

ФБК

PJSC GAZPROM

Consolidated Accounting Reports with Independent Auditor's Report

31 December 2017

Moscow | 2018



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Independent Auditor's Report

To the Shareholders of PJSC Gazprom

Opinion

We have audited the accompanying consolidated accounting reports of Public Joint Stock Company Gazprom ("PJSC Gazprom") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of financial results, the consolidated statement of changes in the shareholders' equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated accounting reports ("the consolidated accounting reports").

In our opinion, the consolidated accounting reports present fairly, in all material respects, the financial position of the Group as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with the reporting rules established in the Methodology guidelines on preparing consolidated accounting reports approved by PJSC Gazprom on 5 August 2016 ("the Methodology guidelines") based on Russian accounting standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Accounting Reports* section of our report. We are independent of the Group in accordance with the Rules of Independence of the Auditors and Audit Organisations and The Code of Professional Ethics of the Auditors, which are in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Accounting Principles

We draw attention to Note 2 "Significant accounting policies and basis of presentation" to the consolidated accounting reports, which described accounting principles. The consolidated accounting reports are prepared in accordance with the reporting rules established in the Methodology guidelines. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated accounting reports of the current period. These matters were addressed in the context of our audit of the consolidated accounting reports as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

During the audit we specially focused on revenue recognition as revenue streams are formed in different geographical segments with significantly different terms of revenue recognition including price determination and change, transfer of risks and rewards.

We assessed the consistency in the application of the revenue recognition accounting policy applicable to various types of revenue and geographic segments. Our audit procedures in respect of the risk of material misstatement of revenue included, in particular, evaluation of the design of controls and performance of substantive procedures in respect of the sales transactions. Based on the results of our audit procedures, we considered the position of the Group's management on the revenue recognition to be appropriate.

We paid special attention to the analysis and testing of estimated liabilities associated with gas price adjustments under long-term contracts and existing controls in this area. The amount of the estimated adjustments depends of the effective terms and conditions of the contracts and the results of the negotiations between the Group and the specific customers. Based on the results of the analysis, we considered that the amount of the estimated liability recognised as at the end of the reporting period was the best estimate of the expenditure required to settle the present obligation.

Information about sales, including information by geographic segments, is disclosed in Note 17 "Sales" to the consolidated accounting reports.

Revaluation of fixed assets

We consider this area to be one of the most significant audit areas in view of the significant balances of fixed assets. The Group performs regular revaluation of fixed assets to ensure that the value of fixed assets at which they are recognised in consolidated accounting reports does not significantly differ from their current (replacement) cost. No revaluation of fixed assets was performed as at 31 December 2017 in the majority of Group entities because of insignificant change in the current (replacement) cost identified.

We engaged our valuation experts to make a conclusion on the assumptions and methodology applied to testing the necessity for revaluation of fixed assets. Our audit procedures in respect of such testing included sample checking of test models and methods for accuracy.

Based on the results of the audit procedures, we consider that the significant assumptions applied to testing the necessity for revaluation of fixed assets are acceptable and correspond to the current economic environment.

Information about fixed assets is disclosed in Note 7 "Fixed assets" to the consolidated accounting reports.

Evaluation of bad debt accounts receivable

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

Based on the results of the procedures performed, we considered the criteria and assumptions applied by the management to accrue bad debt allowance to be appropriate.

Information about accounts receivable and bad debt allowance is disclosed in Note 11 "Accounts receivable" to the consolidated accounting reports.

Evaluation, recognition and disclosure of information about liabilities in respect of legal proceedings

Evaluation, recognition and disclosure of information about liabilities in respect of legal proceedings require significant professional judgments. We consider this area to be one of most significance in our audit due to the material amounts subject to contestation and essential difficulties associated with the assessment issue.

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

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

Information about estimated and contingent liabilities is disclosed in Note 23 "Commitments and contingencies" to the consolidated accounting reports.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of PJSC Gazprom for 2017 but does not include the consolidated accounting reports and our auditor's report thereon. The Annual Report of PJSC Gazprom is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated accounting reports does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated accounting reports, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated accounting reports or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual report of PJSC Gazprom for 2017, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Accounting Reports

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

In preparing the consolidated accounting reports, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Accounting Reports

Our objectives are to obtain reasonable assurance about whether the consolidated accounting reports as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated accounting reports.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- a) identify and assess the risks of material misstatement of the consolidated accounting reports, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Group's management;
- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated accounting reports or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- e) evaluate the overall presentation, structure and content of the consolidated accounting reports, including the disclosures, and whether the consolidated accounting reports represent the underlying transactions and events in a manner that achieves fair presentation.
- f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounting reports. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated accounting reports of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

President of FBK, LLC



Engagement partner



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

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

Date of Independent auditor's report
24 April 2018

Audited entity

Name:

Public Joint Stock Company Gazprom
(PJSC Gazprom).

Address of the legal entity within its location:

16, Nametkina St., Moscow, 117420, Russian Federation.

Official registration:

State Registration Certificate No.002.726, issued by Moscow Registration Chamber on 25 February 1993. The registration entry was made in the Unified State Register of Legal Entities on 02 August 2002 under principal state registration (OGRN) number 1027700070518.

Auditor

Name:

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

Address of the legal entity within its location:

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

Official registration:

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

Membership in self-regulatory organization of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo".

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

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


PJSC GAZPROM
CONSOLIDATED BALANCE SHEET
as of 31 December 2017
(in millions of Russian Rubles)

Note	ASSETS	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
I. NON-CURRENT ASSETS				
	Intangible assets, including:	727,230	779,418	844,925
5	goodwill on subsidiaries	693,106	752,525	817,501
	Results of research and development	7,198	8,161	8,696
6	Intangible exploration assets	168,505	167,651	161,851
6	Tangible exploration assets	108,572	95,952	88,203
	Fixed assets, including:	12,370,738	11,977,146	11,024,856
7	Objects of fixed assets, including:	9,343,019	9,705,138	8,869,274
	buildings, constructions, machinery and equipment	9,069,555	9,429,126	8,639,839
8	Construction in progress	3,027,719	2,272,008	2,155,582
9, 20	Financial investments, including:	1,496,335	1,475,787	1,428,139
	investments in subsidiaries	167,201	153,636	139,553
	investments in associates	972,261	857,741	906,078
	investments in other companies	221,800	254,254	195,401
	loans issued to companies beyond 12 months	95,089	129,273	149,053
	other financial investments	39,984	80,883	38,054
16	Deferred tax assets	266,027	178,144	173,178
	Other non-current assets	<u>290,905</u>	<u>197,702</u>	<u>177,745</u>
	TOTAL Section I	15,435,510	14,879,961	13,907,593
II. CURRENT ASSETS				
10	Inventories, including:	891,710	837,300	914,550
	raw materials and other inventories	210,661	202,313	211,102
	work in progress	32,776	18,945	21,081
	finished goods and goods for resale	632,267	605,855	672,423
	goods dispatched	16,006	10,187	9,944
	Value added tax on purchased goods	119,971	194,084	228,510
11	Accounts receivable, including:	1,519,108	1,528,901	1,617,739
	Accounts receivable (payment expected beyond 12 months of the reporting date), including:	74,111	87,855	72,368
	buyers and customers	10,677	19,761	23,838
	advances paid	5,656	3,161	3,109
	other accounts receivable	57,778	64,933	45,421
	Accounts receivable (payment expected within 12 months of the reporting date), including:	1,444,997	1,441,046	1,545,371
	buyers and customers	803,840	840,759	796,745
	advances paid	307,584	299,129	272,101
	other accounts receivable	333,573	301,158	476,525
12	Financial investments (less cash equivalents), including:	508,444	298,793	233,746
	loans issued to companies due within 12 months	149,147	142,393	91,411
	other financial investments	359,297	156,400	142,335
13	Cash and cash equivalents, including:	875,020	890,878	1,366,200
	cash on hand	1,015	940	1,058
	ruble bank accounts	255,105	462,072	616,346
	non-ruble bank accounts	243,538	328,660	575,665
	other monetary assets and cash equivalents	375,362	99,206	173,131
	Other current assets	<u>11,234</u>	<u>10,724</u>	<u>12,710</u>
	TOTAL Section II	<u>3,925,487</u>	<u>3,760,680</u>	<u>4,373,455</u>
	TOTAL ASSETS	19,360,997	18,640,641	18,281,048

PJSC GAZPROM
CONSOLIDATED BALANCE SHEET
as of 31 December 2017
(in millions of Russian Rubles)

Note	EQUITY AND LIABILITIES	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
III. EQUITY AND RESERVES				
14	Charter capital	118,368	118,368	118,368
14	Treasury shares	(258,786)	(258,786)	(126,786)
	Revaluation of non-current assets	6,414,008	6,403,997	5,532,727
	Additional capital (less revaluation)	749,033	723,997	1,011,407
	Legal reserves	39,221	36,434	35,212
	Retained earnings	6,241,670	6,350,634	5,895,586
2, 7	Social government fund	<u>542</u>	<u>525</u>	<u>552</u>
	TOTAL Section III	13,304,056	13,375,169	12,467,066
	Minority interest	340,633	322,571	312,084
IV. NON-CURRENT LIABILITIES				
15	Borrowings, including:	2,386,241	2,392,696	2,806,160
	bank borrowings due for repayment beyond 12 months of the reporting date	833,410	862,081	957,527
	loans due for repayment beyond 12 months of the reporting date	1,552,831	1,530,615	1,848,633
16	Deferred tax liabilities	567,408	539,221	500,839
23	Provisions	202,061	166,883	154,881
	Other liabilities	<u>19,223</u>	<u>17,790</u>	<u>11,414</u>
	TOTAL Section IV	<u>3,174,933</u>	<u>3,116,590</u>	<u>3,473,294</u>
V. CURRENT LIABILITIES				
15	Borrowings, including:	880,065	446,859	645,553
	bank borrowings due for repayment within 12 months of the reporting date	43,292	44,655	45,996
	loans due for repayment within 12 months of the reporting date	42,757	15,834	5,084
	current portion of loans and borrowings due for repayment beyond 12 months of the reporting date	794,016	386,370	594,473
	Accounts payable, including:	1,388,823	1,130,638	1,062,483
	suppliers and contractors	707,790	677,438	688,438
	salaries payable	23,034	22,991	25,677
	insurance contributions payable	7,920	7,876	7,545
	taxes and fees payable	315,956	258,922	166,500
	advances received	141,777	104,734	114,863
	other accounts payable	187,241	55,649	54,491
	dividends payable	5,105	3,028	4,969
	Income of future periods	6,990	3,592	2,041
23	Provisions	<u>265,497</u>	<u>245,222</u>	<u>318,527</u>
	TOTAL Section V	<u>2,541,375</u>	<u>1,826,311</u>	<u>2,028,604</u>
	TOTAL EQUITY AND LIABILITIES	19,360,997	18,640,641	18,281,048


A.B. Miller
Chairman of the Management Committee



E.A. Vasilieva
Chief Accountant

24 April 2018

PJSC GAZPROM
CONSOLIDATED STATEMENT OF FINANCIAL RESULTS
for the year ended 31 December 2017
(in millions of Russian Rubles)

Note		For 2017	For 2016
17	Sales	6,764,096	6,290,240
18	Cost of sales	(5,582,776)	(5,227,837)
	Gross profit	1,181,320	1,062,403
18	Commercial expenses	(128)	(318)
18	Administrative expenses	(344,414)	(338,105)
	Profit from sales	836,778	723,980
	Income from investments in other companies	20,923	17,055
	Interest income	85,521	96,332
	Interest expense	(156,262)	(164,391)
3, 19	Other income	4,991,681	5,945,663
3, 19	Other expenses	(5,645,755)	(5,803,215)
9	Capitalized profit of associates	130,391	107,521
	Profit before profit tax	263,277	922,945
16	Profit tax, including:	(229,043)	(217,613)
	current profit tax	(232,106)	(218,267)
	previous years' profit tax	3,063	654
	including: permanent tax liabilities	119,367	73,278
16	Change in deferred tax liabilities	(33,742)	(34,261)
16	Change in deferred tax assets	90,326	(307)
	Other	(8,700)	(3,852)
	Net profit of the reporting period before minority interest	82,118	666,912
	Minority interest	(31,733)	(32,263)
	Net profit of the reporting period	50,385	634,649
	FOR REFERENCE:		
7	Results of fixed assets revaluation not included into net profit of the reporting period	18,465	879,553
	Results of other transactions not included into net profit of the reporting period	27,174	(284,399)
	Comprehensive income of the reporting period attributable to the owners of PJSC Gazprom	96,024	1,229,803
22	Basic earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)	2.28	28.13


