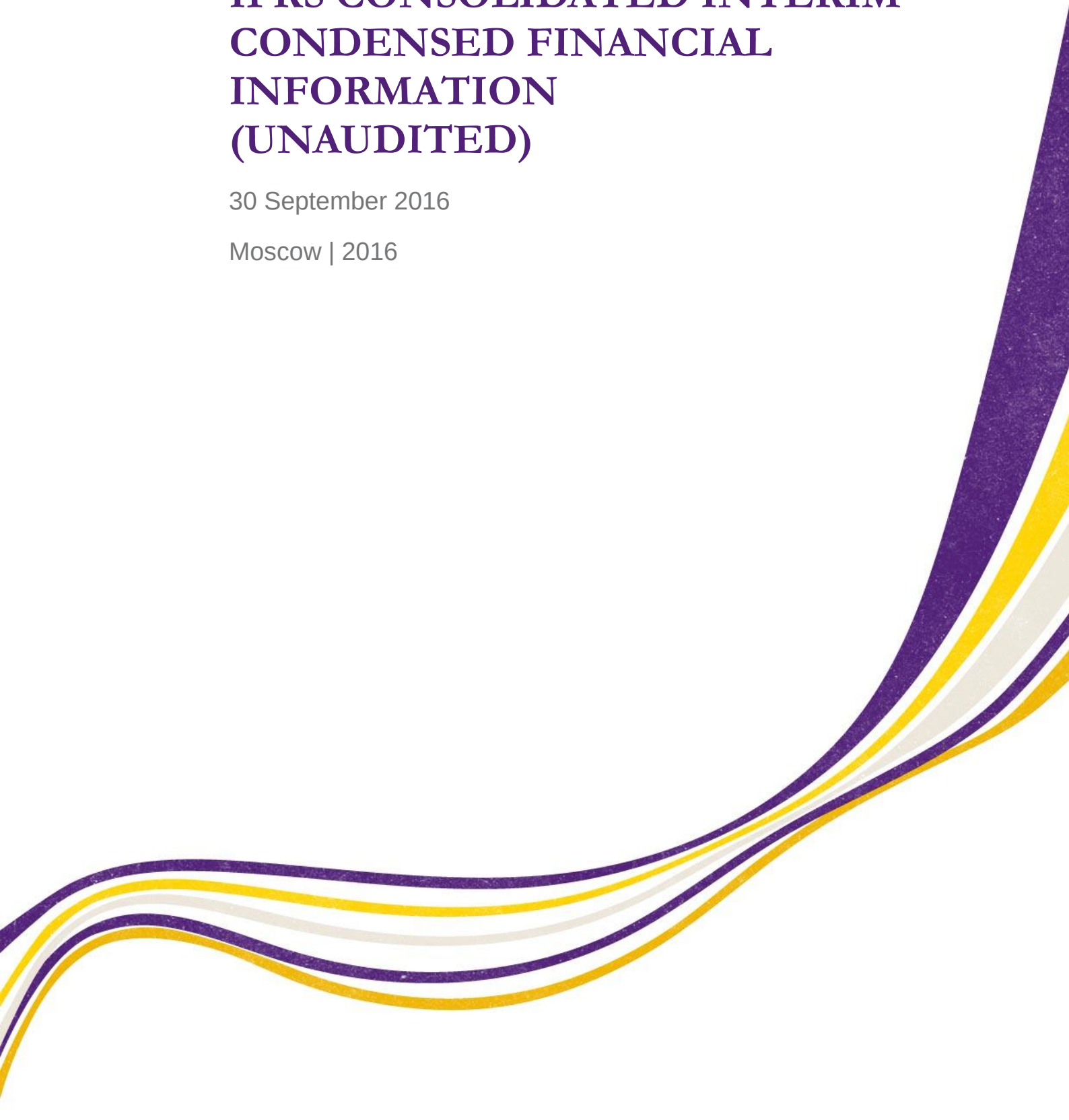


PJSC GAZPROM

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

30 September 2016

Moscow | 2016



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Report on Review of Consolidated Interim Condensed Financial Information

To the Shareholders and Board of Directors of PJSC Gazprom

Introduction

We have reviewed the accompanying consolidated interim condensed balance sheet of PJSC Gazprom as of 30 September 2016 and the related consolidated interim condensed statements of comprehensive income for the three-month and nine-month periods then ended, the related consolidated interim condensed statements of cash flows and changes in equity for the nine-month period then ended and notes to the consolidated interim condensed financial information. Management is responsible for the preparation and presentation of this consolidated interim condensed financial information in accordance with International Accounting Standard 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this consolidated interim condensed financial information based on our review.

Scope of Review

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

Conclusion

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

President of FBK, LLC

January 17, 2017

Moscow, Russian Federation

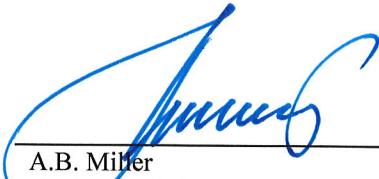


S.M. Shapiguzov

(on the ground of the Charter)

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED BALANCE SHEET (UNAUDITED)
AS OF 30 SEPTEMBER 2016
(in millions of Russian Rubles)

Notes		30 September 2016	31 December 2015
	Assets		
	Current assets		
6	Cash and cash equivalents	787,627	1,359,095
	Restricted cash	3,249	1,815
21	Short-term financial assets	12,038	12,570
7	Accounts receivable and prepayments	925,163	1,114,207
8	Inventories	831,997	804,364
	VAT recoverable	218,347	229,626
	Other current assets	<u>295,393</u>	<u>472,045</u>
		3,073,814	3,993,722
	Non-current assets		
9	Property, plant and equipment	11,311,016	11,003,881
	Goodwill	106,584	107,467
10	Investments in associates and joint ventures	761,936	808,246
11	Long-term accounts receivable and prepayments	726,983	599,848
21	Available-for-sale long-term financial assets	267,597	235,607
12	Other non-current assets	<u>420,562</u>	<u>303,269</u>
		13,594,678	13,058,318
	Total assets	16,668,492	17,052,040
	Liabilities and equity		
	Current liabilities		
	Accounts payable, accruals and provisions for liabilities and charges	1,026,044	1,298,006
	Current profit tax payable	9,443	11,929
	Other taxes payable	188,056	168,394
	Short-term borrowings, promissory notes and current portion of long-term borrowings	<u>535,220</u>	<u>646,372</u>
		1,758,763	2,124,701
	Non-current liabilities		
13	Long-term borrowings, promissory notes	2,432,898	2,795,843
20	Provisions for liabilities and charges	566,439	435,438
14	Deferred tax liabilities	688,890	618,404
	Other non-current liabilities	<u>107,329</u>	<u>163,032</u>
		3,795,556	4,012,717
	Total liabilities	5,554,319	6,137,418
	Equity		
15	Share capital	325,194	325,194
15, 23	Treasury shares	(235,919)	(103,919)
	Retained earnings and other reserves	<u>10,682,371</u>	<u>10,368,311</u>
		10,771,646	10,589,586
	Non-controlling interest	<u>342,527</u>	<u>325,036</u>
	Total equity	11,114,173	10,914,622
	Total liabilities and equity	16,668,492	17,052,040

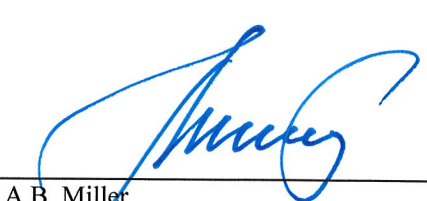

A.B. Milner
Chairman of the Management Committee
17 January 2017


E.A. Vasilieva
Chief Accountant
17 January 2017

The accompanying notes on pages 8 to 38 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2016
(in millions of Russian Rubles)

Notes		Three months ended		Nine months ended	
		30 September		30 September	
		2016	2015	2016	2015
16	Sales	1,256,992	1,292,765	4,321,364	4,206,217
	Net gain from trading activity	41,630	16,273	71,159	8,320
17	Operating expenses	(1,143,971)	(947,569)	(3,824,703)	(3,171,784)
	Operating profit	154,651	361,469	567,820	1,042,753
18	Finance income	115,996	81,702	816,264	1,145,005
18	Finance expense	(132,100)	(471,746)	(499,487)	(1,421,168)
10	Share of net income of associates and joint ventures	21,492	31,766	55,258	93,181
	Gain on disposal of available-for-sale financial assets	814	4,636	1,835	5,066
	Profit before profit tax	160,853	7,827	941,690	864,837
	Current profit tax expense	(28,730)	(7,639)	(134,515)	(130,177)
	Deferred profit tax expense	(20,137)	(1,173)	(69,784)	(44,389)
	Profit tax	(48,867)	(8,812)	(204,299)	(174,566)
	Profit (loss) for the period	111,986	(985)	737,391	690,271
	Other comprehensive income (loss):				
	Items that will not be reclassified to profit or loss:				
20	Remeasurements of post-employment benefit obligations	(13,821)	34,224	(92,446)	(84,204)
	Total items that will not be reclassified to profit or loss	(13,821)	34,224	(92,446)	(84,204)
	Items that may be reclassified subsequently to profit or loss:				
	Gain arising from change in fair value of available-for-sale financial assets, net of tax	13,487	8,511	34,293	47,294
	Share of other comprehensive (loss) income of associates and joint ventures	(3,238)	14,514	(7,756)	26,133
	Translation differences	(14,770)	233,749	(201,260)	164,804
	Gain (loss) from cash flow hedges, net of tax	1,742	(18,255)	41,277	(4,777)
	Total items that may be reclassified subsequently to profit or loss	(2,779)	238,519	(133,446)	233,454
	Other comprehensive (loss) income for the period, net of tax	(16,600)	272,743	(225,892)	149,250
	Total comprehensive income for the period	95,386	271,758	511,499	839,521
	Profit (loss) for the period attributable to:				
	Owners of PJSC Gazprom	102,161	(2,000)	709,321	673,904
	Non-controlling interest	9,825	1,015	28,070	16,367
		111,986	(985)	737,391	690,271
	Total comprehensive income for the period attributable to:				
	Owners of PJSC Gazprom	86,314	258,435	491,850	815,437
	Non-controlling interest	9,072	13,323	19,649	24,084
		95,386	271,758	511,499	839,521
	Basic and diluted earnings per share for profit (loss) attributable to the owners of PJSC Gazprom				
19	(in Russian Rubles)	4.60	(0.09)	31.24	29.36


