

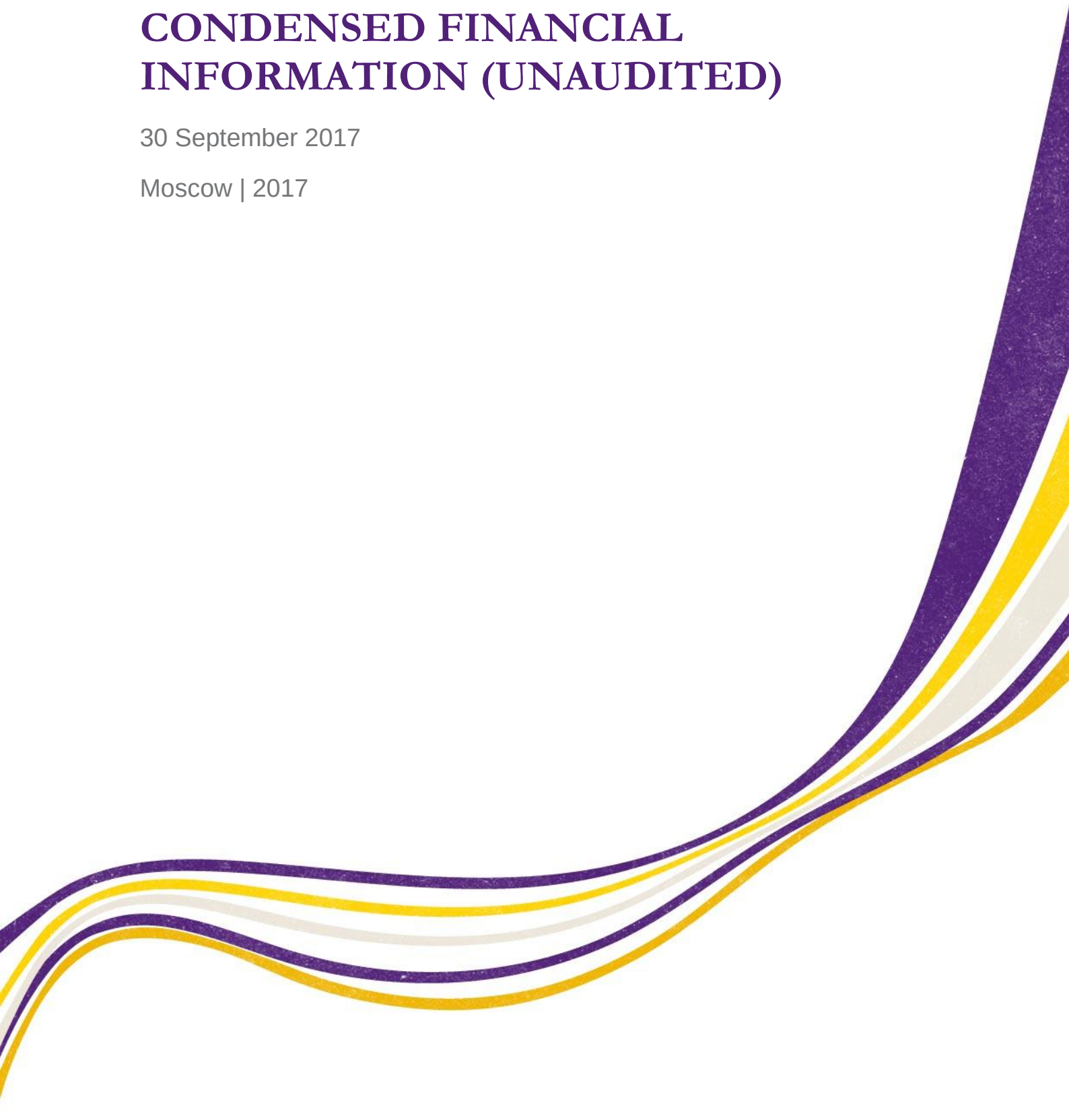


PJSC GAZPROM

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

30 September 2017

Moscow | 2017



Contents

Report on Review of Interim Condensed Financial Information	3
Consolidated interim condensed balance sheet	5
Consolidated interim condensed statement of comprehensive income	6
Consolidated interim condensed statement of cash flows	7
Consolidated interim condensed statement of changes in equity	8

Notes to the consolidated interim condensed financial information

1	Nature of operations.....	9
2	Economic environment in the Russian Federation	9
3	Basis of presentation.....	9
4	Summary of significant accounting policies and accounting estimates	10
5	Segment information	11
6	Cash and cash equivalents	15
7	Accounts receivable and prepayments	15
8	Inventories.....	15
9	Property, plant and equipment.....	16
10	Investments in associates and joint ventures.....	17
11	Long-term accounts receivable and prepayments.....	19
12	Other current and non-current assets.....	19
13	Long-term borrowings, promissory notes.....	19
14	Profit tax.....	22
15	Equity	22
16	Sales	23
17	Operating expenses.....	24
18	Finance income and expenses	24
19	Basic and diluted earnings per share, attributable to owners of PJSC Gazprom	24
20	Provisions for liabilities and charges.....	25
21	Fair value of financial instruments	26
22	Related parties.....	27
23	Commitments and contingencies	33
24	Post balance sheet events.....	38



Report on Review of Interim Condensed Financial Information

To the Shareholders and the Board of Directors of PJSC Gazprom

Introduction

We have reviewed the accompanying consolidated interim condensed balance sheet of PJSC Gazprom and its subsidiaries as of 30 September 2017 and the related consolidated interim condensed statements of comprehensive income for the three and nine months ended 30 September 2017, the consolidated interim condensed statements of cash flows and changes in equity for the nine months ended 30 September 2017 and notes to the consolidated interim condensed financial information.