A.B. Miller
Chairman of the Management Committee



E.A. Vasilieva
Chief Accountant

24 April 2018

PJSC GAZPROM
CONSOLIDATED STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY
for the year ended 31 December 2017
(in millions of Russian Rubles)

Note	Share capital	Treasury shares	Additional capital	Legal reserves	Retained earnings	Social government fund	Total
	Equity as of 31 December 2015	118,368	(126,786)	6,544,134	35,212	5,895,586	552 12,467,066
	For 2016						
	Change of capital – total, including:	-	(132,000)	591,918	-	448,212	(27) 908,103
	net profit	-	-	-	-	634,649	- 634,649
7	revaluation of property differences resulting from the translation of foreign investments	-	-	879,553	-	-	- 879,553
	change in the Group structure and change of interest in subsidiaries	-	-	(284,480)	-	-	- (284,480)
	dividends	-	-	(4,335)	-	(11,526)	- (15,861)
	disposal and change in value of state social assets	-	-	-	-	(174,372)	- (174,372)
7	treasury shares	-	-	-	-	(27)	(27)
14	other	-	(132,000)	-	-	-	- (132,000)
	Change of additional capital	-	-	1,180	-	(539)	- 641
	Change of legal reserves	-	-	(8,058)	-	8,058	- -
		-	-	-	1,222	(1,222)	- -
	Equity as of 31 December 2016	118,368	(258,786)	7,127,994	36,434	6,350,634	525 13,375,169
	For 2017						
	Change of capital – total, including:	-	-	43,578	(297)	(114,411)	17 (71,113)
	net profit	-	-	-	-	50,385	- 50,385
7	revaluation of property differences resulting from the translation of foreign investments	-	-	18,465	-	-	- 18,465
	change in the Group structure and change of interest in subsidiaries	-	-	27,307	-	-	- 27,307
	dividends	-	-	2,397	(297)	8,129	- 10,229
	disposal and change in value of state social assets	-	-	-	-	(177,680)	- (177,680)
7	other	-	-	-	-	-	17 17
	Change of additional capital	-	-	(4,591)	-	4,755	- 164
	Change of legal reserves	-	-	(8,531)	-	8,531	- -
		-	-	-	3,084	(3,084)	- -
	Equity as of 31 December 2017	118,368	(258,786)	7,163,041	39,221	6,241,670	542 13,304,056


A.B. Miller
Chairman of the Management Committee


E.A. Vasilieva
Chief Accountant

24 April 2018

PJSC GAZPROM
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2017
(in millions of Russian Rubles)

Note	For 2017	For 2016
Cash flows from operating activities		
Total cash received, including:	7,569,960	6,973,690
sales of products, goods, works and services	7,108,552	6,414,280
other receipts, including:	461,408	559,410
indirect taxes	260,161	238,510
advances received from buyers (customers)	78,548	65,842
Total cash paid, including:	(5,981,086)	(5,390,597)
payment for purchased raw materials, works and services	(2,710,930)	(2,693,802)
wages and salaries	(474,422)	(451,999)
interests on borrowings	(153,941)	(160,732)
profit tax	(226,450)	(91,679)
other payments, including:	(2,415,343)	(1,992,385)
settlements with customs	(664,191)	(617,788)
settlements with budget (less profit tax)	(1,306,881)	(997,700)
advances paid	(60,820)	(48,136)
Net cash provided by operating activities	1,588,874	1,583,093
Cash flows from investing activities		
Total cash received, including:	418,949	324,790
sales of non-current assets (less financial investments)	9,130	8,709
sales of other entities' shares (equity interests)	1,510	36,230
return of loans issued, sales of debt securities (assignment of cash from third parties)	78,084	37,902
dividends, interest from debt financial investments and receipts from participation in other entities	146,164	103,894
other receipts	184,061	138,055
Total cash paid, including:	(2,199,603)	(1,827,810)
purchase, construction, modernization, reconstruction and preparation for use of non-current assets, including:	(1,553,352)	(1,332,552)
purchase of exploration assets	(35,309)	(62,485)
purchase of other entities' shares (equity interests)	(111,806)	(32,729)
purchase of debt securities (assignment of cash from third parties), loans issued	(77,955)	(230,368)
other payments, including:	(456,490)	(232,161)
indirect taxes	(153,828)	(175,615)
Net cash used for investing activities	(1,780,654)	(1,503,020)
Cash flows from financing activities		
Total cash received, including:	1,003,942	648,772
loans and borrowings, issue of bonds, promissory notes and other debt securities	1,001,412	648,245
other receipts	2,530	527
Total cash paid, including:	(831,463)	(1,076,921)
dividends and other distributions to owners (participants)	(200,575)	(217,748)
repayment of loans and borrowings, redemption (buyback) of bonds, promissory notes and other debt securities	(622,182)	(724,011)
payments to owners (participants) in connection with the redemption of their shares	-	(132,000)
other payments	(8,706)	(3,162)
Net cash used for financing activities	172,479	(428,149)
Net cash for the reporting period	(19,301)	(348,076)
Cash and cash equivalents at the beginning of the reporting period	890,871	1,366,193
Cash and cash equivalents at the end of the reporting period	875,014	890,871
Impact of changes in exchange rates	3,444	(127,246)

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A.B. Miller
Chairman of the Management Committee

E.A. Vasilieva
Chief Accountant

24 April 2018

PJSC GAZPROM
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2017
(in millions of Russian Rubles)

1. GENERAL INFORMATION

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

The Group is involved in the following principal activities:

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

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

On average, the Group employed 458,279 and 451,617 people in 2017 and 2016, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Accounting principles

The 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 the 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 guidelines on preparing consolidated accounting reports, approved by PJSC Gazprom on 5 August 2016 (the “Methodology guidelines”). The Methodology guidelines include principles and methods, comprised in the invalidated Methodology recommendations, approved by the Order of the Ministry of Finance of the Russian Federation dated 30 December 1996 No. 112, and are coherently applied by the Group to consolidated accounting report.

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, provisions 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 guidelines the consolidated balance sheet, consolidated statement of financial results, consolidated statement of changes in shareholder’s equity, consolidated statement of cash flows and the Notes to the consolidated accounting reports (together, the “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 2017 of PJSC Gazprom and its subsidiaries is approved by Order No. 891 dated 30 December 2016.

All significant investments in subsidiaries which exercise a significant influence on the financial position and financial results of the Group have been included in the consolidated accounting reports. 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.

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 2017
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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.

As of 31 December 2017 the rates of exchange were: RUB 57.6002 to USD 1 (as of 31 December 2016 – RUB 60.6569; 31 December 2015 – RUB 72.8827) and RUB 68.8668 to EUR 1 (as of 31 December 2016 – RUB 63.8111; 31 December 2015 – RUB 79.6972).

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 relevant quarter.

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

The line “Results of research and development” of the consolidated balance sheet includes expenses on completed research and development projects (“R&D”) with delivered results, which are not subject to legal protection under the applicable legislation or subject to legal protection but not properly documented, used for production or management needs of the Group. These expenses are written off on a straight-line basis to costs of production (goods, works and services) during the year from the time they were actually incurred. This line also includes expenses on R&D in progress recognised within investments into non-current assets.

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. The amount of impairment of exploration assets is represented within other expenses for the reporting period.

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 2017 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 2017.

Certain assets of the certain entities of the Group (including PJSC Gazprom Neft and its subsidiaries, PJSC WGC-2 and its subsidiaries, PJSC TGC-1 and its subsidiaries, PJSC MIPC and its subsidiaries) 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

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

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

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 recognised 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.

PJSC GAZPROM
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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 recognised 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 (recognised 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 Russian 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.

Provisions and contingent liabilities

The Group recognises the following provisions 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 provisions.

The amount of provisions 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 provisions 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.

Provisions 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 recognised provisions 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 in the consolidated accounting reports when they become probable and a reliable estimate of the amounts can be made.

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

Provisions for fixed assets liquidation and environmental restoration in the context of subsurface use are recognised 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.

Provisions are represented in the line "Provisions" in the consolidated balance sheet.

Deferred taxes

For the purposes of consolidated accounting reports the Group recognises 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 recognised 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 2017 accounting policies

There were no significant changes in the 2017 accounting policies.

Changes in the 2018 accounting policies

There were no significant changes in the 2018 accounting policies.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2017
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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 for 2016 in the consolidated statement of financial results for 2017

Column "For 2016" of the consolidated statement of financial results for 2017 were adjusted by the way of reflecting income and expenses from foreign exchange operations on a net basis. As a result, the lines "Other income" and "Other expenses" were decreased by the same amount.

	Amount before adjustment	For 2016 Adjustment	Amount after adjustment
Other income	9,048,657	(3,102,994)	5,945,663
Other expenses	(8,906,209)	3,102,994	(5,803,215)
Profit before profit tax	922,945	-	922,945

4. SEGMENT INFORMATION

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

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

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

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

Other activities have been included within "Other" column.

The inter-segment sales mainly consist of:

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

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

PJSC GAZPROM
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4. SEGMENT INFORMATION (continued)

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	Other	Total
For 2017									
Total segment revenues	989,961	1,115,497	3,633,942	55,681	1,163,477	1,697,966	503,540	371,428	9,531,492
Inter-segment sales	965,839	926,113	268,957	51,997	546,375	8,115	-	-	2,767,396
External sales	24,122	189,384	3,364,985	3,684	617,102	1,689,851	503,540	371,428	6,764,096
Segment result	56,835	23,392	387,136	5,629	180,594	88,236	54,955	40,001	836,778
Depreciation	192,785	513,294	18,157	26,507	154,613	54,643	49,956	35,928	1,045,883
Capitalized profit of associates	6,525	21,388	1,898	1,213	79,599	3,593	116	16,059	130,391
For 2016									
Total segment revenues	745,972	1,025,243	3,510,236	53,270	1,012,352	1,512,747	481,945	345,136	8,686,901
Inter-segment sales	723,169	850,550	251,699	48,275	514,072	8,896	-	-	2,396,661
External sales	22,803	174,693	3,258,537	4,995	498,280	1,503,851	481,945	345,136	6,290,240
Segment result	61,075	26,693	356,339	6,570	128,226	65,151	53,805	26,121	723,980
Depreciation	172,102	458,167	19,763	24,950	130,688	48,308	49,699	28,757	932,434
Capitalized profit / (loss) of associates	8,157	26,335	4,645	(3,159)	51,912	5,888	34	13,709	107,521

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 2017	For 2016
Segment result	836,778	723,980
Income from investments in other companies	20,923	17,055
Interest income	85,521	96,332
Interest expense	(156,262)	(164,391)
19 Other income	4,991,681	5,945,663
19 Other expenses	(5,645,755)	(5,803,215)
9 Capitalized profit of associates	<u>130,391</u>	<u>107,521</u>
Profit before profit tax	263,277	922,945

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.