A.B. Miller
Chairman of the Management Committee
17 January 2017


E.A. Vasilieva
Chief Accountant
17 January 2017

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PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016
(in millions of Russian Rubles)

Notes	Nine months ended 30 September	
	2016	2015
	Cash flows from operating activities	
	Profit before profit tax	941,690
	864,837	
	Adjustments to profit before profit tax for:	
17	Depreciation	423,650
18	Net finance (income) expense	(316,777)
10	Share of net income of associates and joint ventures	(55,258)
	Charge for provisions	113,268
17	Derivatives loss (gain)	10,851
	Gain on disposal of available-for-sale financial assets	(1,835)
	Other	(43,234)
	Total effect of adjustments	130,665
	Cash flows from operating activities before working capital changes	1,072,355
	Increase in non-current assets	(17,695)
	Decrease in non-current liabilities	(19,211)
	Changes in working capital	234,561
	Profit tax paid	(93,535)
	Net cash from operating activities	1,176,475
	Cash flows from investing activities	
	Capital expenditures	(1,069,326)
18	Interest paid and capitalised	(99,817)
	Net change in loans issued	(35,024)
	Acquisition of subsidiaries, net of cash acquired	(1,093)
	Investments in associates and joint ventures	(2,876)
	Interest received	110,774
	Change in available-for-sale long-term financial assets	8,185
	Proceeds from associates and joint ventures	20,386
10	Proceeds from sales of associates	22,787
	Placement of long-term bank deposits	(100,000)
	Repayment of long-term bank deposits	70
	Other	(41,751)
	Net cash used in investing activities	(1,187,685)
	Cash flows from financing activities	
	Proceeds from long-term borrowings	325,298
	Repayment of long-term borrowings (including current portion of long-term borrowings)	(454,759)
	Proceeds from short-term borrowings	106,980
	Repayment of short-term borrowings	(83,820)
	Dividends paid	(181,326)
18	Interest paid	(38,824)
15, 23	Acquisition of treasury shares	(132,000)
	Acquisition of non-controlling interests in subsidiaries	(124)
	Issue of shares acquired non-controlling interest	450
	Change in restricted cash	(1,434)
	Net cash used in financing activities	(459,559)
	Effect of foreign exchange rate changes on cash and cash equivalents	(100,699)
	(Decrease) increase in cash and cash equivalents	(571,468)
6	Cash and cash equivalents at the beginning of the period	1,359,095
6	Cash and cash equivalents at the end of the period	787,627

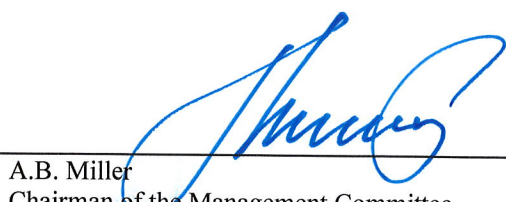

A.B. Miller
Chairman of the Management Committee
17 January 2017


E.A. Vasilieva
Chief Accountant
17 January 2017

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PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016
(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
	Nine months ended 30 September 2015							
	Balance as of 31 December 2014	23.0	325,194	(103,919)	9,595,283	9,816,558	303,463	10,120,021
20	Profit for the period	-	-	-	673,904	673,904	16,367	690,271
	Other comprehensive income (loss):							
	Remeasurements of post-employment benefit obligations	-	-	-	(84,204)	(84,204)	-	(84,204)
	Gain (loss) arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	47,300	47,300	(6)	47,294
	Share of other comprehensive income of associates and joint ventures	-	-	-	26,133	26,133	-	26,133
	Translation differences	-	-	-	156,903	156,903	7,901	164,804
	Loss from cash flow hedges, net of tax	-	-	-	(4,599)	(4,599)	(178)	(4,777)
	Total comprehensive income for the nine months ended 30 September 2015	-	-	-	815,437	815,437	24,084	839,521
	Change in non-controlling interest in subsidiaries	-	-	-	-	-	1,051	1,051
	Return of social assets to governmental authorities	-	-	-	(19)	(19)	-	(19)
	Dividends declared	-	-	-	(165,247)	(165,247)	(6,213)	(171,460)
	Balance as of 30 September 2015	23.0	325,194	(103,919)	10,245,454	10,466,729	322,385	10,789,114
	Nine months ended 30 September 2016							
	Balance as of 31 December 2015	23.0	325,194	(103,919)	10,368,311	10,589,586	325,036	10,914,622
20	Profit for the period	-	-	-	709,321	709,321	28,070	737,391
	Other comprehensive income (loss):							
	Remeasurements of post-employment benefit obligations	-	-	-	(92,451)	(92,451)	5	(92,446)
	Gain arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	34,288	34,288	5	34,293
	Share of other comprehensive loss of associates and joint ventures	-	-	-	(7,756)	(7,756)	-	(7,756)
	Translation differences	-	-	-	(191,469)	(191,469)	(9,791)	(201,260)
	Gain from cash flow hedges, net of tax	-	-	-	39,917	39,917	1,360	41,277
	Total comprehensive income for the nine months ended 30 September 2016	-	-	-	491,850	491,850	19,649	511,499
	Change in non-controlling interest in subsidiaries	-	-	-	(3,411)	(3,411)	4,349	938
	Return of social assets to governmental authorities	-	-	-	(7)	(7)	-	(7)
15, 23	Treasury shares	(0.9)	-	(132,000)	-	(132,000)	-	(132,000)
	Dividends declared	-	-	-	(174,372)	(174,372)	(6,507)	(180,879)
	Balance as of 30 September 2016	22.1	325,194	(235,919)	10,682,371	10,771,646	342,527	11,114,173


A.B. Miller
Chairman of the Management Committee
17 January 2017


E.A. Vasilieva
Chief Accountant
17 January 2017

The accompanying notes on pages 8 to 38 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2016
(in millions of Russian Rubles)

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

Other activities primarily 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 20 % and 70 % of total annual gas volumes are shipped in the three and nine months ended 30 September, respectively.

In 2016 and earlier, to ensure compliance with the provisions of Chapter 4 of the Civil Code of the Russian Federation, Russian companies registered in the territory of the Russian Federation as open and closed joint stock companies changed their legal structures. Names of the companies are given with regard to the announced changes as of the date of preparation of this consolidated interim condensed financial information.

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 impact and ongoing situation with sanctions, uncertainty and volatility of the financial and trade markets and other risks have had and may continue to have effects on the Russian economy.

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

- as of 30 September 2016 – 63.1581 (as of 30 September 2015 – 66.2367);
- as of 31 December 2015 – 72.8827 (as of 31 December 2014 – 56.2584).

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

- as of 30 September 2016 – 70.8823 (as of 30 September 2015 – 74.5825);
- as of 31 December 2015 – 79.6972 (as of 31 December 2014 – 68.3427).

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

3 BASIS OF PRESENTATION

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2016
(in millions of Russian Rubles)

3 BASIS OF PRESENTATION (continued)

conjunction with the consolidated financial statements for the year ended 31 December 2015 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 2015.

Profit tax in the interim periods is accrued using a tax rate that would be applicable to expected total annual earnings.

Application of new IFRSs

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

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

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

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

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

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2016
(in millions of Russian Rubles)

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

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application IFRS 15 Revenue from Contracts with Customers.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements to exchange rates that should be used on initial recognition of payment made or received in advance.
- The amendments to IFRS 9 Financial Instruments (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 Financial Instruments or continuing to apply IAS 39 Financial Instruments: Recognition and Measurement to all hedging instruments because the standard currently does not address accounting for macro hedging.
- The amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IFRS 4 Insurance Contracts (issued in September 2016 and effective for annual periods beginning on or after 1 January 2018) concern the issues of the application of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments at one time.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the requirements on transfers to, or from, investment properties.

