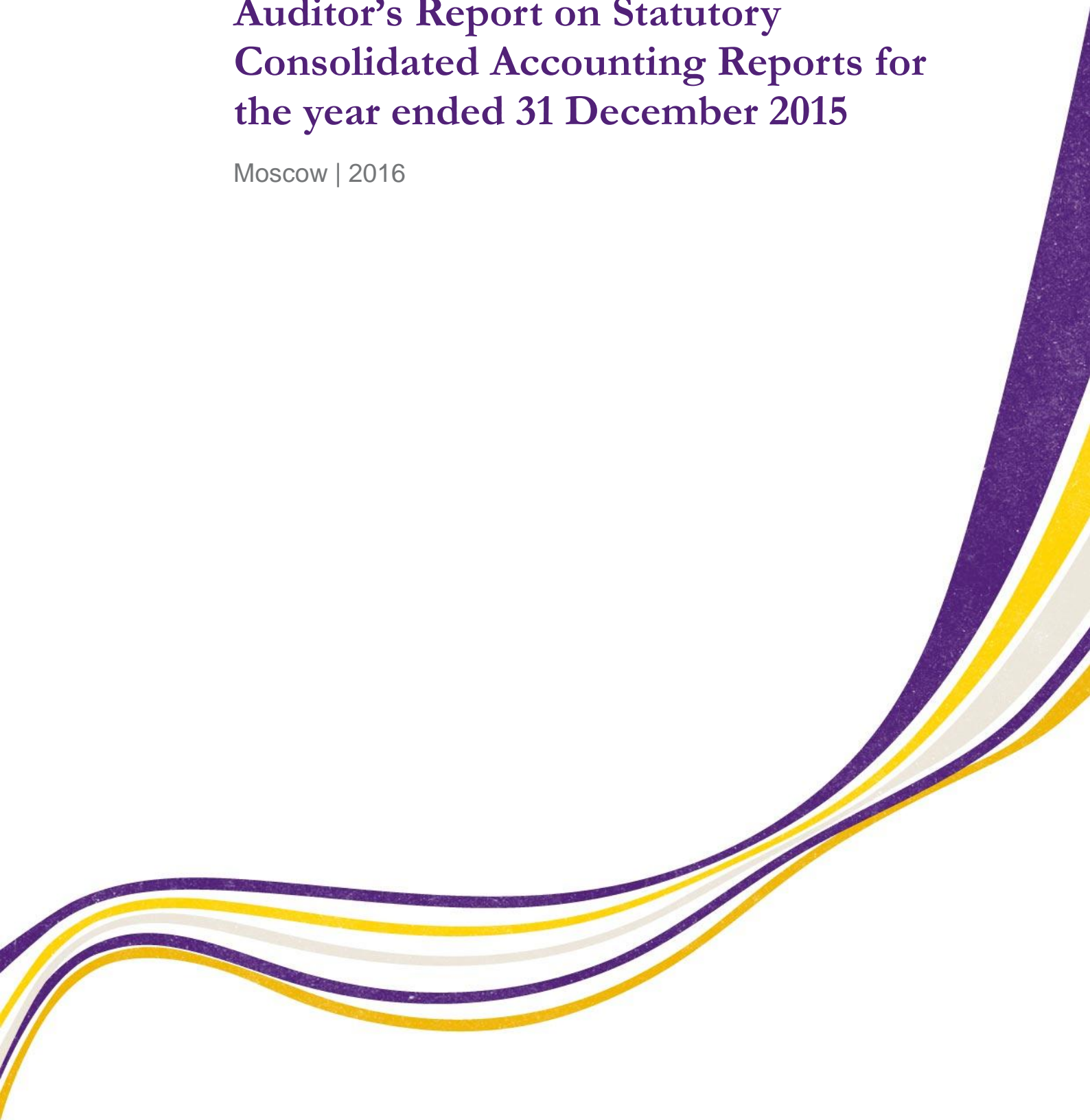


ФБК | 25 лет

PJSC GAZPROM

**Auditor's Report on Statutory  
Consolidated Accounting Reports for  
the year ended 31 December 2015**

Moscow | 2016



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## Auditor's Report on Statutory Consolidated Accounting Reports

To the Shareholders and Board of Directors  
of Public Joint Stock Company Gazprom

**Audited entity****Company name:**

Public Joint Stock Company Gazprom (PJSC Gazprom).

**Address:**

Russian Federation, 117997, Moscow, Nametkina St., 16.

**State registration certificate:**

Registered by the Moscow Registration Chamber on February 25, 1993, the certificate: series No. 002.726. Entered in the Uniform State Register of Legal Entities on August 2, 2002 under the main state number 1027700070518.

**Auditor****Company name:**

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

**Address:**

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

**State registration certificate:**

Registered by the Moscow Registration Chamber on November 15, 1993, the certificate: series YZ 3 No. 484.583 RP. Entered in the Uniform State Register of Legal Entities on July 24, 2002 under the main state number 1027700058286.

**Membership in Self-Regulatory Organization of Auditors:**

Nonprofit Partnership "Auditor Association Sodruzhestvo".

**Number in the register of Self-Regulatory Organization of Auditors:**

Certificate of membership in Nonprofit Partnership "Auditor Association Sodruzhestvo" No. 7198, number in the register – 11506030481.

We have audited the accompanying statutory consolidated accounting reports of PJSC Gazprom, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated statement of financial results, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended December 31, 2015, and Notes to the statutory consolidated accounting reports (hereinafter referred to as “the statutory consolidated accounting reports”). The reports were prepared by the management of PJSC Gazprom in accordance with the reporting rules established in the Methodology recommendations on preparing consolidated accounting reports, approved by the Order of the Russian Ministry of Finance dated December 30, 1996 No. 112 (hereinafter referred to as “Methodology recommendations”).

### **Management’s Responsibility for the Statutory Consolidated Accounting Reports**

Management of the audited entity is responsible for preparation and fair presentation of these statutory consolidated accounting reports in accordance with the reporting rules established in the Methodology recommendations, and for such internal control as management determines is necessary to enable the preparation of the statutory consolidated accounting reports that are free from material misstatements, whether due to fraud or error.

### **Auditor’s Responsibility**

Our responsibility is to express opinion on these statutory consolidated accounting reports based on our audit. We conducted our audit in accordance with Russian Federal Standards on Auditing and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statutory consolidated accounting reports are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory consolidated accounting reports. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the statutory consolidated accounting reports, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the statutory consolidated accounting reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of PJSC Gazprom, as well as evaluating the overall presentation of the statutory consolidated accounting reports.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the statutory consolidated accounting reports.

**Opinion**

In our opinion, the statutory consolidated accounting reports of PJSC Gazprom for the year ended December 31, 2015 have been prepared in all material respects in accordance with the reporting rules established in the Methodology recommendations on preparing consolidated accounting reports.

**Basis of Preparation of the Statutory Consolidated Accounting Reports**

Without modifying our opinion on the fairness of the statutory consolidated accounting reports we draw attention to Note 2 which describes the basis of preparation of the statutory consolidated accounting reports. The statutory consolidated accounting reports have been prepared in accordance with reporting rules established in the Methodology recommendations.

**Other Matter**

The statutory consolidated accounting reports of PJSC Gazprom for the year ended December 31, 2014, were audited by another auditor (ZAO "PricewaterhouseCoopers Audit") who expressed an unmodified opinion on those accounting reports and dated its audit report April 28, 2015.

President of FBK, LLC



Audit manager

April 25, 2016

S.M. Shapiguzov

(on the ground of the Charter, audit qualification certificate No. 01-001230, registration number 29501041926)

K.S. Shirikova

(audit qualification certificate No. 01-000712 dated July 9, 2012, registration number 20501042062)

**PJSC GAZPROM**  
**CONSOLIDATED BALANCE SHEET**  
**as of 31 December 2015**  
**(in millions of Russian Rubles)**


Note	ASSETS	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
<b>I. NON-CURRENT ASSETS</b>				
	Intangible assets, including:	844,925	875,418	914,204
5	goodwill on subsidiaries	817,501	856,397	907,085
	Results of research and development	8,696	8,012	6,711
6	Intangible exploration assets	178,117	163,206	104,710
6	Tangible exploration assets	71,937	91,965	53,731
	Fixed assets, including:	11,024,856	10,468,464	9,172,606
7	Objects of fixed assets, including:	8,869,274	8,608,333	7,511,539
	buildings, constructions, machinery and equipment	8,639,839	8,394,473	7,354,415
8	Construction in progress	2,155,582	1,860,131	1,661,067
9, 20	Financial investments, including:	1,428,139	1,275,352	991,585
	investments in subsidiaries	139,553	127,459	115,306
	investments in associates	906,078	769,069	566,722
	investments in other companies	195,401	160,820	168,938
	loans issued to companies beyond 12 months	149,053	187,743	110,580
	other financial investments	38,054	30,261	30,039
16	Deferred tax assets	173,178	96,841	82,871
	Other non-current assets	<u>177,745</u>	<u>154,558</u>	<u>185,204</u>
	<b>TOTAL Section I</b>	<b>13,907,593</b>	<b>13,133,816</b>	<b>11,511,622</b>
<b>II. CURRENT ASSETS</b>				
10	Inventories, including:	914,550	755,370	638,398
	raw materials and other inventories	211,102	175,979	151,799
	work in progress	21,081	24,432	15,541
	finished goods and goods for resale	672,423	549,632	460,465
	goods dispatched	9,944	5,327	10,593
	Value added tax on purchased goods	228,510	291,598	341,870
11	Accounts receivable, including:	1,617,739	1,390,398	1,340,963
	Accounts receivable (payment expected beyond 12 months of the reporting date), including:	72,368	69,578	64,320
	buyers and customers	23,838	20,966	17,949
	advances paid	3,109	1,646	12,291
	other accounts receivable	45,421	46,966	34,080
	Accounts receivable (payment expected within 12 months of the reporting date), including:	1,545,371	1,320,820	1,276,643
	buyers and customers	796,745	688,327	731,982
	advances paid	272,101	188,661	217,200
	other accounts receivable	476,525	443,832	327,461
12	Financial investments (less cash equivalents), including:	233,746	276,054	203,234
	loans issued to companies due within 12 months	91,411	120,465	104,071
	other financial investments	142,335	155,589	99,163
13	Cash and cash equivalents, including:	1,366,200	1,048,298	699,612
	cash on hand	1,058	852	570
	ruble bank accounts	616,346	623,063	442,138
	non-ruble bank accounts	575,665	347,978	134,131
	other monetary assets and cash equivalents	173,131	76,405	122,773
	Other current assets	<u>12,710</u>	<u>9,658</u>	<u>13,524</u>
	<b>TOTAL Section II</b>	<b><u>4,373,455</u></b>	<b><u>3,771,376</u></b>	<b><u>3,237,601</u></b>
	<b>TOTAL ASSETS</b>	<b>18,281,048</b>	<b>16,905,192</b>	<b>14,749,223</b>



**PJSC GAZPROM**  
**CONSOLIDATED BALANCE SHEET**  
as of 31 December 2015  
(in millions of Russian Rubles)

Note	EQUITY AND LIABILITIES	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
<b>III. EQUITY AND RESERVES</b>				
14	Charter capital	118,368	118,368	118,368
14	Treasury shares	(126,786)	(126,786)	(126,786)
	Revaluation of non-current assets	5,532,727	5,494,423	4,773,210
	Additional capital (less revaluation)	1,011,407	747,666	210,031
	Legal reserves	35,212	33,862	32,955
	Retained earnings	5,895,586	5,718,511	6,030,110
2, 7	Social government fund	<u>552</u>	<u>574</u>	<u>632</u>
	<b>TOTAL Section III</b>	<b>12,467,066</b>	<b>11,986,618</b>	<b>11,038,520</b>
	<b>Minority interest</b>	<b>312,084</b>	<b>296,629</b>	<b>291,268</b>
<b>IV. NON-CURRENT LIABILITIES</b>				
15	Borrowings, including:	2,806,160	2,237,812	1,480,903
	bank borrowings due for repayment beyond 12 months of the reporting date	957,527	613,002	353,479
	loans due for repayment beyond 12 months of the reporting date	1,848,633	1,624,810	1,127,424
16	Deferred tax liabilities	500,839	440,325	371,200
24	Estimated liabilities	154,881	103,000	122,409
	Other liabilities	<u>11,414</u>	<u>8,940</u>	<u>32,894</u>
	<b>TOTAL Section IV</b>	<b>3,473,294</b>	<b>2,790,077</b>	<b>2,007,406</b>
<b>V. CURRENT LIABILITIES</b>				
15	Borrowings, including:	645,553	464,991	330,479
	bank borrowings due for repayment within 12 months of the reporting date	45,996	50,212	35,338
	loans due for repayment within 12 months of the reporting date	5,084	2,847	3,111
	current portion of loans and borrowings due for repayment beyond 12 months of the reporting date	594,473	411,932	292,030
	Accounts payable, including:	1,062,483	1,127,728	954,146
	suppliers and contractors	688,438	695,857	592,530
	salaries payable	25,677	23,345	17,926
	payable to state non-budget funds	7,545	5,810	5,252
	payable to budget	166,500	162,667	151,807
	advances received	114,863	147,861	131,224
	other accounts payable	54,491	87,429	51,616
	dividends payable	4,969	4,759	3,791
	Income of future periods	2,041	1,679	2,551
24	Estimated liabilities	<u>318,527</u>	<u>237,470</u>	<u>124,853</u>
	<b>TOTAL Section V</b>	<b>2,028,604</b>	<b>1,831,868</b>	<b>1,412,029</b>
	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>18,281,048</b>	<b>16,905,192</b>	<b>14,749,223</b>

  
A.B. Miller  
Chairman of the Management Committee


  
E.A. Vasilieva  
Chief Accountant

25 April 2016

**PJSC GAZPROM**  
**CONSOLIDATED STATEMENT OF FINANCIAL RESULTS**  
for the year ended 31 December 2015  
(in millions of Russian Rubles)

Note		For 2015	For 2014
17	Sales	6,222,515	5,660,975
18	Cost of sales	(4,660,430)	(4,041,383)
	<b>Gross profit</b>	<b>1,562,085</b>	<b>1,619,592</b>
18	Commercial expenses	(431)	(419)
18	Administrative expenses	(323,667)	(275,431)
	<b>Profit from sales</b>	<b>1,237,987</b>	<b>1,343,742</b>
	Income from investments in other companies	10,495	8,854
	Interest income	116,025	70,452
	Interest expense	(149,545)	(104,836)
19	Other income	8,904,212	6,358,978
19	Other expenses	(9,872,274)	(7,678,120)
9	Capitalized profit of associates	135,995	66,683
	<b>Profit before profit tax</b>	<b>382,895</b>	<b>65,753</b>
16	Profit tax, including:	(93,182)	(126,314)
	current profit tax	(93,263)	(119,067)
	previous years' profit tax	81	(7,247)
	including: permanent tax liabilities	7,286	173,667
16	Change in deferred tax liabilities	(53,251)	(64,166)
16	Change in deferred tax assets	70,858	8,207
	Other	(2,516)	(8,184)
	<b>Net profit / (loss) of the reporting period before minority interest</b>	<b>304,804</b>	<b>(124,704)</b>
	Minority interest	(8,776)	(12,145)
	<b>Net profit / (loss) of the reporting period</b>	<b>296,028</b>	<b>(136,849)</b>
	FOR REFERENCE:		
7	Results of fixed assets revaluation not included into net profit / (loss) of the reporting period	44,906	734,419
	Results of other transactions not included into net profit / (loss) of the reporting period	262,430	537,740
	Comprehensive income of the reporting period attributable to the owners of PJSC Gazprom	603,364	1,135,310
22	Basic earnings / (loss) per share for profit attributable to the owners of PJSC Gazprom (in Rubles)	12.90	(5.96)

  
A.B. Miller  
Chairman of the Management Committee

  
E.A. Vasilieva  
Chief Accountant


25 April 2016



**PJSC GAZPROM**  
**CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY**  
**for the year ended 31 December 2015**  
**(in millions of Russian Rubles)**

Note	Share capital	Treasury shares	Additional capital	Legal reserves	Retained earnings	Social government fund	Total
	<b>Equity as of 31 December 2013</b>	<b>118,368</b>	<b>(126,786)</b>	<b>4,983,241</b>	<b>32,955</b>	<b>6,030,110</b>	<b>632 11,038,520</b>
	<b>For 2014</b>						
	Change of capital – total, including:						
	net loss	-	-	1,267,760	16	(319,620)	(58) 948,098
7	revaluation of property	-	-	-	-	(136,849)	- (136,849)
	differences resulting from the translation of foreign investments	-	-	734,419	-	-	- 734,419
	change in the Group structure and change of interest in subsidiaries	-	-	537,695	-	-	- 537,695
	dividends	-	-	(4,685)	16	(11,238)	- (15,907)
	social assets transferred to state authorities	-	-	-	-	(165,247)	- (165,247)
7	other	-	-	-	-	-	(58) (58)
	Change of additional capital	-	-	331	-	(6,286)	- (5,955)
	Change of legal reserves	-	-	(8,912)	-	8,912	- -
		-	-	-	891	(891)	- -
	<b>Equity as of 31 December 2014</b>	<b>118,368</b>	<b>(126,786)</b>	<b>6,242,089</b>	<b>33,862</b>	<b>5,718,511</b>	<b>574 11,986,618</b>
	<b>For 2015</b>						
	Change of capital – total, including:						
	net profit	-	-	308,772	18	171,680	(22) 480,448
7	revaluation of property	-	-	-	-	296,028	- 296,028
	differences resulting from the translation of foreign investments	-	-	44,906	-	-	- 44,906
	change in the Group structure and change of interest in subsidiaries	-	-	262,360	-	-	- 262,360
	dividends	-	-	1,072	18	44,180	- 45,270
	social assets transferred to state authorities	-	-	-	-	(165,247)	- (165,247)
7	other	-	-	-	-	-	(22) (22)
	Change of additional capital	-	-	434	-	(3,281)	- (2,847)
	Change of legal reserves	-	-	(6,727)	-	6,727	- -
		-	-	-	1,332	(1,332)	- -
	<b>Equity as of 31 December 2015</b>	<b>118,368</b>	<b>(126,786)</b>	<b>6,544,134</b>	<b>35,212</b>	<b>5,895,586</b>	<b>552 12,467,066</b>