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NOTES TO THE CONSOLIDATED ACCOUNTING REPORTS FOR 2017
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4. SEGMENT INFORMATION (continued)

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	Other	Total
As of 31 December 2017									
Segment assets	2,797,730	6,791,929	1,668,822	341,021	2,057,134	1,531,002	778,773	1,310,357	17,276,768
Investments in associates	25,819	188,203	23,511	9,543	472,749	24,155	1,422	226,859	972,261
Capital expenditure	192,430	498,550	51,675	36,446	207,535	227,346	53,675	152,002	1,419,659
As of 31 December 2016									
Segment assets	2,816,262	6,689,478	1,534,193	383,594	1,954,444	1,218,814	787,979	1,145,339	16,530,103
Investments in associates	28,007	171,969	36,625	4,980	455,531	23,889	1,258	135,482	857,741
Capital expenditure	196,394	406,828	41,785	29,536	240,944	185,013	59,679	60,440	1,220,619
As of 31 December 2015									
Segment assets	2,586,085	6,182,739	1,665,732	352,777	1,947,414	1,179,891	778,049	1,060,235	15,752,922
Investments in associates	19,433	184,812	49,842	5,691	493,641	24,170	1,453	127,036	906,078
Capital expenditure	203,052	420,874	25,962	48,486	245,394	123,595	80,348	66,283	1,213,994

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

Note	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Segment assets for reportable segments	15,966,411	15,384,764	14,692,687
Other segments' assets	<u>1,310,357</u>	<u>1,145,339</u>	<u>1,060,235</u>
Total segment assets	17,276,768	16,530,103	15,752,922
5 Goodwill on subsidiaries	693,106	752,525	817,501
Loans issued to companies beyond 12 months	95,089	129,273	149,053
Other long-term financial investments	39,984	80,883	38,054
Deferred tax assets	266,027	178,144	173,178
Value added tax on purchased goods	119,971	194,084	228,510
Loans issued to companies due within 12 months	149,147	142,393	91,411
Other short-term financial investments	359,297	156,400	142,335
Cash and cash equivalents	875,020	890,878	1,366,200
Inter-segment assets	(745,446)	(599,130)	(601,847)
Other	<u>232,034</u>	<u>185,088</u>	<u>123,731</u>
Total assets per the balance sheet	19,360,997	18,640,641	18,281,048

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	Other	Total
As of 31 December 2017									
Segment liabilities	332,689	305,957	828,123	8,510	229,729	345,995	88,294	287,382	2,426,679
As of 31 December 2016									
Segment liabilities	280,852	335,910	628,049	7,574	134,031	317,293	86,636	145,030	1,935,375
As of 31 December 2015									
Segment liabilities	295,696	281,704	720,022	11,234	138,065	240,913	80,393	218,560	1,986,587

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4. SEGMENT INFORMATION (continued)

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

Note		As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
	Segment liabilities for reportable segments	2,139,297	1,790,345	1,768,027
	Other segments' liabilities	287,382	145,030	218,560
	Total segments liabilities	2,426,679	1,935,375	1,986,587
15	Long-term loans and borrowings	2,386,241	2,392,696	2,806,160
	Deferred tax liabilities	567,408	539,221	500,839
15	Short-term loans and borrowings and current portion of long-term loans and borrowings	880,065	446,859	645,553
	Dividends payable	5,105	3,028	4,969
	Income of future periods	6,990	3,592	2,041
	Inter-segment liabilities	(745,446)	(599,130)	(601,847)
	Other	189,266	221,260	157,596
	Total liabilities per the balance sheet	5,716,308	4,942,901	5,501,898

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.

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

	Production of gas	Transpor- tation	Distribu- tion of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	Other	Total
For 2017									
Cash flows from operating activities									
Total cash received	28,697	193,466	3,769,316	1,846	662,012	1,748,469	506,461	359,272	7,269,539
Unallocated cash flows	-	-	-	-	-	-	-	-	300,421
Total cash paid	(733,568)	(596,640)	(1,656,225)	(16,695)	(659,362)	(1,257,100)	(330,396)	(234,238)	(5,484,224)
Unallocated cash flows	-	-	-	-	-	-	-	-	(496,862)
Cash flows from investing activities									
Total cash received	51	902	4,288	-	2,214	1,036	1,373	25,430	35,294
Unallocated cash flows	-	-	-	-	-	-	-	-	383,655
Total cash paid	(200,637)	(640,440)	(14,708)	(7,738)	(170,604)	(360,813)	(51,698)	(124,685)	(1,571,323)
Unallocated cash flows	-	-	-	-	-	-	-	-	(628,280)
Cash flows from financial activities									
Total cash received	-	-	-	-	108	2,373	-	49	2,530
Unallocated cash flows	-	-	-	-	-	-	-	-	1,001,412
Total cash paid	(243)	(1,158)	(336)	-	(17)	(3,950)	(304)	(2,120)	(8,128)
Unallocated cash flows	-	-	-	-	-	-	-	-	(823,335)

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4. SEGMENT INFORMATION (continued)

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	Other	Total
For 2016									
Cash flows from operating activities									
Total cash received	34,057	178,012	3,606,667	3,479	528,605	1,562,959	458,576	241,312	6,613,667
Unallocated cash flows	-	-	-	-	-	-	-	-	360,023
Total cash paid	(575,178)	(634,441)	(1,592,367)	(15,970)	(546,578)	(1,196,068)	(311,227)	(170,631)	(5,042,460)
Unallocated cash flows	-	-	-	-	-	-	-	-	(348,137)
Cash flows from investing activities									
Total cash received	1,651	21	2,030	-	1,017	773	3,679	10,153	19,324
Unallocated cash flows	-	-	-	-	-	-	-	-	305,466
Total cash paid	(179,917)	(451,153)	(55,315)	(2,018)	(215,657)	(232,437)	(57,001)	(162,819)	(1,356,317)
Unallocated cash flows	-	-	-	-	-	-	-	-	(471,493)
Cash flows from financial activities									
Total cash received	-	-	-	-	4	19	-	504	527
Unallocated cash flows	-	-	-	-	-	-	-	-	648,245
Total cash paid	(346)	(718)	(125)	-	(22)	(902)	(40)	(671)	(2,824)
Unallocated cash flows	-	-	-	-	-	-	-	-	(1,074,097)

5. GOODWILL ON SUBSIDIARIES

Note	Gross book value	Accumulated amortization	Net book value
As of 31 December 2016			
PJSC Gazprom Neft	539,720	(277,895)	261,825
OJSC Gazprom transgaz Belarus	146,316	(36,580)	109,736
JSC Gazpromneft - MNPZ	113,046	(39,759)	73,287
PJSC WGC-2	87,263	(37,243)	50,020
LLC Gazprom neftekhim Salavat	70,882	(15,952)	54,930
PJSC MIPC	70,014	(11,373)	58,641
PJSC Mosenergo	46,612	(21,979)	24,633
LLC Gazprom neft shelf	37,302	(22,029)	15,273
PJSC TGC-1	35,518	(12,432)	23,086
WIBG GmbH	26,619	(1,664)	24,955
JSC Gazprom gazoraspredelenie Sever	23,314	(5,525)	17,789
JSC Daltransgaz	6,990	(2,676)	4,314
JSC Yuzhuralneftegaz	6,815	(1,733)	5,082
Others	42,732	(13,778)	28,954
Total	1,253,143	(500,618)	752,525
Additions for 2017			
Others	2,080	-	2,080
Total	2,080	-	2,080
Disposals for 2017			
Others	(353)	19	(334)
Total	(353)	19	(334)
Amortization charge for 2017			
PJSC Gazprom Neft		(26,987)	
OJSC Gazprom transgaz Belarus		(7,316)	
JSC Gazpromneft - MNPZ		(5,652)	
PJSC WGC-2		(4,364)	
LLC Gazprom neftekhim Salavat		(3,544)	
PJSC MIPC		(3,501)	
PJSC Mosenergo		(2,331)	
LLC Gazprom neft shelf		(1,865)	
PJSC TGC-1		(1,776)	

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5. GOODWILL ON SUBSIDIARIES (continued)

Note	Gross book value	Accumulated amortization	Net book value
WIBG GmbH		(1,374)	
JSC Gazprom gazoraspredelenie Sever		(1,165)	
JSC Daltransgaz		(350)	
JSC Yuzhuralneftegaz		(341)	
Others		<u>(2,517)</u>	
Total		(63,083)	
Translation differences for 2017			
WIBG GmbH	2,109	(194)	1,915
Others	<u>3</u>	<u>-</u>	<u>3</u>
Total	2,112	(194)	1,918
As of 31 December 2017			
PJSC Gazprom Neft	539,720	(304,882)	234,838
OJSC Gazprom transgaz Belarus	146,316	(43,896)	102,420
JSC Gazpromneft - MNPZ	113,046	(45,411)	67,635
PJSC WGC-2	87,263	(41,607)	45,656
LLC Gazprom neftekhim Salavat	70,882	(19,496)	51,386
PJSC MIPC	70,014	(14,874)	55,140
PJSC Mosenergo	46,612	(24,310)	22,302
LLC Gazprom neft shelf	37,302	(23,894)	13,408
PJSC TGC-1	35,518	(14,208)	21,310
WIBG GmbH	28,728	(3,232)	25,496
JSC Gazprom gazoraspredelenie Sever	23,314	(6,690)	16,624
JSC Daltransgaz	6,990	(3,026)	3,964
JSC Yuzhuralneftegaz	6,815	(2,074)	4,741
Others	<u>44,462</u>	<u>(16,276)</u>	<u>28,186</u>
Total	1,256,982	(563,876)	693,106

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6. EXPLORATION ASSETS

	As of 31 December 2016	Changes for 2017					As of 31 December 2017
		Additions	Disposals	Intra- group	Depreciation charge	Exchange differences	
Total Intangible exploration assets, including:	167,651	15,452	(14,021)	-	-	(577)	168,505
licences on minerals prospecting, estimation, exploration and extraction	146,844	4,046	(9,799)	-	-	(325)	140,766
expenditure on obtaining rights on subsurface use, expenditure on geological knowledge	20,807	11,406	(4,222)	-	-	(252)	27,739
Total Tangible exploration assets, including:	95,952	51,642	(38,663)	-	-	(359)	108,572
wells	63,657	27,341	(22,933)	-	-	(409)	67,656
exploration expenses classified as tangible exploration assets	32,295	24,301	(15,730)	-	-	50	40,916
	As of 31 December 2015	Changes for 2016					As of 31 December 2016
		Additions	Disposals	Intra- group	Depreciation charge	Exchange differences	
Total Intangible exploration assets, including:	161,851	32,987	(22,181)	-	-	(5,006)	167,651
licences on minerals prospecting, estimation, exploration and extraction	140,731	205	(18,194)	24,102	-	-	146,844
expenditure on obtaining rights on subsurface use, expenditure on geological knowledge	21,120	32,782	(3,987)	(24,102)	-	(5,006)	20,807
Total Tangible exploration assets, including:	88,203	24,259	(12,818)	-	-	(3,692)	95,952
wells	52,693	16,137	(3,868)	-	-	(1,305)	63,657
exploration expenses classified as tangible exploration assets	35,510	8,122	(8,950)	-	-	(2,387)	32,295

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7. FIXED ASSETS

Note	Trunk pipelines	Wells	Machinery and equipment	Buildings and roads	Other	Total
As of 31 December 2015						
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)
Net book value	3,372,466	754,025	1,405,920	1,337,490	1,999,373	8,869,274
For 2016						
Historical (replacement) cost						
Additions	113,883	149,920	300,178	101,265	338,590	1,003,836
Disposals	(5,277)	(16,396)	(28,483)	(10,998)	(19,478)	(80,632)
Revaluation of fixed assets	1,718,566	176,078	481,256	204,894	316,787	2,897,581
Translation differences	(7,768)	(26,668)	(57,186)	(20,122)	(19,965)	(131,709)
Accumulated depreciation						
4 Depreciation	(307,420)	(127,918)	(249,598)	(70,824)	(176,329)	(932,089)
Disposals	3,660	11,736	22,932	4,734	12,532	55,594
Revaluation of fixed assets	(1,249,661)	(145,254)	(392,854)	(92,484)	(144,703)	(2,024,956)
Translation differences	4,662	3,916	27,662	4,178	7,821	48,239
As of 31 December 2016	3,643,111	779,439	1,509,827	1,458,133	2,314,628	9,705,138
Historical (replacement) cost	13,504,576	2,659,599	4,843,186	2,462,622	3,954,569	27,424,552
Accumulated depreciation	(9,861,465)	(1,880,160)	(3,333,359)	(1,004,489)	(1,639,941)	(17,719,414)
Net book value	3,643,111	779,439	1,509,827	1,458,133	2,314,628	9,705,138
For 2017						
Historical (replacement) cost						
Additions	91,442	125,568	194,444	53,045	220,564	685,063
Disposals	(6,059)	(22,379)	(41,124)	(13,164)	(29,380)	(112,106)
Revaluation of fixed assets	2,237	5,745	15,326	16,465	22,003	61,776
Translation differences	(1,879)	1,399	11,597	6,520	(911)	16,726
Accumulated depreciation						
4 Depreciation	(341,416)	(147,760)	(273,210)	(79,137)	(204,360)	(1,045,883)
Disposals	5,520	9,927	35,634	4,385	20,827	76,293
Revaluation of fixed assets	(1,728)	(5,184)	(11,529)	(8,269)	(14,634)	(41,344)
Translation differences	1,219	721	(4,527)	(1,460)	1,403	(2,644)
As of 31 December 2017	3,392,447	747,476	1,436,438	1,436,518	2,330,140	9,343,019
Historical (replacement) cost	13,590,317	2,769,932	5,023,429	2,525,488	4,166,845	28,076,011
Accumulated depreciation	(10,197,870)	(2,022,456)	(3,586,991)	(1,088,970)	(1,836,705)	(18,732,992)
Net book value	3,392,447	747,476	1,436,438	1,436,518	2,330,140	9,343,019

The Group entities 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 15 million in 2017 (in 2016 – RUB 16 million).