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

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.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2016
(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

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

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

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

The inter-segment sales mainly consist of:

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

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

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

	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
<u>Nine months ended</u>									
<u>30 September 2016</u>									
Total segment revenues	536,707	764,263	2,471,231	39,229	711,532	1,102,962	322,708	226,182	6,174,814
Inter-segment sales	519,160	618,497	163,359	35,579	439,987	6,631	-	-	1,783,213
External sales	17,547	145,766	2,307,872	3,650	271,545	1,096,331	322,708	226,182	4,391,601
Segment result	26,354	50,854	129,666	5,423	42,985	56,722	24,223	(2,978)	333,249
Depreciation	128,139	347,643	13,619	17,768	82,374	22,883	34,179	27,534	674,139
Share of net income (loss) of associates and joint ventures	5,145	20,621	2,985	(172)	17,570	4,042	(14)	5,081	55,258
<u>Nine months ended</u>									
<u>30 September 2015</u>									
Total segment revenues	518,220	765,600	2,411,385	35,099	656,795	1,182,605	291,603	189,160	6,050,467
Inter-segment sales	504,976	626,532	151,509	33,549	472,159	7,527	-	-	1,796,252
External sales	13,244	139,068	2,259,876	1,550	184,636	1,175,078	291,603	189,160	4,254,215
Segment result	38,343	39,024	486,969	5,426	84,560	162,659	18,150	(21,824)	813,307
Depreciation	126,732	341,342	11,972	16,860	70,673	26,221	28,954	23,817	646,571
Share of net income (loss) of associates and joint ventures	5,280	14,317	15,870	(558)	68,709	3,292	(43)	(13,686)	93,181

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5 SEGMENT INFORMATION (continued)

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Three months ended 30 September 2016									
Total segment revenues	177,875	269,632	606,979	14,078	262,679	394,783	86,416	83,973	1,896,415
Inter-segment sales	172,671	219,638	42,035	12,734	157,683	1,920	-	-	606,681
External sales	5,204	49,994	564,944	1,344	104,996	392,863	86,416	83,973	1,289,734
Segment result	16,009	21,878	(44,774)	2,050	30,858	44,568	(4,310)	(5,509)	60,770
Depreciation	42,618	120,079	4,173	5,902	25,456	6,933	11,674	9,195	226,030
Share of net income (loss) of associates and joint ventures	1,712	8,030	1,252	(185)	7,709	1,229	(80)	1,825	21,492
Three months ended 30 September 2015									
Total segment revenues	173,932	275,721	685,622	13,116	251,396	416,232	73,875	66,872	1,956,766
Inter-segment sales	169,489	227,274	35,707	12,361	197,412	2,757	-	-	645,000
External sales	4,443	48,447	649,915	755	53,984	413,475	73,875	66,872	1,311,766
Segment result	29,902	16,210	90,387	2,416	64,089	35,316	(14,743)	(7,637)	215,940
Depreciation	42,131	113,419	3,577	5,626	23,816	9,677	9,786	9,481	217,513
Share of net income (loss) of associates and joint ventures	1,294	3,766	4,605	(294)	24,242	914	(34)	(2,727)	31,766

A reconciliation of total reportable segments' results to total profit before profit tax in the consolidated interim condensed statement of comprehensive income is provided below.

Notes	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Segment result for reportable segments	66,279	223,577	336,227	835,131
Other segments' result	(5,509)	(7,637)	(2,978)	(21,824)
Segment result	60,770	215,940	333,249	813,307
Difference in depreciation ¹	84,495	88,107	250,489	266,530
Expenses associated with pension obligations	(4,441)	(1,756)	(13,544)	(5,476)
18 Net finance (expense) income	(16,104)	(390,044)	316,777	(276,163)
Gain on disposal of available-for-sale financial assets	814	4,636	1,835	5,066
10 Share of net income of associates and joint ventures	21,492	31,766	55,258	93,181
Other	13,827	59,178	(2,374)	(31,608)
Profit before profit tax	160,853	7,827	941,690	864,837

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

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

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
External sales for reportable segments	1,205,761	1,244,894	4,165,419	4,065,055
External sales for other segments	83,973	66,872	226,182	189,160
Total external segment sales	1,289,734	1,311,766	4,391,601	4,254,215
Differences in external sales ¹	(32,742)	(19,001)	(70,237)	(47,998)
Total sales per the consolidated interim condensed statement of comprehensive income	1,256,992	1,292,765	4,321,364	4,206,217

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

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5 SEGMENT INFORMATION (continued)

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 30 September 2016									
Segment assets	2,355,137	5,978,835	1,504,894	371,091	2,249,823	1,266,160	841,791	975,260	15,542,991
Investments in associates and joint ventures	27,133	135,909	31,303	2,991	449,090	22,218	1,309	91,983	761,936
Capital additions ¹	141,645	205,568	21,224	24,334	231,200	94,104	44,996	39,303	802,374
As of 31 December 2015									
Segment assets	2,357,813	6,119,073	1,677,460	348,857	2,183,335	1,260,557	850,658	885,287	15,683,040
Investments in associates and joint ventures	19,434	152,954	45,580	1,958	467,626	20,124	1,453	99,117	808,246
Capital additions ²	220,214	420,874	25,962	48,486	324,330	136,299	98,963	69,701	1,344,829

¹ Capital additions for the nine months ended 30 September 2016.

² Capital additions for the year ended 31 December 2015.

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

Notes	30 September 2016	31 December 2015
Segment assets for reportable segments	14,567,731	14,797,753
Other segments' assets	975,260	885,287
Total segment assets	15,542,991	15,683,040
Differences in property, plant and equipment, net ¹	(1,533,000)	(1,778,015)
Loan interest capitalised	717,100	645,109
Capitalised expenses, related to decommissioning costs	74,231	74,290
6 Cash and cash equivalents	787,627	1,359,095
Restricted cash	3,249	1,815
21 Short-term financial assets	12,038	12,570
VAT recoverable	218,347	229,626
Other current assets	295,393	472,045
21 Available-for-sale long-term financial assets	267,597	235,607
Goodwill	106,584	107,467
Other non-current assets	420,562	303,269
Inter-segment assets	(551,829)	(598,040)
Other	307,602	304,162
Total assets per the consolidated interim condensed balance sheet	16,668,492	17,052,040

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 accounts payable arising in the course of operating activity. Profit tax payable, deferred tax liabilities, long-term provisions for liabilities and charges (excluding retroactive gas price adjustments), 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.

	30 September 2016	31 December 2015
Distribution of gas	643,458	703,268
Refining	285,516	255,370
Transportation	232,453	317,548
Production of gas	123,629	179,935
Production of crude oil and gas condensate	106,768	142,332
Electric and heat energy generation and sales	70,402	78,618
Gas storage	6,739	11,234
Other segments	149,659	220,394
Total segment liabilities	1,618,624	1,908,699

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5 SEGMENT INFORMATION (continued)

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

Notes	30 September 2016	31 December 2015
Segment liabilities for reportable segments	1,468,965	1,688,305
Other segments' liabilities	149,659	220,394
Total segment liabilities	1,618,624	1,908,699
Current profit tax payable	9,443	11,929
Short-term borrowings, promissory notes and current portion of long-term borrowings	535,220	646,372
13 Long-term borrowings and promissory notes	2,432,898	2,795,843
Long-term provisions for liabilities and charges (excluding retroactive gas price adjustments)	515,976	435,438
14 Deferred tax liabilities	688,890	618,404
Other non-current liabilities	107,329	163,032
Dividends	3,244	4,969
Inter-segment liabilities	(551,829)	(598,040)
Other	194,524	150,772
Total liabilities per the consolidated interim condensed balance sheet	5,554,319	6,137,418

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 original maturity of three months or less.

	30 September 2016	31 December 2015
Cash on hand and bank balances payable on demand	700,444	1,189,436
Term deposits with original maturity of three months or less	87,183	169,659
Total cash and cash equivalents	787,627	1,359,095

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2016	31 December 2015
Trade receivables	584,084	726,156
Short-term loans	115,530	93,409
Advances given and prepayments	89,859	107,222
Other receivables	135,690	187,420
Total accounts receivable and prepayments	925,163	1,114,207

Accounts receivable and prepayments are presented net of impairment allowance of RUB 869,037 million and RUB 874,299 million as of 30 September 2016 and 31 December 2015, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million and RUB 5,528 million as of 30 September 2016 and 31 December 2015, respectively.

Accounts receivable are presented net of impairment allowance of RUB 184,773 million and RUB 187,228 million as of 30 September 2016 and 31 December 2015, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 4,473 million and RUB 7,177 million as of 30 September 2016 and 31 December 2015, respectively.

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9 PROPERTY, PLANT AND EQUIPMENT

	Total operating assets (including production licenses)	Social assets	Assets under construction	Total
As of 31 December 2014				
Cost	12,150,747	94,965	2,110,422	14,356,134
Accumulated depreciation	<u>(4,370,329)</u>	<u>(35,596)</u>	<u>-</u>	<u>(4,405,925)</u>
Net book value as of 31 December 2014	7,780,418	59,369	2,110,422	9,950,209
Nine months ended 30 September 2015				
Net book value as of 31 December 2014	7,780,418	59,369	2,110,422	9,950,209
Depreciation	(378,954)	(1,968)	-	(380,922)
Additions	57,849	33	866,359	924,241
Acquisition of subsidiaries	36,041	-	12,106	48,147
Translation differences	55,578	(6)	23,188	78,760
Transfers	281,053	-	(281,053)	-
Disposals	(26,643)	(304)	(48,712)	(75,659)
Charge for impairment allowance	<u>-</u>	<u>-</u>	<u>(1,496)</u>	<u>(1,496)</u>
Net book value as of 30 September 2015	7,805,342	57,124	2,680,814	10,543,280
Three months ended 31 December 2015				
Net book value as of 30 September 2015	7,805,342	57,124	2,680,814	10,543,280
Depreciation	(141,430)	(657)	-	(142,087)
Additions	90,540	224	614,097	704,861
Acquisition of subsidiaries	7	-	317	324
Translation differences	48,706	9	14,200	62,915
Transfers	714,188	1,972	(716,160)	-
Disposals	(30,934)	(570)	(5,922)	(37,426)
Charge for impairment allowance	<u>(57,259)</u>	<u>-</u>	<u>(70,727)</u>	<u>(127,986)</u>
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
As of 31 December 2015				
Cost	13,319,873	96,323	2,516,619	15,932,815
Accumulated depreciation	<u>(4,890,713)</u>	<u>(38,221)</u>	<u>-</u>	<u>(4,928,934)</u>
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
Nine months ended 30 September 2016				
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
Depreciation	(421,965)	(1,966)	-	(423,931)
Additions	75,186	535	817,429	893,150
Translation differences	(86,378)	(41)	(22,988)	(109,407)
Transfers	390,654	559	(391,213)	-
Disposals	(19,979)	(1,187)	(25,470)	(46,636)
(Charge) release of impairment allowance	<u>(6,739)</u>	<u>-</u>	<u>698</u>	<u>(6,041)</u>
Net book value as of 30 September 2016	8,359,939	56,002	2,895,075	11,311,016
As of 30 September 2016				
Cost	13,672,617	96,189	2,895,075	16,663,881
Accumulated depreciation	<u>(5,312,678)</u>	<u>(40,187)</u>	<u>-</u>	<u>(5,352,865)</u>
Net book value as of 30 September 2016	8,359,939	56,002	2,895,075	11,311,016

Operating assets are shown net of allowance for impairment of RUB 193,477 million and RUB 186,738 million as of 30 September 2016 and 31 December 2015, respectively.