  
A.B. Miller  
Chairman of the Management Committee


  
E.A. Vasilieva  
Chief Accountant

25 April 2016

**PJSC GAZPROM**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the year ended 31 December 2015  
(in millions of Russian Rubles)

Note	For 2015	For 2014
<b>Cash flows from operating activities</b>		
Total cash received, including:	7,032,252	6,834,119
sales of products, goods, works and services	6,632,632	6,411,331
resale of financial investments	-	13,366
other receipts, including:	399,620	409,422
indirect taxes	208,002	227,329
advances received from buyers (customers)	58,257	65,464
Total cash paid, including:	(5,343,881)	(4,886,726)
payment for purchased raw materials, works and services	(2,719,510)	(2,213,033)
wages and salaries	(422,261)	(378,371)
interests on borrowings	(148,018)	(103,569)
profit tax	(99,644)	(208,587)
other payments, including:	(1,954,448)	(1,983,166)
settlements with customs	(693,746)	(803,923)
settlements with budget (less profit tax)	(889,995)	(809,470)
advances paid	(73,884)	(74,351)
<b>Net cash provided by operating activities</b>	<b>1,688,371</b>	<b>1,947,393</b>
<b>Cash flows from investing activities</b>		
Total cash received, including:	362,587	303,127
sales of non-current assets (less financial investments)	6,419	10,897
sales of other entities' shares (equity interests)	26,631	14,910
return of loans issued, sales of debt securities (assignment of cash from third parties)	83,393	37,396
dividends, interest from debt financial investments and receipts from participation in other entities	95,242	107,236
other receipts	150,902	132,688
Total cash paid, including:	(1,692,051)	(1,774,146)
purchase, construction, modernization, reconstruction and preparation for use of non-current assets, including:	(1,247,189)	(1,184,903)
purchase of exploration assets	(43,198)	(96,074)
purchase of other entities' shares (equity interests)	(65,399)	(155,272)
purchase of debt securities (assignment of cash from third parties), loans issued	(104,305)	(142,149)
other payments, including:	(275,158)	(291,822)
indirect taxes	(179,609)	(163,275)
<b>Net cash used for investing activities</b>	<b>(1,329,464)</b>	<b>(1,471,019)</b>
<b>Cash flows from financing activities</b>		
Total cash received, including:	614,277	379,973
loans and borrowings, issue of bonds, promissory notes and other debt securities	614,061	379,632
other receipts	216	341
Total cash paid, including:	(747,721)	(644,759)
dividends and other distributions to owners (participants)	(204,183)	(213,435)
redemption (buyback) of promissory notes and other debt securities, loan repayment	(531,128)	(414,546)
other payments	(12,410)	(16,778)
<b>Net cash used for financing activities</b>	<b>(133,444)</b>	<b>(264,786)</b>
<b>Net cash for the reporting period</b>	<b>225,463</b>	<b>211,588</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>1,048,292</b>	<b>699,520</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>1,366,193</b>	<b>1,048,292</b>
<b>Impact of changes in exchange rates</b>	<b>92,438</b>	<b>137,184</b>

  
A.B. Miller  
Chairman of the Management Committee

  
E.A. Vasilieva  
Chief Accountant

25 April 2016

**PJSC GAZPROM**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2015**  
**(in millions of Russian Rubles)**

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**1. GENERAL INFORMATION**

Public Joint Stock Company (PJSC Gazprom) and its subsidiaries (the “Group” or the “Gazprom Group”) operate one of the largest gas pipeline systems in the world and 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 engaged in oil production, refining activities and electricity/heat generation.

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.

On average, the Group employed 445,470 and 444,950 people in 2015 and 2014, 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. Name of the companies is given with regard to the announced changes as of the date of preparation of these consolidated accounting reports.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

*Accounting principles*

The statutory consolidated accounting reports of the Group have been prepared in accordance with the accounting rules effective in the Russian Federation, in particular, the Federal Law On Accounting dated 6 December 2011 No. 402-FZ and the Regulation on Accounting and Reporting in the Russian Federation adopted by Order of the Ministry of Finance of the Russian Federation dated 29 July 1998 No. 34n, other statutory accounting and reporting regulatory acts included in accounting and reporting regulatory system of organizations in the Russian Federation and the Methodology recommendations on preparing consolidated accounting reports, approved by Order of the Russian Ministry of Finance dated 30 December 1996 No. 112.

Assets and liabilities are accounted for at actual purchase costs, except for fixed assets that are revalued on a regular basis, investments for which fair value is determinable, estimated liabilities carried based on current valuation of the amount that will result in decrease of economic benefits and other assets against which impairment provisions have been formed in accordance with the applicable accounting rules and regulations.

*Basis of consolidation*

In accordance with the Methodology recommendations on preparing consolidated accounting reports, approved by Order of the Russian Ministry of Finance dated 30 December 1996 No. 112, the consolidated balance sheet, consolidated statement of financial results, consolidated statement of changes in shareholder’s equity, consolidated statement of cash flow and the Notes to the consolidated accounting reports (together, the “statutory consolidated accounting reports”) comprise a consolidation of the statutory accounting reports of PJSC Gazprom and its principal subsidiaries and associates.

Accounting policy for the year 2015 of PJSC Gazprom and its subsidiaries is approved by Order No. 651 dated 31 December 2014.

All significant investments in subsidiary undertakings which exercise a significant influence on the financial position and financial results of the Group have been included in the consolidated accounting reports in compliance with the consolidation Methodology. Investments in companies with 50 % interest and more owned by the Group and in case the Group does not exercise control over these companies are accounted for as investments in associates in the consolidated balance sheet.

Statutory consolidated accounting reports include investments in associates, acquisition price and financial results of which are stated on the equity basis in these consolidated accounting reports.

**PJSC GAZPROM**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2015**  
**(in millions of Russian Rubles)**

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

*Assets and liabilities denominated in foreign currency*

Business transactions denominated in foreign currencies have been recorded using the official Ruble exchange rate determined by Central Bank of the Russian Federation as of the date of the relevant transaction.

Cash on currency and deposit accounts, cash on hand, securities (except for shares) and settlement balances, including loans issued and raised (except for advances received and issued, prepayments and down payments) denominated in foreign currency were recorded using the official Ruble exchange rate as at reporting date.

In 2015 there was a decline of the official exchange rates of Russian Ruble ("RUB") to US dollar ("USD") and euro ("EUR"). As at 31 December 2015 the rates of exchange were: RUB 72.8827 to USD 1 (as at 31 December 2014 – RUB 56.2584; 31 December 2013 – RUB 32.7292) and RUB 79.6972 to EUR 1 (as at 31 December 2014 – RUB 68.3427; 31 December 2013 – RUB 44.9699).

Exchange differences resulting from transactions with assets and liabilities denominated in foreign currency during the year, and from their recalculation as of the reporting date, are included in the consolidated statement of financial results as other income and expenses.

Exchange differences arising from the translation of the assets and liabilities of foreign subsidiaries and associates are included into additional capital. Statements of financial results of foreign entities are translated at average exchange rate of relevant foreign currency for the year.

*Current and non-current assets and liabilities*

In the consolidated balance sheet accounts receivable and accounts payable, including loans and borrowings, are treated as current if the term of their circulation (maturity) does not exceed 12 months after the reporting date or is not specified. All other assets and liabilities are treated as non-current.

Investments are classified as current or non-current based on the estimated period of use (circulation, possession or maturity) after the reporting date.

*Goodwill of subsidiaries*

In the consolidated accounting reports goodwill arising on the acquisition of subsidiary undertakings represents the positive difference between the historic cost of acquired investments in subsidiaries and the nominal value of their shares at the date of acquisition. Goodwill is amortized on a straight-line basis over 20 years starting from the month following the month of acquisition. Amortization charge of goodwill for the period is represented within other expenses in the consolidated statement of financial results.

*Results of research and development*

Results of research and development in the consolidated balance sheet include expenditure on completed research and development, which met recognition criteria, which are not subject to legal protection under the existing laws and are used for production or managerial needs of the Group. These expenses are written off to cost of production of goods and services throughout the year from the moment they were first used on a straight-line basis. Expenditure on acquisition and development of research and development in progress, which are accounted within other non-current assets, are also included into this line.

*Intangible and tangible exploration assets*

Exploration costs accounted within tangible exploration assets include:

- expenditure on drilling and infrastructure development of prospecting, exploration and advance development wells (drilled at the exploration stage before the commercial practicability of minerals extraction is proved) broken down by fields (areas);
- acquisition and set-up costs of property, constructions, plant, equipment, vehicles used for prospecting, valuation of minerals fields and minerals exploration.

Tangible exploration assets include wells, property, plant, equipment, constructions, sets, vehicles, metalwork, special gear and tools.

Exploration costs accounted within intangible exploration assets include expenditure on acquisition of the rights to use subsurface resources.

Intangible exploration assets include geological exploration and mining licences; a standalone delivery (report) that summarizes results of performed surveys.

Minerals prospecting and exploration licences are amortized on a straight-line basis during the period of the validity of the licenses.

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

Combined licences with rights on minerals prospecting, exploration and extraction are not amortised till the commercial practicability of minerals extraction is proved.

Tangible exploration assets (machinery and equipment, installations, facilities, vehicles) are depreciated on a straight-line basis during the whole period of their useful lives. Depreciation charges are attributed to cost of geological exploration of an associated field. The Group determines useful lives of exploration assets similarly to determination of fixed assets useful lives.

In case the commercial practicability of minerals extraction in a particular area of the field is proved the exploration assets are tested for impairment and transferred to fixed assets, intangible assets or other non-current assets, which are intended for mining and extraction of minerals.

The Group tests exploration assets for impairment as of 31 December of the reporting year and in case the commercial practicability of minerals extraction in a particular area of a field is proved.

*Fixed assets*

Fixed assets include assets which conform to the requirements of the Russian accounting rule "Accounting for Fixed Assets" (RAR 6/01) approved by Order of the Russian Ministry of Finance dated 30 March 2001, No. 26n, accounted for in accordance with the established procedure.

Completed fixed assets, which have been put into operation but documents for the state registration of title for which have not been submitted to the State Register are accounted separately within fixed assets.

In the consolidated accounting reports fixed assets are recorded at replacement cost net of depreciation accumulated for the period of their use.

As of 31 December 2015 the Group revalued land, property, plant and equipment, inventory and other fixed assets at current replacement cost, defined by an independent appraiser. The result of the revaluation is reflected in the consolidated balance sheet as of 31 December 2015.

Certain assets of the certain entities of the Group (including PJSC Gazprom neft and its subsidiaries, PJCS WGC-2, OJSC TGC-1) are reported at historical cost net of depreciation accumulated for the period of their use. The management of PJSC Gazprom does not believe that this has a material impact on the consolidated accounting reports.

Fixed assets recorded on the subsidiaries' balance sheets include state social assets. The Group's companies received these assets without title transfer, in the course of restructuring of the unified gas supply system and assets of the state gas concern Gazprom. These assets were accounted for in accordance with the procedures effective at that period by creating the fund of social assets in the amount equal to their net book value. When the subsidiaries were restructured to the subsidiary undertakings of the Group these assets jointly with the fund of social assets were transferred to the Group's companies. When these assets are transferred to the municipal authorities (or disposed otherwise) their net book value is charged to the above mentioned fund recorded in line "Social government fund" of the consolidated balance sheet. Although this practice represents a deviation from the established procedure, Management of PJSC Gazprom believes that it ensures fair presentation of the Group's property relations as the assets are used according to their functional purposes and the Group is held liable for their maintenance and safety.

Fixed assets accounted before 1 January 2002 are depreciated based on uniform depreciation rates approved by Decree of the USSR Council of Ministers dated 22 October 1990, No. 1072 "On Uniform Depreciation Rates of Fixed Assets of the USSR National Economy". Fixed assets acquired after 1 January 2002 are depreciated at rates based on estimated useful lives of these assets. Classification of fixed assets by depreciation groups approved by Government Resolution of the Russian Federation No.1 dated 1 January 2002, is used as one of the sources of information about useful lives of fixed assets. The Group has adopted the following useful lives for fixed asset groups:

	Useful lives of assets recorded on the balance sheet (number of years)	
	before 1 January 2002	after 1 January 2002
Trunk pipelines	33	25
Wells	12 – 15	7 – 25
Machinery and equipment	10 – 18	3 – 22
Buildings and roads	8 – 100	7 – 50
Social assets	5 – 50	5 – 50

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

All fixed assets are depreciated on a straight-line basis.

The following assets are not depreciated:

- land;
- suspended assets (above 3 months);
- state social assets;
- fully depreciated assets that are still on the balance sheet;
- housing assets commissioned prior to 1 January 2006, public amenities and other similar assets. (such assets acquired after 1 January 2006 are depreciated in accordance with the general procedure).

*Investments in non-current assets*

Investments in non-current assets include projects under construction which are not put into operation, equipment requiring assembly and other investments in non-current assets not accounted within fixed and intangible assets. Equipment requiring assembly which is in storage and which is meant for projects under construction is accounted within construction in progress separately.

Depending on how these assets will be accounted for after the investments into non-current assets are completed the items stated above are represented in lines "Intangible assets", "Results of research and development", "Intangible exploration assets", "Tangible exploration assets", or "Construction in progress".

*Financial investments*

Investments recorded at their historical cost (actual acquisition costs) except for investments for which market value is determinable and investments for which impairment allowance is created.

Investments for which market value is determinable are restated to their market value as of the end of the reporting year. The change in the investment value at the reporting date and the date of previous valuation is recorded in other income and expenses.

Investments for which market value is non-determinable and there are indications as of the reporting date that the decline in their value is significant and constant are recorded on the consolidated balance sheet as of the end of the reporting year at their carrying (book) value net of impairment allowance. The investment impairment allowance is determined annually based on the stock taking results as of 31 December. While determining the allowance, the Group calculated the estimated value of investments, showing significant steady decline, based on available information and created the investment impairment allowance in the amount by which the carrying value of investments exceeded their estimated value. Changes in allowance introduced based on stock-taking results as of 31 December are posted to other expenses and income.

Securities which do not have market value (except for those individually identifiable, including promissory notes and certificates of deposit) are recorded by types in the statutory accounting reports upon disposal under the first in, first out (FIFO) method. Other investments (including individually identifiable securities such as promissory notes and certificates of deposit) for which the market value is not determinable are recorded upon disposal at the historical cost of each unit.

Income and expenses related to investments are included within other income and expenses.

*Inventories and costs*

Raw materials are recognized at their actual cost of purchase or production. Dispatch into production or other disposals of inventories are recorded using the average cost method.

Oil and gas produced and purchased but unsold and retained in storages and pipelines as of the end of the reporting period are reported in line "Finished goods and goods for resale" of the consolidated balance sheet. Disposals of finished goods and goods for resale are recorded using the average cost method.

Transportation costs related to the transportation of natural gas on the territory of Russia and abroad are allocated between volumes of gas sold and gas in pipelines and storage as of the end of the reporting period. Transit costs for gas, oil and refined products are shown as Cost of sales of the consolidated statement of financial results.

Impairment allowance is created for raw materials and other inventories used in production, works and services, if current market value of those goods, works and services is less than their actual cost as of reporting date.

Work in progress is carried at actual cost of production less general administrative expenses.

Finished goods are carried at the simplified actual cost of production less general administrative expenses.



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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

*Accounts receivable*

Trade receivables are recorded based on prices contracted between the Group and buyers (customers) taking account of all discounts (markups) provided by the Group. Bad debts are written off when recognized as such.

Doubtful accounts receivable with high probability of nonredemption are represented net of bad debt allowance. Bad debt allowance is recorded within other expenses in the consolidated statement of financial results. Corresponding amount of allowance is recorded in other income (recognized as bad debt) upon repayment of doubtful receivables.

*Cash equivalents and representation of cash flows in the consolidated statement of cash flow*

Cash equivalents include most liquid financial investments, which are easily convertible into a known amount of cash and are not subject to risk of change in price.

The Group classifies short-term bank deposits with maturity up to 3 months as cash equivalents and represents them in the line "Cash and cash equivalents" in the consolidated balance sheet.

Cash flows of the Group which are not clearly identified as cash flows from operating, investment or financial activities are represented within operating activities in the consolidated statement of cash flow. Such cash flows include tax payments and reimbursement of indirect tax from the state budget.

For cash flow statement purposes cash flows denominated in foreign currency are recalculated using the official Ruble exchange rate set by the Central bank of the Russian Federation as at the date of transaction.

Forex effect, arising from recalculation of cash flows and closing balances of cash and cash equivalents denominated in foreign currency using exchange rates as at date of transaction and reporting date, is included into the line "Impact of changes in Exchange rates" in the consolidated statement of cash flows.