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8. CONSTRUCTION IN PROGRESS

	Construction in progress	Equipment for installation	Total
As of 31 December 2015	1,873,828	281,754	2,155,582
For 2016			
Capital expenditures	1,077,874	128,465	1,206,339
Translation differences	(46,793)	(15)	(46,808)
Transfer of equipment for installation	99,480	(99,480)	-
Transfer to Fixed assets	(987,000)	-	(987,000)
Other disposals (including write-off)	(54,668)	(1,437)	(56,105)
As of 31 December 2016	1,962,721	309,287	2,272,008
For 2017			
Capital expenditures	1,272,138	147,521	1,419,659
Translation differences	24,598	(45)	24,553
Transfer of equipment for installation	90,603	(90,603)	-
Transfer to Fixed assets	(660,729)	-	(660,729)
Other disposals (including write-off)	(26,094)	(1,678)	(27,772)
As of 31 December 2017	2,663,237	364,482	3,027,719

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, Nord Stream 2, TurkStream, construction of gas chemical complex (Novourengoiy GSK), development of Bovanenkovskoye field, construction of the oil rim Botuoba Chayandinskoye deposits of oil and gas field as well as construction of Amur gas processing plant.

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 12,503 million, RUB 11,787 million and RUB 10,270 million as of 31 December 2017, 2016 and 2015, respectively. The impairment allowance primarily relates to non-core investments.

Investments in associates

Note		Carrying value			Capitalized profit / (loss)	
		As of 31 December 2017	As of 31 December 2016	As of 31 December 2015	For 2017	For 2016
21	Sakhalin Energy Investment Company Ltd.	169,925	186,447	225,888	43,846	28,836
21, 23	Gazprombank (Joint-stock Company) ¹	136,999	72,209	61,393	8,188	10,816
21	OJSC NGK Slavneft and its subsidiaries	111,098	96,480	82,565	10,347	13,915
21	JSC Tomskneft VNK and its subsidiaries	103,111	109,409	110,524	9,575	9,899
21	Nord Stream AG	92,613	79,888	69,617	14,867	17,302
	WIGA Transport Beteiligungs-GmbH & Co.					
21	KG and its subsidiaries	45,402	40,510	47,154	5,552	8,054
21	LLC Yamal razvitie	41,281	41,281	41,281	-	-
21	JSC Achimgaz	33,509	32,043	26,281	8,768	10,221
21, 23	JSC EUROPOL GAZ	29,588	26,387	33,410	(506)	770
21	JSC Messoyakhaneftegaz	17,289	-	-	9,650	(621)
21	Blue Stream Pipeline Company B.V.	15,728	24,341	31,732	4	202
21	Wintershall AG	15,645	14,233	20,727	256	(2,746)
21	CJSC Northgas	12,786	11,735	8,726	3,434	3,009
21	KazRosGas LLP	9,435	14,470	20,960	1,544	3,601
21	JSC Latvijas Gaze and its subsidiaries ^{2,3}	7,752	13,941	17,738	572	1,064
	JSC Conexus Baltic Grid ²	7,719	-	-	2,748	-
	LLC Yuzhno-Priobsky GPZ	7,160	6,863	8,705	322	258
21	Salym Petroleum Development N.V.	834	2,136	4,835	1,649	938

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9. FINANCIAL INVESTMENTS (continued)

Note		Carrying value			Capitalized profit / (loss)	
		As of 31 December 2017	As of 31 December 2016	As of 31 December 2015	For 2017	For 2016
21	Gasum Oy and its subsidiaries ⁴	-	-	10,253	-	-
	Others	114,387	85,368	84,289	9,575	2,003
	Total	972,261	857,741	906,078	130,391	107,521

¹ On 28 June 2017 the Group acquired 16 % ordinary shares of Gazprombank (Joint-stock Company) as a result of additional share issue for the amount of RUB 60,000 million. As a result of this transaction the share of the Group in Gazprombank (Joint-stock Company) increased from 36 % to 46 %.

² The Extraordinary Meeting of Shareholders of JSC Latvijas Gaze, held on 2 September 2016, decided to reorganize the company by separation of natural gas transmission and storage activities via establishing JSC Conexus Baltic Grid (the Group's equity interest is 34 %). JSC Conexus Baltic Grid was registered on 2 January 2017.

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

⁴ In January 2016 PJSC Gazprom has sold its equity interest of 25 % in Gasum Oy to the Government of Finland for EUR 251 million.

Investments in associates in the consolidated balance sheet are stated net of impairment allowance in the amount of RUB 19,887 million as of 31 December 2017, RUB 8,982 million as of 31 December 2016 and RUB 6,189 million as of 31 December 2015.

Investments in other companies

As of 31 December 2017, 2016 and 2015 the line "Investments in other companies" of the consolidated balance sheet includes an investment in PJSC NOVATEK in the amount of 9.99 % of shares in charter capital with carrying value amounting to RUB 210,010 million, RUB 238,817 million and RUB 181,611 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 5,709 million, RUB 8,034 million and RUB 6,531 million as of 31 December 2017, 2016 and 2015, respectively.

Investments in other companies in the consolidated balance sheet are stated net of impairment allowance in the amount of RUB 467 million, RUB 1,512 million and RUB 2,124 million as of 31 December 2017, 2016 and 2015, respectively. The impairment allowance primarily relates to non-core investments.

Loans issued to companies beyond 12 months

The line "Loans issued to companies beyond 12 months" of the consolidated balance sheet includes the loan to LLC Yamal razvitie, denominated in Russian Rubles maturing in 2021, in the amount of RUB 13,187 million, RUB 31,301 million and RUB 36,831 million as of 31 December 2017, 2016 and 2015, respectively.

Loans issued to companies beyond 12 months in the consolidated balance sheet are stated net of impairment allowance in the amount of RUB 594 million, RUB 1,694 million and RUB 84 million as of 31 December 2017, 2016 and 2015, respectively.

Other financial investments

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Joint activity, including:	38,322	37,978	32,125
development of oil and gas fields on the continental shelf of the Socialist Republic of Vietnam (operator – JSC Gazprom zarubezhneftegaz)	33,928	33,422	27,793
development of a satellite communication system (operator – JSC Gazprom Space Systems)	3,481	3,480	3,387
Other, including:	1,662	42,905	5,929
long-term deposits	1,559	42,230	5,064
third party promissory notes	10	120	390
South Pars project (oil and gas field in Iran)	-	370	370
Total	39,984	80,883	38,054

Other financial investments in the consolidated balance sheet are stated net of impairment allowance in the amount of RUB 258 million, RUB 541 million and RUB 731 million as of 31 December 2017, 2016 and 2015, respectively.

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10. INVENTORIES

Raw materials and other inventories

In the consolidated balance sheet values of raw materials and other inventories in the amount of RUB 210,661 million, RUB 202,313 million and RUB 211,102 million are disclosed net of obsolete allowance in the amount of RUB 4,142 million, RUB 2,733 million and RUB 4,255 million as of 31 December 2017, 2016 and 2015, respectively.

Finished goods and goods for resale

In the consolidated balance sheet values of finished goods and goods for resale in the amount of RUB 632,267 million, RUB 605,855 million and RUB 672,423 million are disclosed net of obsolete allowance in the amount of RUB 1,036 million, RUB 840 million and RUB 1,563 million as of 31 December 2017, 2016 and 2015, respectively.

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Gas in pipelines and storages	527,104	508,463	571,838
Oil, gas condensate and refined products	72,239	63,471	58,554
Goods for resale	<u>32,924</u>	<u>33,921</u>	<u>42,031</u>
Total	632,267	605,855	672,423

11. ACCOUNTS RECEIVABLE

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

The line "Accounts receivable from buyers and customers" in the consolidated balance sheet includes long-term receivables for gas in the amount of RUB 621 million, RUB 1,978 million and RUB 5,518 million as of 31 December 2017, 2016 and 2015, respectively.

The line "Other receivables" in the consolidated balance sheet includes receivables, issued for capital construction purposes in the amount of RUB 6,039 million, RUB 31,643 million and RUB 14,123 million as of 31 December 2017, 2016 and 2015, 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 2017, 2016 and 2015 includes the following:

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Receivables from Europe and other countries gas, crude oil, gas condensate and refined products customers	400,060	333,967	390,079
Receivables from Domestic gas, crude oil, gas condensate and refined products customers	200,223	207,166	168,802
Receivables from Former Soviet Union countries (excluding Russian Federation) gas, crude oil, gas condensate and refined products customers	26,750	57,788	43,488
Receivables from electric and heat energy sales customers	79,265	81,829	77,742
Other trade debtors	<u>97,542</u>	<u>160,009</u>	<u>116,634</u>
Total	803,840	840,759	796,745

As of 31 December 2017, 2016 and 2015 accounts receivable from buyers and customers are stated net of bad debt allowance of RUB 752,321 million, RUB 832,910 million and RUB 840,335 million, respectively. The bad debt allowance has been calculated net of deferred excise tax on natural gas of RUB 89 million as of 31 December 2017, 2016 and 2015.

As of 31 December 2017, 2016 and 2015 the line "Advances issued" in the consolidated balance sheet includes advances issued to suppliers and contractors for capital construction purposes in the amount of RUB 249,181 million, RUB 240,036 million and RUB 214,558 million, respectively.

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11. ACCOUNTS RECEIVABLE (continued)

As of 31 December 2017, 2016 and 2015 the line “Other accounts receivable” of the consolidated balance sheet includes the following:

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Overpayment of taxes to the budget	159,589	113,783	228,562
Settlements on custom duties	16,241	13,707	46,446
Settlements on claims	2,540	2,534	4,069
Other	<u>155,203</u>	<u>171,134</u>	<u>197,448</u>
Total	333,573	301,158	476,525

Other accounts receivable are stated net of the bad debt allowance amounting to RUB 48,538 million, RUB 44,819 million and RUB 38,091 million as of 31 December 2017, 2016 and 2015, respectively.

12. FINANCIAL INVESTMENTS (LESS CASH EQUIVALENTS)

Loans issued to companies due within 12 months

As of 31 December 2017, 2016 and 2015 the line “Loans issued to companies due within 12 months” in the consolidated balance sheet is stated net of the impairment allowance in the amount of RUB 8,186 million, RUB 9,263 million and RUB 10,022 million, respectively.