Assets under construction are presented net of allowance for impairment of RUB 109,150 million and RUB 115,175 million as of 30 September 2016 and 31 December 2015, respectively. The change in impairment allowance of assets under construction is mainly attributable to translation differences.

Social assets (rest houses, housing, schools and medical facilities) vested to the Group at privatisation are included in the property, plant and equipment with a net book value of RUB 225 million and RUB 260 million as of 30 September 2016 and 31 December 2015, respectively.

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10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of		Share of net income (loss) of associates and joint ventures for the nine months ended	
			30 September 2016	31 December 2015	30 September 2016	30 September 2015
23	Sakhalin Energy Investment Company Ltd.	Associate	210,418	240,831	1,062	48,141
23	OJSC NGK Slavneft and its subsidiaries	Joint venture	127,218	118,704	8,583	5,257
23	LLC Yamal razvitie and its subsidiaries	Joint venture	82,519	72,128	10,391	12,168
23, 24	Gazprombank (Joint-stock Company) and its subsidiaries	Associate	79,840	80,800	6,207	(14,164)
23	Nord Stream AG	Joint venture	63,127	69,617	13,839	10,053
23	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	43,599	47,154	6,707	3,749
23	JSC Achimgaz	Joint venture	32,030	26,281	6,783	6,900
23, 24	SGT EuRoPol GAZ S.A.	Associate	29,393	33,410	73	214
23	Wintershall AG	Associate	15,856	20,727	(2,606)	43
23	KazRosGaz LLP	Joint venture	14,351	20,960	2,847	8,699
23	CJSC Northgas	Joint venture	10,154	8,726	1,428	2,673
22, 23	Wintershall Noordzee B.V. ¹	Joint venture	8,091	9,994	(622)	-
23	JSC Latvijas Gaze	Associate	7,696	8,981	547	452
23	Gasum Oy and its subsidiaries ²		-	10,253	-	1,597
22, 23	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries ³		-	-	-	4,966
	Other (net of allowance for impairment of RUB 7,378 million and RUB 7,373 million as of 30 September 2016 and 31 December 2015, respectively)		37,644	39,680	19	2,433
			761,936	808,246	55,258	93,181

¹ In September 2015 the Group acquired the 50 % interests in Wintershall Noordzee B.V. are accounted for using the equity method since the acquisition date (see Note 22).

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

³ In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries became the Group subsidiaries (see Note 22). In August 2016 W & G Beteiligungs-GmbH & Co. KG was merged with WIBG GmbH.

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

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

The differences between the carrying value of investments in associates and joint ventures and the calculated Group's share in their net assets are mostly attributable to translation differences.

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10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	Percent of share capital held	Country of primary operations	As of 30 September 2016		Nine months ended 30 September 2016	
			Assets	Liabilities	Revenues	Income (loss)
Gazprombank (Joint-stock Company) and its subsidiaries ¹	37 %	Russia	4,806,660	4,432,118	147,640	16,698
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	1,071,909	651,072	215,685	32,009
Nord Stream AG ³	51 %	Russia, Germany	475,951	350,153	62,003	25,148
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	428,237	170,767	158,234	18,081
LLC Yamal razvitie and its subsidiaries	50 %	Russia	392,839	258,054	96,366	19,200
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	256,284	162,276	29,951	16,129
Wintershall AG ⁴	49 %	Libya	74,551	51,346	2,106	(5,319)
JSC Achimgaz	50 %	Russia	74,067	8,896	20,256	13,566
SGT EuRoPol GAZ S.A.	48 %	Poland	69,930	8,694	14,498	422
Wintershall Noordzee B.V.	50 %	Netherlands	60,431	46,198	8,212	(1,231)
CJSC Northgas	50 %	Russia	56,516	35,270	19,147	2,857
JSC Latvijas Gaze	34 %	Latvia	42,170	11,070	19,892	1,612
KazRosGaz LLP	50 %	Kazakhstan	41,153	12,452	33,439	5,693

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

² Country of incorporation is Bermuda Islands.

³ Country of incorporation is Switzerland.

⁴ Country of incorporation is Germany.

	Percent of share capital held	Country of primary operations	As of 30 September 2015		Nine months ended 30 September 2015	
			Assets	Liabilities	Revenues	(Loss) Income
Gazprombank (Joint-stock Company) and its subsidiaries ¹	37 %	Russia	4,785,098	4,360,639	134,703	(38,114)
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	1,214,976	785,275	288,519	96,282
Nord Stream AG ³	51 %	Russia, Germany	523,517	402,869	53,873	19,711
LLC Yamal razvitie and its subsidiaries	50 %	Russia	419,101	301,629	90,012	23,031
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	401,937	170,159	173,636	10,544
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	271,097	178,145	31,735	7,500
Gasum Oy and its subsidiaries	25 %	Finland	107,604	65,545	45,965	6,513
SGT EuRoPol GAZ S.A.	48 %	Poland	78,078	13,704	14,522	639
Wintershall AG ⁴	49 %	Libya	77,945	48,878	4,677	88
JSC Achimgaz	50 %	Russia	62,112	13,515	20,404	13,797
CJSC Northgas	50 %	Russia	50,474	36,498	21,505	2,868
JSC Latvijas Gaze	34 %	Latvia	43,834	11,161	20,831	1,330
KazRosGaz LLP	50 %	Kazakhstan	40,738	4,408	41,506	17,394
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries ⁵	-	Germany	-	-	692,927	10,402

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.

⁵ In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries became the Group subsidiaries (see Note 22). In August 2016 W & G Beteiligungs-GmbH & Co. KG was merged with WIBG GmbH.

The estimated fair values of the Group investments in associates and joint ventures for which there are published price quotations are provided below.

	30 September 2016	31 December 2015
JSC Latvijas Gaze	7,308	10,552

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11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2016	31 December 2015
Long-term accounts receivable and prepayments	272,062	216,103
Advances for assets under construction	<u>454,921</u>	<u>383,745</u>
Total long-term accounts receivable and prepayments	726,983	599,848

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 14,744 million and RUB 14,621 million as of 30 September 2016 and 31 December 2015, respectively.

12 OTHER NON-CURRENT ASSETS

Included within other non-current assets are VAT recoverable related to assets under construction totalling RUB 33,173 million and RUB 50,494 million and long-term deposits totalling RUB 100,001 million and RUB 5,064 million as of 30 September 2016 and 31 December 2015, respectively.

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final Maturity	30 September 2016	31 December 2015
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009 ¹	US Dollar	2019	147,875	166,851
Bank of China Limited, London branch	Euro	2021	141,792	-
Loan participation notes issued in July 2012 ¹	Euro	2017	101,277	114,928
Mizuho Bank Ltd. ²	US Dollar	2019	97,063	156,821
Loan participation notes issued in November 2013 ³	US Dollar	2023	96,679	109,925
China Construction Bank Corporation, Beijing branch ²	US Dollar	2020	95,307	111,077
Loan participation notes issued in September 2012 ³	US Dollar	2022	94,864	110,666
Loan participation notes issued in October 2007 ¹	Euro	2018	88,599	101,209
Loan participation notes issued in November 2006 ¹	US Dollar	2016	87,161	99,054
Loan participation notes issued in March 2007 ¹	US Dollar	2022	82,462	96,701
Loan participation notes issued in August 2007 ¹	US Dollar	2037	79,667	93,593
Loan participation notes issued in April 2004 ¹	US Dollar	2034	78,567	88,779
Loan participation notes issued in October 2015 ¹	Euro	2018	74,026	80,475
Loan participation notes issued in March 2013 ¹	Euro	2020	72,166	81,821
Loan participation notes issued in April 2008 ¹	US Dollar	2018	72,146	81,622
Loan participation notes issued in July 2013 ¹	Euro	2018	64,234	72,891
Loan participation notes issued in July 2012 ¹	US Dollar	2022	63,783	74,506
Loan participation notes issued in February 2013 ¹	US Dollar	2028	57,272	66,902
Loan participation notes issued in February 2014 ¹	Euro	2021	54,300	61,595
Loan participation notes issued in April 2013 ³	Euro	2018	53,835	60,967
Loan participation notes issued in February 2013 ¹	US Dollar	2020	50,824	59,210
PJSC Sberbank	US Dollar	2018	48,000	56,231
	British Pound			
Loan participation notes issued in September 2013 ¹	Sterling	2020	42,404	48,201
Loan participation notes issued in November 2011 ¹	US Dollar	2021	38,324	44,881
Loan participation notes issued in March 2007 ¹	Euro	2017	37,200	40,205
Loan participation notes issued in November 2006 ¹	Euro	2017	36,404	41,447
Loan participation notes issued in March 2013 ¹	Euro	2025	36,263	41,211
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	33,387	36,957
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	33,074	-
Alfa-Bank (Joint-stock Company)	US Dollar	2019	25,273	29,160
Commerzbank International S.A.	US Dollar	2018	25,257	43,730
J.P. Morgan Europe Limited ²	US Dollar	2018	23,687	36,694
Gazprombank (Joint-stock Company)	US Dollar	2018	22,737	26,238
PJSC Promsvyazbank	US Dollar	2020	22,105	25,509
Gazprombank (Joint-stock Company)	US Dollar	2018	20,842	24,051
JSC Rosselkhozbank	Russian Ruble	2019	20,012	30,029
PJSC Sberbank	Russian Ruble	2017	19,797	19,802
Gazprombank (Joint-stock Company)	US Dollar	2017	19,579	22,594