In the consolidated statements of cash flows the following cash flows are netted:

- cash outflow and cash inflow arising from foreign exchange operations;
- settlements with commissioner or agent in relation to rendering services (except for commission itself);
- cash flows with high turnover, large amounts and short pay-back period;
- indirect taxes within receipts from customers and buyers and payments made to suppliers and contractors;
- other settlements that relate rather to the activity of counterparties than to the activity of the Group itself.

*Loans and borrowings received*

Interest on credits and loans received and additional costs attributable to the receipt of credits and loans are included in other expenses in the reporting period, in which they are incurred.

PJSC Gazprom is the Group's main credit raiser. The majority of the finance acquired are general purpose loans and borrowings. Due to investment process specifics and following the principle of rational accounting the Group does not calculate any interest for inclusion in the cost of investment assets on such loans and borrowings, which are not directly attributable to investing activities.

The Group accounts for loans or credits payable in the amounts actually received.

*Commitments and contingencies*

The Group recognizes the following contingent liabilities in accounting:

- bonus payments at the year end;
- vacations;
- retirement benefits payable as a lump sum;
- fixed assets liquidation and environmental restoration in the context of subsurface use;
- other contingent liabilities.

The amount of contingent liabilities for bonus payments at the year end is defined based on the stock-taking results and adopted procedure for accrual of bonus payments at the year end.

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**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)**

The amount of contingent liabilities for vacations is defined based on the quantity of days of annual and excess leave earned but not used by employees during the whole period of employment as at reporting date and the average daily salary. It is revised at reporting date.

Contingent liabilities for retirement benefits payable as a lump sum are accrued at the date when an employee becomes of pensionable age and are written off 6 months after this date.

The Group recognized contingent liabilities for gas price adjustment arising from the claims of foreign customers based on the contracts terms. The effect of gas price adjustment including corresponding impacts on profit tax are recorded when they become probable and a reliable estimate of the amounts can be made.

Contingent liabilities are attributed to general expenses and to other expenses in the consolidated statement of financial results.

Contingent liabilities for fixed assets liquidation and environmental restoration in the context of subsurface use are recognized within fixed assets value. Increase or decrease of the amount of contingent liability due to change of its value is attributed to other income and other expenses.

Contingent liabilities are represented in the line "Commitments and contingencies" in the consolidated balance sheet.

*Deferred taxes*

For the purposes of consolidated accounting reports the Group recognizes non-temporary tax assets and non-temporary tax liabilities, deferred tax assets and deferred tax liabilities, i.e. amounts that can affect current profit tax expenses in the current or future reporting periods.

Information about non-temporary and temporary differences is based on the supporting documents. Current profit tax is determined based on theoretical expense (theoretical income) related to profit tax, non-temporary tax assets and liabilities, deferred tax assets and liabilities for accounting purposes. The amount corresponds to current tax according to profit tax return. On the consolidated balance sheet deferred tax assets and deferred tax liabilities are recorded within non-current assets or non-current liabilities on a gross-up basis.

*Revenue and other income recognition*

Revenues from sales of goods and services rendering are recognized at the moment when goods are shipped (or services rendered) and corresponding settlement documents are submitted to customers. In the consolidated accounting reports revenues are presented net of value added tax, customs duties and other similar mandatory payments.

Other income primarily include transactions related to the sale of foreign currency, positive exchange differences arising from foreign currency transactions, income from trading operations without actual delivery.

*Expenses recognition*

General expenses are those related to production, rendering of work and services, sales of goods.

Administrative expenses are general business expenses which are monthly written off to Cost of sales of the reporting period in full amount.

Other expenses primarily include expenses related to the sale and purchase of foreign currency, negative exchange differences arising from foreign currency transactions, expenses associated with trading operations without actual delivery.

In the consolidated statement of financial results other expenses are represented netted in relation to relevant income, if this is directly prescribed or is not prohibited by the accounting regulation and if expenses and related income resulted from the same or similar economic event are not material for financial characteristics of the entity of the Group.

**3. CHANGES IN THE ACCOUNTING POLICIES AND COMPARATIVE INFORMATION FOR THE PREVIOUS REPORTING PERIODS**

*Changes in the 2015 accounting policies*

There were no significant changes in the 2015 accounting policies.

*Changes in the 2016 accounting policies*

There were no significant changes in the 2016 accounting policies.

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**3. CHANGES IN THE ACCOUNTING POLICIES AND COMPARATIVE INFORMATION FOR THE PREVIOUS REPORTING PERIODS (continued)**

*Changes in the comparative periods*

*Adjustments to the amounts as of 31 December 2014 and 2013 in the consolidated balance sheet as of 31 December 2015*

Columns "As of 31 December 2014" and "As of 31 December 2013" of the consolidated balance sheet as of 31 December 2015 were formed by the way of adjusting closing balances of the consolidated balance sheet as of 31 December 2014 and 2013 due to the following:

- An update was made to the classification of assets in accordance with the Methodology for planning and accounting for costs of natural resources development. As a result assets have been transferred from other non-current assets (line "Other non-current assets") and intangible exploration assets (line "Intangible exploration assets") to tangible exploration assets (line "Tangible exploration assets") and construction in progress (line "Construction in progress");
- An update was made to the classification of accounts receivable due to adjustment in its maturity. As a result accounts receivable have been transferred from short-term accounts receivable (line "Accounts receivable (payment expected within 12 months of the reporting date)") to long-term accounts receivable (line "Accounts receivable (payment expected beyond 12 months of the reporting date)");
- An update was made to the classification of loans issued to companies. As a result long-term and short-term interest-free loans issued to companies (lines "Financial investments" and "Financial investments (less cash equivalents)") have been transferred to long-term and short-term accounts receivable respectively (lines "Accounts receivable (payment expected beyond 12 months of the reporting date)" and "Accounts receivable (payment expected within 12 months of the reporting date)");
- An update was made to classification of value added tax on purchased goods. As a result the tax was reclassified from short-term accounts receivable (line "Accounts receivable (payment expected within 12 months of the reporting date)") to a separate balance sheet line for the value added tax (line "Value added tax on purchased goods").

Line	As of 31 December 2014		As of 31 December 2013			
	Amount before adjustment	Adjustment	Amount before adjustment	Amount before adjustment	Adjustment	Amount before adjustment
<b>I. NON-CURRENT ASSETS</b>						
Intangible exploration assets	168,113	(4,907)	163,206	104,561	149	104,710
Tangible exploration assets	72,892	19,073	91,965	40,360	13,371	53,731
Fixed assets, including:	10,466,318	2,146	10,468,464	9,170,286	2,320	9,172,606
Construction in progress	1,857,985	2,146	1,860,131	1,658,747	2,320	1,661,067
Financial investments, including:	1,276,472	(1,120)	1,275,352	991,949	(364)	991,585
loans issued to companies beyond 12 months	188,863	(1,120)	187,743	110,944	(364)	110,580
Other non-current assets	<u>170,870</u>	<u>(16,312)</u>	<u>154,558</u>	<u>201,044</u>	<u>(15,840)</u>	<u>185,204</u>
<b>TOTAL Section I</b>	<b>13,134,936</b>	<b>(1,120)</b>	<b>13,133,816</b>	<b>11,511,986</b>	<b>(364)</b>	<b>11,511,622</b>
<b>II. CURRENT ASSETS</b>						
Value added tax on purchased goods	289,490	2,108	291,598	341,870	-	341,870
Accounts receivable, including:	1,389,596	802	1,390,398	1,339,174	1,789	1,340,963
Accounts receivable (payment expected beyond 12 months of the reporting date), including:	65,929	3,649	69,578	62,389	1,931	64,320
buyers and customers	19,278	1,688	20,966	16,967	982	17,949
other accounts receivable	45,005	1,961	46,966	33,131	949	34,080
Accounts receivable (payment expected within 12 months of the reporting date), including:	1,323,667	(2,847)	1,320,820	1,276,785	(142)	1,276,643
buyers and customers	698,885	(10,558)	688,327	739,138	(7,156)	731,982
other accounts receivable	436,121	7,711	443,832	320,447	7,014	327,461
Financial investments (less cash equivalents), including:	277,844	(1,790)	276,054	204,659	(1,425)	203,234
loans issued to companies due within 12 months	<u>122,255</u>	<u>(1,790)</u>	<u>120,465</u>	<u>105,496</u>	<u>(1,425)</u>	<u>104,071</u>
<b>TOTAL Section II</b>	<b>3,770,256</b>	<b>1,120</b>	<b>3,771,376</b>	<b>3,237,237</b>	<b>364</b>	<b>3,237,601</b>
<b>TOTAL ASSETS</b>	<b>16,905,192</b>	<b>-</b>	<b>16,905,192</b>	<b>14,749,223</b>	<b>-</b>	<b>14,749,223</b>

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**3 CHANGES IN THE ACCOUNTING POLICIES AND COMPARATIVE INFORMATION FOR THE PREVIOUS REPORTING PERIODS (continued)**

*Adjustments to the amounts for the year ended 31 December 2014 in the consolidated statement of cash flow for the year ended 31 December 2015*

Column "For 2014" of the consolidated statement of cash flows for the year ended 31 December 2015 were formed by the way of adjusting the consolidated statement of cash flows for the year ended 31 December 2014 due to the following:

- reclassification of cash flows on interest-free loans issued. In this connection cash flows issued and received under interest-free loan agreements were transferred from cash received and cash paid under operating activities to cash received and cash paid under investing activities;
- reclassification of cash flows connected with acquisition of exploration assets. In this connection in line "purchase, construction, modernization, reconstruction and preparation for use of non-current assets" clarified amount of cash flows provided to purchase of exploration assets.

	<b>For 2014</b>		
	<b>Amount before adjustment</b>	<b>Adjustment</b>	<b>Amount after adjustment</b>
<b>Cash flows from operating activities</b>			
Total cash received, including:	6,838,094	(3,975)	6,834,119
other receipts	413,397	(3,975)	409,422
Total cash paid, including:	(4,889,377)	2,651	(4,886,726)
other payments	(1,985,817)	2,651	(1,983,166)
<b>Net cash provided by operating activities</b>	<b>1,948,717</b>	<b>(1,324)</b>	<b>1,947,393</b>
<b>Cash flows from investing activities</b>			
Total cash received, including:	299,152	3,975	303,127
return of loans issued, sales of debt securities (assignment of cash from third parties)	33,421	3,975	37,396
Total cash paid, including:	(1,771,495)	(2,651)	(1,774,146)
purchase, construction, modernization, reconstruction and preparation for use of non-current assets, including:	(1,184,903)	-	(1,184,903)
purchase of exploration assets	(81,176)	(14,898)	(96,074)
purchase of debt securities (assignment of cash from third parties), loans issued	(139,498)	(2,651)	(142,149)
<b>Net cash used for investing activities</b>	<b>(1,472,343)</b>	<b>1,324</b>	<b>(1,471,019)</b>

**4. SEGMENT INFORMATION**

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

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

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

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

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**4. SEGMENT INFORMATION (continued)**

The inter-segment sales mainly consist of:

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

Internal transfer prices, mostly for Production of gas, Transportation and Gas storage segments, are established by the management of the Group with the objective of providing specific funding requirements of the individual subsidiaries within each segment. Prices are determined based on principle "cost plus normal profit".

The Governing bodies assess the performance, assets and liabilities of the operating segments based on the internal financial reporting. Segment revenues of the Group are generated from transactions with customers. Profit tax expense and other similar mandatory payments, interest income and expense, income from investments in other companies are not included in the segment profit (loss). Other income and expenses are not allocated by segments because it is deemed impracticable and as the required allocation base is not available.

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>For 2015</b>									
<b>Total segment revenues</b>	707,284	1,018,422	3,656,202	47,144	873,713	1,565,443	425,367	286,631	8,580,206
Inter-segment sales	689,260	864,984	226,950	44,487	521,699	10,311	-	-	2,357,691
External sales	18,024	153,438	3,429,252	2,657	352,014	1,555,132	425,367	286,631	6,222,515
<b>Segment result</b>	51,206	18,749	935,253	4,803	48,729	144,552	36,065	4,067	1,243,424
Depreciation	167,722	446,662	12,718	22,730	116,636	43,885	49,663	25,613	885,629
Capitalized profit / (loss) of associates	5,151	22,927	17,673	(1,664)	100,793	3,979	13	(12,877)	135,995
<b>For 2014</b>									
<b>Total segment revenues</b>	701,406	924,788	3,234,238	44,264	667,634	1,629,180	426,810	210,785	7,839,105
Inter-segment sales	682,338	789,452	237,040	41,461	417,274	10,565	-	-	2,178,130
External sales	19,068	135,336	2,997,198	2,803	250,360	1,618,615	426,810	210,785	5,660,975
<b>Segment result</b>	68,013	18,560	1,011,471	6,550	48,226	177,421	34,198	(17,045)	1,347,394
Depreciation	141,594	380,105	14,597	18,969	88,542	38,425	48,541	18,775	749,548
Capitalized (loss) / profit of associates	(22,277)	4,560	10,936	(2,725)	67,480	1,111	(24)	7,622	66,683

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**4. SEGMENT INFORMATION (continued)**

A reconciliation of total operating segment results to total profit before profit tax in the consolidated statement of financial results is provided as follows:

Note		For 2015	For 2014
	<b>Segment result</b>	<b>1,243,424</b>	<b>1,347,394</b>
	Income from investments in other companies	10,495	8,854
	Interest income	116,025	70,452
	Interest expense	(149,545)	(104,836)
19	Other income	8,904,212	6,358,978
19	Other expense	(9,872,274)	(7,678,120)
	Difference in depreciation	(5,437)	(3,652)
9	Capitalized profit of associates	<u>135,995</u>	<u>66,683</u>
	<b>Profit before profit tax</b>	<b>382,895</b>	<b>65,753</b>

Segment assets include primarily tangible and intangible exploration assets, fixed assets, construction in progress, inventory, work in progress, accounts receivable and other non-current assets. Investments into unconsolidated subsidiaries, associates, equity investments and joint activity are allocated to the reporting segments on the basis of primary activity of these entities. Goodwill, deferred tax assets, value added tax, cash and cash equivalents, other financial investments, as well as loans issues to other entities are not included in segment assets as they are not directly related to the reporting segments and the required allocation base is not available.

Inter-segment operations represent the balance of intercompany transactions.

Segment capital expenditures include capital investments in fixed assets of the corresponding periods.

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>As of 31 December 2015</b>									
Segment assets	2,525,390	6,182,739	1,665,732	352,777	1,939,796	1,179,891	776,604	1,060,235	15,683,164
Investments in associates	19,433	184,812	49,842	5,691	493,641	24,170	1,453	127,036	906,078
Capital expenditure	198,246	420,874	25,962	48,486	245,394	123,595	80,348	66,283	1,209,188
<b>As of 31 December 2014</b>									
Segment assets	2,395,101	6,091,218	1,477,043	281,390	1,580,028	1,326,411	731,241	854,283	14,736,715
Investments in associates	13,177	149,883	77,194	7,258	361,459	20,918	414	138,766	769,069
Capital expenditure	182,307	434,433	23,709	15,530	173,393	135,051	72,738	47,701	1,084,862
<b>As of 31 December 2013</b>									
Segment assets	2,194,752	5,265,289	1,405,879	242,631	1,204,678	995,178	715,677	761,106	12,785,190
Investments in associates	31,032	93,325	76,484	6,209	252,691	12,628	448	93,905	566,722
Capital expenditure	218,517	380,543	36,085	23,524	189,069	109,362	71,458	102,513	1,131,071



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**4. SEGMENT INFORMATION (continued)**

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

Note		As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
	Segment assets for reportable segments	14,622,929	13,882,432	12,024,084
	Other segments' assets	1,060,235	854,283	761,106
	<b>Total segment assets</b>	<b>15,683,164</b>	<b>14,736,715</b>	<b>12,785,190</b>
5	Goodwill	817,501	856,397	907,085
	Loans issued to companies beyond 12 months	149,053	187,743	110,580
	Other long-term financial investments	38,054	30,261	30,039
	Deferred tax assets	173,178	96,841	82,871
	Value added tax on purchased goods	228,510	291,598	341,870
	Loans issued to companies due within 12 months	91,411	120,465	104,071
	Other short-term financial investments	142,335	155,589	99,163
	Cash and cash equivalents	1,366,200	1,048,298	699,612
	Decommissioning costs	69,758	70,587	57,414
	Inter-segment assets	(601,847)	(760,190)	(673,902)
	Other	123,731	70,888	205,230
	<b>Total assets per the balance sheet</b>	<b>18,281,048</b>	<b>16,905,192</b>	<b>14,749,223</b>

Segment liabilities include primarily short-term liabilities except for profit tax and other taxes payable to the budget for which there is no basis for allocation and loans and borrowings received to finance the Group operations.

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>As of 31 December 2015</b>									
Segment liabilities	179,935	311,879	689,847	11,234	116,103	240,913	78,866	218,560	1,847,337
<b>As of 31 December 2014</b>									
Segment liabilities	146,755	351,338	663,454	18,352	304,269	237,753	76,541	129,657	1,928,119
<b>As of 31 December 2013</b>									
Segment liabilities	155,578	290,775	511,433	9,599	218,783	281,666	46,491	124,989	1,639,314

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

Note		As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
	Segment liabilities for reportable segments	1,628,777	1,798,462	1,514,325
	Other segments' liabilities	218,560	129,657	124,989
	<b>Total segments liabilities</b>	<b>1,847,337</b>	<b>1,928,119</b>	<b>1,639,314</b>
15	Long-term loans and borrowings	2,806,160	2,237,812	1,480,903
	Deferred tax liabilities	500,839	440,325	371,200
15	Short-term loans and borrowings and current portion of long-term loans and borrowings	645,553	464,991	330,479
	Dividends payable	4,969	4,759	3,791
	Income of future periods	2,041	1,679	2,551
24	Contingent liabilities regarding fixed assets liquidation and environmental restoration in the context of subsurface use	139,250	98,069	116,483
	Inter-segment liabilities	(601,847)	(760,190)	(673,902)
	Other	157,596	206,381	148,616
	<b>Total liabilities per the balance sheet</b>	<b>5,501,898</b>	<b>4,621,945</b>	<b>3,419,435</b>

Information on sales by geographical segments is presented in Note 17. Information on assets by geographical segments is not disclosed as assets of the Group are mainly located on the territory of the Russian Federation.