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

Scope of Review

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

Conclusion

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

President of FBK, LLC




S.M. Shapiguzov
(by virtue of the Charter,
Audit Qualification Certificate
01-001230, ORNZ 21606043397)


Engagement partner

K.S. Shirikova, ACCA
(Audit Qualification Certificate
01-000712, ORNZ 21606042126)

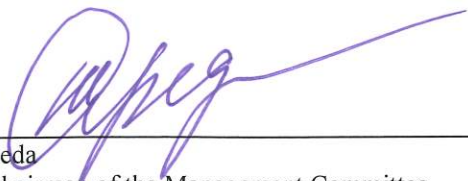
November 29, 2017
Moscow, Russian Federation

Audited entity
Name:
Public Joint Stock Company Gazprom (PJSC Gazprom).
Place of business:
16, Nametkina St., Moscow, 117997, 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 number 1027700070518.

Auditor
Name:
FBK, LLC
Place of business:
44/1, 2AB, Myasnitskaya St., Moscow, 101990, Russian Federation.
Official registration:
Registered by the Moscow Registration Chamber on November 15, 1993, the certificate: series YZ 3 No. 484.583 RP. Entered in the Uniform State Register of Legal Entities on July 24, 2002 under the main state number 1027700058286.
Membership in Self-Regulatory Organization of Auditors:
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 INTERIM CONDENSED BALANCE SHEET (UNAUDITED)
AS OF 30 SEPTEMBER 2017
(in millions of Russian Rubles)

Notes		30 September 2017	31 December 2016
	Assets		
	Current assets		
6	Cash and cash equivalents	499,672	896,728
	Restricted cash	2,697	3,471
21	Short-term financial assets	14,157	11,481
7	Accounts receivable and prepayments	1,019,872	1,084,967
8	Inventories	811,164	711,199
	VAT recoverable	110,820	195,033
12	Other current assets	<u>791,409</u>	<u>331,467</u>
		3,249,791	3,234,346
	Non-current assets		
9	Property, plant and equipment	12,005,329	11,502,747
	Goodwill	105,302	105,330
10	Investments in associates and joint ventures	870,570	730,149
11	Long-term accounts receivable and prepayments	732,636	710,747
21	Available-for-sale long-term financial assets	261,237	294,345
12	Other non-current assets	<u>273,212</u>	<u>341,274</u>
		14,248,286	13,684,592
	Total assets	17,498,077	16,918,938
	Liabilities and equity		
	Current liabilities		
	Accounts payable, accruals and provisions for liabilities and charges	1,015,054	1,197,005
	Current profit tax payable	14,679	62,479
	Other taxes payable	239,842	215,244
	Short-term borrowings, promissory notes and current portion of long-term borrowings	<u>714,384</u>	<u>447,080</u>
		1,983,959	1,921,808
	Non-current liabilities		
13	Long-term borrowings, promissory notes	2,424,044	2,382,543
20	Provisions for liabilities and charges	475,962	406,234
14	Deferred tax liabilities	742,567	688,503
	Other non-current liabilities	<u>76,717</u>	<u>78,011</u>
		3,719,290	3,555,291
	Total liabilities	5,703,249	5,477,099
	Equity		
15	Share capital	325,194	325,194
15	Treasury shares	(235,919)	(235,919)
	Retained earnings and other reserves	<u>11,332,336</u>	<u>11,005,256</u>
		11,421,611	11,094,531
	Non-controlling interest	<u>373,217</u>	<u>347,308</u>
	Total equity	11,794,828	11,441,839
	Total liabilities and equity	17,498,077	16,918,938

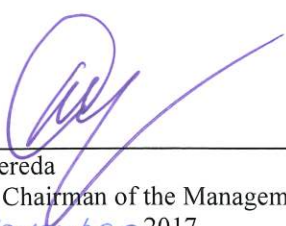

M.L. Sereda
Acting Chairman of the Management Committee
29 November 2017


E.A. Vasilieva
Chief Accountant
29 November 2017

The accompanying notes on pages 9 to 38 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2017
(in millions of Russian Rubles)