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13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final Maturity	30 September 2016	31 December 2015
Banc of America Securities Limited	US Dollar	2018	19,299	22,041
BNP Paribas S.A. ²	Euro	2022	18,912	22,802
Bank of America Merrill Lynch International Limited	US Dollar	2018	18,858	21,960
UniCredit Bank Austria AG	Euro	2019	18,015	23,940
PJSC Sberbank	Euro	2020	17,087	19,203
PJSC Sberbank	Euro	2017	15,982	17,971
Russian bonds issued in November 2013 ⁴	Russian Ruble	2043	15,437	15,246
Russian bonds issued in November 2013 ⁴	Russian Ruble	2043	15,437	15,246
Russian bonds issued in March 2016 ³	Russian Ruble	2046	15,031	-
Bank of America Securities Limited	Euro	2017	12,934	14,420
UniCredit Bank Austria AG	US Dollar	2018	12,747	14,581
PJSC Sberbank	Russian Ruble	2019	12,508	12,514
PJSC Sberbank	Russian Ruble	2019	12,508	12,514
HSBC Bank plc	Euro	2022	11,932	14,394
Citibank International plc ²	US Dollar	2021	11,686	14,734
BNP Paribas S.A.	Euro	2023	11,424	13,559
Banc of America Securities Limited	US Dollar	2016	11,374	13,126
Russian bonds issued in April 2009 ³	Russian Ruble	2019	10,384	10,177
Russian bonds issued in June 2016 ³	Russian Ruble	2046	10,303	-
UniCredit Bank Austria AG	Euro	2021	10,300	-
Russian bonds issued in December 2012 ³	Russian Ruble	2022	10,284	10,070
Russian bonds issued in February 2011 ³	Russian Ruble	2021	10,144	10,363
Russian bonds issued in February 2013 ⁵	Russian Ruble	2017	10,089	10,275
Russian bonds issued in August 2016 ³	Russian Ruble	2046	10,080	-
Russian bonds issued in March 2016 ³	Russian Ruble	2046	10,020	-
PJSC Sberbank	Russian Ruble	2019	10,006	10,011
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2022	9,809	6,187
PJSC Sberbank	US Dollar	2018	9,792	-
PJSC Sberbank	US Dollar	2018	9,570	10,947
Banca Intesa a.d. Beograd	US Dollar	2019	9,488	10,947
Intesa Sanpaolo S.p.A.	Euro	2019	9,127	11,957
JSC BANK ROSSIYA	Russian Ruble	2019	8,730	-
PJSC Sberbank	Russian Ruble	2018	8,300	-
PJSC VTB Bank	Russian Ruble	2018	8,250	8,250
PJSC Credit Bank of Moscow	US Dollar	2018	7,895	5,831
PJSC VTB Bank	Euro	2020	7,511	8,449
PJSC Sberbank	Russian Ruble	2025	7,219	7,220
BNP Paribas S.A. ²	Euro	2022	7,177	8,650
Credit Agricole CIB	Euro	2024	6,766	8,018
GC Vnesheconombank	Russian Ruble	2025	6,503	7,852
Sberbank Serbia a.d.	US Dollar	2019	5,693	6,568
Russian bonds issued in November 2015 ⁶	Russian Ruble	2020	5,203	5,058
Russian bonds issued in November 2015 ⁶	Russian Ruble	2020	5,203	5,058
PJSC VTB Bank	Russian Ruble	2021	5,150	-
Banca Intesa a.d. Beograd	Euro	2018	5,116	5,754
Russian bonds issued in February 2013 ⁵	Russian Ruble	2018	5,044	5,137
Russian bonds issued in August 2016 ³	Russian Ruble	2046	5,040	-
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	5,006	5,011
Gazprombank (Joint-stock Company)	Russian Ruble	2019	5,006	-
Sberbank Serbia a.d.	US Dollar	2017	4,752	5,483
Gazprombank (Joint-stock Company)	Russian Ruble	2017	3,220	9,750
Loan participation notes issued in November 2011 ¹	US Dollar	2016	-	73,264
Deutsche Bank AG	US Dollar	2016	-	29,690
Intesa Sanpaolo S.p.A.	Euro	2016	-	28,028
Sumitomo Mitsui Banking Corporation Europ Limited ²	US Dollar	2016	-	25,537

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13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final Maturity	30 September 2016	31 December 2015
Sumitomo Mitsui Finance Dublin Limited	US Dollar	2016	-	23,392
Bank of Tokyo-Mitsubishi UFJ Ltd.	US Dollar	2016	-	21,891
Russian bonds issued in February 2013 ⁵	Russian Ruble	2016	-	15,410
UniCredit Bank AG ^{2, 7}	US Dollar	2016	-	14,377
Bank of Tokyo-Mitsubishi UFJ Ltd. ²	US Dollar	2016	-	13,754
PJSC Sberbank	Russian Ruble	2016	-	12,400
PJSC VTB Bank	US Dollar	2016	-	12,104
UniCredit Bank AG ^{2, 7}	Euro	2016	-	11,297
Russian bonds issued in February 2011 ³	Russian Ruble	2016	-	10,259
Russian bonds issued in February 2011 ³	Russian Ruble	2016	-	10,228
PJSC Sberbank	Russian Ruble	2016	-	8,300
Gazprombank (Joint-stock Company)	US Dollar	2016	-	8,017
JSC BANK ROSSIYA	Russian Ruble	2016	-	5,000
UniCredit Bank AG ^{2, 7}	Russian Ruble	2016	-	1,894
Russian bonds issued in February 2012 ³	Russian Ruble	2016	-	452
Other long-term borrowings, promissory notes	Various	Various	106,287	127,112
Total long-term borrowings, promissory notes			2,897,882	3,390,213
Less: current portion of long-term borrowings			(464,984)	(594,370)
			2,432,898	2,795,843

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

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

³ Issuer of these bonds is PJSC Gazprom Neft.

⁴ Issuer of these bonds is PJSC Gazprom.

⁵ Issuer of these bonds is Gazprom capital LLC.

⁶ Issuer of these bonds is PJSC WGC-2.

⁷ Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

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

Due for repayment	30 September 2016	31 December 2015
between one and two years	665,645	472,657
between two and five years	1,092,249	1,452,110
after five years	675,004	871,076
	2,432,898	2,795,843

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,119,667 million and RUB 2,431,823 million and fair value of RUB 2,252,932 million and RUB 2,480,142 million as of 30 September 2016 and 31 December 2015, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 778,215 million and RUB 958,390 million and fair value is RUB 807,564 million and RUB 948,744 million as of 30 September 2016 and 31 December 2015, respectively.

As of 30 September 2016 and 31 December 2015 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoye oil and gas field with the group of international financial institutions with UniCredit Bank AG acting as a facility agent, ordinary shares of OJSC Severneftegazprom with the pledge value of RUB 16,968 million and fixed assets with the pledge value of RUB 26,210 million were pledged to ING Bank N.V. (London branch) up to the date of full redemption of the liabilities on this agreement. As of 31 December 2015 carrying amount of these fixed assets is RUB 21,654 million. As of 30 September 2016 the Group does not have pledged shares and pledged fixed assets because the agreement was repaid.

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

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

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

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

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

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

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group.

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 nine months ended 30 September 2016. Differences between the recognition criteria in IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

	30 September 2016	Differences recognition and reversals	31 December 2015	30 September 2015	Differences recognition and reversals	Acquisition of subsidiaries	31 December 2014
Tax effects of taxable temporary differences:							
Property, plant and equipment	(731,474)	(45,404)	(686,070)	(667,849)	(49,305)	2,210	(620,754)
Financial assets	-	-	-	(4,222)	6,363	(3,257)	(7,328)
Inventories	(14,298)	445	(14,743)	(11,638)	(3,261)	-	(8,377)
	(745,772)	(44,959)	(700,813)	(683,709)	(46,203)	(1,047)	(636,459)
Tax effects of deductible temporary differences:							
Financial assets	1,338	961	377	-	-	-	-
Tax losses carried forward	11,190	(7,166)	18,356	16,648	(3,473)	-	20,121
Retroactive gas price adjustments	22,537	1,937	20,600	17,588	5,917	-	11,671
Other deductible temporary differences	21,817	(21,259)	43,076	5,190	(1,275)	(4,104)	10,569
	56,882	(25,527)	82,409	39,426	1,169	(4,104)	42,361
Total net deferred tax liabilities	(688,890)	(70,486)	(618,404)	(644,283)	(45,034)	(5,151)	(594,098)

Taxable temporary differences recognised for the nine months ended 30 September 2016 and 2015 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 6,941 million and RUB 33,110 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the nine months ended 30 September 2016 and 2015, respectively.

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15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 30 September 2016 and 31 December 2015 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Rubles.

Treasury shares

As of 30 September 2016 and 31 December 2015 subsidiaries of PJSC Gazprom held 1,573 million and 723 million ordinary shares of PJSC Gazprom, respectively, which are accounted for as treasury shares.