Other financial investments

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Short-term deposits	327,293	144,035	126,528
Shares, bonds and participatory interests	30,964	11,363	12,153
Third party promissory notes	102	20	457
Other	<u>938</u>	<u>982</u>	<u>3,197</u>
Total	359,297	156,400	142,335

As of 31 December 2017, 2016 and 2015 the line “Other financial investments” in the consolidated balance sheet is stated net of the impairment allowance in the amount of RUB 953 million, RUB 760 million and RUB 664 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 2017, 2016 and 2015 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 2017 and amounted to 23,674 million with nominal value of 5 Russian Rubles each.

Treasury shares are recorded in the consolidated balance sheet at their purchase cost. The number of treasury shares including American depositary receipts held by subsidiaries of the Group totals 1,573 million as of 31 December 2017, 1,573 million as of 31 December 2016 and 723 million as of 31 December 2015.

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

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

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

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

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14. EQUITY (continued)

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

In accordance with the decision of the General shareholders meeting, based on the 2016 results of PJSC Gazprom, final dividends were accrued and paid in 2017 in the amount of 8.04 Russian Rubles per ordinary share. Based on the 2015 results of PJSC Gazprom, final dividends were accrued and paid in 2016 in the amount of 7.89 Russian Rubles per ordinary share.

15. BORROWINGS

Bank borrowings

Lender	Currency	Final maturity	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Bank of China Limited, London branch	Euro	2021	138,992	128,789	-
China Construction Bank Corporation, Beijing branch ¹	US dollar	2020	75,699	92,627	111,077
J.P.Morgan Europe Limited ¹	Euro	2022	68,913	-	-
J.P.Morgan Europe Limited ¹	Euro	2020	55,141	-	-
Mizuho Bank Ltd. ¹	US dollar	2019	53,130	93,228	156,821
Credit Agricole CIB	Euro	2022	48,595	-	-
PJSC Sberbank	US dollar	2018	43,776	46,099	56,231
UniCredit S.p.A.	Euro	2022	27,574	-	-
UniCredit Bank Austria AG	Euro	2021	24,156	19,492	-
Alfa-Bank (Joint-stock Company)	US dollar	2019	23,052	24,271	29,160
Gazprombank (Joint-stock Company)	US dollar	2019	20,736	21,836	26,238
VTB Bank (Europe) S.E.	Euro	2027	19,644	-	-
Gazprombank (Joint-stock Company)	US dollar	2019	19,008	20,017	24,051
Gazprombank (Joint-stock Company)	US dollar	2019	17,856	18,804	22,594
Bank of America Securities Limited	US dollar	2018	17,453	18,368	22,041
PJSC Sberbank	Euro	2020	16,591	15,373	19,203
PJSC Sberbank	Euro	2022	15,736	7,713	-
BANK ROSSIYA	Russian Ruble	2022	15,012	-	-
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,001	9,809	6,187
BNP Paribas S.A. ¹	Euro	2022	14,069	15,644	22,802
Deutsche Bank Luxembourg S.A.	Euro	2022	13,818	-	-
UniCredit Bank Austria AG	US dollar	2018	11,526	12,135	14,581
Commerzbank International S.A.	US dollar	2018	11,522	24,265	43,730
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2019	10,000	-	-
UniCredit Bank Austria AG	Euro	2019	9,548	14,745	23,940
HSBC Bank plc	Euro	2022	8,885	9,880	14,394
Bank of America Merrill Lynch International Limited	US dollar	2018	8,701	9,157	21,960
BNP Paribas S.A.	Euro	2023	8,681	9,451	13,559
Banca Intesa a.d. Beograd	US dollar	2019	8,659	9,114	10,947
PJSC Sberbank	US dollar	2018	8,653	9,113	10,947
Citibank International plc ¹	US dollar	2021	7,420	10,042	14,734
Intesa Sanpaolo S.p.A.	Euro	2019	4,434	6,848	11,957
J.P.Morgan Europe Limited ¹	US dollar	2018	3,601	18,962	36,694
PJSC VTB Bank	Russian Ruble	2017	-	29,800	-
PJSC Sberbank	Russian Ruble	2017	-	19,802	19,802
PJSC Sberbank	Russian Ruble	2017	-	15,068	-
PJSC Sberbank	Russian Ruble	2017	-	15,067	-
PJSC VTB Bank	Russian Ruble	2017	-	14,654	-
PJSC Sberbank	Euro	2017	-	14,388	17,971
PJSC Sberbank	Russian Ruble	2017	-	12,511	12,514
PJSC Sberbank	Russian Ruble	2017	-	12,511	12,514

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15. BORROWINGS (continued)

Lender	Currency	Final maturity	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Bank of America Securities Limited	Euro	2017	-	11,541	14,420
PJSC Sberbank	Russian Ruble	2017	-	10,009	10,011
Gazprombank (Joint-stock Company)	Russian Ruble	2017	-	10,000	10,000
JSC Rosselkhozbank	Russian Ruble	2016	-	-	30,029
Deutsche Bank AG	US dollar	2016	-	-	29,690
Intesa Sanpaolo S.p.A.	Euro	2016	-	-	28,028
Sumitomo Mitsui Banking Corporation Europe Limited ¹	US dollar	2016	-	-	25,537
PJSC Promsvyazbank	US dollar	2016	-	-	25,509
Sumitomo Mitsui Finance Dublin Limited	US dollar	2016	-	-	23,392
Bank of Tokyo-Mitsubishi UFJ Ltd.	US dollar	2016	-	-	21,891
Commerzbank International S.A.	US dollar	2016	-	-	21,865
UniCredit Bank AG ^{1, 2}	US dollar	2016	-	-	14,377
Bank of Tokyo-Mitsubishi UFJ Ltd. ¹	US dollar	2016	-	-	13,754
Bank of America Securities Limited	US dollar	2016	-	-	13,126
PJSC Sberbank	Russian Ruble	2016	-	-	12,400
PJSC VTB Bank	US dollar	2016	-	-	12,104
UniCredit Bank AG ^{1, 2}	Euro	2016	-	-	11,297
Other	Various	Various	316,175	238,964	241,461
Total, including			1,171,757	1,080,097	1,345,540
due within one year, including current portion of long-term borrowings			338,347	218,016	388,013

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

² Loans were obtained for development of Yuzhno-Russkoye oil and gas field.

Long-term foreign currency denominated borrowings had fixed interest rates ranging from 2.2 % to 10.00 % and from 2.90 % to 10.00 % in 2017 and 2016, respectively. Also in 2017-2016 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 7.90 % to 15.50 % and from 8.14 % to 18.50 % in 2017 and 2016, respectively.

Interest rates on short-term foreign currency denominated borrowings ranged from 2.00 % to 9.50 % and from 1.68 % to 10.00 %, in 2017 and 2016, respectively. Also in 2017 and 2016 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 7.90 % to 16.00 % and from 9.69 % to 19.77 % in 2017 and 2016, respectively.

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15. BORROWINGS (continued)

Loans

Borrowing / Creditors	Currency	Final maturity	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Loan participation notes issued in April 2009 ¹	US dollar	2019	131,865	138,863	166,851
Loan participation notes issued in September 2012 ²	US dollar	2022	87,461	92,102	110,666
Loan participation notes issued in October 2007 ¹	Euro	2018	87,456	81,035	101,209
Loan participation notes issued in November 2013 ²	US dollar	2023	86,875	91,485	109,925
Loan participation notes issued in March 2007 ¹	US dollar	2022	76,424	80,480	96,701
Loan participation notes issued in August 2007 ¹	US dollar	2037	73,968	77,893	93,593
Loan participation notes issued in March 2013 ¹	Euro	2020	70,702	65,512	81,821
Loan participation notes issued in April 2004 ¹	US dollar	2034	70,163	73,886	88,779
Loan participation notes issued in October 2015 ¹	Euro	2018	69,539	64,434	80,475
Loan participation notes issued in November 2016 ¹	Euro	2023	69,132	64,057	-
Loan participation notes issued in April 2017 ^{1,3}	British Pound Sterling	2024	68,033	-	-
Loan participation notes issued in April 2008 ¹	US dollar	2018	64,507	67,930	81,622
Loan participation notes issued in July 2013 ¹	Euro	2018	62,985	58,361	72,891
Loan participation notes issued in July 2012 ¹	US dollar	2022	58,883	62,008	74,506
Loan participation notes issued in February 2014 ¹	Euro	2021	53,224	49,317	61,595
Loan participation notes issued in February 2013 ¹	US dollar	2028	52,874	55,680	66,902
Loan participation notes issued in April 2013 ²	Euro	2018	52,684	48,817	60,967
Loan participation notes issued in November 2017 ¹	Euro	2024	51,777	-	-
Loan participation notes issued in February 2013 ¹	US dollar	2020	46,795	49,278	59,210
Loan participation notes issued in March 2017 ¹	US dollar	2027	43,782	-	-
Loan participation notes issued in September 2013 ^{1,3}	British Pound Sterling	2020	41,651	38,593	48,201
Loan participation notes issued in March 2013 ¹	Euro	2025	35,611	32,997	41,211
Loan participation notes issued in November 2011 ¹	US dollar	2021	35,470	37,353	44,881
Loan participation notes issued in November 2016 ^{1,3}	Swiss Franc	2021	32,189	29,826	-
Loan participation notes issued in July 2017 ^{1,3}	Swiss Franc	2022	31,606	-	-
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	29,641	29,863	36,957
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	29,573	29,794	-

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15. BORROWINGS (continued)

Borrowing / Creditors	Currency	Final maturity	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Russian bonds issued in October 2017 ²	Russian Ruble	2022	25,371	-	-
Wintershall Nederland Transport and Trading B.V. ⁴	Euro	2035	20,555	-	-
Uniper Gas Transportation & Finance B.V. ⁴	Euro	2035	20,555	-	-
OMV Gas Marketing Trading & Finance B.V. ⁴	Euro	2035	20,554	-	-
Shell Exploration and Production (LXXI) B.V. ⁴	Euro	2035	20,554	-	-
Engie Energy Management Holding Switzerland AG ⁴	Euro	2035	20,554	-	-
Russian bonds issued in February 2017 ⁵	Russian Ruble	2027	15,501	-	-
Russian bonds issued in February 2017 ⁵	Russian Ruble	2027	15,501	-	-
Russian bonds issued in August 2017 ²	Russian Ruble	2024	15,492	-	-
Russian bonds issued in March 2016 ²	Russian Ruble	2046	15,427	15,344	-
Russian bonds issued in April 2017 ²	Russian Ruble	2022	15,290	-	-
Russian bonds issued in November 2013 ⁶	Russian Ruble	2043	15,059	15,111	15,246
Russian bonds issued in November 2013 ⁶	Russian Ruble	2043	15,059	15,111	15,246
Russian bonds issued in February 2011 ²	Russian Ruble	2021	10,371	10,368	10,363
Russian bonds issued in August 2016 ²	Russian Ruble	2046	10,319	10,317	-
Russian bonds issued in March 2016 ²	Russian Ruble	2046	10,303	10,378	-
Russian bonds issued in April 2009 ²	Russian Ruble	2019	10,184	10,182	10,177
Russian bonds issued in June 2016 ²	Russian Ruble	2046	10,064	10,062	-
Russian bonds issued in December 2017 ²	Russian Ruble	2024	10,021	-	-
JSC Tomskneft VNC	Russian Ruble	2020	5,291	12,812	12,985
Loan participation notes issued in July 2012 ¹	Euro	2017	-	92,019	114,928
Loan participation notes issued in November 2006 ¹	Euro	2017	-	33,185	41,447
Loan participation notes issued in March 2007 ¹	Euro	2017	-	32,191	40,205
Russian bonds series 05 issued in February 2013 ⁵	Russian Ruble	2017	-	10,279	10,275
Russian bonds issued in December 2012 ²	Russian Ruble	2017	-	10,075	10,070
Loan participation notes issued in November 2006 ¹	US dollar	2016	-	-	99,054
Loan participation notes issued in November 2011 ¹	US dollar	2016	-	-	73,264
Russian bonds issued in February 2013 ⁵	Russian Ruble	2016	-	-	15,410
Russian bonds issued in February 2011 ²	Russian Ruble	2016	-	-	10,259
Russian bonds issued in February 2011 ²	Russian Ruble	2016	-	-	10,228

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15. BORROWINGS (continued)

Borrowing / Creditors	Currency	Final maturity	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Other loans	Various	Various	<u>177,654</u>	<u>52,460</u>	<u>38,053</u>
Total, including			2,094,549	1,759,458	2,106,173
due within one year, including					
current portion of long-term					
borrowings			541,718	228,843	257,540

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

² Issuer of these bonds is PJSC Gazprom Neft.