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**4. SEGMENT INFORMATION (continued)**

Cash flows from operating, investing and financial activities for reporting segments are represented in the table below:

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>For 2015</b>									
<b>Cash flows from operating activities</b>									
Total cash received	21,576	155,721	3,914,522	2,650	416,177	1,634,805	410,382	220,861	6,776,694
Unallocated cash flows	-	-	-	-	-	-	-	-	255,558
Total cash paid	(563,100)	(589,297)	(1,626,281)	(18,144)	(861,761)	(868,527)	(289,984)	(195,778)	(5,012,872)
Unallocated cash flows	-	-	-	-	-	-	-	-	(331,009)
<b>Cash flows from investing activities</b>									
Total cash received	2,105	-	23,264	-	125	1,143	1,988	10,052	38,677
Unallocated cash flows	-	-	-	-	-	-	-	-	323,910
Total cash paid	(171,893)	(564,317)	(29,667)	(2,323)	(261,949)	(99,384)	(63,129)	(99,841)	(1,292,503)
Unallocated cash flows	-	-	-	-	-	-	-	-	(399,548)
<b>Cash flows from financial activities</b>									
Total cash received	-	-	-	-	-	-	-	216	216
Unallocated cash flows	-	-	-	-	-	-	-	-	614,061
Total cash paid	(2,046)	(5,356)	(317)	(97)	(219)	(1,600)	(121)	(833)	(10,589)
Unallocated cash flows	-	-	-	-	-	-	-	-	(737,132)
<b>For 2014</b>									
<b>Cash flows from operating activities</b>									
Total cash received	9,493	133,742	3,711,121	2,772	320,746	1,733,177	405,812	224,960	6,541,823
Unallocated cash flows	-	-	-	-	-	-	-	-	292,296
Total cash paid	(536,704)	(382,313)	(1,335,913)	(13,271)	(708,851)	(907,406)	(288,567)	(266,748)	(4,439,773)
Unallocated cash flows	-	-	-	-	-	-	-	-	(446,953)
<b>Cash flows from investing activities</b>									
Total cash received	137	1,908	271	62	16,570	14,384	4,311	16,438	54,081
Unallocated cash flows	-	-	-	-	-	-	-	-	249,046
Total cash paid	(204,276)	(499,987)	(38,440)	(4,704)	(200,640)	(150,082)	(53,979)	(57,900)	(1,210,008)
Unallocated cash flows	-	-	-	-	-	-	-	-	(564,138)
<b>Cash flows from financial activities</b>									
Total cash received	-	-	-	-	-	-	-	291	291
Unallocated cash flows	-	-	-	-	-	-	-	-	379,682
Total cash paid	(2,239)	(6,035)	(2,242)	(68)	(260)	(1,894)	(229)	(868)	(13,835)
Unallocated cash flows	-	-	-	-	-	-	-	-	(630,924)

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**5. GOODWILL ON SUBSIDIARIES**

Note	Gross book value	Accumulated amortization	Net book value
<b>As of 31 December 2014</b>			
PJSC Gazprom нефт	539,720	(223,923)	315,797
OJSC Gazprom transgaz Belarus	146,316	(21,948)	124,368
JSC Gazpromneft – MNPZ	123,794	(31,196)	92,598
PJSC WGC-2	87,263	(28,530)	58,733
OJSC Gazprom neftekhim Salavat	70,882	(8,863)	62,019
PJSC MIPC	70,014	(4,373)	65,641
PJSC Mosenergo	46,612	(17,315)	29,297
LLC Gazprom нефт shelf	37,302	(18,299)	19,003
OJSC TGC-1	35,518	(8,880)	26,638
JSC Gazprom gazoraspredelenie Sever	23,314	(3,189)	20,125
OJSC Daltransgaz	6,990	(1,978)	5,012
JSC Yuzhuralneftegaz	6,815	(1,051)	5,764
Others	40,559	(9,157)	31,402
<b>Total</b>	<b>1,235,099</b>	<b>(378,702)</b>	<b>856,397</b>
<b>Additions for 2015</b>			
23 WIBG GmbH	31,112	-	31,112
Others	193	(143)	50
<b>Total</b>	<b>31,305</b>	<b>(143)</b>	<b>31,162</b>
<b>Disposals for 2015</b>			
JSC Gazpromneft – MNPZ	(10,748)	2,874	(7,874)
<b>Total</b>	<b>(10,748)</b>	<b>2,874</b>	<b>(7,874)</b>
<b>Amortization charge for 2015</b>			
PJSC Gazprom нефт		(26,986)	
OJSC Gazprom transgaz Belarus		(7,316)	
JSC Gazpromneft – MNPZ		(5,787)	
PJSC WGC-2		(4,363)	
OJSC Gazprom neftekhim Salavat		(3,544)	
PJSC MIPC		(3,501)	
PJSC Mosenergo		(2,331)	
LLC Gazprom нефт shelf		(1,865)	
OJSC TGC-1		(1,776)	
JSC Gazprom gazoraspredelenie Sever		(1,168)	
23 WIBG GmbH		(389)	
OJSC Daltransgaz		(348)	
JSC Yuzhuralneftegaz		(341)	
Others		(2,469)	
<b>Total</b>		<b>(62,184)</b>	
<b>As of 31 December 2015</b>			
PJSC Gazprom нефт	539,720	(250,909)	288,811
OJSC Gazprom transgaz Belarus	146,316	(29,264)	117,052
JSC Gazpromneft – MNPZ	113,046	(34,109)	78,937
PJSC WGC-2	87,263	(32,893)	54,370
OJSC Gazprom neftekhim Salavat	70,882	(12,407)	58,475
PJSC MIPC	70,014	(7,874)	62,140
PJSC Mosenergo	46,612	(19,646)	26,966
LLC Gazprom нефт shelf	37,302	(20,164)	17,138
OJSC TGC-1	35,518	(10,656)	24,862
23 WIBG GmbH	31,112	(389)	30,723
JSC Gazprom gazoraspredelenie Sever	23,314	(4,357)	18,957

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**5. GOODWILL ON SUBSIDIARIES (continued)**

Note	Gross book value	Accumulated amortization	Net book value
OJSC Daltransgaz	6,990	(2,326)	4,664
JSC Yuzhuralneftegaz	6,815	(1,392)	5,423
Others	<u>40,752</u>	<u>(11,769)</u>	<u>28,983</u>
<b>Total</b>	<b>1,255,656</b>	<b>(438,155)</b>	<b>817,501</b>

**6. EXPLORATION ASSETS**

	As of 31 December 2014	Changes for 2015				As of 31 December 2015
		Additions	Disposals	Intra-group	Depreciation charge	
<b>Total Intangible exploration assets, including:</b>	<b>163,206</b>	<b>24,941</b>	<b>(10,030)</b>	<b>-</b>	<b>-</b>	<b>178,117</b>
licences on minerals prospecting, estimation, exploration and extraction	140,742	-	(6,193)	7,701	-	142,250
expenditure on obtaining rights on subsurface use, expenditure on geological knowledge	22,464	24,941	(3,837)	(7,701)	-	35,867
<b>Total Tangible exploration assets, including:</b>	<b>91,965</b>	<b>29,483</b>	<b>(49,511)</b>	<b>-</b>	<b>-</b>	<b>71,937</b>
wells	3,847	6	(146)	1,973	-	5,680
exploration expenses classified as tangible exploration assets	88,118	29,477	(49,365)	(1,973)	-	66,257
	As of 31 December 2013	Changes for 2014				As of 31 December 2014
		Additions	Disposals	Intra-group	Depreciation charge	
<b>Total Intangible exploration assets, including:</b>	<b>104,710</b>	<b>73,248</b>	<b>(9,696)</b>	<b>(5,056)</b>	<b>-</b>	<b>163,206</b>
licences on minerals prospecting, estimation, exploration and extraction	92,504	7,425	(1,381)	42,194	-	140,742
expenditure on obtaining rights on subsurface use, expenditure on geological knowledge	12,206	65,823	(8,315)	(47,250)	-	22,464
<b>Total Tangible exploration assets, including:</b>	<b>53,731</b>	<b>43,447</b>	<b>(10,269)</b>	<b>5,056</b>	<b>-</b>	<b>91,965</b>
wells	2,348	346	(18)	1,171	-	3,847
exploration expenses classified as tangible exploration assets	51,383	43,101	(10,251)	3,885	-	88,118

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**7. FIXED ASSETS**

Note		Trunk pipelines	Wells	Machinery and equipment	Buildings and roads	Other	Total
	<b>As of 31 December 2013</b>						
	Historical (replacement) cost	9,794,022	1,891,789	2,965,778	1,779,721	2,579,956	19,011,266
	Accumulated depreciation	(6,722,961)	(1,266,392)	(1,960,598)	(631,816)	(917,960)	(11,499,727)
	<b>Net book value</b>	<b>3,071,061</b>	<b>625,397</b>	<b>1,005,180</b>	<b>1,147,905</b>	<b>1,661,996</b>	<b>7,511,539</b>
	<b>For 2014</b>						
	Additions	291,728	176,469	309,512	120,134	252,457	1,150,300
	Disposals	(147)	(17,812)	(2,840)	(9,315)	(4,594)	(34,708)
	Historical (replacement) cost	(3,345)	(23,442)	(26,248)	(11,812)	(15,510)	(80,357)
	Accumulated depreciation	3,198	5,630	23,408	2,497	10,916	45,649
4	Depreciation	(267,156)	(95,810)	(189,225)	(55,704)	(145,287)	(753,182)
	Revaluation of fixed assets	400,990	45,822	69,183	100,039	118,350	734,384
	Historical (replacement) cost	1,410,152	201,125	350,119	183,461	210,140	2,354,997
	Accumulated depreciation	(1,009,162)	(155,303)	(280,936)	(83,422)	(91,790)	(1,620,613)
	<b>As of 31 December 2014</b>						
	Historical (replacement) cost	11,497,053	2,247,608	3,626,071	2,073,151	3,032,276	22,476,159
	Accumulated depreciation	(8,000,577)	(1,513,542)	(2,434,261)	(770,092)	(1,149,354)	(13,867,826)
	<b>Net book value</b>	<b>3,496,476</b>	<b>734,066</b>	<b>1,191,810</b>	<b>1,303,059</b>	<b>1,882,922</b>	<b>8,608,333</b>
	<b>For 2015</b>						
	Additions	183,431	135,442	417,761	98,433	284,588	1,119,655
	Disposals	(134)	(1,294)	(1,672)	(5,419)	(5,307)	(13,826)
	Historical (replacement) cost	(2,727)	(7,688)	(26,916)	(8,190)	(21,642)	(67,163)
	Accumulated depreciation	2,593	6,394	25,244	2,771	16,335	53,337
4	Depreciation	(309,953)	(117,968)	(227,292)	(67,460)	(168,393)	(891,066)
	Revaluation of fixed assets	2,646	3,779	25,313	8,877	5,563	46,178
	Historical (replacement) cost	5,861	7,097	56,493	20,273	17,284	107,008
	Accumulated depreciation	(3,215)	(3,318)	(31,180)	(11,396)	(11,721)	(60,830)
	<b>As of 31 December 2015</b>						
	Historical (replacement) cost	11,685,172	2,376,665	4,147,421	2,187,583	3,338,635	23,735,476
	Accumulated depreciation	(8,312,706)	(1,622,640)	(2,741,501)	(850,093)	(1,339,262)	(14,866,202)
	<b>Net book value</b>	<b>3,372,466</b>	<b>754,025</b>	<b>1,405,920</b>	<b>1,337,490</b>	<b>1,999,373</b>	<b>8,869,274</b>

In 2015 and 2014 the Group entities continued to transfer social assets which were obtained in the course of privatization to local authorities (see Note 2). The transferred assets which were obtained in the course of privatization amounted to RUB 22 million in 2015 (in 2014 – RUB 58 million).

**8. CONSTRUCTION IN PROGRESS**

	Construction in progress	Equipment for installation	Total
<b>As of 31 December 2013</b>	<b>1,471,862</b>	<b>189,205</b>	<b>1,661,067</b>
<b>For 2014</b>			
Capital expenditures	1,028,658	203,807	1,232,465
Transfer of equipment for installation	123,497	(123,497)	-
Transfer to Fixed assets	(1,012,892)	-	(1,012,892)
Other disposals (including write-off)	(17,094)	(3,415)	(20,509)
<b>As of 31 December 2014</b>	<b>1,594,031</b>	<b>266,100</b>	<b>1,860,131</b>

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**8. CONSTRUCTION IN PROGRESS (continued)**

	Construction in progress	Equipment for installation	Total
<b>For 2015</b>			
Capital expenditures	1,124,858	168,098	1,292,956
Transfer of equipment for installation	150,048	(150,048)	-
Transfer to Fixed assets	(963,826)	-	(963,826)
Other disposals (including write-off)	(31,283)	(2,396)	(33,679)
<b>As of 31 December 2015</b>	<b>1,873,828</b>	<b>281,754</b>	<b>2,155,582</b>

Construction in progress mostly consists of construction of transport infrastructure, including the implementation of projects on construction of the gas pipeline Bovanenkovo–Ukhta, Power of Siberia, construction of gas chemical complex (Novourengovsky GCC), development of Bovanenkovskoye field as well as construction of the oil rim Botuoba Chayandinskoye deposits of oil and gas field.

**9. FINANCIAL INVESTMENTS**

**Long-term financial investments**

*Investments in subsidiaries*

Investments in subsidiaries in the consolidated balance sheet are stated net of impairment allowance in the amount of RUB 10,270 million, RUB 9,003 million and RUB 6,993 million as of 31 December 2015, 2014 and 2013, respectively. The impairment allowance primarily relates to non-core investments.

*Investments in associates*

Note		As of 31 December 2015	Carrying value As of 31 December 2014	As of 31 December 2013	Capitalized profit / (loss)	
					For 2015	For 2014
21, 24	Sakhalin Energy Investment Company Ltd.	225,888	138,475	52,925	61,922	59,145
21	OJSC Tomskneft VNK and its subsidiaries	110,524	91,148	88,560	27,509	8,297
21	OJSC NGK Slavneft and its subsidiaries	82,565	73,301	84,274	9,264	(5,072)
21, 24	Nord Stream AG	69,617	52,944	43,851	17,135	3,422
21	Gazprombank (Joint-stock Company)	61,393	78,175	73,946	(16,782)	6,583
21	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>1</sup>	47,154	39,139	-	4,530	4,876
21	LLC Yamal razvitie	41,281	26,358	10	-	-
21	SGT EuRoPol GAZ S.A.	33,410	27,857	18,802	514	188
21	Blue Stream Pipeline Company B.V.	31,732	25,872	14,228	434	133
21, 24	JSC Achimgaz	26,281	16,844	9,956	9,437	6,888
21	KazRosGaz LLP	20,960	19,215	9,819	10,155	6,268
21	Wintershall AG	20,727	17,640	11,528	213	186
21	JSC Latvijas Gaze	17,738	15,182	9,968	751	594
21	Gasum OY and its subsidiaries	10,253	6,915	4,515	1,619	229
21	CJSC Northgas	8,726	4,730	2,258	3,996	4,322
21	Salym Petroleum Development N.V.	4,835	9,161	13,899	(1,245)	(457)
21, 23	W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>2</sup>	-	25,107	40,809	5,053	2,320
23	Shtokman Development AG	-	-	23,216	-	(27,888)
23	South Stream Transport B.V. and its subsidiaries <sup>3</sup>	-	-	7,081	-	(4,237)
	AB Amber Grid <sup>4</sup>	-	-	5,703	-	60
21	AB Lietuvos dujos <sup>4</sup>	-	-	2,994	-	491
	Others	92,994	101,006	48,380	1,490	335
	<b>Total</b>	<b>906,078</b>	<b>769,069</b>	<b>566,722</b>	<b>135,995</b>	<b>66,683</b>

<sup>1</sup> In May 2014 the shares in all gas transportation companies that belonged to W & G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG. As of 31 December 2015 and 31 December 2014 WIGA Transport Beteiligungs-GmbH & Co. KG forms an independent subgroup of associates.

<sup>2</sup> In September 2015 W & G Beteiligungs-GmbH & Co. KG and its subsidiaries became the Group subsidiaries (see Note 23).

<sup>3</sup> In December 2014 the Group became the owner of 100 % interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project, by acquiring shares of EDF International S.A.S., Wintershall Holding GmbH and ENI International B.V. (see Note 23).

<sup>4</sup> In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AB Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AB Amber Grid, an associate of the Group. In June 2014 the Group sold its 37 % interests in associates, AB Lietuvos dujos and AB Amber Grid, to companies controlled by the Republic of Lithuania for EUR 121 million.