Notes		Three months ended 30 September		Nine months ended 30 September	
		2017	2016	2017	2016
16	Sales	1,431,662	1,256,992	4,641,596	4,321,364
	Net gain (loss) from trading activity	5,918	41,630	(14,409)	71,159
17	Operating expenses	<u>(1,226,244)</u>	<u>(1,143,971)</u>	<u>(3,931,550)</u>	<u>(3,824,703)</u>
	Operating profit	211,336	154,651	695,637	567,820
18	Finance income	102,305	115,996	338,349	816,264
18	Finance expense	<u>(78,710)</u>	<u>(132,100)</u>	<u>(318,337)</u>	<u>(499,487)</u>
10	Share of net income of associates and joint ventures	27,861	21,492	83,830	55,258
	Gain on disposal of available-for-sale financial assets	<u>347</u>	<u>814</u>	<u>397</u>	<u>1,835</u>
	Profit before profit tax	263,139	160,853	799,876	941,690
	Current profit tax expense	<u>(47,657)</u>	<u>(28,730)</u>	<u>(130,819)</u>	<u>(134,515)</u>
	Deferred profit tax expense	<u>(7,911)</u>	<u>(20,137)</u>	<u>(53,432)</u>	<u>(69,784)</u>
	Profit tax	<u>(55,568)</u>	<u>(48,867)</u>	<u>(184,251)</u>	<u>(204,299)</u>
	Profit for the period	207,571	111,986	615,625	737,391
	Other comprehensive income (loss):				
	Items that will not be reclassified to profit or loss:				
20	Remeasurements of post-employment benefit obligations	<u>(44,515)</u>	<u>(13,821)</u>	<u>(58,751)</u>	<u>(92,446)</u>
	Total items that will not be reclassified to profit or loss	(44,515)	(13,821)	(58,751)	(92,446)
	Items that may be reclassified subsequently to profit or loss:				
	Gain (loss) arising from change in fair value of available-for-sale financial assets, net of tax	7,138	13,487	(33,089)	34,293
	Share of other comprehensive income (loss) of associates and joint ventures	356	(3,238)	2,481	(7,756)
	Translation differences	<u>(1,372)</u>	<u>(14,770)</u>	<u>21,741</u>	<u>(201,260)</u>
	Gain (loss) from cash flow hedges, net of tax	<u>799</u>	<u>1,742</u>	<u>(3,624)</u>	<u>41,277</u>
	Total items that may be reclassified subsequently to profit or loss	6,921	(2,779)	(12,491)	(133,446)
	Other comprehensive loss for the period, net of tax	(37,594)	(16,600)	(71,242)	(225,892)
	Total comprehensive income for the period	169,977	95,386	544,383	511,499
	Profit for the period attributable to:				
	Owners of PJSC Gazprom	200,488	102,161	581,834	709,321
	Non-controlling interest	<u>7,083</u>	<u>9,825</u>	<u>33,791</u>	<u>28,070</u>
		207,571	111,986	615,625	737,391
	Total comprehensive income for the period attributable to:				
	Owners of PJSC Gazprom	161,156	86,314	504,183	491,850
	Non-controlling interest	<u>8,821</u>	<u>9,072</u>	<u>40,200</u>	<u>19,649</u>
		169,977	95,386	544,383	511,499
	Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)				
19		9.07	4.60	26.33	31.24

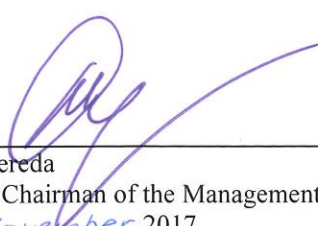

M.L. Sereda
Acting Chairman of the Management Committee
29 November 2017


E.A. Vasilieva
Chief Accountant
29 November 2017

The accompanying notes on pages 9 to 38 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(in millions of Russian Rubles)

Notes	Nine months ended 30 September	
	2017	2016
	Cash flows from operating activities	
	Profit before profit tax	799,876 941,690
	Adjustments to profit before profit tax for:	
17	Depreciation	448,579 423,650
18	Net finance income	(20,012) (316,777)
10	Share of net income of associates and joint ventures	(83,830) (55,258)
	Charge for provisions	97,679 113,268
17	Derivatives (gain) loss	(11,699) 10,851
	Gain on disposal of available-for-sale financial assets	(397) (1,835)
	Other	(14,708) (43,234)
	Total effect of adjustments	415,612 130,665
	Cash flows from operating activities before working capital changes	1,215,488 1,072,355
	Increase in non-current assets	(1,936) (17,695)
	Increase (decrease) in non-current liabilities	7,479 (19,211)
	Changes in working capital	(417,746) 234,561
	Profit tax paid	(190,468) (93,535)
	Net cash from operating activities	612,817 1,176,475
	Cash flows from investing activities	
	Capital expenditures	(987,823) (1,069,326)
18	Interest paid and capitalised	(95,263) (99,817)
	Net change in loans issued	9,950 (35,024)
	Acquisition of subsidiaries, net of cash acquired	(16) (1,093)
	Investments in associates and joint ventures	(92,464) (2,876)
	Interest received	42,254 110,774
	Change in available-for-sale long-term financial assets	473 8,185
	Proceeds from associates and joint ventures	40,048 20,386
	Proceeds from sales of associates	487 22,787
	Placement of long-term bank deposits	(2,596) (100,000)
	Repayment of long-term bank deposits	- 70
	Other	1,013 (41,751)
	Net cash used in investing activities	(1,083,937) (1,187,685)
	Cash flows from financing activities	
	Proceeds from long-term borrowings	643,107 325,298
	Repayment of long-term borrowings (including current portion of long-term borrowings)	(425,909) (454,759)
	Proceeds from short-term borrowings	112,127 106,980
	Repayment of short-term borrowings	(51,587) (83,820)
	Dividends paid	(191,730) (181,326)
18	Interest paid	(24,086) (38,824)
15	Acquisition of treasury shares	- (132,000)
	Acquisition of non-controlling interests in subsidiaries	(124) (124)
	Issue of shares acquired non-controlling interest	- 450
	Change in restricted cash	774 (1,434)
	Net cash from (used in) financing activities	62,572 (459,559)
	Effect of foreign exchange rate changes on cash and cash equivalents	11,492 (100,699)
	Decrease in cash and cash equivalents	(397,056) (571,468)
6	Cash and cash equivalents at the beginning of the period	896,728 1,359,095
6	Cash and cash equivalents at the end of the period	499,672 787,627