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

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

16 SALES

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Gas sales gross of excise tax and customs duties to customers in:				
Russian Federation	110,288	113,288	530,683	538,572
Former Soviet Union (excluding Russian Federation)	51,962	68,798	234,101	323,496
Europe and other countries	<u>530,091</u>	<u>633,319</u>	<u>1,930,031</u>	<u>1,883,132</u>
	692,341	815,405	2,694,815	2,745,200
Customs duties	(108,108)	(138,437)	(374,815)	(421,759)
Excise tax	(7,858)	(17,464)	(28,338)	(62,395)
Retroactive gas price adjustments ¹	<u>(6,227)</u>	<u>(5,146)</u>	<u>33,757</u>	<u>12,074</u>
Sales of gas	570,148	654,358	2,325,419	2,273,120
Sales of refined products to customers in:				
Russian Federation	271,879	276,413	721,802	737,682
Former Soviet Union (excluding Russian Federation)	21,885	28,712	64,047	76,547
Europe and other countries	<u>99,099</u>	<u>108,350</u>	<u>310,482</u>	<u>360,849</u>
Total sales of refined products	392,863	413,475	1,096,331	1,175,078
Sales of crude oil and gas condensate to customers in:				
Russian Federation	20,841	17,960	56,821	57,537
Former Soviet Union (excluding Russian Federation)	5,094	4,691	19,225	21,529
Europe and other countries	<u>79,061</u>	<u>31,333</u>	<u>195,499</u>	<u>105,570</u>
Total sales of crude oil and gas condensate	104,996	53,984	271,545	184,636
Electric and heat energy sales	86,416	73,875	322,708	291,603
Gas transportation sales	49,994	48,447	145,766	139,068
Other revenues	<u>52,575</u>	<u>48,626</u>	<u>159,595</u>	<u>142,712</u>
Total sales	1,256,992	1,292,765	4,321,364	4,206,217

¹ Retroactive gas price adjustments relate to gas deliveries in 2013-2015 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made.

The effects of retroactive gas price adjustments on sales are reflected as a decrease of sales by RUB 6,227 million and as an increase of sales by RUB 33,757 million for the three and nine months ended 30 September 2016, respectively.

The effects of retroactive gas price adjustments on sales are reflected as a decrease of sales by RUB 5,146 million and as an increase of sales by RUB 12,074 million for the three and nine months ended 30 September 2015, respectively.

The effects decreasing sales are due to increase in related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information.

The effects increasing sales are due to recognition of adjustments increasing gas prices for the past periods and due to reverse of related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information.

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17 OPERATING EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Purchased gas and oil	268,924	214,051	896,182	605,902
Taxes other than on income	215,058	182,869	644,551	611,932
Staff costs	159,437	143,439	493,313	433,120
Transit of gas, oil and refined products	150,306	138,655	454,096	381,481
Depreciation	141,535	129,406	423,650	380,041
Materials	75,652	72,640	205,129	201,581
Cost of goods for resale, including refined products	57,909	53,499	133,998	145,772
Repairs and maintenance	46,798	51,514	108,626	106,109
Charge for impairment and other provisions	16,129	22,391	79,553	51,964
Electricity and heating expenses	24,900	19,457	69,854	64,752
Rental expenses	8,142	6,485	26,165	26,934
Research and development expenses	11,628	9,218	24,704	22,553
Transportation services	7,091	10,686	22,899	30,891
Insurance expenses	7,867	7,618	22,566	20,093
Social expenses	8,068	8,346	22,486	21,713
Foreign exchange rate differences on operating items	(49,437)	(97,846)	13,882	(47,668)
Processing services	3,822	4,931	11,643	14,004
Derivatives loss (gain)	648	(5,579)	10,851	(21,625)
Other	75,095	57,910	225,402	229,111
	<u>1,229,572</u>	<u>1,029,690</u>	<u>3,889,550</u>	<u>3,278,660</u>
Changes in inventories of finished goods, work in progress and other effects	<u>(85,601)</u>	<u>(82,121)</u>	<u>(64,847)</u>	<u>(106,876)</u>
Total operating expenses	1,143,971	947,569	3,824,703	3,171,784

Staff costs include RUB 11,235 million and RUB 33,715 million of expenses associated with post-employment benefit obligations for the three and nine months ended 30 September 2016, respectively, and RUB 10,714 million and RUB 27,756 million of expenses associated with post-employment benefit obligations for the three and nine months ended 30 September 2015, respectively (see Note 20).

18 FINANCE INCOME AND EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Foreign exchange gain	95,597	56,084	741,229	1,063,545
Interest income	<u>20,399</u>	<u>25,618</u>	<u>75,035</u>	<u>81,460</u>
Total finance income	115,996	81,702	816,264	1,145,005
Foreign exchange loss	115,809	456,462	447,087	1,378,852
Interest expense	<u>16,291</u>	<u>15,284</u>	<u>52,400</u>	<u>42,316</u>
Total finance expense	132,100	471,746	499,487	1,421,168

Total interest paid amounted to RUB 40,314 million and RUB 138,641 million for the three and nine months ended 30 September 2016, respectively, and RUB 31,068 million and RUB 118,472 million for the three and nine months ended 30 September 2015, respectively.

Foreign exchange gain and loss for the nine months ended 30 September 2016 and 2015 were recognised as a result of changes in rates of Euro and US Dollar against the Russian Rouble. Gain and loss primarily relate to revaluation of borrowings denominated in foreign currencies.

19 BASIC AND DILUTED EARNINGS PER SHARE, ATTRIBUTABLE TO OWNERS OF PJSC GAZPROM

Earnings per share attributable to owners of PJSC Gazprom have been calculated by dividing the profit, attributable to owners of PJSC Gazprom by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 15).

There were 22.23 billion and 22.71 billion weighted average shares outstanding for the three and nine months ended 30 September 2016, respectively, and 23.0 billion – for the three and nine months ended 30 September 2015.

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19 BASIC AND DILUTED EARNINGS PER SHARE, ATTRIBUTABLE TO OWNERS OF PJSC GAZPROM (continued)

There are no dilutive financial instruments outstanding in the Group.

20 PROVISIONS FOR LIABILITIES AND CHARGES

	30 September 2016	31 December 2015
Provision for post-employment benefit obligations	340,848	233,077
Provision for decommissioning and site restoration costs	166,082	160,648
Other	59,509	41,713
Total provisions for liabilities and charges	566,439	435,438

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 employees of the Group. These benefits include pension benefits provided by the non-governmental pension fund, NPF Gazfund, and post-retirement benefits from the Group provided upon retirement.

The net pension liabilities related to benefits, provided by the pension plan NPF Gazfund in the amount of RUB 63,541 million and RUB 6,980 million as of 30 September 2016 and 31 December 2015, respectively, are presented within provisions for liabilities and charges in the consolidated interim condensed balance sheet.

In accordance with IAS 19 Employee benefits, pension assets are recorded at estimated fair value subject to certain limitations. As of 30 September 2016 and 31 December 2015 management estimated the fair value of these assets at RUB 371,278 million and RUB 349,585 million, respectively. The pension assets comprise shares of PJSC Gazprom, shares of Gazprombank (Joint-stock Company) and other assets held by NPF Gazfund.

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

	30 September 2016		31 December 2015	
	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits	Funded benefits - provided through NPF Gazfund	Unfunded liabilities - other benefits
Present value of benefit obligations	(434,819)	(277,307)	(356,565)	(226,097)
Fair value of plan assets	371,278	-	349,585	-
Net balance liability	(63,541)	(277,307)	(6,980)	(226,097)

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

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Current service cost	5,722	6,612	17,166	19,836
Net interest expense	5,513	1,861	16,549	5,679
Past service cost - change in the consolidation perimeter	-	2,241	-	2,241
Total expenses included in staff costs	11,235	10,714	33,715	27,756

The principal assumptions used for post-employment benefit obligations for the nine months ended 30 September 2016 were the same as those applied for the year ended 31 December 2015 with exception of the discount rate based on interest rates of government securities. The decrease in the discount rate from 9.5 % to 8.15% resulted in recognition of an actuarial loss of RUB 85,884 million in other comprehensive income for the nine months ended 30 September 2016.

Remeasurements to be recognised in other comprehensive income are provided below.

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20 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Actuarial (losses) gains	(11,305)	2,160	(85,884)	(71,723)
Return on assets excluding amounts included in net interest (expense) income	(2,524)	32,064	(6,902)	(12,481)
Exchange differences	8	-	340	-
Total	13,821	34,224	(92,446)	(84,204)

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

As of 30 September 2016 and 31 December 2015 the Group had the following assets and liabilities that are measured at fair value:

	30 September 2016			
	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 held for trading:				
Equity securities	305	-	-	305
Bonds	11,446	-	-	11,446
Available-for-sale financial assets:				
Promissory notes	-	287	-	287
Total short-term financial assets	11,751	287	-	12,038
Available-for-sale financial assets:				
Equity securities	219,769	40,578	6,747	267,094
Promissory notes	-	503	-	503
Total available-for-sale long-term financial assets	219,769	41,081	6,747	267,597
Derivatives	9,145	104,020	1,929	115,094
Total assets	240,665	145,388	8,676	394,729
Derivatives	13,795	158,167	1,487	173,449
Total liabilities	13,795	158,167	1,487	173,449

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21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	31 December 2015			
	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 held for trading:				
Equity securities	303	-	-	303
Bonds	9,673	-	-	9,673
Available-for-sale financial assets:				
Equity securities	2,032	-	-	2,032
Bonds	146	-	-	146
Promissory notes	-	416	-	416
Total short-term financial assets	12,154	416	-	12,570
Available-for-sale financial assets:				
Equity securities	188,142	40,584	6,710	235,436
Promissory notes	-	171	-	171
Total available-for-sale long-term financial assets	188,142	40,755	6,710	235,607
Derivatives	7,079	167,630	4,931	179,640
Total assets	207,375	208,801	11,641	427,817
Derivatives	16,135	259,391	3,782	279,308
Total liabilities	16,135	259,391	3,782	279,308

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the three and nine months ended 30 September 2016 the Group has not reclassified losses arising from decrease in fair value of available-for-sale financial assets from other comprehensive income to profit or loss. For the three and nine months ended 30 September 2015 the Group has not reclassified losses arising from decrease in fair value of available-for-sale financial assets from other comprehensive income to profit or loss.