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**9. FINANCIAL INVESTMENTS (continued)**

Investments in associates in the consolidated balance sheet are stated net of impairment allowance in the amount of RUB 6,189 million as of 31 December 2015, RUB 27,652 million as of 31 December 2014 (including impairment allowance for investment in Shtokman Development AG in the amount of RUB 27,378 million) and RUB 292 million as of 31 December 2013.

*Investments in other companies*

As of 31 December 2015, 2014 and 2013 the line "Investments in other companies" of the consolidated balance sheet includes an investment in OJSC NOVATEK in the amount of 9.99 % of shares in charter capital with carrying value amounting to RUB 181,611 million, RUB 133,787 million and RUB 135,910 million, respectively.

The line "Investments in other companies" of the consolidated balance sheet also includes investments in shares of energy companies, with carrying value amounting to RUB 6,531 million, RUB 5,321 million and RUB 13,537 million as of 31 December 2015, 2014 and 2013, respectively.

Investments in other companies in the consolidated balance sheet are stated net of impairment allowance in the amount of RUB 2,124 million, RUB 1,793 million and RUB 1,627 million as of 31 December 2015, 2014 and 2013, respectively. The impairment allowance primarily relates to non-core investments.

*Loans issued to companies due beyond 12 months*

The line "Loans issued to companies beyond 12 months" of the consolidated balance sheet includes the loan to LLC Yamal razvitiye, denominated in Russian Rubles maturing in 2021, in the amount of RUB 36,831 million, RUB 48,253 million and RUB 2,200 million as of 31 December 2015, 2014 and 2013, respectively.

The line "Loans issued to companies beyond 12 months" of the consolidated balance sheet includes the loan to JSC Gazprom teploenergo, denominated in Russian Rubles maturing in 2026, in the amount of RUB nil million, RUB 47,108 million and RUB 36,937 million as of 31 December 2015, 2014 and 2013, respectively.

The line "Loans issued to companies beyond 12 months" in the consolidated balance sheet includes a foreign currency loan to W & G Beteiligungs GmbH & Co. KG maturing not earlier than in 2016 in the amount of RUB nil million, RUB 26,161 million and RUB 17,214 million as of 31 December 2015, 2014 and 2013, respectively.

In 2014 the average interest rate on this loan was 2.1 %.

*Other financial investments*

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
Joint activity, including:	32,125	25,340	24,691
development of a satellite communication system (operator – OJSC Gazprom Space Systems)	3,387	3,252	3,252
Other, including:	5,929	4,921	5,348
long-term deposits	5,064	3,035	3,209
third party promissory notes	390	1,282	1,438
South Pars project (oil and gas field in Iran)	370	370	370
<b>Total</b>	<b>38,054</b>	<b>30,261</b>	<b>30,039</b>

Other long-term financial investments in the consolidated balance sheet are stated net of impairment allowance in the amount of RUB 731 million, RUB 7,918 million and RUB 7,918 million as of 31 December 2015, 2014 and 2013, respectively.

**10. INVENTORY**

*Raw materials and other inventories*

In the consolidated balance sheet values of raw materials and other inventories in the amount of RUB 211,102 million, RUB 175,979 million and RUB 151,799 million are disclosed net of impairment allowance in the amount of RUB 4,255 million, RUB 4,252 million and RUB 3,560 million as of 31 December 2015, 2014 and 2013, respectively.

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**10. INVENTORY (continued)**

*Finished goods and goods for resale*

In the consolidated balance sheet values of finished goods and goods for resale in the amount of RUB 672,423 million, RUB 549,632 million and RUB 460,465 million are disclosed net of impairment allowance in the amount of RUB 1,563 million, RUB 1,623 million and RUB 616 million as of 31 December 2015, 2014 and 2013, respectively.

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
Gas in pipelines and storages	571,838	472,643	384,087
Oil, gas condensate and refined products	58,554	54,259	53,793
Goods for resale	<u>42,031</u>	<u>22,730</u>	<u>22,585</u>
<b>Total</b>	<b><u>672,423</u></b>	<b><u>549,632</u></b>	<b><u>460,465</u></b>

**11. ACCOUNTS RECEIVABLE**

*Accounts receivable (payment expected beyond 12 months of the reporting date)*

The line "Accounts receivable" in the consolidated balance sheet includes long-term receivables for gas in the amount of RUB 5,518 million, RUB 1,140 million and RUB 1,191 million as of 31 December 2015, 2014 and 2013, respectively.

The line "Advances issued" in the consolidated balance sheet includes an advance issued to NJSC Naftogas of Ukraine on account of gas transportation services in the amount of RUB nil million, RUB nil million and RUB 9,095 million as of 31 December 2015, 2014 and 2013, respectively.

The line "Other receivables" in the consolidated balance sheet includes receivables, issued for capital construction purposes in the amount of RUB 14,123 million, RUB 16,291 million and RUB 13,151 million as of 31 December 2015, 2014 and 2013, respectively.

*Accounts receivable (payment expected within 12 months of the reporting date)*

The line "Accounts receivable from buyers and customers" in the consolidated balance sheet as of 31 December 2015, 2014 and 2013 includes the following:

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
Receivables from Europe and other countries gas, crude oil, gas condensate and refined products customers	390,079	353,741	333,139
Receivables from Domestic gas, crude oil, gas condensate and refined products customers	168,802	146,295	141,103
Receivables from FSU (excluding Russian Federation) gas, crude oil, gas condensate and refined products customers	43,488	25,914	111,807
Receivables from electric and heat energy sales customers	77,742	66,177	54,781
Other trade debtors	<u>116,634</u>	<u>96,200</u>	<u>91,152</u>
<b>Total</b>	<b><u>796,745</u></b>	<b><u>688,327</u></b>	<b><u>731,982</u></b>

As of 31 December 2015, 2014 and 2013 accounts receivable from buyers and customers are stated net of impairment allowance of RUB 840,335 million, RUB 621,932 million and RUB 326,606 million, respectively. The impairment allowance has been calculated net of deferred excise tax on natural gas of RUB 89 million, RUB 101 million and RUB 119 million as of 31 December 2015, 2014 and 2013, respectively.

As of 31 December 2015, 2014 and 2013 advances paid in the consolidated balance sheet include advances issued for capital construction purposes in the amount of RUB 214,558 million, RUB 135,632 million and RUB 122,999 million, respectively.

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**11. ACCOUNTS RECEIVABLE (continued)**

The advances paid include current advances issued to NJSC Naftogas of Ukraine for gas transportation services in the amount of RUB nil million, RUB nil million and RUB 38,370 million as of 31 December 2015, 2014, 2013, respectively, and current portion of the long-term advance issued to NJSC Naftogas of Ukraine in the amount of RUB nil million, RUB 9,095 million and RUB 9,922 million as of 31 December 2015, 2014 and 2013, respectively.

As of 31 December 2015, 2014 and 2013 the line “Other accounts receivable” of the consolidated balance sheet includes the following:

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
Overpayment of taxes to the budget	228,562	215,452	118,624
Settlements on custom duties	46,446	85,432	57,502
Settlements on claims	4,069	4,291	3,404
Other	<u>197,448</u>	<u>138,657</u>	<u>147,931</u>
<b>Total</b>	<b>476,525</b>	<b>443,832</b>	<b>327,461</b>

Other accounts receivable are stated net of the impairment allowance amounting to RUB 38,091 million, RUB 30,418 million and RUB 27,104 million as of 31 December 2015, 2014 and 2013, respectively.

**12. FINANCIAL INVESTMENTS (LESS CASH EQUIVALENTS)**

*Loans issued to companies due within 12 months*

As of 31 December 2015, 2014 and 2013 loans issued to companies due within 12 months in the consolidated balance sheet are stated net of the impairment allowance of RUB 10,022 million, RUB 164 million and RUB 159 million, respectively.

*Other financial investments*

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
Short-term deposits	126,528	140,200	72,788
Shares, bonds and participatory interests	12,153	9,581	22,355
Third party promissory notes	457	1,191	2,246
Other	<u>3,197</u>	<u>4,617</u>	<u>1,774</u>
<b>Total</b>	<b>142,335</b>	<b>155,589</b>	<b>99,163</b>

As of 31 December 2015, 2014 and 2013 other financial investments in the consolidated balance sheet are stated net of the impairment allowance of RUB 664 million, RUB 559 million and RUB 269 million, respectively.

**13. CASH AND CASH EQUIVALENTS**

In the line “Other monetary assets and cash equivalents” in the consolidated balance sheet as of 31 December 2015, 2014 and 2013 there are no cash balances on bank accounts which are restricted as to withdrawal under the terms of certain loans and borrowings.

**14. EQUITY**

PJSC Gazprom’s charter capital amounted to RUB 118,368 million. The number of ordinary shares issued and paid did not change in 2015 and amounted to 23,674 million with nominal value of 5 Rubles each.

Treasury shares are recorded in the consolidated balance sheet at their purchase cost. The number of treasury shares held by subsidiaries of the Group totals 723 million as of 31 December 2015, 2014 and 2013.

Shares held by subsidiaries are not taken into account in calculation of earnings / (loss) per share (see Note 22).

The Group retains control over all treasury shares held by its subsidiaries.

In accordance with the decision of the General shareholders meeting, based on the 2014 results of PJSC Gazprom, final dividends were accrued and paid in 2015 in the amount of 7.20 Rubles per ordinary share. Based on the 2013 results dividends were accrued and paid in 2014 in the amount of 7.20 Rubles per ordinary share.

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**15. BORROWINGS**

*Bank borrowings*

<b>Lender</b>	<b>Currency</b>	<b>Final maturity</b>	<b>As of 31 December 2015</b>	<b>As of 31 December 2014</b>	<b>As of 31 December 2013</b>
Mizuho Bank Ltd. <sup>1</sup>	US dollar	2019	156,821	121,037	-
China Construction Bank Corporation, Beijing branch <sup>1</sup>	US dollar	2020	111,077	-	-
PJSC Sberbank	US dollar	2018	56,231	-	-
Commerzbank International S.A.	US dollar	2018	43,730	39,381	23,026
J.P.Morgan Europe Limited <sup>1</sup>	US dollar	2018	36,694	-	-
JSC Rosselkhozbank	Russian Ruble	2019	30,029	10,010	-
Deutsche Bank AG	US dollar	2016	29,690	22,901	13,327
Alfa-Bank (Joint-stock Company)	US dollar	2016	29,160	22,513	-
Intesa Sanpaolo S.p.A.	Euro	2016	28,028	-	-
Gazprombank (Joint-stock Company)	US dollar	2018	26,238	-	-
Sumitomo Mitsui Banking Corporation Europe Limited <sup>1</sup>	US dollar	2016	25,537	39,396	28,606
PJSC Promsvyazbank	US dollar	2020	25,509	-	-
Gazprombank (Joint-stock Company)	US dollar	2018	24,051	-	-
UniCredit Bank Austria AG	Euro	2019	23,940	-	-
Sumitomo Mitsui Finance Dublin Limited	US dollar	2016	23,392	18,056	10,504
BNP Paribas S.A. <sup>1</sup>	Euro	2022	22,802	22,352	16,550
Gazprombank (Joint-stock Company)	US dollar	2017	22,594	-	-
Banc of America Securities Limited	US dollar	2018	22,041	17,005	9,894
Bank of America Merrill Lynch International Limited	US dollar	2018	21,960	-	-
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2016	21,891	16,896	9,830
Commerzbank International S.A.	US dollar	2016	21,865	-	-
PJSC Sberbank	Russian Ruble	2017	19,802	19,802	-
PJSC Sberbank	Euro	2020	19,203	-	-
PJSC Sberbank	Euro	2017	17,971	15,416	10,145
Citibank International plc <sup>1</sup>	US dollar	2021	14,734	13,436	9,020
UniCredit Bank Austria AG	US dollar	2018	14,581	11,253	6,548
Banc of America Securities Limited	Euro	2017	14,420	12,372	8,143
HSBC Bank plc	Euro	2022	14,394	14,108	10,443
UniCredit Bank AG <sup>1,2</sup>	US dollar	2018	14,377	14,421	11,220
Bank of Tokyo-Mitsubishi UFJ Ltd. <sup>1</sup>	US dollar	2016	13,754	21,232	18,528
BNP Paribas S.A.	Euro	2023	13,559	-	-
Banc of America Securities Limited	US dollar	2016	13,126	10,132	5,895
PJSC Sberbank	Russian Ruble	2019	12,514	-	-
PJSC Sberbank	Russian Ruble	2019	12,514	-	-
PJSC Sberbank	Russian Ruble	2016	12,400	12,400	7,400
PJSC VTB Bank	US dollar	2016	12,104	9,307	-
Intesa Sanpaolo S.p.A.	Euro	2019	11,957	-	-
UniCredit Bank AG <sup>1,2</sup>	Euro	2018	11,297	12,631	11,116
Banca Intesa a.d. Beograd	US dollar	2019	10,947	8,450	3,284
PJSC Sberbank	US dollar	2018	10,947	8,449	4,915
PJSC Sberbank	Russian Ruble	2019	10,011	10,010	-
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	10,000	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	9,750	-	-
BNP Paribas S.A. <sup>1</sup>	Euro	2022	9,003	8,826	6,536
PJSC VTB Bank	Euro	2020	8,449	-	-
PJSC Sberbank	Russian Ruble	2016	8,300	8,300	-
PJSC VTB Bank	Russian Ruble	2018	8,250	8,250	3,750
Credit Agricole CIB	Euro	2024	8,245	7,856	5,686
Gazprombank (Joint-stock Company)	US dollar	2016	8,017	11,252	-
UniCredit Bank Luxembourg S.A. <sup>1</sup>	Euro	2016	7,973	-	-
GC Vnesheconombank	Russian Ruble	2025	7,852	8,979	14,698
PJSC Sberbank	Russian Ruble	2025	7,220	-	-
Sberbank Serbia a.d.	US dollar	2019	6,568	5,071	-
Gazprombank (Joint-stock Company)	Russian Ruble	2022	6,187	-	-
OJSC Credit Bank of Moscow	Russian Ruble	2018	5,831	-	-

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**15. BORROWINGS (continued)**

<b>Lender</b>	<b>Currency</b>	<b>Final maturity</b>	<b>As of 31 December 2015</b>	<b>As of 31 December 2014</b>	<b>As of 31 December 2013</b>
Banca Intesa a.d. Beograd	Euro	2018	5,754	-	-
Sberbank Serbia a.d.	US dollar	2017	5,483	4,231	-
Banc of America Securities Limited	Euro	2016	5,183	4,445	2,925
Alfa-Bank (Joint-stock Company)	Russian Ruble	2017	5,011	-	-
OJSC Bank ROSSIYA	Russian Ruble	2017	5,000	5,000	-
PJSC Sberbank	Russian Ruble	2018	3,759	3,759	3,759
UniCredit Bank AG <sup>1, 2</sup>	Russian Ruble	2018	1,894	2,352	3,145
The Royal Bank of Scotland AG <sup>1</sup>	US dollar	2015	-	26,939	16,339
UniCredit Bank Austria AG	Euro	2015	-	26,696	-
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2015	-	16,970	9,874
Credit Agricole CIB	Euro	2015	-	16,431	10,813
Gazprombank (Joint-stock Company)	US dollar	2015	-	9,620	-
PJSC Sberbank	Russian Ruble	2015	-	5,504	-
OJSC Bank ROSSIYA	Russian Ruble	2015	-	5,000	5,000
Gazprombank (Joint-stock Company)	US dollar	2015	-	3,584	2,085
Natixis S.A. <sup>1</sup>	US dollar	2014	-	-	23,933
PJSC VTB Bank	US dollar	2014	-	-	22,974
Deutsche Bank AG	US dollar	2014	-	-	9,899
Deutsche Bank AG	US dollar	2014	-	-	6,566
PJSC Sberbank	Russian Ruble	2014	-	-	6,216
PJSC VTB Bank	US dollar	2014	-	-	5,420
OJSC Bank ROSSIYA	US dollar	2014	-	-	3,960
Gazprombank (Joint-stock Company)	US dollar	2014	-	-	3,273
Deutsche Bank AG	US dollar	2014	-	-	2,346
PJSC VTB Bank	Russian Ruble	2014	-	-	708
Other	Various	Various	113,919	69,414	76,312
<b>Total, including</b>			<b>1,345,540</b>	<b>801,445</b>	<b>484,611</b>
due within one year, including current					
portion of long-term borrowings			388,013	188,443	131,132

<sup>1</sup> Loans received from consortiums of banks, named lender is the bank-agent.

<sup>2</sup> Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

Long-term foreign currency denominated borrowings had fixed interest rates ranging from 3.25 % to 10.00 % and from 3.05 % to 10.00 % in 2015 and 2014, respectively. Also in 2015-2014 long-term foreign currency denominated borrowings had variable interest rates generally linked to LIBOR and EURIBOR.

Long-term borrowings denominated in Russian Rubles had fixed interest rates ranging from 8.14 % to 19.39 % and from 8.00 % to 21.00 % in 2015 and 2014, respectively.

Interest rates on short-term foreign currency denominated borrowings ranged from 1.75 % to 10.00 % and from 5.00 % to 11.50 %, in 2015 and 2014, respectively. Also in 2015 and 2014 short-term foreign currency denominated borrowings had variable interest rates linked to EURIBOR and LIBOR.

Short-term borrowings denominated in Russian Rubles had fixed interest rates ranging from 10.00 % to 20.00 % and from 8.75 % to 25.00 % in 2015 and 2014, respectively.