³ According to the signed agreements between the bond issuer Gas Capital S.A. and the banks, settlements for the bonds are made in Euro (up to achieve of a coefficient based on the ratio of exchange rates set in the agreements).

⁴ Borrowings were obtained for financing of the Nord Stream 2 project.

⁵ Issuer of these bonds is Gazprom Capital LLC.

⁶ Issuer of these bonds is PJSC Gazprom.

As of 31 December 2015 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 carrying amount of these fixed assets is RUB 14,873 million. As of 31 December 2016 and 31 December 2017 the Group does not have pledged shares and pledged fixed assets because the agreement was repaid in August 2016.

As of 31 December 2017 according to the agreements signed within the framework of financing the Nord Stream 2 project with Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation & Finance B.V., 100 % of shares of Nord Stream 2 AG held by PJSC Gazprom were pledged until a full settlement of the secured obligations.

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by Gazprom Capital LLC in February 2017 due in 2027 issuer can execute the right of early redemption in February 2024.

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

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

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

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

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

Fixed interest rates on long-term foreign currency denominated loans ranged from 2.15 % to 13.30 % and from 2.75 % to 9.25 % in 2017 and 2016, respectively. Fixed interest rates on long-term loans denominated in Russian Rubles ranged from 1.00 % to 14.40 % in 2017 and 2016, respectively.

In 2017 and 2016 fixed interest rates on short-term loans denominated in Russian Rubles ranged from 6.50 % to 14.00 % and from 1.00 % to 13.00 %, respectively.

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16. TAXATION

Profit tax

In 2017 and 2016 theoretical profit tax determined based on accounting profit and statutory rates amounted to RUB 53,094 million and RUB 178,903 million, respectively. According to the tax returns the profit tax in 2017 and 2016 included within the line "Current profit tax" of the consolidated statement of financial results amounted to RUB 232,106 million and RUB 218,267 million, respectively.

According to updated tax returns submitted in 2017 and 2016 the profit tax amounted to RUB 3,063 million and RUB 654 million, respectively.

In 2017 permanent differences which increase the taxable profit exceeded permanent differences which decrease the taxable profit by RUB 604,768 million (in 2016 by RUB 346,073 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, non-production costs, social expenses, charitable donations, and expenses exceeding prescribed limits.

In 2017 and 2016 incurred deductible temporary differences which impacted the difference between the theoretical profit tax expense and the current profit tax amounted to RUB 882,862 million and RUB 565,363 million, respectively.

Deductible temporary differences incurred in 2017 principally arise from accrual of provisions for gas price adjustment, 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 bad debt allowance for accounting and tax purposes, the fact that expenses for geological 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 2017 and 2016 totaled RUB 445,730 million and RUB 564,876 million, respectively. Settlement of these differences in 2017 is principally due to the change in the tax base of the current tax period by the amount of the provision for the revision of gas prices, differences in bad debt allowance for accounting and tax purposes, decrease of the current tax base by the amount of depreciation charge, accrued on certain fixed assets items, 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 2017 and 2016 incurred taxable temporary differences which impacted the difference between the theoretical profit tax expense and the current profit tax expense amounted to RUB 535,248 million and RUB 461,435 million, respectively. Taxable temporary differences in 2017 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 tax depreciation premium of 10 % (30 % to fixed assets of the third-seventh depreciation groups), and the recognition for tax purposes of storage costs included in the cost of finished goods for accounting purposes.

Taxable temporary differences settled in 2017 and 2016 totaled RUB 296,700 million and RUB 297,933 million, respectively. Settlement of these differences in 2017 is principally due to increase of the current tax base by the amount of depreciation charge, accrued on certain fixed assets items, 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 recognised 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 of CGT of the Group which decreased the number of participants to 65 starting from 1 January 2015.

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16. TAXATION (continued)

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 of CGT of the Group which increased the number of participants to 67 starting from 1 January 2016.

The profit tax of CGT for 2017 and 2016 amounted to RUB 164,756 million and RUB 170,581 million, respectively.

17. SALES

	For 2017	For 2016
Gas sales (net of VAT, excise tax and other similar mandatory payments)		
Russian Federation	846,130	804,712
Former Soviet Union countries (excluding Russian Federation)	292,777	309,644
Europe and other countries	<u>2,250,200</u>	<u>2,166,984</u>
Net sales of gas	3,389,107	3,281,340
Sales of refined products (net of VAT and other similar mandatory payments)		
Russian Federation	1,117,885	986,704
Former Soviet Union countries (excluding Russian Federation)	117,635	88,885
Europe and other countries	<u>454,331</u>	<u>428,262</u>
Net sales of refined products	1,689,851	1,503,851
Sales of crude oil and gas condensate (net of VAT and other similar mandatory payments)		
Russian Federation	148,579	167,614
Former Soviet Union countries (excluding Russian Federation)	29,770	23,528
Europe and other countries	<u>438,753</u>	<u>307,138</u>
Net sales of crude oil and gas condensate	617,102	498,280
Sales of electric and heat energy (net of VAT)		
Russian Federation	487,005	462,137
Former Soviet Union countries (excluding Russian Federation)	2,937	2,458
Europe and other countries	<u>13,598</u>	<u>17,350</u>
Net sales of electric and heat energy	503,540	481,945
Sales of gas transportation services (net of VAT)		
Russian Federation	185,882	170,811
Former Soviet Union countries (excluding Russian Federation)	2,433	2,689
Europe and other countries	<u>1,069</u>	<u>1,193</u>
Net sales of gas transportation services	189,384	174,693
Other sales (net of VAT)		
Russian Federation	335,570	306,682
Former Soviet Union countries (excluding Russian Federation)	6,211	5,860
Europe and other countries	<u>33,331</u>	<u>37,589</u>
Total other sales	375,112	350,131
Net sales	6,764,096	6,290,240

Net sales of gas increased by 3 % in 2017 compared to 2016. This change was mainly due to the increase in volumes of gas sold to customers in Europe and other countries.

The increase in net sales of refined products by 12% in 2017 compared to 2016 was due to the increase in average prices.

The increase in net sales of crude oil and gas condensate in 2017 compared to 2016 was mainly due to an increase in volumes of crude oil sold by Gazprom Neft Group to customers in Europe and other countries, which was due to crude oil production growth at Novoport, East-Messoyahskoye and Prirazlomnoye fields, reduction of crude oil delivery to refineries and also due to an increase in average prices in all geographic segments.

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18. COST OF SALES, COMMERCIAL AND ADMINISTRATIVE EXPENSES

	For 2017	For 2016
Taxes included in cost of sales	1,172,351	848,046
Depreciation and amortization	1,049,938	930,257
Purchased gas	778,229	827,155
Staff costs and social expenses	619,082	579,921
Transit costs for gas, oil and refined products	594,412	610,444
Purchased oil	546,515	442,361
Cost of goods for resale	311,222	293,856
Materials	264,288	290,943
Repairs and maintenance	155,841	148,860
Energy	105,623	95,725
Insurance	46,162	44,674
Rent, lease payments	38,340	31,731
Other	367,994	405,604
Changes in finished goods, work in progress and other effects	<u>(122,679)</u>	<u>16,683</u>
Total cost of goods sold, products, works and services, commercial and administrative expenses	5,927,318	5,566,260

The decrease in cost of purchased gas was mainly related to a decrease in cost of gas purchased by Gazprom Germania Group in Russian Ruble terms as well as to insignificant decrease in volumes of gas purchased from external suppliers.

Mineral Extraction Tax within the line "Taxes included in cost of sales" amounted to RUB 853,119 million and RUB 569,932 million for 2017 and 2016, respectively.

The cost of purchased oil increased mainly due to an increase in oil prices.

Other expenses primarily included 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 2017		For 2016		
	Income	Expenses	Income	Expenses	
	Income and expense from trading activity without delivery	3,873,921	3,890,273	3,913,872	3,910,490
	Exchange differences	584,455	619,447	1,433,994	1,131,098
	Fines and penalties for breach of contracts terms	52,879	277,763	7,682	3,970
	Sales and purchases of foreign currency	262,649	262,673	266,874	264,996
23	Provisions	6,729	93,660	80,863	59,514
	Profits and losses of previous years identified in the reporting year	40,984	68,526	67,258	25,183
5	Amortization of goodwill	-	63,083	-	62,785
	Social expenses	-	35,874	-	35,260
	Adjustment of investments (to fair value)	490	31,153	62,985	194
	Income and expense related to sale and disposal of other assets	15,775	25,072	4,995	30,646
	Income and expense related to sale and disposal of fixed assets	10,586	8,719	6,200	4,440
	Transactions with securities, including promissory notes	9,374	7,954	49,173	25,458
	Transfer of accounts receivable	5,731	5,861	4,267	4,478
	Services of credit organizations	-	4,042	-	3,975
	Investment impairment allowance	-	3,187	-	2,187
	Income and expense related to gratuitous receipt / transfer of assets	2,043	2,750	1,025	6,136
	Accounts receivable written-off	-	684	-	2,877
	Bad debts allowance	64,370	-	-	23,057
	Other	61,695	245,034	46,475	206,471
	Total	4,991,681	5,645,755	5,945,663	5,803,215

The Group recognised provision regarding possible gas price adjustment derived from foreign customers' claims based on the contract terms. The provisions as of 31 December 2017 and 31 December 2016 in the amount of RUB 111,607 million and RUB 112,256 million respectively did not include possible correction of customs duties accrued formerly (see Note 23).

The line "Profit and losses of previous years identified in the reporting year" for the year ended 31 December 2017 included negative effect of corrections regarding gas price adjustment in the amount of RUB 47,796 million. For the year ended 31 December 2016 positive effect of corrections regarding gas price adjustment amounted to RUB 39,403 million. These corrections refer to the price adjustments of gas delivered in previous periods for which adjustments were agreed in 2017 and 2016, 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 2017

Company	Share in Charter Capital, %¹	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	
WIBG GmbH	100		Germany
WIEE Hungary Kft.	100	Gas distribution	Hungary
WIEH GmbH	100	Gas distribution	Germany
		Investing, asset management, gas distribution	
WINGAS GmbH	100		Germany
OJSC Vostokgazprom	100	Gas production	Russia
		Gas transportation and gas distribution	
CJSC Gazprom Armenia	100		Armenia
JSC Gazprom gazoraspredelenie	100	Gas network operation	Russia
LLC Gazprom geologorazvedka	100	Exploration, geophysics	Russia
GAZPROM Germania GmbH	100	Gas distribution	Germany
Gazprom Gerosgaz Holdings B.V.	100	Investing	Netherlands
		Production and refining of hydrocarbons	
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
		Information, consulting and transportation services	
LLC Gazprom invest RGK	100		Russia
		Contractor's function on the construction of engineering systems for gas supply	
LLC Gazprom investgazifikatsiia	100		Russia
LLC Gazprom komplektatsiya	100	Trading	Russia
Gazprom Marketing and Trading Ltd.	100	Gas distribution	United Kingdom
Gazprom Marketing and Trading Retail Ltd.	100	Gas distribution	United Kingdom
LLC Gazprom mezhregiongaz	100	Gas distribution	Russia
LLC Gazprom mezhregiongaz Moskva	100	Gas distribution	Russia
JSC Gazprom mezhregiongaz Nizhny Novgorod	51	Gas distribution	Russia
LLC Gazprom mezhregiongaz Sankt-Peterburg	100	Gas distribution	Russia
		Processing and distribution of refined products	
LLC Gazprom neftekhim Salavat	100		Russia
		Exploration, refining and sales of crude oil	
PJSC Gazprom Neft	96		Russia
Gazprom Neft Badra B.V.	100	Oil and gas production	Netherlands
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
LLC Gazprom pererabotka Blagoveshchensk	100	Construction of Amur gas processing plant	Russia
LLC Gazprom PKhG	100	Gas storage	Russia
Gazprom Sakhalin Holdings B.V.	100	Foreign investing	Netherlands
		Transportation and gas distribution	
OJSC Gazprom transgaz Belarus	100		Belorussia