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

Available-for-sale long-term financial assets in the total amount of RUB 267,597 million and RUB 235,607 million are shown net of allowance for impairment of RUB 2,390 million and RUB 2,128 million as of 30 September 2016 and 31 December 2015, respectively.

As of 30 September 2016 and 31 December 2015 long-term available-for-sale financial assets include PJSC NOVATEK shares in the amount of RUB 210,733 million and RUB 181,611 million, respectively.

Carrying value of financial assets and liabilities not measured at fair value approximate their fair value.

22 ACQUISITION OF SUBSIDIARIES

Asset swap with Wintershall Holding GmbH

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

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

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

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22 ACQUISITION OF SUBSIDIARIES (continued)

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

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

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

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

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

In accordance with IFRS 3 Business combinations the Group measured shares of LLC Achim Development and JSC Achim Trading at fair value evaluated by an independent appraiser CJSC Deloitte & Touche CIS at the acquisition date.

Previously held by the Group investments in W & G Beteiligungs-GmbH & Co. KG, WIEH GmbH and WINGAS Storage UK Ltd. were measured at fair value at the acquisition date.

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

Fair value of assets acquired and liabilities assumed is provided below.

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

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22 ACQUISITION OF SUBSIDIARIES (continued)

Result of the asset swap is provided below.

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

The gain from a bargain purchase identified as the excess of the fair value of assets acquired and liabilities assumed over the fair value of transferred assets is mainly related to the decrease of the energy market prices since the conception of the transaction.

Acquisition of Shtokman Development AG

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

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

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

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

Fair value of acquired assets and liabilities assumed of Shtokman Development AG is provided below.

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

23 RELATED PARTIES

For the purpose of this 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 (the 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.

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

As a condition of 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 control of the Government

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

As of 30 September 2016 prices of natural gas sales, gas transportation and electricity tariffs in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS"). Until 21 July 2015 these functions were performed by the Federal Tariffs Service.

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

As of 30 September 2016 and 31 December 2015 and for the three and nine months ended 30 September 2016 and 2015, the Group had the following significant transactions and balances with the Government and parties under control of the Government.

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23 RELATED PARTIES (continued)

	As of 30 September 2016		Three months ended 30 September 2016		Nine months ended 30 September 2016	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	28,796	2,086	-	24,754	-	124,007
Insurance contributions to non-budget funds	618	7,377	-	23,816	-	82,355
VAT recoverable / payable	373,218	67,240	-	-	-	-
Customs duties	25,628	-	-	-	-	-
Other taxes	2,201	98,814	-	156,751	-	582,692
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	9,521	-	50,326	-
Electricity and heating sales	-	-	33,869	-	142,273	-
Gas transportation sales	-	-	11,638	-	34,071	-
Other services sales	-	-	851	-	2,300	-
Accounts receivable	40,697	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	28,324	-	85,751
Accounts payable	-	14,116	-	-	-	-
Loans	-	285,198	-	-	-	-
Interest expense	-	-	-	4,694	-	13,307
Short-term financial assets	10,795	-	-	-	-	-
Available-for-sale long-term financial assets	9,024	-	-	-	-	-
	As of 31 December 2015		Three months ended 30 September 2015		Nine months ended 30 September 2015	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	78,678	3,816	-	1,807	-	115,902
Insurance contributions to non-budget funds	688	7,369	-	29,008	-	88,847
VAT recoverable / payable	400,295	54,990	-	-	-	-
Customs duties	46,446	-	-	-	-	-
Other taxes	2,411	85,132	-	181,961	-	608,669
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	9,833	-	46,721	-
Electricity and heating sales	-	-	25,469	-	123,438	-
Gas transportation sales	-	-	9,669	-	30,899	-
Other services sales	-	-	995	-	2,752	-
Accounts receivable	40,431	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	30,685	-	88,176
Accounts payable	-	14,062	-	-	-	-
Loans	-	300,003	-	-	-	-
Interest expense	-	-	-	4,777	-	11,702
Short-term financial assets	9,859	-	-	-	-	-
Available-for-sale long-term financial assets	6,485	-	-	-	-	-

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

In the normal course of business the Group incurs electricity and heating expenses (see Note 17). A part of these expenses relates to purchases from the entities under Government control. Due to the specifics of the electricity market in the Russian Federation, these purchases can not be accurately separated from the purchases from private companies.

See the consolidated interim condensed statement of changes in equity for returns of social assets to governmental authorities during the nine months ended 30 September 2016 and 2015. See Note 9 for net book values as of 30 September 2016 and 31 December 2015 of social assets vested to the Group at privatisation.

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

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23 RELATED PARTIES (continued)

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. Government officials, who are directors, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company.

Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF Gazfund, 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.

Associates and joint ventures

For the three and nine months ended 30 September 2016 and 2015 and as of 30 September 2016 and 31 December 2015 the Group had the following significant transactions and balances with associates and joint ventures.

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	Revenues		Revenues	
Gas sales				
Panrusgaz Gas Trading Plc	12,114	21,601	30,367	51,630
JSV Moldovagaz	3,622	5,100	18,124	23,891
VEMEX s.r.o. and its subsidiaries	2,177	874	11,547	2,661
Bosphorus Gaz Corporation A.S.	2,934	6,208	11,488	14,406
KazRosGaz LLP	1,216	-	7,365	-
JSC Latvijas Gaze	2,404	4,701	6,537	8,637
CJSC Gazprom YRGM Trading ¹	1,956	4,657	5,588	11,725
JSC Gazprom YRGM Development ¹	1,763	3,327	5,037	8,375
SGT EuRoPol GAZ S.A.	1,221	1,450	3,611	4,207
PremiumGas S.p.A	-	-	2,634	-
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries ²	-	47,627	-	123,156
WIEH GmbH ²	-	40,760	-	109,935
Gasum Oy ³	-	5,061	-	19,483
Overgas Inc. AD	-	557	-	3,366
WIEE AG ²	-	-	-	1,344
Gas transportation sales				
CJSC Gazprom YRGM Trading ¹	2,582	5,719	8,376	16,777
JSC Gazprom YRGM Development ¹	2,328	4,085	7,550	11,983
KazRosGaz LLP	556	520	1,951	1,618
Gas condensate, crude oil and refined products sales				
OJSC NGK Slavneft and its subsidiaries	9,069	8,415	30,569	34,184
CJSC SOVEX	1,293	1,562	2,672	3,646
LLC NPP Neftekhimia	600	721	1,749	2,022
Sakhalin Energy Investment Company Ltd.	-	213	1,260	1,352
LLC Poliom	278	691	1,048	1,937
Operator services sales and other services sales				
JSC Messoyakhaneftegaz	839	6,853	3,660	20,076
Gas refining services sales				
KazRosGaz LLP	1,712	1,372	5,810	4,341

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23 RELATED PARTIES (continued)

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	Expenses		Expenses	
Purchased gas				
LLC SeverEnergiya and its subsidiaries	13,629	14,461	39,308	34,518
KazRosGaz LLP	7,959	11,986	24,475	35,292
CJSC Gazprom YRGM Trading ¹	5,328	14,248	18,211	45,790
JSC Gazprom YRGM Development ¹	4,752	10,180	16,383	32,726
Sakhalin Energy Investment Company Ltd.	3,492	5,786	8,360	14,912
CJSC Northgas	2,066	2,197	6,449	6,495
VEMEX s.r.o. and its subsidiaries	75	18	2,751	38
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries ²	-	20,410	-	57,182
Purchased transit of gas				
Nord Stream AG	19,529	19,277	60,945	54,099
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	15,002	4,522	31,026	17,878
SGT EuRoPol GAZ S.A.	3,925	4,378	12,055	12,331
JSV Moldovagaz	644	745	2,462	1,993
Purchased crude oil and refined products				
OJSC NGK Slavneft and its subsidiaries	22,920	22,786	67,056	74,673
Sakhalin Energy Investment Company Ltd.	4,318	4,528	12,749	6,915
Purchased services of gas and gas condensate extraction				
JSC Achimgaz	5,847	5,403	20,256	20,404
Purchased processing services				
OJSC NGK Slavneft and its subsidiaries	3,497	3,756	9,828	10,476

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

² In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries, WIEH GmbH, WIEE AG (formerly Wintershall Erdgas Handelshaus Zug AG) became subsidiaries of the Group (see Note 22). In August 2016 W & G Beteiligungs-GmbH & Co. KG was merged with WIBG GmbH.