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**15. BORROWINGS (continued)**

*Loans*

<b>Borrowing / Creditors</b>	<b>Currency</b>	<b>Final maturity</b>	<b>As of 31 December 2015</b>	<b>As of 31 December 2014</b>	<b>As of 31 December 2013</b>
Loan participation notes issued in April 2009 <sup>1</sup>	US dollar	2019	166,851	128,793	74,927
Loan participation notes issued in July 2012 <sup>1</sup>	Euro	2017	114,928	98,554	64,849
Loan participation notes issued in September 2012 <sup>2</sup>	US dollar	2022	110,666	85,424	49,697
Loan participation notes issued in November 2013 <sup>2</sup>	US dollar	2023	109,925	84,851	49,364
Loan participation notes issued in October 2007 <sup>1</sup>	Euro	2018	101,209	86,790	57,108
Loan participation notes issued in November 2006 <sup>1</sup>	US dollar	2016	99,054	76,460	44,482
Loan participation notes issued in March 2007 <sup>1</sup>	US dollar	2022	96,701	74,644	43,425
Loan participation notes issued in August 2007 <sup>1</sup>	US dollar	2037	93,593	72,245	42,030
Loan participation notes issued in April 2004 <sup>1</sup>	US dollar	2034	88,779	68,528	39,868
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2020	81,821	70,164	46,164
Loan participation notes issued in April 2008 <sup>1</sup>	US dollar	2018	81,622	63,004	36,654
Loan participation notes issued in October 2015 <sup>1</sup>	Euro	2018	80,475	-	-
Loan participation notes issued in July 2012 <sup>1</sup>	US dollar	2022	74,506	57,512	33,458
Loan participation notes issued in November 2011 <sup>1</sup>	US dollar	2016	73,264	56,552	32,900
Loan participation notes issued in July 2013 <sup>1</sup>	Euro	2018	72,891	62,506	41,129
Loan participation notes issued in February 2013 <sup>1</sup>	US dollar	2028	66,902	51,642	30,044
Loan participation notes issued in February 2014 <sup>1</sup>	Euro	2021	61,595	52,819	-
Loan participation notes issued in April 2013 <sup>2</sup>	Euro	2018	60,967	52,277	34,398
Loan participation notes issued in February 2013 <sup>1</sup>	US dollar	2020	59,210	45,705	26,589
Loan participation notes issued in September 2013 <sup>1</sup>	British Pound Sterling	2020	48,201	41,334	27,198
Loan participation notes issued in November 2011 <sup>1</sup>	US dollar	2021	44,881	34,644	20,155
Loan participation notes issued in November 2006 <sup>1</sup>	Euro	2017	41,447	35,542	23,387
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2025	41,211	35,340	23,254
Loan participation notes issued in March 2007 <sup>1</sup>	Euro	2017	40,205	34,477	22,686
Loan participation notes issued in October 2013 <sup>1</sup>	Swiss Franc	2019	36,957	28,637	18,444
Russian bonds series 06 issued in February 2013 <sup>3</sup>	Russian Ruble	2016	15,410	15,407	15,404
Russian bonds issued in November 2013 <sup>4</sup>	Russian Ruble	2043	15,246	15,134	15,102



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**15. BORROWINGS (continued)**

<b>Borrowing / Creditors</b>	<b>Currency</b>	<b>Final maturity</b>	<b>As of 31 December 2015</b>	<b>As of 31 December 2014</b>	<b>As of 31 December 2013</b>
Russian bonds issued in November 2013 <sup>4</sup>	Russian Ruble	2043	15,246	15,134	15,102
OJSC Tomskneft VNC	Russian Ruble	2018	12,985	13,170	9,908
Russian bonds issued in February 2011 <sup>2</sup>	Russian Ruble	2021	10,363	10,361	10,358
Russian bonds series 05 issued in February 2013 <sup>3</sup>	Russian Ruble	2017	10,275	10,273	10,271
Russian bonds issued in February 2011 <sup>2</sup>	Russian Ruble	2016	10,259	10,345	10,342
Russian bonds issued in February 2011 <sup>2</sup>	Russian Ruble	2021	10,228	10,345	10,342
Russian bonds issued in April 2009 <sup>2</sup>	Russian Ruble	2019	10,177	10,175	10,173
Russian bonds issued in December 2012 <sup>2</sup>	Russian Ruble	2022	10,070	10,068	10,065
Russian bonds series 04 issued in February 2013 <sup>3</sup>	Russian Ruble	2018	5,137	5,136	5,126
Russian bonds series 01 issued in November 2015 <sup>5</sup>	Russian Ruble	2020	5,058	-	-
Russian bonds series 02 issued in November 2015 <sup>5</sup>	Russian Ruble	2020	5,058	-	-
Russian bonds issued in February 2012 <sup>2</sup>	Russian Ruble	2022	452	10,335	10,332
Russian bonds series 02 issued in March 2006 <sup>6</sup>	Russian Ruble	2016	108	108	108
Loan participation notes issued in May 2005 <sup>1</sup>	Euro	2015	-	70,685	46,511
Loan participation notes issued in July 2009 <sup>1</sup>	Euro	2015	-	62,372	41,041
Loan participation notes issued in November 2010 <sup>1</sup>	US dollar	2015	-	56,513	32,877
Loan participation notes issued in November 2014 <sup>1</sup>	US dollar	2015	-	39,621	-
Russian bonds issued in October 2014 <sup>4</sup>	Russian Ruble	2015	-	13,821	-
White Nights Finance B.V.	US dollar	2014	-	-	42,682
Loan participation notes issued in July 2009 <sup>1</sup>	US dollar	2014	-	-	42,297
Loan participation notes issued in October 2006 <sup>1</sup>	Euro	2014	-	-	36,575
Loan participation notes issued in June 2007 <sup>1</sup>	Euro	2014	-	-	31,766
Russian bonds series A9 issued in February 2007 <sup>4</sup>	Russian Ruble	2014	-	-	5,138
Russian bonds series 03 issued in December 2009 <sup>6</sup>	Russian Ruble	2014	-	-	5,038
Russian bonds series A11 issued in June 2009 <sup>4</sup>	Russian Ruble	2014	-	-	5,013
Eurofert Trading Limited llc <sup>5</sup>	Russian Ruble	2014	-	-	3,600
Russian bonds issued in July 2009 <sup>7</sup>	Russian Ruble	2014	-	-	126
Other loans	Various	Various	22,240	23,911	19,264
<b>Total, including</b>			<b>2,106,173</b>	<b>1,901,358</b>	<b>1,326,771</b>
due within one year, including current portion of long-term borrowings			257,540	276,548	199,347

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**15. BORROWINGS (continued)**

<sup>1</sup> Issuer of these bonds is Gaz Capital S.A.

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

<sup>3</sup> Issuer of these bonds is Gazprom Capital LLC.

<sup>4</sup> Issuer of these bonds is PJSC Gazprom.

<sup>5</sup> Issuer of these notes is PJSC WGC-2

<sup>6</sup> Issuer of these bonds is PJSC Mosenergo.

<sup>7</sup> Issuer of these bonds is OJSC TGC-1.

As at 31 December 2015, 2014 and 2013 according to the project facility agreement, signed within the framework of the development project of Yuzhno-Russkoe 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, 2014 and 2013 carrying amount of these fixed assets is RUB 14,873 million, RUB 17,058 million and RUB 19,247 million, respectively. Management of the Group does not expect any substantial consequences to occur which relate to respective pledge agreement.

Fixed interest rates on long-term foreign currency denominated loans ranged from 2.85 % to 9.25 % in 2015 and 2014. Fixed interest rates on long-term loans denominated in Russian Rubles ranged from 0.30 % to 14.00 % and from 0.30 % to 8.90 % in 2015 and 2014, respectively.

In 2015 and 2014 fixed interest rates on short-term loans denominated in Russian Rubles ranged from 0.30 % to 12.50 % and from 0.30 % to 10.00 %, respectively.

**16. TAXATION**

*Profit tax*

In 2015 and 2014 theoretical profit tax determined based on accounting profit and statutory rates amounted to RUB 68,290 million and RUB 8,605 million, respectively. According to the tax returns the profit tax in 2015 and 2014 included within the line "Current profit tax" amounted to RUB 93,263 million and RUB 119,067 million, respectively.

According to updated tax returns submitted in 2015 the profit tax amounted to RUB 81 million. According to updated tax returns submitted in 2014 the profit tax amounted to RUB 7,247 million.

In 2015 permanent differences which increase the taxable profit exceeded permanent differences which decrease the taxable profit by RUB 23,358 million (in 2014 by RUB 1,239,820 million). The permanent differences principally arise from non-deductible expenses, such as excess of depreciation charge in respect of fixed assets revalued for accounting purposes as compared to depreciation charge for tax purposes, excess of allowance for doubtful accounts for accounting purposes as compared to allowance for doubtful accounts for tax purposes, non-production costs, social expenses, charitable donations, and expenses exceeding prescribed limits.

In 2015 and 2014 incurred deductible temporary differences which impacted the difference between the theoretical profit tax expense and the current profit tax amounted to RUB 615,031 million and RUB 355,912 million, respectively.

Deductible temporary differences incurred in 2015 principally arise from accrual of contingent liabilities for gas price adjustment and other contingent liabilities, longer useful lives of certain fixed asset items for tax purposes as compared to useful lives of these items for accounting purposes, the difference in impairment provision for accounting and tax purposes, the fact that expenses for geological and geophysical exploration are deductible for tax purposes later than for accounting purposes, and elimination in accounting records of unrealised income from intergroup transactions.

Deductible temporary differences settled in 2015 and 2014 totaled RUB 276,116 million and RUB 274,808 million, respectively. Settlement of these differences in 2015 is principally due to decrease of the current tax base related to contingent liabilities and geological and geophysical exploration expenses recognized for accounting purposes in prior periods, decrease of the current tax base by the amount of depreciation charge, accrued on fixed assets, useful life of which for tax purposes is longer than for accounting purposes, during prior tax periods, and recognition of the profit that was formerly excluded as unrealised income from intergroup transactions for accounting purposes in the current period.

In 2015 and 2014 incurred taxable temporary differences which impacted the difference between the theoretical profit tax expense and the current profit tax expense amounted to RUB 435,780 million and

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**16. TAXATION (continued)**

RUB 646,286 million, respectively. Taxable temporary differences in 2015 principally arise from longer useful lives of certain fixed asset items for accounting purposes as compared to useful lives of these items for tax purposes, application of a special depreciation premium of 10 % (30 % to fixed assets of the third-seventh depreciation groups), and storage costs included in the cost of finished goods for accounting purposes.

Taxable temporary differences settled in 2015 and 2014 totaled RUB 185,831 million and RUB 248,879 million, respectively. Settlement of these differences in 2015 is principally due to increase of the current tax base by the amount of depreciation charge, accrued on fixed assets, useful life of which for accounting purposes is longer than for tax purposes, during prior tax periods, as well as by the amount of costs of storage included in the cost of finished goods recognized in prior period for accounting purposes.

Starting from 1 January 2012 the Group established the Consolidated Group of Taxpayers (the “CGT”), the liable partner of which is PJSC Gazprom. On 20 April 2012 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered the agreement on establishment of CGT of the Group with 56 participants.

In December 2012 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered an amendment to the agreement on establishment of CGT of the Group which increased the number of participants up to 65 starting from 1 January 2013.

In 2013 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered an amendment No. 2 dated 26 November 2013 to the agreement on establishment of CGT of the Group which increased the number of participants up to 69 starting from 1 January 2014.

In 2014 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered an amendment No. 3 dated 26 November 2014 to the agreement on establishment which decreased the number of participants to 65 starting from 1 January 2015.

In 2015 the Interdistrict Inspectorate of the Federal Tax Service for Major Taxpayers No. 2 registered an amendment No. 4 dated 26 November 2015 to the agreement on establishment which increased the number of participants to 67 starting from 1 January 2016.

The income tax of CGT for 2015 and 2014 amounted to RUR 50,222 million and RUR 89,883 million, respectively.

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**17. SALES**

	<b>For 2015</b>	<b>For 2014</b>
Gas sales (net of VAT, excise tax and other similar mandatory payments)		
Russian Federation	775,826	798,082
Former Soviet Union countries (excluding Russian Federation)	429,660	416,980
Europe and other countries	<u>2,241,790</u>	<u>1,801,204</u>
<b>Net sales of gas</b>	<b>3,447,276</b>	<b>3,016,266</b>
Sales of refined products (net of VAT and other similar mandatory payments)		
Russian Federation	981,333	952,537
Former Soviet Union countries (excluding Russian Federation)	105,335	79,874
Europe and other countries	<u>468,464</u>	<u>586,204</u>
<b>Net sales of refined products</b>	<b>1,555,132</b>	<b>1,618,615</b>
Sales of oil and gas condensate (net of VAT and other similar mandatory payments)		
Russian Federation	168,925	92,729
Former Soviet Union countries (excluding Russian Federation)	27,580	16,013
Europe and other countries	<u>155,509</u>	<u>141,618</u>
<b>Net sales of oil and gas condensate</b>	<b>352,014</b>	<b>250,360</b>
Sales of electric and heat energy (net of VAT)		
Russian Federation	403,786	408,946
Former Soviet Union countries (excluding Russian Federation)	2,524	2,481
Europe and other countries	<u>19,057</u>	<u>15,383</u>
<b>Net sales of electric and heat energy</b>	<b>425,367</b>	<b>426,810</b>
Sales of gas transportation services (net of VAT)		
Russian Federation	151,121	133,641
Former Soviet Union countries (excluding Russian Federation)	2,302	1,687
Europe and other countries	<u>15</u>	<u>8</u>
<b>Net sales of gas transportation services</b>	<b>153,438</b>	<b>135,336</b>
Other sales (net of VAT)		
Russian Federation	260,117	189,521
Former Soviet Union countries (excluding Russian Federation)	6,517	4,757
Europe and other countries	<u>22,654</u>	<u>19,310</u>
<b>Total other sales</b>	<b>289,288</b>	<b>213,588</b>
<b>Net sales</b>	<b>6,222,515</b>	<b>5,660,975</b>

Net sales of gas increased by 14 % in the year ended 31 December 2015 compared to the year ended 31 December 2014. The overall increase of net sales of gas was mainly driven by the increase in sales of gas to Europe and other countries as well as the increase of average Russian Ruble prices of gas compared to the prior year.

The increase of net sales of oil and gas condensate in the year ended 31 December 2015 compared to the year ended 31 December 2014 is mainly driven by the increase in volumes sold to customers in the Russian Federation and Former Soviet Union countries as well as the increase in prices.

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18. COST OF SALES, COMMERCIAL AND ADMINISTRATIVE EXPENSES	For 2015	For 2014
Depreciation and amortization	903,923	759,363
Taxes included in cost of sales	748,232	722,354
Purchased gas	686,315	468,506
Staff costs and social expenses	566,403	484,170
Transit costs for gas, oil and refined products	531,560	399,716
Purchased oil	420,767	351,565
Materials	299,660	267,368
Cost of goods for resale	262,056	334,561
Repairs and maintenance	160,923	171,766
Energy	88,202	83,891
Rent, lease payments	42,166	45,650
Insurance	42,127	36,943
Other	366,819	291,760
Changes in inventories of finished goods, work in progress and other effects	<u>(134,625)</u>	<u>(100,380)</u>
<b>Total cost of goods, products, works and services sold, commercial and administrative expenses</b>	<b>4,984,528</b>	<b>4,317,233</b>

The increase in cost of purchased gas is mainly related to the completion of the Swap Agreement between PJSC Gazprom and Wintershall Holding GmbH, which resulted in acquisition of control over in the natural gas trading and storage operating companies W & G Beteiligungs-GmbH & Co. KG and WIEH GmbH & Co. KG and in their subsidiaries by the Group.

Mineral Extraction Tax within the line "Taxes included in cost of sales" amounted to RUB 540,773 million and RUB 516,045 million for 2015 and 2014, respectively.

The cost of purchased oil for increased mainly due to the increase in volumes of oil purchased from the third parties.

Other expenses primarily include transportation services, software services and maintenance, refining costs, advertisement, legal and consulting fees, cost of geologic and other services.

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**19. OTHER INCOME AND EXPENSES**

Note	For 2015		For 2014	
	Income	Expenses	Income	Expenses
Income / expense from trading activity without delivery	3,789,355	3,785,651	2,362,986	2,385,496
Sales and purchases of foreign currency	2,854,857	2,851,316	2,836,817	2,833,931
Exchange differences	2,056,452	2,441,596	962,686	1,624,063
Bad debts allowance	-	226,645	-	300,649
24 Provisions for estimated liabilities	11,704	175,382	39,579	143,139
5 Amortization of goodwill	-	62,184	-	62,218
Social expenses	-	34,715	-	35,576
Transactions with securities, including promissory notes	30,623	23,487	33,214	27,406
Profit and losses of previous years identified in the reporting year	34,548	20,430	37,765	31,950
Income / expense related to sale of other assets	3,668	16,658	8,732	6,427
Investment impairment allowance	-	9,191	-	2,117
Services of credit organizations	-	4,507	-	3,032
Transfer of accounts receivable	3,811	4,404	7,287	7,850
Income / expense related to gratuitous transfer of assets	739	3,654	499	2,917
Fines and penalties for breach of contracts	5,446	3,456	7,657	4,782
Income / expense related to sale and disposal of fixed assets	6,234	2,969	10,947	7,643
Accounts receivable written-off	-	1,637	-	727
Adjustment of investments (to fair value)	50,409	1,576	53	9,464
Other	<u>56,366</u>	<u>202,816</u>	<u>50,756</u>	<u>188,733</u>
<b>Total</b>	<b>8,904,212</b>	<b>9,872,274</b>	<b>6,358,978</b>	<b>7,678,120</b>

The Group recognized estimated liability regarding possible gas price adjustment derived from foreign customers' claims based on the contract terms. The provisions as of 31 December 2015 and 31 December 2014 in the amount of RUB 102,134 million and RUB 58,164 million respectively do not include possible correction of customs duties accrued formerly.