M.L. Sereda
Acting Chairman of the Management Committee
29 November 2017


E.A. Vasilieva
Chief Accountant
29 November 2017

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PJSC GAZPROM
CONSOLIDATED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017
(in millions of Russian Rubles)

Notes		Attributable to the owners of PJSC Gazprom						
		Number of shares out- standing (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total	Non- controlling interest	Total equity
	Nine months ended 30 September 2016							
	Balance as of 31 December 2015	23.0	325,194	(103,919)	10,368,311	10,589,586	325,036	10,914,622
20	Profit for the period	-	-	-	709,321	709,321	28,070	737,391
	Other comprehensive income (loss):							
	Remeasurements of post-employment benefit obligations	-	-	-	(92,451)	(92,451)	5	(92,446)
	Gain arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	34,288	34,288	5	34,293
	Share of other comprehensive loss of associates and joint ventures	-	-	-	(7,756)	(7,756)	-	(7,756)
	Translation differences	-	-	-	(191,469)	(191,469)	(9,791)	(201,260)
	Gain from cash flow hedges, net of tax	-	-	-	39,917	39,917	1,360	41,277
	Total comprehensive income for the nine months ended 30 September 2016	-	-	-	491,850	491,850	19,649	511,499
15	Change in non-controlling interest in subsidiaries	-	-	-	(3,411)	(3,411)	4,349	938
	Return of social assets to governmental authorities	-	-	-	(7)	(7)	-	(7)
	Treasury shares	(0.9)	-	(132,000)	-	(132,000)	-	(132,000)
	Dividends declared	-	-	-	(174,372)	(174,372)	(6,507)	(180,879)
	Balance as of 30 September 2016	22.1	325,194	(235,919)	10,682,371	10,771,646	342,527	11,114,173
	Nine months ended 30 September 2017							
	Balance as of 31 December 2016	22.1	325,194	(235,919)	11,005,256	11,094,531	347,308	11,441,839
	Profit for the period	-	-	-	581,834	581,834	33,791	615,625
20	Other comprehensive income (loss):							
	Remeasurements of post-employment benefit obligations	-	-	-	(58,734)	(58,734)	(17)	(58,751)
	Loss arising from changes in fair value of available-for-sale financial assets, net of tax	-	-	-	(33,089)	(33,089)	-	(33,089)
	Share of other comprehensive income of associates and joint ventures	-	-	-	2,481	2,481	-	2,481
	Translation differences	-	-	-	15,718	15,718	6,023	21,741
	(Loss) gain from cash flow hedges, net of tax	-	-	-	(4,027)	(4,027)	403	(3,624)
	Total comprehensive income for the nine months ended 30 September 2017	-	-	-	504,183	504,183	40,200	544,383
	Change in non-controlling interest in subsidiaries	-	-	-	592	592	(683)	(91)
Return of social assets to governmental authorities	-	-	-	(15)	(15)	-	(15)	
Dividends declared	-	-	-	(177,680)	(177,680)	(13,608)	(191,288)	
	Balance as of 30 September 2017	22.1	325,194	(235,919)	11,332,336	11,421,611	373,217	11,794,828


M.L. Sereda
Acting Chairman of the Management Committee
29 November 2017


E.A. Vasilieva
Chief Accountant
29 November 2017

The accompanying notes on pages 9 to 38 are an integral part of this consolidated interim condensed financial information.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

1 NATURE OF OPERATIONS

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

The Group is involved in the following principal activities:

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

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

The gas business is subject to seasonal fluctuations with peak demand in the first and fourth quarters of each year. Typically approximately 20 % and 70 % of total annual gas volumes are shipped in the three and nine months ended 30 September, respectively.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

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

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

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

- as of 30 September 2017 – 58.0169 (as of 30 September 2016 – 63.1581);
- as of 31 December 2016 – 60.6569 (as of 31 December 2015 – 72.8827).

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

- as of 30 September 2017 – 68.4483 (as of 30 September 2016 – 70.8823);
- as of 31 December 2016 – 63.8111 (as of 31 December 2015 – 79.6972).