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

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

	As of 30 September 2016		As of 31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	18,133	-	19,742	-
OJSC NGK Slavneft and its subsidiaries	8,088	-	8,415	-
KazRosGaz LLP	7,959	-	842	-
Overgas Inc. AD	6,643	-	8,813	-
Panrusgas Gas Trading Plc	4,709	-	7,434	-
Sakhalin Energy Investment Company Ltd.	2,523	-	1,149	-
Wintershall AG	2,312	-	3,064	-
CJSC Gazprom YRGM Trading	1,700	-	2,756	-
JSC Gazprom YRGM Development	1,533	-	1,968	-
VEMEX s.r.o. and its subsidiaries	1,343	-	1,790	-
Gazprombank (Joint-stock Company) and its subsidiaries	1,313	-	35,831	-
Wintershall Noordzee B.V.	1,120	-	-	-
JSC Latvijas Gaze	1,115	-	730	-
JSV Moldovagaz ¹	-	-	4,435	-
Gasum Oy and its subsidiaries	-	-	2,579	-

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23 RELATED PARTIES (continued)

	As of 30 September 2016		As of 31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Cash balances				
Gazprombank (Joint-stock Company) and its subsidiaries	409,230	-	883,194	-
Long-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	37,761	-	15,172	-
LLC Yamal razvitie and its subsidiaries	20,410	-	1,460	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	14,171	-	15,933	-
Gazprombank (Joint-stock Company) and its subsidiaries	8,662	-	255	-
Wintershall Noordzee B.V.	5,287	-	3,742	-
Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG	1,418	-	4,695	-
Short-term accounts payable				
Nord Stream AG	-	6,357	-	7,170
LLC SeverEnergia and its subsidiaries	-	5,347	-	5,755
Sakhalin Energy Investment Company Ltd.	-	3,769	-	854
JSC Latvijas Gaze	-	3,058	-	1,806
OJSC NGK Slavneft and its subsidiaries	-	2,809	-	1,510
JSC Achimgaz	-	2,443	-	4,506
CJSC Gazprom YRGM Trading	-	2,277	-	7,739
JSC Gazprom YRGM Development	-	2,009	-	5,690
KazRosGaz LLP	-	1,914	-	3,370
SGT EuRoPol GAZ S.A.	-	1,257	-	2,710
Gasum Oy and its subsidiaries	-	-	-	2,260
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	-	31,917	-	15,635
Long-term borrowings				
Gazprombank (Joint-stock Company) and its subsidiaries	-	93,373	-	114,793

¹ Net of impairment allowance on accounts receivable in the amount of RUB 350,604 million and RUB 380,942 million as of 30 September 2016 and 31 December 2015, respectively.

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 24.

24 COMMITMENTS AND CONTINGENCIES

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 30 September 2016 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

Legal proceedings

On 16 June 2014 PJSC Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NJSC Naftogaz 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 Ukraine and new counter-claim, in which clarified its claims totalling to USD 29,200 million. On 9 October 2015 NJSC Naftogaz Ukraine sent a response on the claim from PJSC Gazprom. On 14 March 2016 PJSC Gazprom sent an answer on the response of NJSC Naftogaz Ukraine and increased the claim amount to USD 31,750 million.

At the same time on 16 June 2014 NJSC Naftogaz Ukraine submitted a request for arbitration to the Arbitration

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24 COMMITMENTS AND CONTINGENCIES (continued)

Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom seeking a retroactive revision of the price, compensation of all overpaid amounts starting from 20 May 2011 and cancellation of the Contract No. KP prohibition on reexport of natural gas out of Ukraine. The clarified claims of NJSC Naftogaz Ukraine to PJSC Gazprom amounted to over USD 14,230 million.

On 21 July 2014 both cases were consolidated. Oral hearing of the case were held, the parties provided post-hearing statements on 11 November 2016. A decision of the arbitration panel is scheduled to the end of March 2017.

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

(1) to acknowledge that rights and obligations of NJSC Naftogaz Ukraine under Contract dated 19 January 2009 No. TKGU (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 (“EU”);

(3) to oblige PJSC Gazprom to pay a compensation of USD 3,200 million and related interest to NJSC Naftogaz 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 provided in further written statements of NJSC Naftogaz 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 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 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders’ agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 30 September 2016 – RUB 102,645 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. PJSC Gazprom intends to contest the appeal officially on the receipt thereof.

In August 2012 the European Commission launched a formal stage of investigation into a potential breach of the EU antimonopoly law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The European Commission extended the deadline for providing a formal response to the Statement of objections until September 2015. In September 2015 PJSC Gazprom filed its proposal of antitrust investigation settlement to the European Commission. In December 2015 PJSC Gazprom’s representatives and the European Commission took part in closed-door oral hearings where PJSC Gazprom provided arguments which rendered the raised claims groundless. An oral hearing is just one of the stages of the ongoing antitrust investigation. Currently the parties continue discussing ways of reaching mutually satisfactory solution. PJSC Gazprom considers the claims brought by the European Commission to be unsubstantiated and expects the situation to be resolved in accordance with the agreement reached earlier between the Government of the Russian Federation and the European Commission. Currently it’s impossible to assess a potential negative impact of this ongoing investigation on activity of PJSC Gazprom in Europe and on financial position of PJSC Gazprom.

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24 COMMITMENTS AND CONTINGENCIES (continued)

On 16 December 2015 South Stream Transport B.V., the subsidiary of the Group, was served with an official notification by the Secretariat of the Arbitration Court of the International Chamber of Commerce stating that Saipem S.p.A. submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by the latter of the agreement dated 14 March 2014 for the construction of the “South Stream” pipeline. In its request Saipem S.p.A. claimed to receive as a compensation for the work performed reimbursements for the expenses incurred and for the termination of the agreement in the amount of about EUR 760 million plus interest (at the exchange rate as of 30 September 2016 – RUB 53,871 million). On 16 February 2016 South Stream Transport B.V. sent a response to the request of Saipem S.p.A. for arbitration, where it rejected all the claims raised by Saipem S.p.A. and declared its intention to file a counterclaim. Saipem S.p.A. in its response as of 8 April 2016 to the counter-claim of South Stream Transport B.V. declared the groundlessness of the accusations. Currently the Arbitral Tribunal has been formed, parties and the Tribunal have agreed on the schedule of the arbitration. On 30 September 2016 Saipem S.p.A. submitted its claim in its entirety with all attachments. The amount of claim of Saipem S.p.A. was reduced to the amount of EUR 679 million (at the exchange rate as of 30 September 2016 – RUB 48,129 million). South Stream Transport B.V. is to file a defense on the claim along with testimony and experts’ opinions which underpin the respondent’s argument before 6 March 2017.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 30 September 2016 – RUB 209,631 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. The proceedings have not been scheduled. On 13 July 2016 the Ukraine’s Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the judgements in the case delivered by the lower-level courts. On 13 September 2016 the Supreme Court of Ukraine rejected to move the petition forward to review the judgements delivered in the case by the lower-level courts. On 7 October 2016 the Kiev Economic Court determined to initiate proceedings in the case in view of the application filed by the Antimonopoly Committee of Ukraine along with a claim to impose a penalty in the amount of about USD 3,300 million on PJSC Gazprom, a fine in the amount of about USD 3,300 million and a demand to enforce PJSC Gazprom to fulfil a portion of its decision which pertains to the performance of the terms and conditions to the fullest extent of Contract No. TKGU regarding the volumes of gas intended for transit purposes. On 5 December 2016 the Court satisfied the claims of the Antimonopoly Committee of Ukraine to the fullest extent. On 15 December 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal against this decision. Consideration of the appeal by the Court is planned for 18 January 2017. Management of the Group believes that the charges are not founded.

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

The Group is also a party to certain other legal proceedings arising in the ordinary course of business and subject to various environmental laws 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.

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24 COMMITMENTS AND CONTINGENCIES (continued)

Sanctions

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

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

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

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

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

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

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

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

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

Financial guarantees

	30 September 2016	31 December 2015
Outstanding guarantees issued for:		
Ostchem Holding Limited	56,172	61,404
Blackrock Capital Investments Limited	6,030	9,946
Other	<u>42,163</u>	<u>36,001</u>
Total financial guarantees	104,365	107,351

For the nine months ended 30 September 2016 and in 2015 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 144 million and USD 1,018 million as of 30 September 2016 and 31 December 2015, respectively, as well as amounts denominated in Euros of EUR 81 million and EUR 72 million as of 30 September 2016 and 31 December 2015, respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 30 September 2016 and 31 December 2015 the above guarantee amounted to RUB 56,172 million and RUB 61,404 million (USD 843 million), respectively, and was fully provided. The change in the value of guarantee is attributed to the exchange difference between US Dollar and the Russian Ruble and accrual of interests. In June 2016 the Group signed an amendment agreement with Gazprombank (Joint-stock Company) according to which the amount of the guarantee was converted into Russian Rubles at the conversion rate agreed between the parties.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 30 September 2016 and 31 December 2015 the guarantees issued for Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RUB 6,030 million (USD 95 million) and RUB 9,946 million (USD 136 million), respectively.

Capital commitments

The total investment program related to gas, oil and power assets for 2016 is RUB 1,628,359 million.

25 POST BALANCE SHEET EVENTS

Borrowings and loans

In October 2016 the Group signed an agreement to obtain a long-term loan from consortiums of banks in the amount of EUR 300 million with the option in the additional amount of EUR 200 million at an interest rate of EURIBOR + 0.9 % due in 2019 with the option of extending twice by one year. The bank-agent is UniCredit Luxembourg S.A.

In October 2016 the Group obtained a long-term loan from PJSC VTB Bank in the amount of RUB 14,650 million at an interest rate of 10.5 % due in 2021.

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25 POST BALANCE SHEET EVENTS (continued)

In November 2016 the Group obtained a long-term loan from PJSC Sberbank in the amount of RUB 15,000 million at an interest rate from 10.3 % to 10.5 % due in 2021.

In November-December 2016 the Group obtained a long-term loan from PJSC Sberbank in the total amount of RUB 15,000 million at an interest rate from 10.28 % to 10.48 % due in 2021.

In November 2016 the Group obtained a long-term loan from Gazprombank (Joint-stock Company) in the total amount of EUR 259 million at an interest rate from 2.9 % to 3.1 % due in 2022.

In November 2016 the Group issued Loan Participation Notes in the amount of EUR 1,000 million at an interest rate of 3.125 % due in 2023 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In November 2016 the Group issued Loan Participation Notes in the amount of 500 million of Swiss Francs at an interest rate of 2.75 % due in 2021 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In December 2016 the Group obtained long-term loans from PJSC VTB Bank in the total amount of RUB 29,800 million at an interest rate of 10.5 % due in 2021.

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

PJSC GAZPROM
INVESTORS RELATIONS

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