The line "Profit and losses of previous years identified in the reporting year" for the year ended 31 December 2015 includes positive effect of corrections regarding gas price adjustment in the amount of RUB 17,021 million. For the year ended 31 December 2014 positive effect of corrections regarding gas price adjustment amounted to RUB 2,147 million. These corrections refer to price adjustment of gas delivered in previous periods for which an adjustment was agreed in 2015 and 2014, respectively.

Other income and expenses related to accrual (release) of bad debts and investment impairment allowances are presented netted.

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**20. CONSOLIDATED SUBSIDIARIES AND ASSOCIATES OF THE GROUP**

*Principal subsidiaries as of 31 December 2015*

Note	Company	Share in Charter Capital, % <sup>1</sup>	Type of activity	Location
	LLC Aviapredpriyatie Gazprom avia	100	Air transportation services	Russia
			Construction and maintenance of gas pipelines, purchase, transportation, storage and distribution of natural gas	
23	WIBG GmbH <sup>2</sup>	100		Germany
	OJSC Vostokgazprom	100	Gas production	Russia
	GAZPROM Schweiz AG	100	Gas distribution	Switzerland
			Gas transportation and gas distribution	
	CJSC Gazprom Armenia	100		Armenia
	LLC Gazprom VNIIGAZ	100	Research and development	Russia
	OJSC Gazprom gazoraspredelenie	100	Gas network operation	Russia
	JSC Gazprom gazoraspredelenie Sever	96	Gas network operation	Russia
	LLC Gazprom geologorazvedka	100	Exploration, geophysics	Russia
	LLC Gazprom georesurs	100	Exploration, geophysics	Russia
	GAZPROM Germania GmbH	100	Gas distribution	Germany
	Gazprom Gerosgaz Holdings B.V.	100	Investing	Netherlands
			Participation in LNG production and realization projects	
	Gazprom Global LNG Ltd.	100	Production and refining of hydrocarbons	United Kingdom
	LLC Gazprom dobycha Astrakhan	100		Russia
	LLC Gazprom dobycha Krasnodar	100	Gas production	Russia
	LLC Gazprom dobycha Nadym	100	Production of hydrocarbons	Russia
	LLC Gazprom dobycha Noyabrsk	100	Production of hydrocarbons	Russia
			Production, refining and transportation of hydrocarbons	
	LLC Gazprom dobycha Orenburg	100		Russia
	LLC Gazprom dobycha Urengoy	100	Production of hydrocarbons	Russia
	LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	100	Development of hydrocarbon fields	Russia
	LLC Gazprom dobycha Yamburg	100	Production of hydrocarbons	Russia
	LLC Gazprom invest	100	Construction	Russia
	LLC Gazprom invest Vostok	100	Construction	Russia
			Information, consulting and transportation services	
	LLC Gazprom invest RGK	100		Russia
	CJSC Gazprom invest Yug	100	Construction	Russia
	LLC Gazprom investholding	100	Investing	Russia
	Gazprom International Germany GmbH	100	Investing	Germany
			Informational and technical assistance	
	LLC Gazprom inform	100		Russia
	LLC Gazprom komplektatsiya	100	Trading	Russia
	Gazprom Marketing and Trading Ltd.	100	Gas distribution	United Kingdom
	LLC Gazprom mezhregiongaz	100	Gas distribution	Russia
			Processing and distribution of refined products	
	OJSC Gazprom neftekhim Salavat	100		Russia
			Exploration, refining and sales of crude oil	
	PJSC Gazprom neft	96		Russia
			Exploration and sales of oil and petroleum gas	
	LLC Gazprom neft Orenburg	100		Russia
	Gazprom Neft Trading GmbH	100	Oil products trading	Austria
	LLC Gazprom neft shelf	100	Development of oil and gas fields	Russia
	LLC Gazprom pererabotka	100	Refining of hydrocarbons	Russia
			Repairs, modernization, reconstruction and conservation of gas production wells	
	LLC Gazprom podzemremont Orenburg	100		Russia
			Repairs, modernization, reconstruction and conservation of gas production wells	
	LLC Gazprom podzemremont Urengoy	100		Russia

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<b>Note</b>	<b>Company</b>	<b>Share in Charter Capital, %<sup>1</sup></b>	<b>Type of activity</b>	<b>Location</b>
	LLC Gazprom PKhG	100	Gas storage	Russia
	Gazprom Sakhalin Holdings B.V.	100	Foreign investing	Netherlands
	LLC Gazprom torgservis	100	Trading	Russia
	OJSC Gazprom transgaz Belarus	100	Transportation and gas distribution	Belorussia
	LLC Gazprom transgaz Volgograd	100	Gas transportation	Russia
	LLC Gazprom transgaz Ekaterinburg	100	Gas transportation	Russia
	LLC Gazprom transgaz Kazan	100	Gas transportation	Russia
	LLC Gazprom transgaz Krasnodar	100	Gas transportation	Russia
	LLC Gazprom transgaz Makhachkala	100	Gas transportation	Russia
	LLC Gazprom transgaz Moskva	100	Gas transportation	Russia
	LLC Gazprom transgaz Nizhny Novgorod	100	Gas transportation	Russia
	LLC Gazprom transgaz Samara	100	Gas transportation	Russia
	LLC Gazprom transgaz St. Petersburg	100	Gas transportation	Russia
	LLC Gazprom transgaz Saratov	100	Gas transportation	Russia
	LLC Gazprom transgaz Stavropol	100	Gas transportation	Russia
	LLC Gazprom transgaz Surgut	100	Gas transportation	Russia
	LLC Gazprom transgaz Tomsk	100	Gas transportation	Russia
	LLC Gazprom transgaz Ufa	100	Gas transportation	Russia
	LLC Gazprom transgaz Ukhta	100	Gas transportation	Russia
	LLC Gazprom transgaz Tchaikovsky	100	Gas transportation	Russia
	LLC Gazprom transgaz Yugorsk	100	Gas transportation	Russia
	Gazprom Finance B.V.	100	Investing	Netherlands
	LLC Gazprom tsentremont	100	Agency on technical maintenance and repairs	Russia
	LLC Gazprom export	100	Foreign trade	Russia
	LLC Gazprom energo	100	Electric energy transmission	Russia
	LLC Gazprom energoholding	100	Investing, asset management	Russia
	Gazprom EP International B.V.	100	Investing, asset management	Netherlands
	JSC Gazprom YRGM Development <sup>3</sup>	100	Raw hydrocarbons distribution	Russia
	CJSC Gazprom YRGM Trading <sup>3</sup>	100	Raw hydrocarbons distribution	Russia
	LLC Gazpromneft-Vostok	100	Oil and gas production	Russia
	JSC Gazpromneft-Kuzbass	100	Oil products trading	Russia
	JSC Gazpromneft-MNPZ	100	Processing and distribution of refined products	Russia
	OJSC Gazpromneft-Noyabrskneftegaz	100	Oil and gas production	Russia
	JSC Gazpromneft-Omsk	100	Oil products trading	Russia
	JSC Gazpromneft-ONPZ	100	Oil refining	Russia
	JSC Gazpromneft-Severo-Zapad	100	Oil products trading	Russia
	LLC Gazpromneftfinans	100	Investing	Russia
	LLC Gazpromneft-Khantos	100	Oil and gas production	Russia
	LLC Gazpromneft-Centr	100	Oil products trading	Russia
	LLC Gazpromtrans	100	Forwarding services	Russia
	OJSC Gazpromtrubinvest	100	Production and sales of pipes	Russia
	LLC Gazprom flot	100	Transportation, offshore field development	Russia
	OJSC Daltransgaz	100	Gas transportation	Russia
	LLC Zapolyarneft	100	Oil and gas production	Russia
	PJSC Krasnoyarskgazprom	75	Exploration, geophysics	Russia
	PJSC MIPC	90	Generation, purchase and supply of heat energy	Russia
	PJSC Mosenergo	53	Production of electric and heat power, electric power supply services	Russia
	Naftna Industrija Srbije a.d.	56	Extraction and processing of oil, distribution of refined products	Serbia



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**20. CONSOLIDATED SUBSIDIARIES AND ASSOCIATES OF THE GROUP (continued)**

<b>Note</b>	<b>Company</b>	<b>Share in Charter Capital, %<sup>1</sup></b>	<b>Type of activity</b>	<b>Location</b>
	LLC Novourengoy GSC	100	Construction of gas chemical complex	Russia
	PJSC WGC-2	77	Production and sales of electric and heat energy	Russia
	CJSC Purgaz	51	Gas production	Russia
	OJSC Regiongazholding	57	Construction and maintenance of gas facilities	Russia
	CJSC Rosshelf	57	Investments in oil and gas fields	Russia
23	South Stream Transport B.V.	100	Construction, gas transportation	Netherlands
	OJSC Severneftegazprom <sup>3</sup>	50	Exploration, processing and sales of gas and gas condensate	Russia
	Sibir Energy Ltd.	100	Exploration, processing and sales of hydrocarbons	United Kingdom
	LLC Sibmetakhim	100	Gas processing and sales of petrochemicals	Russia
	OJSC Spetsgazavtotrans	51	Construction and transportation services	Russia
	OJSC TGC-1	52	Production and sales of electric and heat energy	Russia
	OJSC Teploset Sankt-Peterburga	75	Transportation and distribution of electric and heat energy	Russia
	OJSC Tomskgazprom	100	Exploration, production, transportation of hydrocarbons	Russia
	LLC Faktoring-Finance	90	Investing	Russia
	OJSC Tsentrgez	100	Construction	Russia
	JSC Tsentrenergogaz	66	Repair and maintenance of gas equipment	Russia
	JSC Yuzhuralneftegaz	88	Exploration and sales of oil and petroleum gas	Russia
	LLC Yamalgazinvest	100	Designing and construction of gas facilities	Russia

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

<sup>2</sup> On 30 September 2015 in accordance with the Swap Agreement the Group acquired the 100 % of the interest in WIBG GmbH (see Note 23).

<sup>3</sup> Group's portion of voting shares.

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**20. CONSOLIDATED SUBSIDIARIES AND ASSOCIATES OF THE GROUP (continued)**

*Principal associates as of 31 December 2015*

<b>Company</b>	<b>Share in Charter Capital, %<sup>1</sup></b>	<b>Type of activity</b>	<b>Location</b>
JSC Achimgaz	50	Exploration and production of gas and gas condensate	Russia
Bosphorus Gaz Corporation A.S. <sup>2</sup>	71	Gas distribution	Turkey
WIGA Transport Beteiligungs-GmbH & Co. KG <sup>3</sup>	50	Gas transportation	Germany
Wintershall AG	49	Production of oil and gas distribution	Germany
Gaz Project Development Central Asia AG	50	Gas production	Switzerland
Gazprombank (Joint-stock Company)	36	Banking	Russia
Gasum OY	25	Gas distribution	Finland
Blue Stream Pipeline Company B.V.	50	Construction, gas transportation	Netherlands
SGT EuRoPol GAZ S.A.	48	Transportation and gas distribution	Poland
KazRosGaz LLP	50	Gas processing and sales of gas and refined products	Kazakhstan
JSC Latvijas Gaze	34	Transportation and gas distribution	Latvia
JSV Moldovagaz	50	Transportation and gas distribution	Moldova
Nord Stream AG <sup>2</sup>	51	Construction, gas transportation	Switzerland
CJSC Northgas	50	Exploration and sale of gas and gas condensate	Russia
Overgaz Inc. AD	50	Gas distribution	Bulgaria
CJSC Panrusgas	40	Gas distribution	Hungary
JSC Prometey Gaz	50	Gas distribution, construction	Greece
Salym Petroleum Development N.V.	50	Oil production	Netherlands
Sakhalin Energy Investment Company Ltd.	50	Oil production, production of LNG	Bermuda Islands
OJSC NGK Slavneft	50	Production of oil, sale of oil and refined products	Russia
OJSC Tomskneft VNK	50	Oil production	Russia
JSC Turusgas	45	Gas distribution	Turkey
LLC Yamal razvitie	50	Investment, asset management	Russia

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

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

<sup>3</sup> In May 2014 the shares in all gas transportation companies that belonged to W&G Beteiligungs GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG. As of 31 December 2015 and 2014 WIGA Transport Beteiligungs-GmbH & Co. KG forms an independent subgroup of associates.

**21. RELATED PARTIES**

As defined by RAR 11/2008 "Related parties", parties are considered to be related if one party has the ability to control another party or exercise significant influence over another party in making financial and operational decisions, or parties are engaged in joint activity. A non-state pension fund acting in favor of entity's employees is also considered a related party.

*Associates and other major related parties*

In 2015 and 2014 the Group had following operations with major associates and other related parties:

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**21. RELATED PARTIES (continued)**

	<b>For 2015</b>	<b>For 2014</b>
<b>Revenue (net of VAT, excise and other similar mandatory payments)</b>		
Gas sales		
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>1,2</sup>	123,156	130,533
WIEH GmbH & Co. KG <sup>2</sup>	109,935	132,773
Panrusgaz Gas Trading Plc	69,345	56,523
JSV Moldovagaz	31,950	32,421
Gasum OY	24,999	29,987
Bosphorus Gaz Corporation A.S.	19,735	23,097
JSC Latvijas Gaze	13,338	8,715
VEMEX s.r.o. and its subsidiaries	7,166	37
SGT EuRoPol GAZ S.A.	5,927	4,684
Overgaz Inc. AD	4,944	3,932
KazRosGaz LLP	3,598	-
WIEE AG <sup>2</sup>	1,344	3,861
AB Lietuvos dujos <sup>3</sup>	-	4,152
Gas transportation services		
KazRosGaz LLP	2,299	1,682
Crude oil, gas condensate and refined products sales		
OJSC NGK Slavneft and its subsidiaries	44,075	29,263
JSC SOVEKS	4,674	5,631
LLC NPP Neftekhimia	3,054	2,629
Poliom Ltd	2,744	1,843
Sakhalin Energy Investment Company Ltd.	2,233	-
LLC Gazpromneft-Aero Sheremetyevo <sup>4</sup>	-	3,022
Operator services sales		
CJSC Messoyakhaneftegaz	31,142	9,960
Gas refining services		
KazRosGas LLP	5,940	5,712
<b>Purchases</b>		
Gas purchases		
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>1,2</sup>	57,182	66,575
LLC SeverEnergiya and its subsidiaries	48,714	16,486
KazRosGaz LLP	44,624	28,428
Sakhalin Energy Investment Company Ltd.	20,226	14,838
CJSC Northgaz	8,819	8,515
Gas transportation services		
Nord Stream AG	73,966	55,471
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>1</sup>	24,386	11,306
SGT EuRoPol GAZ S.A.	17,881	13,143
Blue Stream Pipeline Company B.V.	4,188	2,903
JSV Moldovagaz	3,027	1,987
W & G Beteiligungs-GmbH & Co. KG and its subsidiaries <sup>1,2</sup>	-	7,949
Oil and refined products purchases		
OJSC NGK Slavneft and its subsidiaries	95,752	83,225
OJSC Tomskneft VNK and its subsidiaries	63,063	56,567
Salym Petroleum Development N.V.	37,086	32,956
Sakhalin Energy Investment Company Ltd.	9,140	19,243

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**21. RELATED PARTIES (continued)**

	For 2015	For 2014
Purchased services of gas and gas condensate extraction		
JSC Achimgaz	28,798	20,513
Oil and oil product refining services		
OJSC NGK Slavneft and its subsidiaries	14,179	12,838
<b>Pension fund contributions</b>		
NPF Gazfund	15,738	13,464

<sup>1</sup> In May 2014 the shares in all gas transportation companies that belonged to W&G Beteiligungs-GmbH & Co. KG were transferred to WIGA Transport Beteiligungs-GmbH & Co. KG.

<sup>2</sup> In September 2015 W&G Beteiligungs-GmbH & Co. KG and its subsidiaries, WIEH GmbH & Co. KG (formerly Wintershall Erdgas Handelshaus GmbH & Co. KG), WIEE AG (formerly Wintershall Erdgas Handelshaus Zug AG) became subsidiaries of the Group (see Note 23).

<sup>3</sup> In accordance with the provisions of the Third Energy Package of the European Union regarding the split between the gas transmission and distribution activities in August 2013 AB Lietuvos dujos transferred assets, liabilities and rights related to gas transportation to AB Amber Grid, an associate of the Group. In June 2014 the Group sold its 37 % interests in associates, AB Lietuvos dujos and AB Amber Grid, to companies controlled by the Republic of Lithuania for EUR 121 million.

<sup>4</sup> In March 2014 the Group acquired 100 % share in LLC Aero TO the only asset of which is 50 % share in LLC Gazpromneft-Aero Sheremetyevo. As a result the Group's effective share in LLC Gazpromneft-Aero Sheremetyevo increased from 47.84 % to 95.68 % and the Group obtained control over LLC Gazpromneft-Aero Sheremetyevo.

In Russia the Group sold gas to associates mainly using tariffs set by the Federal Antimonopoly Service. Until 21 July 2015 these functions were performed by the Federal Tariffs Service. Export sales of gas are based on long-term contracts with prices linked to world energy commodity prices. The Group purchases oil and gas from associates in the ordinary course of business at prices close to average market prices.