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

3 BASIS OF PRESENTATION

This consolidated interim condensed financial information is prepared in accordance with IAS 34 Interim Financial Reporting. The consolidated interim condensed financial information should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”).

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The significant accounting policies followed by the Group and the critical accounting estimates in applying accounting policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016.

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

Application of amendments to IFRSs

A number of amendments to current IFRSs became effective for the periods beginning on or after 1 January 2017:

- The amendments to IAS 7 Cash Flow Statements (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017). The revised standard requires disclosing a reconciliation of movements for obligations arising from financing activities.
- The amendments to IAS 12 Income Taxes in the recognition of deferred tax assets for unrealised losses (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).

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

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

Certain new standards, interpretations and amendments have been issued that are mandatory for the annual periods beginning on or after 1 January 2018. In particular, the Group has not early adopted the standards and amendments:

- IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018). IFRS 9 Financial Instruments replaces those parts of IAS 39 Financial Instruments: Recognition and Measurement relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- IFRS 15 Revenue from Contracts with Customers (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed.
- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application of IFRS 15 Revenue from Contracts with Customers.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

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

- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.

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

5 SEGMENT INFORMATION

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

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

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

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

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

The inter-segment sales mainly consist of:

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

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

The Governing bodies assess the performance, assets and liabilities of the operating segments based on the internal financial reporting. The effects of certain non-recurring transactions and events, such as business

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the internal financial information to consolidated interim condensed financial information are not included within the operating segments which are reviewed by the Governing bodies on a central basis. Gains and losses on available-for-sale financial assets and financial income and expenses are also not allocated to the operating segments.

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<u>Nine months ended</u>									
<u>30 September 2017</u>									
Total segment revenues	<u>712,531</u>	<u>842,221</u>	<u>2,500,209</u>	<u>41,549</u>	<u>840,719</u>	<u>1,232,907</u>	<u>349,599</u>	<u>260,581</u>	<u>6,780,316</u>
Inter-segment sales	695,548	667,693	184,961	38,752	452,766	6,097	-	-	2,045,817
External sales	16,983	174,528	2,315,248	2,797	387,953	1,226,810	349,599	260,581	4,734,499
Segment result	<u>74,592</u>	<u>42,790</u>	<u>130,976</u>	<u>4,668</u>	<u>186,249</u>	<u>40,509</u>	<u>38,490</u>	<u>2,069</u>	<u>520,343</u>
Depreciation	139,255	387,360	13,630	21,181	86,376	34,172	35,432	25,690	743,096
Share of net income of associates and joint ventures	5,076	14,384	2,815	59	50,422	2,206	104	8,764	83,830
<u>Nine months ended</u>									
<u>30 September 2016</u>									
Total segment revenues	<u>536,707</u>	<u>764,263</u>	<u>2,471,231</u>	<u>39,229</u>	<u>711,532</u>	<u>1,102,962</u>	<u>322,708</u>	<u>226,182</u>	<u>6,174,814</u>
Inter-segment sales	519,160	618,497	163,359	35,579	439,987	6,631	-	-	1,783,213
External sales	17,547	145,766	2,307,872	3,650	271,545	1,096,331	322,708	226,182	4,391,601
Segment result	<u>26,354</u>	<u>50,854</u>	<u>129,666</u>	<u>5,423</u>	<u>42,985</u>	<u>56,722</u>	<u>24,223</u>	<u>(2,978)</u>	<u>333,249</u>
Depreciation	128,139	347,643	13,619	17,768	82,374	22,883	34,179	27,534	674,139
Share of net income (loss) of associates and joint ventures	5,145	20,621	2,985	(172)	17,570	4,042	(14)	5,081	55,258
<u>Three months ended</u>									
<u>30 September 2017</u>									
Total segment revenues	<u>245,775</u>	<u>316,625</u>	<u>710,087</u>	<u>12,436</u>	<u>269,744</u>	<u>447,520</u>	<u>86,444</u>	<u>89,232</u>	<u>2,177,863</u>
Inter-segment sales	240,181	259,579	47,728	11,163	155,089	1,522	-	-	715,262
External sales	5,594	57,046	662,359	1,273	114,655	445,998	86,444	89,232	1,462,601
Segment result	<u>36,186</u>	<u>45,144</u>	<u>(28,342)</u>	<u>(467)</u>	<u>67,065</u>	<u>27,477</u>	<u>(3,160)</u>	<u>(973)</u>	<u>142,930</u>
Depreciation	45,192	125,233	5,098	6,887	28,397	6,371	10,949	4,845	232,972
Share of net income (loss) of associates and joint ventures	1,839	5,141	2,348	4	17,654	943	(77)	9	27,861
<u>Three months ended</u>									
<u>30 September 2016</u>									
Total segment revenues	<u>177,875</u>	<u>269,632</u>	<u>606,979</u>	<u>14,078</u>	<u>262,679</u>	<u>394,783</u>	<u>86,416</u>	<u>83,973</u>	<u>1,896,415</u>
Inter-segment sales	172,671	219,638	42,035	12,734	157,683	1,920	-	-	606,681
External sales	5,204	49,994	564,944	1,344	104,996	392,863	86,416	83,973	1,289,734
Segment result	<u>16,009</u>	<u>21,878</u>	<u>(44,774)</u>	<u>2,050</u>	<u>30,858</u>	<u>44,568</u>	<u>(4,310)</u>	<u>(5,509)</u>	<u>60,770</u>
Depreciation	42,618	120,079	4,173	5,902	25,456	6,933	11,674	9,195	226,030
Share of net income (loss) of associates and joint ventures	1,712	8,030	1,252	(185)	7,709	1,229	(80)	1,825	21,492