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

Company	Share in Charter Capital, %¹	Type of activity	Location
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 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 Sankt-Peterburg	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
Gazprom Holding Cooperatie U.A.	100	Investing, asset management Agency on technical maintenance and repairs	Netherlands
LLC Gazprom tsentremont	100		Russia
GAZPROM Schweiz AG	100	Gas distribution	Switzerland
LLC Gazprom export	100	Foreign trade	Russia
LLC Gazprom energoholding	100	Investing, asset management	Russia
Gazprom EP International B.V.	100	Investing, asset management	Netherlands
JSC Gazprom YRGM Development ²	100	Raw hydrocarbons distribution	Russia
CJSC Gazprom YRGM Trading ²	100	Raw hydrocarbons distribution	Russia
LLC Gazpromneft Marine Bunker	100	Oil products trading	Russia
JSC Gazpromneft-Aero	100	Oil products trading	Russia
LLC Gazpromneft-Vostok	100	Oil and gas production	Russia
LLC Gazpromneft Corporate Sales	100	Oil products trading	Russia
JSC Gazpromneft - MNPZ	100	Processing and distribution of refined products	Russia
JSC Gazpromneft-Noyabrskneftegaz	100	Oil and gas production	Russia
JSC Gazpromneft - ONPZ	100	Oil refining	Russia
LLC Gazpromneft-Orenburg	100	Exploration and sales of oil and petroleum gas	Russia
LLC Gazpromneft Regional Sales	100	Oil products trading	Russia
LLC Gazpromneft-Khantos	100	Oil and gas production	Russia
LLC Gazpromneft-Centr	100	Oil products trading	Russia
LLC Gazpromneft-Yamal	100	Oil and associate gas production	Russia
LLC Gazpromtrans	100	Forwarding services	Russia
OJSC Gazpromtrubinvest	100	Production and sales of pipes	Russia
Gazfin Cyprus Limited	100	Investing	Cyprus
LLC GPN-Invest	100	Investing	Russia
LLC GPN-Finans	100	Investing	Russia
LLC Zapolyarneft	100	Oil and gas production	Russia
JSC Mezhregionenergosbyt	58	Sales of electric energy Production of electric and heat power, electric power supply services	Russia
PJSC Mosenergo	53	Generation, purchase and supply of heat energy	Russia
PJSC MIPC	90	Extraction and processing of oil, distribution of refined products	Russia
Naftna industrija Srbije a.d.	56	Construction of gas chemical complex	Serbia
LLC Novourengoyssky gazohimicheskii kompleks	100		Russia

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

Company	Share in Charter Capital, %¹	Type of activity	Location
Nord Stream 2 AG	100	Design, construction and operation of off-shore pipelines	Switzerland
PJSC WGC-2	77	Production and sales of electric and heat energy	Russia
Rosingaz Limited	100	Investing	Cyprus
South Stream Transport B.V.	100	Construction, gas transportation	Netherlands
OJSC Severneftegazprom ²	50	Exploration, processing and sales of gas and gas condensate	Russia
LLC Sibmetakhim	100	Gas processing and sales of petrochemicals	Russia
PJSC TGC-1	52	Production and sales of electric and heat energy	Russia
JSC Teploset Sankt-Peterburga	75	Transportation and distribution of electric and heat energy	Russia
OJSC Tomskgazprom	100	Production of natural gas, gas condensate and oil	Russia
LLC Faktoring-Finance	100	Investing	Russia
PJSC Centerenergoholding	100	Investing	Russia

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

² Group's portion of voting shares.

Principal associates as of 31 December 2017

Company	Share in Charter Capital, %¹	Type of activity	Location
JSC Achimgaz	50	Exploration and production of gas and gas condensate	Russia
Blue Stream Pipeline Company B.V.	50	Construction, gas transportation	Netherlands
Bosphorus Gaz Corporation A.S. ²	71	Gas distribution	Turkey
WIGA Transport Beteiligungs-GmbH & Co. KG	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)	46	Banking	Russia
JSC EUROPOL GAZ	48	Transportation and gas distribution	Poland
KazRosGas LLP	50	Gas processing and sales of gas and refined products	Kazakhstan
JSC Conexus Baltic Grid	34	Transportation and storage of natural gas	Latvia
JSC Latvijas Gaze	34	Sale and distribution of gas	Latvia
JSC Messoyakhaneftegaz	50	Production of oil and petroleum gas	Russia
JSV Moldovagaz	50	Transportation and gas distribution	Moldova
Nord Stream AG ²	51	Gas transportation	Switzerland
CJSC Northgas	50	Exploration and sale of gas and gas condensate	Russia
Panrusgas Gas Trading Plc	40	Gas distribution	Hungary
Prometheus Gas S.A.	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, processing and sale of oil	Russia
JSC Tomskneft VNK	50	Oil production	Russia
LLC Yuzhno-Priobsky GPZ	50	Processing of petroleum gas	Russia
LLC Yamal razvitie	50	Investment, asset management	Russia

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

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

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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 2017 and 2016 the Group had following operations with major associates and other related parties:

	For 2017	For 2016
Revenue (net of VAT and other similar mandatory payments)		
Gas sales		
Panrusgas Gas Trading Plc	46,715	38,041
JSV Moldovagaz	18,063	24,849
Bosphorus Gaz Corporation A.S.	15,128	15,376
JSC Latvijas Gaze	14,608	10,237
KazRosGas LLP	11,118	10,509
VEMEX s.r.o. and its subsidiaries	8,654	16,046
Prometheus Gas S.A.	7,454	806
JSC EUROPOL GAZ	2,347	4,759
PremiumGas S.p.A.	677	4,702
Gas transportation services		
KazRosGas LLP	2,432	2,688
Crude oil, gas condensate and refined products sales		
OJSC NGK Slavneft and its subsidiaries	39,597	38,445
CJSC SOVEX	5,377	3,696
LLC Poliom	2,931	1,800
LLC NPP Neftekhimia	2,732	2,379
Sakhalin Energy Investment Company Ltd.	2,118	2,054
Operator services sales and other services sales		
OJSC NGK Slavneft and its subsidiaries	4,486	663
JSC Messoykhaneftegas	4,389	4,538
Gas refining services		
KazRosGas LLP	8,137	8,169
Interest income		
Gazprombank (Joint-stock Company)	39,822	40,395
JSC Messoykhaneftegas	6,352	5,480
Purchases		
Gas purchases		
LLC SeverEnergiya and its subsidiaries	43,980	49,393
KazRosGas LLP	30,264	32,567
Sakhalin Energy Investment Company Ltd.	17,525	11,811
CJSC Northgaz	2,732	8,512
VEMEX s.r.o. and its subsidiaries	465	3,885
Gas transportation services		
Nord Stream AG	71,047	79,002
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	30,699	38,035
JSC EUROPOL GAZ	12,572	16,613
JSV Moldovagaz	3,499	3,587
Blue Stream Pipeline Company B.V.	3,475	4,000
Oil and refined products purchases		
OJSC NGK Slavneft and its subsidiaries	114,674	96,427
JSC Tomskneft VNK and its subsidiaries	67,519	57,382
Salym Petroleum Development N.V.	43,575	36,958
JSC Messoykhaneftegas	29,699	6,351
Sakhalin Energy Investment Company Ltd.	18,380	19,090

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21. RELATED PARTIES (continued)

	For 2017	For 2016
Purchased services of gas and gas condensate products		
JSC Achimgaz	31,027	27,994
Purchased refining services		
OJSC NGK Slavneft and its subsidiaries	13,719	13,313
Purchased transit of crude oil and oil refinery products		
OJSC NGK Slavneft and its subsidiaries	6,252	6,766
JSC Messoyakhaneftegas	3,863	771
Interest expense		
Gazprombank (Joint-stock Company) and its subsidiaries	11,736	10,750
Pension fund contributions		
NPF GAZFOND	19,181	16,783

In Russia the Group sold gas to associates mainly using tariffs set by the Federal Antimonopoly 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 2017, 2016 and 2015:

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Accounts receivable			
Accounts receivable (payment expected within 12 months of the reporting date)			
Gazprombank (Joint-stock Company)	17,380	14,312	36,301
KazRosGas LLP	5,457	3,287	842
OJSC NGK Slavneft and its subsidiaries	5,304	8,286	8,415
Panrusgas Gas Trading Plc	4,023	3,175	7,434
LLC Yamal razvitie	3,459	-	-
Blue Stream Pipeline Company B.V.	2,785	-	-
Bosphorus Gaz Corporation A.S.	2,603	-	314
Sakhalin Energy Investment Company Ltd.	1,045	2,733	1,149
JSC Messoyakhaneftegas	796	8,190	8,576
VEMEX s.r.o. and its subsidiaries	521	1,422	1,790
Salym Petroleum Development N.V.	453	304	1,010
Overgas Inc. AD	-	-	8,813
JSV Moldovagaz	-	-	4,435
Gasum Oy	-	-	2,579
Accounts receivable (payment expected beyond 12 months of the reporting date)			
JSC Messoyakhaneftegas	12,154	1,329	558
Gazprombank (Joint-stock Company)	9,599	745	255
LLC Yamal razvitie	4,483	8,913	2,487
Other financial investments long-term			
Gazprombank (Joint-stock Company)	-	42,230	-
Other financial investments short-term			
Gazprombank (Joint-stock Company)	290,322	100,015	16,467
OJSC Belgazprombank	7,436	968	11,827
Cash balances			
Gazprombank (Joint-stock Company)	392,587	518,697	903,376
OJSC Belgazprombank	19,319	917	5,152

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21. RELATED PARTIES (continued)

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Accounts payable			
Short-term accounts payable			
OJSC NGK Slavneft and its subsidiaries	31,164	4,094	1,510
JSC Messoyakhaneftegaz	6,928	3,694	-
Nord Stream AG	6,172	5,723	7,170
Sakhalin Energy Investment Company Ltd.	5,710	2,948	854
Salym Petroleum Development N.V.	5,477	4,368	2,720
JSC Achimgaz	3,195	3,025	4,506
LLC SeverEnergiya and its subsidiaries	2,963	3,436	5,755
KazRosGas LLP	2,079	4,186	3,370
JSC EUROPOL GAZ	2,078	2,100	2,710
LLC Yuzhno-Priobsky GPZ	2,008	1,339	-
WIGA Transport Beteiligungs - GmbH & Co. KG and its subsidiaries	1,957	-	-
JSC Latvijas Gaze	293	92	1,806
Gasum Oy	-	-	2,260

Accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 2,603 million, RUB nil million and RUB 314 million as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively, net of impairment allowance of RUB 5,935 million, RUB 7,802 million and RUB 6,574 million as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 31 December 2017 and 31 December 2016 and RUB 8,813 million as of 31 December 2015 net of impairment allowance of RUB 6,058 million, RUB 6,380 million and RUB nil million as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 31 December 2017 and 31 December 2016 and RUB 4,435 million as of 31 December 2015 net of impairment allowance of RUB 354,995 million, RUB 358,279 million and RUB 396,456 million as of 31 December 2017, 31 December 2016 and 31 December 2015, respectively.