The following balances of accounts receivable and accounts payable with major associates and other related parties were recorded on the consolidated balance sheet of the Group as of 31 December 2015, 2014 and 2013:

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
<b>Accounts receivable</b>			
Accounts receivable (payment expected within 12 months of the reporting date)			
Gazprombank (Joint-stock company)	36,301	2,430	9,339
Overgaz Inc. AD	8,813	9,246	8,011
CJSC Messoyakhaneftegaz	8,576	1,869	935
OJSC NGK Slavneft and its subsidiaries	8,415	10,701	4,512
Panrusgaz Gas Trading Plc	7,434	3,523	5,774
JSV Moldovagaz <sup>1</sup>	4,435	1,281	-
Gasum OY	2,579	5,353	4,157
VEMEX s.r.o.	1,790	1,367	899
Sakhalin Energy Investment Company Ltd.	1,149	493	84
Salym Petroleum Development N.V.	1,010	1,112	674
Bosphorus Gaz Corporation A.S.	314	1,349	2,731
CJSC Northgaz	12	1,952	-
WIEH GmbH & Co. KG	-	20,739	20,501
W & G Beteiligungs-GmbH & Co. KG. and its subsidiaries	-	17,448	8,452
LLC Yamal razvitie	-	1,272	-
WIEE AG	-	1,081	1,290
AB Lietuvos dujos	-	-	2,000
Accounts receivable (payment expected beyond 12 months of the reporting date)			
Gazprombank (Joint-stock company)	255	4,119	330

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**22. RELATED PARTIES (continued)**

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
<b>Accounts payable</b>			
Short-term accounts payable			
Nord Stream AG	7,170	6,098	4,179
JSC Achimgaz	4,506	3,188	1,998
KazRosGaz LLP	3,370	2,925	2,992
Salym Petroleum Development N.V.	2,720	1,994	3,839
STG EuRoPol GAZ S.A.	2,710	2,272	7,702
Gasum OY	2,260	-	-
JSC Latvijas Gaze	1,806	214	66
OJSC NGK Slavneft and its subsidiaries	1,510	1,926	2,466
Sakhalin Energy Investment Company Ltd.	854	1,440	657
W & G Beteiligungs-GmbH & Co. KG. and its subsidiaries	-	6,464	4,715
AB Lietuvos dujos <sup>2</sup>	-	-	3,188

<sup>1</sup> Accounts receivable are stated net of allowance for doubtful debts amounting to RUB 396,456 million, RUB 288,657 million and RUB 158,106 million as of 31 December 2015, 2014 and 2013, respectively.

<sup>2</sup> Accounts payable include estimated liability relating to gas price adjustment in the amount of RUB 3,188 million.

Loans issued to major associates and promissory notes received from major associates as of 31 December 2015, 2014 and 2013 are presented as follows:

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
<b>Loans and promissory notes due for repayment beyond 12 months of the reporting date</b>			
LLC Yamal razvitie	36,831	48,253	2,200
WIGA Transport Beteiligungs - GmbH & Co. KG and its subsidiaries	15,933	13,663	-
CJSC Messoyakhaneftegaz	14,614	10,672	2,838
Erdgasspeicher Peissen GmbH	8,448	3,745	2,060
Etzel Kavernenbetriebsgesellschaft mbH & Co. KG	4,695	5,293	3,811
Wintershall Noordzee B.V.	3,571	-	-
W & G Beteiligungs-GmbH & Co. KG. and its subsidiaries	-	26,161	17,214
Gas Project Development Central Asia AG	-	788	1,826
<b>Loans and promissory notes due for repayment within 12 months of the reporting date</b>			
CJSC Messoyakhaneftegaz	11,166	-	2,009
Wintershall AG	3,064	2,567	-
Gazprombank (Joint-stock company)	113	885	1,094
LLC Yamal razvitie	-	-	26,348

**PJSC GAZPROM**  
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**21. RELATED PARTIES (continued)**

Loans received from major associates as of 31 December 2015, 2014 and 2013 are presented as follows:

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
<b>Loans and borrowings due for repayment beyond 12 months of the reporting date</b>			
Gazprombank (Joint-stock company)	114,793	36,490	26,195
OJSC Tomskneft VNK	12,985	13,170	9,908
<b>Loans and borrowings due for repayment within 12 months of the reporting date (including current portion of long-term liabilities)</b>			
Gazprombank (Joint-stock company)	15,635	24,397	13,614

The Group received loans from its major associates in Russian Rubles at rates ranging from 13.00 % to 14.50 % in 2015. The similar figure for 2014 was 9.80 % to 25.00 %.

Besides, the Group received loans nominated in foreign currency at the rate ranging from 6.00 % in 2015. The similar figure in 2014 was 4.25 % to 9.50 %.

*Remuneration to key management personnel*

Key management personnel's (the members of the Board of Directors and Management Committee of PJSC Gazprom) short-term compensation, including salary, bonuses and remuneration for serving in the management bodies of PJSC Gazprom and its subsidiaries, amounted to RUB 4 801 million and RUB 4,393 million for the years ended 31 December 2015 and 2014, respectively.

Government representatives serving in the Board of Directors do not receive any remuneration from PJSC Gazprom and its subsidiaries. Remuneration of members of the Board of Directors is approved by the annual meeting of shareholders. Compensation of key management personnel (other than remuneration of the Board of Directors) paid by PJSC Gazprom and its subsidiaries 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.

PJSC Gazprom provided medical insurance and liability insurance to key management personnel. Voluntary medical insurance amounted to RUB 1 million and liability insurance amounted to RUB 1 million for 2015 (RUB 1 million and RUB 1 million for 2014 respectively).

**22. EARNINGS / (LOSS) PER SHARE**

Basic earnings / (loss) per share have been calculated by dividing the net profit / (loss) for the year by the weighted average number of ordinary shares outstanding during the reporting year. The weighted average number of ordinary shares outstanding for 2015 and 2014 amounted to 22,951 million shares.

Diluted earnings / (loss) per share have not been calculated due to the absence of instruments convertible to ordinary shares as of 31 December 2015 and 2014.

**23. ACQUISITION OF SUBSIDIARIES**

**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 this investment as investment in associates. 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 cash.

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**23 ACQUISITION OF SUBSIDIARIES (continued)**

**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 to 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 Investments in subsidiaries in the Statutory consolidated accounting reports 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 & Co. KG, respectively.

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

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 & Co. KG. These subgroups were accounted as investments in associates. 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 %.

Economically, the Group acquired the remaining shares in the natural gas trading and storage operating companies W & G Beteiligungs-GmbH & Co. KG and WIEH GmbH & Co. KG 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 as investment in associates since the acquisition date.

As a result of these transactions goodwill in the amount of RUB 31,112 million has arisen in respect of WIBG GmbH.

**Acquisition of South Stream Transport B.V.**

In December 2014 the Group became the owner of 100 % of the interest in South Stream Transport B.V., the company responsible for the offshore part of the South Stream project. Until 29 December 2014, South Stream Transport B.V. was a joint project held by the Group (50 %), ENI International B.V. (20 %), EDF International S.A.S. (15 %) and Wintershall Holding GmbH (15 %). On 29 December 2014, the Group acquired the remaining 50 % of the shares of South Stream Transport B.V. from the minority shareholders for consideration of EUR 883 million paid in cash. South Stream Transport B.V. was established for the planning, construction, and subsequent operation of the offshore pipeline through the Black Sea and had no notable operating activities up to and as of the purchase date other than the management of construction.

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**24. COMMITMENTS AND CONTINGENCIES**

*Estimated liabilities*

	As of 31 December 2014	Accrued	Utilized	Recovered	As of 31 December 2015
Estimated liabilities on bonus payments at the year end	34,530	47,332	(42,795)	(1,754)	37,313
Estimated liabilities on vacations	25,704	54,765	(50,964)	(225)	29,280
Estimated liabilities on retirement benefits payable as a lump sum	19,101	13,593	(9,338)	(578)	22,778
Estimated liabilities regarding fixed assets liquidation and environmental restoration in the context of subsurface use	98,069	42,176	(798)	(197)	139,250
Other estimated liabilities, including:	163,066	120,375	(25,232)	(13,422)	244,787
<i>estimated liabilities regarding gas price adjustment</i>	58,164	77,844	(22,859)	(11,015)	102,134
<i>guarantees issued</i>	47,407	13,997	-	-	61,404
<b>Total, including:</b>	<b>340,470</b>	<b>278,241</b>	<b>(129,127)</b>	<b>(16,176)</b>	<b>473,408</b>
with maturity up to 1 year	237,470	225,182	(128,048)	(16,077)	318,527
	As of 31 December 2013	Accrued	Utilized	Recovered	As of 31 December 2014
Estimated liabilities on bonus payments at the year end	28,547	41,747	(34,671)	(1,093)	34,530
Estimated liabilities on vacations	23,940	47,473	(45,165)	(544)	25,704
Estimated liabilities on retirement benefits payable as a lump sum	15,027	11,170	(6,682)	(414)	19,101
Estimated liabilities regarding fixed assets liquidation and environmental restoration in the context of subsurface use	116,483	38,097	(5,235)	(51,276)	98,069
Other estimated liabilities, including:	63,265	151,553	(48,981)	(2,771)	163,066
<i>estimated liabilities regarding gas price adjustment</i>	8,430	57,728	(5,779)	(2,215)	58,164
<i>guarantees issued</i>	-	47,407	-	-	47,407
<b>Total, including:</b>	<b>247,262</b>	<b>290,040</b>	<b>(140,734)</b>	<b>(56,098)</b>	<b>340,470</b>
with maturity up to 1 year	124,853	251,142	(133,709)	(4,816)	237,470

*Pension obligations*

Due to the fact that regulation of accrual of pension obligations in the accounting is not foreseen by the existing regulatory documents, calculation of pension obligations and assets is only possible for the Group as a whole and is provided in the Notes to the IFRS consolidated financial statements ([www.gazprom.ru](http://www.gazprom.ru)).

*Guarantees issued*

The following guarantees were issued to third parties on behalf of other entities:

	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
Outstanding guarantees issued on behalf of:			
Ostchem Holding Limited	61,404	47,407	-
Blackrock Capital Investments Limited	9,946	7,675	4,804
Sakhalin Energy Investment Company Ltd.	-	136,490	89,825
LLC Production Company VIS	-	7,016	8,164
EM Interfinance Limited	-	3,065	3,668
Nord Stream AG	-	-	50,830
Other	36,001	75,104	43,752
<b>Total</b>	<b>107,351</b>	<b>276,757</b>	<b>201,043</b>

In June 2008 the Group provided a guarantee to the Bank of Tokyo-Mitsubishi UFJ Ltd. on behalf of Sakhalin Energy Investment Company Ltd. under the credit facility up to the amount of the Group's share (50 %) in the obligations of Sakhalin Energy Investment Company Ltd. toward the Bank of Tokyo Mitsubishi UFJ Ltd. The above guarantees amounted to RUB nil million, RUB 136,490 million and RUB 89,825 million as of



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**24. COMMITMENTS AND CONTINGENCIES (continued)**

31 December 2015, 2014 and 2013, respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock company) on behalf of Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2015 and 31 December 2014 the above guarantee amounted to RUB 61,404 million and RUB 47,407 million, respectively, and was fully provided by the Group.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) 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) in regard to bonds issued 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 the guarantees issued to Asset Repackaging Trust Five B.V. on behalf of Blackrock Capital Investments Limited and EM Interfinance Limited amounted to RUB 9,946 million, RUB 10,740 million and RUB 8,472 million as of 31 December 2015, 2014 and 2013, respectively.

In July 2012 the Group provided a guarantee to PJSC Sberbank Rossii on behalf of LLC Production Company VIS as a security of credit facility for financing of construction projects for the Group. As of 31 December 2015, 2014 and 2013 the above guarantee amounted to RUB nil million, RUB 7,016 million and RUB 8,164 million, respectively.

In March 2011 the Group provided a guarantee to Societe Generale on behalf of Nord Stream AG under the credit facility for financing of Nord Stream gas pipeline Phase 2 construction completion. According to guarantee agreements the Group has to redeem debt up to the amount of the Group's share (51 %) in the obligations of Nord Stream toward the Societe Generale in the event that Nord Stream fail to repay those amounts. As of 31 December 2015, 2014 and 2013 the above guarantee within the Group's share in Nord Stream AG obligations to the bank amounted to RUB nil million, RUB nil million and RUB 50,830 million, respectively.

Other guarantees include mainly guarantees issued by the Group under equipment purchase or construction and installation works contracts.

*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 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 (according to plaintiff's estimates – not less than USD 6,000 million) and cancellation of the Contract No. KP prohibition on reexport of natural gas.

On 21 July 2014, both cases were consolidated. Oral hearing of the case is expected in September –October 2016. Decision of the arbitration panel is scheduled for late 2016 or early 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. TCGU (the "Contract No. TCGU") 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. TCGU, which will be subsequently updated, are invalid and / or inoperative and should be supplemented with or substituted by provisions which will be

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**24. COMMITMENTS AND CONTINGENCIES (continued)**

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. TCGU 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 hearing of the case is expected late November-early December 2016 and decision of the arbitration panel is expected by the end of January 2017.

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 billion compensation (as of 31 December 2015 – RUB 115,410 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 analysis of hearing materials including witness statement and expert statement. The arbitrators’ decision is being expected up to 30 June 2016.

In August 2012 the European Commission initiated an 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.

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 compensation for the work performed, reimbursement for the expenses incurred and for the termination of the agreement in the amount of about EUR 760 million plus interest (as of 31 December 2015 - RUB 60,570 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 are arranging the schedule of the arbitration.

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.

*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

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**24. COMMITMENTS AND CONTINGENCIES (continued)**

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);

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. In addition, the EU imposed sanctions in relation to certain sectors of the Russian economy, affecting some of the activities of the Group in the field of oil production.

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 specialized 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);

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, 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)), 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 Russia 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.

In June 2015 Canada imposed additional sanctions on the Russian energy sector, 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

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**24. COMMITMENTS AND CONTINGENCIES (continued)**

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.

In November and December 2015 the Russian Federation adopted a number of special economic measures towards the Republic of Turkey. Thus a decision about suspension of the activity of the Russian-Turkish Intergovernmental Commission on Trade and Economic Cooperation is adopted.

Moreover the following projects have been suspended: negotiation process with the Turkish party on the Draft Agreement between the Government of the Russian Federation and the Government of the Republic of Turkey about trade in services and investments, Draft Medium-Term Programme of trade and economic, technical, scientific and cultural collaboration between the Government of the Russian Federation and the Government of the Republic of Turkey for the years 2016-2019 and on establishment of the Russian-Turkish fund on financing investment projects in the Russian Federation and the Republic of Turkey.

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

*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 31 December 2015 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

The Russian legislation on transfer pricing grants the right to a taxpayer to validate compliance with market prices in controlled transactions through preparation of documentation for tax purposes.

The management of the Group believes that the Group sets market prices in its transactions and internal controls procedures were introduced to comply with tax legislative requirements on transfer pricing.

Currently the legal practice has not been established yet, consequences of the trials with tax authorities cannot be estimated reliably, however they can have significant impact on financial results and activities of the Group.

**25. ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION**

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

The political and economic instability, the current impact and ongoing situation with sanctions, uncertainty and volatility of the financial and commodities markets and other risks have had and may continue to have effects on the Russian economy. During 2015 the official Russian Ruble to US dollar and Euro foreign exchange rates fluctuated between 49.1777 and 72.8827 Russian Rubles and 52.9087 and 81.1533 Russian Rubles per US dollar and Euro, respectively. In addition during 2015 the key interest rate determined by the Central Bank of the Russian Federation decreased to 11 % and actual inflation was 12.9 %.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads.

The future economic direction of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. 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.

**26. OPERATING RISKS**

Risk management of the Group is conducted within the framework of a unified corporate system and is defined as a continuous cycle of management decision making and implementation composed of risk identification, estimation and valuation, risk response, efficiency control, planning of risk management and monitoring activities. This process is built into general governance, focused on risk optimization as consistent with the Group interests and spreads to all its activities.

The market position of the Group including trends of the corresponding market segment, adaptation to the market conditions, business priorities and perspectives as well as the Group's key business risk factors are disclosed on the website [www.gazprom.com](http://www.gazprom.com).

**PJSC GAZPROM**  
**NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2015**  
**(in millions of Russian Rubles)**

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**27. POST BALANCE SHEET EVENTS**

*Financial investments*

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

*Borrowings and loans*

In January 2016 the Group obtained a long-term loan from PJSC Sberbank in the amount of USD 165 million at an interest rate of 4.9 % due in 2018.

In March 2016 the Group issued Loan Participation Notes in the amount of 500 million of Swiss Francs at an interest rate of 3.375 % due in 2018 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In March 2016 the Group obtained a long-term loan from Bank of China Limited, London branch in the amount of EUR 2,000 million at an interest rate of EURIBOR + 3.5 % due in 2021.

In March 2016 the Group issued Russian bonds in the amount of RUB 25,000 million at an interest rate of 10.65 % due in 2046. Under the terms of the bonds bondholders can execute the right of early redemption in 2021.

In January-March 2016 the Group signed agreements to obtain long-term loans from PJSC VTB Bank in the total amount of RUB 100,000 million at an interest rate within the range of current key rate of the Central Bank of the Russian Federation + 2 % – the Central Bank of the Russian Federation + 2.014 % due in 2021.

*Legal proceedings*

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. 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.



A.B. Miller  
Chairman of the Management Committee

25 April 2016



E.A. Vasilieva  
Chief Accountant

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