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

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

Notes	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Segment result for reportable segments	143,903	66,279	518,274	336,227
Other segments' result	(973)	(5,509)	2,069	(2,978)
Segment result	142,930	60,770	520,343	333,249
Difference in depreciation ¹	87,697	84,495	294,518	250,489
Expenses associated with pension obligations	(5,993)	(4,441)	(12,888)	(13,544)
18 Net finance income (expense)	23,595	(16,104)	20,012	316,777
Gain on disposal of available-for-sale financial assets	347	814	397	1,835
10 Share of net income of associates and joint ventures	27,861	21,492	83,830	55,258
Other	(13,298)	13,827	(106,336)	(2,374)
Profit before profit tax	263,139	160,853	799,876	941,690

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

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

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
External sales for reportable segments	1,373,369	1,205,761	4,473,918	4,165,419
External sales for other segments	89,232	83,973	260,581	226,182
Total external segment sales	1,462,601	1,289,734	4,734,499	4,391,601
Differences in external sales ¹	(30,939)	(32,742)	(92,903)	(70,237)
Total sales per the consolidated interim condensed statement of comprehensive income	1,431,662	1,256,992	4,641,596	4,321,364

¹ The difference in external sales relates to adjustments of statutory sales to comply with IFRS, such as netting of sales of materials to subcontractors recorded under Russian statutory accounting and other adjustments.

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

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 30 September 2017									
Segment assets	2,543,455	6,562,606	1,576,511	374,101	2,492,384	1,530,740	829,991	1,051,358	16,961,146
Investments in associates and joint ventures	26,803	151,961	23,422	1,321	466,200	21,149	1,443	178,271	870,570
Capital additions ¹	107,695	305,012	19,094	12,335	194,635	135,645	26,192	73,374	873,982
As of 31 December 2016									
Segment assets	2,479,386	6,596,937	1,557,089	393,482	2,383,892	1,361,161	988,571	937,460	16,697,978
Investments in associates and joint ventures	28,007	131,006	29,701	155	427,432	22,353	1,258	90,237	730,149
Capital additions ²	231,530	406,828	41,785	35,542	316,823	193,243	63,485	54,926	1,344,162

¹ Capital additions for the nine months ended 30 September 2017.

² Capital additions for the year ended 31 December 2016.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

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

Notes		30 September 2017	31 December 2016
	Segment assets for reportable segments	15,909,788	15,760,518
	Other segments' assets	1,051,358	937,460
	Total segment assets	16,961,146	16,697,978
	Differences in property, plant and equipment, net ¹	(2,060,813)	(2,361,075)
	Loan interest capitalised	691,251	623,101
	Decommissioning costs	62,502	63,639
6	Cash and cash equivalents	499,672	896,728
	Restricted cash	2,697	3,471
21	Short-term financial assets	14,157	11,481
	VAT recoverable	110,820	195,033
	Other current assets	791,409	331,467
	Goodwill	105,302	105,330
21	Available-for-sale long-term financial assets	261,237	294,345
	Other non-current assets	273,212	341,274
	Inter-segment assets	(663,363)	(597,369)
	Other	448,848	313,535
	Total assets per the consolidated interim condensed balance sheet	17,498,077	16,918,938

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

Segment liabilities mainly comprise accounts payable arising in the course of operating activity. Profit tax payable, deferred tax liabilities, long-term provisions for liabilities and charges (excluding retroactive gas price adjustments), short-term and long-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are managed on a central basis.

Segment liabilities are provided in the tables below.

	30 September 2017	31 December 2016
Distribution of gas	648,626	608,767
Refining	293,411	337,711
Transportation	258,187	363,691
Production of gas	146,777	168,632
Production of crude oil and gas condensate	127,080	108,619
Electric and heat energy generation and sales	70,124	85,199
Gas storage	6,907	8,401
All other segments	183,799	131,731
Total segment liabilities	1,734,911	1,812,751

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

Notes		30 September 2017	31 December 2016
	Segment liabilities for reportable segments	1,551,112	1,681,020
	Other segments' liabilities	183,799	131,731
	Total segment liabilities	1,734,911	1,812,751
	Current profit tax payable	14,679	62,479
	Short-term borrowings, promissory notes and current portion of long-term borrowings	714,384	447,080
13	Long-term borrowings and promissory notes	2,424,044	2,382,543
20	Long-term provisions for liabilities and charges	475,962	406,234
14	Deferred tax liabilities	742,567	688,503
	Other non-current liabilities	76,717	78,011
	Dividends	4,009	3,029
	Inter-segment liabilities	(663,363)	(597,369)
	Other	179,339	193,838
	Total liabilities per the consolidated interim condensed balance sheet	5,703,249	5,477,099

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, balances with banks and term deposits with original maturity of three months or less.