Loans issued to major associates and promissory notes received from major associates as of 31 December 2017, 2016 and 2015 are presented as follows:

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Loans and promissory notes due for repayment beyond 12 months of the reporting date			
WIGA Transport Beteiligungs - GmbH & Co. KG and its subsidiaries	13,768	12,757	15,933
LLC Yamal razvitie	13,187	31,301	36,831
JSC Messoyakhaneftegaz	12,260	17,633	14,614
Erdgasspeicher Peissen GmbH	7,300	6,764	8,448
Wintershall Noordzee B.V.	5,595	-	3,571
OJSC Belgazprombank	4,957	4,957	4,957
JSC Evroteck-Yugra	1,514	-	-
Gazprombank (Joint-stock Company)	10	-	-
Etzel-Kavernenbetriebsgesellschaft mbH & Co. KG	-	-	4,695
Loans and promissory notes due for repayment within 12 months of the reporting date			
LLC Yamal razvitie	10,540	-	-
Gazprombank (Joint-stock Company)	30	-	113
JSC Messoyakhaneftegaz	-	32,340	11,166
Wintershall Noordzee B.V.	-	5,811	-
Wintershall AG	-	1,811	3,064

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21 RELATED PARTIES (continued)

Loans received from major associates as of 31 December 2017, 2016 and 2015 are presented as follows:

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Loans and borrowings due for repayment beyond 12 months of the reporting date			
Gazprombank (Joint-stock Company)	87,511	88,850	114,793
JSC Tomskneft VNK	-	12,812	12,985
Loans and borrowings due for repayment within 12 months of the reporting date (including current portion of long-term liabilities)			
Gazprombank (Joint-stock Company) and its subsidiaries	80,807	31,797	15,635
JSC Tomskneft VNK	5,291	-	-

Borrowings from Gazprombank (Joint-stock company) and its subsidiaries are obtained on terms not substantially different from those on financial instruments with similar characteristics and are subject to influence of changes in economic or other factors. The amount of secured borrowings was RUB 60,000 million as of 31 December 2017 and RUB nil million as of 31 December 2016 and 2015, respectively.

The Group received loans and borrowings from its major associates in Russian Rubles at rates ranging from 7.84 % to 11.75 % in 2017. The similar rates ranging in 2016 was from 9.93 % to 13.75 %.

Besides, the Group received loans nominated in foreign currency at the rates ranging from 4.25 % to 9.5 % in 2017. The similar rates ranging in 2016 was from 6.0 % to 9.5 %.

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 4,537 million and RUB 4,685 million for the years ended 31 December 2017 and 2016, 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 13 million (RUB 7 million for 2016).

22. EARNINGS PER SHARE

Basic earnings per share have been calculated by dividing the net profit 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 2017 and 2016 amounted to 22,100 million shares and 22,561 million shares respectively.

Diluted earnings per share have not been calculated due to the absence of instruments convertible to ordinary shares at the beginning and the end of the reporting period.

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23. COMMITMENTS AND CONTINGENCIES

Provisions

	As of 31 December 2016	Accrued	Utilized	Recovered	As of 31 December 2017
Provisions on bonus payments at the year end	39,389	68,436	(47,275)	(3,739)	56,811
Provisions on vacations	31,008	61,113	(57,965)	(644)	33,512
Provisions on retirement benefits payable as a lump sum	25,456	13,725	(11,910)	(967)	26,304
Provisions regarding fixed assets liquidation and environmental restoration in the context of subsurface use	143,073	40,845	(3,146)	(223)	180,549
Other provisions, including:	173,179	53,999	(36,682)	(20,114)	170,382
<i>provision regarding gas price adjustment</i>	<i>112,256</i>	<i>26,934</i>	<i>(24,491)</i>	<i>(3,092)</i>	<i>111,607</i>
<i>guarantees issued</i>	<i>3,427</i>	<i>3</i>	<i>(3,365)</i>	<i>(65)</i>	<i>-</i>
Total, including:	412,105	238,118	(156,978)	(25,687)	467,558
with maturity up to 1 year	245,222	185,103	(153,523)	(11,305)	265,497

	As of 31 December 2015	Accrued	Utilized	Recovered	As of 31 December 2016
Provisions on bonus payments at the year end	37,313	48,547	(44,645)	(1,826)	39,389
Provisions on vacations	29,280	57,709	(55,365)	(616)	31,008
Provisions on retirement benefits payable as a lump sum	22,778	14,348	(10,483)	(1,187)	25,456
Provisions regarding fixed assets liquidation and environmental restoration in the context of subsurface use	139,250	34,684	(2,761)	(28,100)	143,073
Other provisions, including:	244,787	73,815	(44,830)	(100,593)	173,179
<i>provision regarding gas price adjustment</i>	<i>102,134</i>	<i>19,119</i>	<i>(5,413)</i>	<i>(3,584)</i>	<i>112,256</i>
<i>guarantees issued</i>	<i>61,404</i>	<i>2,814</i>	<i>-</i>	<i>(60,791)</i>	<i>3,427</i>
Total, including:	473,408	229,103	(158,084)	(132,322)	412,105
with maturity up to 1 year	318,527	179,781	(154,718)	(98,368)	245,222

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).

Guarantees issued

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

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2015
Outstanding guarantees issued on behalf of:			
LLC Stroygazconsulting	81,710	-	-
Blackrock Capital Investments Limited	1,572	4,968	9,946
Ostchem Holding Limited	-	3,427	61,404
Other	24,781	36,412	36,001
Total	108,063	44,807	107,351

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 JSC EUROPOL GAZ. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result

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23. COMMITMENTS AND CONTINGENCIES (continued)

the guarantees issued to Asset Repackaging Trust Five B.V. on behalf of Blackrock Capital Investments Limited amounted to RUB 1,572 million, RUB 4,968 million and RUB 9,946 million as of 31 December 2017, 2016 and 2015, respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint-stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 31 December 2017, 2016 and 2015 the above guarantee amounted to RUB nil million, RUB 3,427 million and RUB 61,404 million, respectively, and was fully provided. As of 31 December 2017 the guarantee agreement was terminated.

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

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

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

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

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

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

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

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

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

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

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

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23. COMMITMENTS AND CONTINGENCIES (continued)

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

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

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

On 28 November 2014 PJSC Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz of Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. On 2 February 2018 NJSC Naftogaz of Ukraine submitted the corrected amount of claim to the arbitration court, including a claim to recover damages for the failure to provide gas for transit and underpayment of the transit tariff for the second half of 2016 and 2017. Total amount of the claim filed by NJSC Naftogaz of Ukraine (without interest) was USD 14,865 million. On 16 February 2018 PJSC Gazprom submitted to the arbitration court a response to this claim and a claim to refund the overpaid transit tariff for the period from April 2014 to December 2017 due to the change in the gas price under the Contract No. KP for purchase and sale of natural gas in 2009-2019 totalling USD 44 million without interest. The final award in the case was delivered on 28 February 2018. The arbitration court rejected a request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of the Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the European Union to the Contract. The arbitration court rejected a request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under the Contract No. TKGU to PJSC Ukrtransgaz or to another gas transportation system operator. The arbitration court satisfied the demand of NJSC Naftogaz of Ukraine to oblige PJSC Gazprom to pay USD 4,673 million for having provided less gas for transit to European consumers than stipulated in the Contract. With consideration for the amount awarded to PJSC Gazprom under the supply contract, the arbitration court set off counterclaims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million to NJSC Naftogaz of Ukraine. Expenses for recognition of the liabilities under the award are presented within other expenses in the consolidated statement of financial results (see Note 19). On 29 March 2018 PJSC Gazprom filled with the Court of Appeal of Svea (Sweden) a petition to review stated final award of 28 February 2018 and to cancel it partially.

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

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 31 December 2017 – RUB 99,726 million). PJSC Gazprom did not agree to the claims and on 9 November 2012 filled with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness statement and expert statement.

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

In August 2012 the European Commission launched a formal stage of investigation into a potential breach of

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

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

The amount of current claims of Saipem S.p.A. to South Stream Transport B.V. is about EUR 615 million (at the exchange rate as of 31 December 2017 – RUB 42,353 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for June 2019.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 31 December 2017 – RUB 176,191 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an action with the Kiev Economic Court against the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the action was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which left the primary court's award unchanged based on the decision of 18 May 2016. On 7 June 2016 PJSC Gazprom filed a cassation appeal with the Ukraine's Higher Economic Court. On 13 July 2016 the Ukraine's Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the judgements in the case delivered by the lower-level courts.

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

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12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office Orders of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover the amount of Ukrainian hryvnia 189,125 million (at the exchange rate as of 31 December 2017 – RUB 387,621 million), including an execution fee of Ukrainian hryvnia 17,193 million (at the exchange rate as of 31 December 2017 – RUB 35,238 million), the seizure of the accounts of the Kiev-based Branch of PJSC Gazprom, dividends due to PJSC Gazprom from the participation in JSC Gaztransit, the stocks of JSC Gaztransit owned by PJSC Gazprom, the stocks of PJSC YUZHNIIGIPROGAZ Institute, a participation stake in LLC Gazprom sbyt Ukraine, the LLC International Consortium for the Ukrainian Gas Transmission System Management and Development. PJSC Gazprom is currently challenging the actions under the enforcement proceedings in the Ukrainian courts. PJSC Gazprom is also considering other legal mechanisms to restore its violated rights.

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

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

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

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

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

Sanctions

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

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

- 1) transacting in, providing financing for, or otherwise dealing with new debt of longer than 90 days maturity (from 28 November 2017 – 60 days maturity) or newly issued share capital, property or rights to property in respect of a number of Russian energy companies, including PJSC Gazprom Neft;
- 2) transacting in, providing financing for, or otherwise dealing in new debt of longer than 30 days maturity (from 28 November 2017 – 14 days maturity) or newly issued share capital, property or rights to property in respect of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);

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23. COMMITMENTS AND CONTINGENCIES (continued)

3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction includes the Yuzhno-Kirinskoye field located in the Sea of Okhotsk. According to the changes from 31 October 2017 the scope of the stated prohibition is extended for projects that meet three criteria at the same time:

- projects start after 29 January 2018;
- projects relate to oil production around the world;
- Russian companies included in the Sectoral Sanctions Identifications List, including PJSC Gazprom and PJSC Gazprom Neft and their subsidiaries, own a share of 33 % and more in such project or control the majority of voting rights.

On 2 August 2017 the U.S. President signed the Countering America's Adversaries Through Sanctions Act (the "Act of 2 August 2017"), which expanded the U.S. sanctions regime against the Russian Federation. The Act of 2 August 2017, inter alia, gives the U.S. President right to impose certain sanctions in interaction (coordination) with the U.S. allies against any person who after the adoption of the Act of 2 August 2017 consciously made investments or sold goods, supplied technologies or provided services to the Russian Federation (for the amount exceeding USD 1 million, or during the year – totally exceeding USD 5 million) in the construction and maintenance of Russian energy export pipelines. The implementation of these sanctions can create risks for development of new prospective gas transportation projects of PJSC Gazprom.

The Act of 2 August 2017 creates the risk of extraterritorial application of certain U.S. sanctions and may adversely affect the participation of foreigners in certain new projects of PJSC Gazprom. At the same time, the provisions of the Act of 2 August 2017 should be applied along with the explanations of the U.S. Department of Treasury and the U.S. Department of State.

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

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

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

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

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

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

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

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

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

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

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 2017 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.

24. ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

The political and economic instability, the current situation with sanctions, uncertainty and volatility of the financial and trade markets and other risks have had and may continue to have effects on the Russian economy. During 2017 the official Russian Ruble to US dollar and Euro foreign exchange rates fluctuated between 55.8453 and 60.7503 Russian Rubles and 59.6124 and 71.9527 Russian Rubles per US dollar and Euro, respectively. In addition during 2017 the key interest rate determined by the Central Bank of the Russian Federation decreased from 10 % to 7.75 % and actual inflation was 2.5 %.

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

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

25. 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.

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26. POST BALANCE SHEET EVENTS

Borrowings

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

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

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

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


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

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

In March 2018 the subsidiary Nord Stream 2 AG issued long-term loans from Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation & Finance B.V. in the amount of EUR 404 million, within the terms of the long-term financing agreement, signed between the parties in April 2017.



A.B. Miller
Chairman of the Management Committee



E.A. Vasilieva
Chief Accountant

24 April 2018