	30 September 2017	31 December 2016
Cash on hand and bank balances payable on demand	284,955	793,169
Term deposits with original maturity of three months or less	<u>214,717</u>	<u>103,559</u>
Total cash and cash equivalents	499,672	896,728

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2017	31 December 2016
Trade receivables	573,064	731,566
Short-term loans	180,330	142,068
Advances given and prepayments	99,274	76,981
Other receivables	<u>167,204</u>	<u>134,352</u>
Total accounts receivable and prepayments	1,019,872	1,084,967

Accounts receivable and prepayments are presented net of impairment allowance of RUB 898,755 million and RUB 868,452 million as of 30 September 2017 and 31 December 2016, respectively.

Accounts receivable due from NJSC Naftogaz of Ukraine in relation to gas sales are RUB nil million as of 30 September 2017 and 31 December 2016 net of impairment allowance of RUB 199,977 million and RUB 188,307 million as of 30 September 2017 and 31 December 2016, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 3,479 million and RUB 4,201 million as of 30 September 2017 and 31 December 2016, respectively.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

9 PROPERTY, PLANT AND EQUIPMENT

	Total operating assets (including production licenses)	Social assets	Assets under construction	Total
As of 31 December 2015				
Cost	13,319,873	96,323	2,516,619	15,932,815
Accumulated depreciation	<u>(4,890,713)</u>	<u>(38,221)</u>	<u>-</u>	<u>(4,928,934)</u>
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
Nine months ended 30 September 2016				
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
Depreciation	(421,965)	(1,966)	-	(423,931)
Additions	75,186	535	817,429	893,150
Translation differences	(86,378)	(41)	(22,988)	(109,407)
Transfers	390,654	559	(391,213)	-
Disposals	(19,979)	(1,187)	(25,470)	(46,636)
Change for impairment allowance	<u>(6,739)</u>	<u>-</u>	<u>698</u>	<u>(6,041)</u>
Net book value as of 30 September 2016	8,359,939	56,002	2,895,075	11,311,016
Three months ended 31 December 2016				
Net book value as of 30 September 2016	8,359,939	56,002	2,895,075	11,311,016
Depreciation	(146,282)	(648)	-	(146,930)
Additions	35,873	-	531,060	566,933
Translation differences	(38,642)	(60)	(29,361)	(68,063)
Transfers	702,263	1,374	(703,637)	-
Disposals	(32,645)	(2,274)	(51,968)	(86,887)
Change of impairment allowance	<u>(9,999)</u>	<u>-</u>	<u>(63,323)</u>	<u>(73,322)</u>
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
As of 31 December 2016				
Cost	14,329,467	95,229	2,577,846	17,002,542
Accumulated depreciation	<u>(5,458,960)</u>	<u>(40,835)</u>	<u>-</u>	<u>(5,499,795)</u>
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
Nine months ended 30 September 2017				
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
Depreciation	(443,378)	(1,874)	-	(445,252)
Additions	46,546	443	938,792	985,781
Translation differences	8,828	20	19,412	28,260
Transfers	201,410	62	(201,472)	-
Disposals	(22,777)	(145)	(38,147)	(61,069)
Change of impairment allowance	<u>-</u>	<u>-</u>	<u>(5,138)</u>	<u>(5,138)</u>
Net book value as of 30 September 2017	8,661,136	52,900	3,291,293	12,005,329
As of 30 September 2017				
Cost	14,563,474	95,609	3,291,293	17,950,376
Accumulated depreciation	<u>(5,902,338)</u>	<u>(42,709)</u>	<u>-</u>	<u>(5,945,047)</u>
Net book value as of 30 September 2017	8,661,136	52,900	3,291,293	12,005,329

Operating assets are presented net of allowance for impairment of RUB 203,476 million as of 30 September 2017 and 31 December 2016.

Assets under construction are presented net of allowance for impairment of RUB 175,927 million and RUB 167,546 million as of 30 September 2017 and 31 December 2016, respectively. The change in impairment allowance of assets under construction is mainly attributable to impairment allowance charge for objects planned for liquidation and translation differences.

Included in property, plant and equipment are social assets (rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RUB 159 million and RUB 200 million as of 30 September 2017 and 31 December 2016, respectively.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Carrying value as of		Share of net income (loss) of associates and joint ventures for the nine months ended 30 September	
			30 September 2017	31 December 2016	2017	2016
22	Sakhalin Energy Investment Company Ltd.	Associate	187,987	185,013	22,378	1,062
22, 23	Gazprombank (Joint Stock Company) and its subsidiaries ¹	Associate	141,561	77,109	8,945	6,207
22	OJSC NGK Slavneft and its subsidiaries	Joint venture	133,654	129,082	5,095	8,583
22	LLC Yamal razvitie and its subsidiaries	Joint venture	97,352	86,600	12,672	10,391
22	Nord Stream AG	Joint venture	74,015	63,319	11,161	13,839
22	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	47,369	40,510	3,704	6,707
22	JSC Achimgaz	Joint venture	34,932	32,043	6,674	6,783
22, 23	JSC EUROPOL GAZ	Associate	28,437	26,387	(547)	73
22	Wintershall AG	Associate	15,359	14,233	107	(2,606)
22	JSC Messoyakhaneftegaz	Joint venture	15,030	353	7,040	(1,300)
22	KazRosGaz LLP	Joint venture	13,008	14,470	2,514	2,847
22	CJSC Northgas	Joint venture	12,268	11,735	2,515	1,428
22	Wintershall Noordzee B.V.	Joint venture	6,040	6,862	(319)	(622)
22	JSC Latvijas Gaze ²	Associate	4,029	6,588	382	547
	Other (net of allowance for impairment of RUB 14,945 million and RUB 10,755 million as of 30 September 2017 and 31 December 2016, respectively)		<u>59,529</u>	<u>35,845</u>	<u>1,509</u>	<u>1,319</u>
			870,570	730,149	83,830	55,258

¹ On 28 June 2017 the Group acquired 16 % ordinary shares of Gazprombank (Joint Stock Company) as a result of additional share issue for the amount of RUB 60,000 million. As a result of this transaction the effective share of the Group in Gazprombank (Joint Stock Company) increased from 37 % to 48 %.

² The Extraordinary Meeting of Shareholders of JSC Latvijas Gaze, held on 2 September 2016, decided to reorganize the company by separation of natural gas transportation 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. As of 30 September 2017 the carrying value of investment in JSC Conexus Baltic Grid amounted at RUB 2,718 million and was included into other investments in associates.

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

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

The financial information may be different from the financial information prepared and presented in accordance with IFRS by associates and joint ventures, due to adjustments required in application of equity method of accounting, such as fair value adjustments on identifiable assets and liabilities at the date of acquisition and adjustments due to differences in accounting policies.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	Percent of share capital held	Country of primary operations	As of 30 September 2017		Nine months ended 30 September 2017	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint Stock Company) and its subsidiaries ¹	48 %	Russia	5,320,011	4,841,568	157,259	34,389
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	964,845	588,871	225,452	44,756
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	483,697	209,926	174,545	10,887
Nord Stream AG ³	51 %	Russia, Germany	440,045	294,915	52,449	21,883
LLC Yamal razvitie and its subsidiaries	50 %	Russia	402,928	229,408	104,402	27,057
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	254,623	154,041	27,162	8,083
JSC Messoyakhaneftegaz	50 %	Russia	153,686	124,046	39,767	14,080
JSC Achimgaz	50 %	Russia	82,389	12,526	23,029	13,802
Wintershall AG ⁴	49 %	Libya	73,704	51,042	8,717	219
JSC EUROPOL GAZ	48 %	Poland	63,514	4,271	9,886	(1,176)
CJSC Northgas	50 %	Russia	60,041	34,569	16,725	5,031
Wintershall Noordzee B.V.	50 %	Netherlands	49,690	38,642	6,947	(637)
KazRosGaz LLP	50 %	Kazakhstan	31,039	5,023	32,572	5,029
JSC Latvijas Gaze	34 %	Latvia	22,660	5,694	15,825	1,122

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

² Country of incorporation is Bermuda Islands.

³ Country of incorporation is Switzerland.

⁴ Country of incorporation is Germany.

	Percent of share capital held	Country of primary operations	As of 31 December 2016		Nine months ended 30 September 2016	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint Stock Company) and its subsidiaries ¹	37 %	Russia	4,757,703	4,384,725	147,640	16,698
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	1,006,345	636,320	215,685	32,009
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	431,711	169,946	158,234	18,081
Nord Stream AG ³	51 %	Russia, Germany	416,875	292,719	62,003	25,148
LLC Yamal razvitie and its subsidiaries	50 %	Russia	387,516	241,054	96,366	19,200
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	227,154	143,680	29,951	16,129
JSC Messoyakhaneftegaz	50 %	Russia	130,129	129,842	42	(5,895)
Wintershall AG ⁴	49 %	Libya	72,134	50,551	2,106	(5,319)
JSC Achimgaz	50 %	Russia	71,778	7,693	20,256	13,566
JSC EUROPOL GAZ	48 %	Poland	62,485	7,513	14,498	422
CJSC Northgas	50 %	Russia	56,543	32,136	19,147	2,857
Wintershall Noordzee B.V.	50 %	Netherlands	49,008	38,088	8,212	(1,231)
KazRosGaz LLP	50 %	Kazakhstan	46,158	17,220	33,439	5,693
JSC Latvijas Gaze	34 %	Latvia	37,720	12,417	19,892	1,612

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

² Country of incorporation is Bermuda Islands.

³ Country of incorporation is Switzerland.

⁴ Country of incorporation is Germany.

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

	30 September 2017	31 December 2016
JSC Latvijas Gaze	8,664	7,594

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 September 2017	31 December 2016
Long-term accounts receivable and prepayments	191,866	198,242
Advances for assets under construction	<u>540,770</u>	<u>512,505</u>
Total long-term accounts receivable and prepayments	732,636	710,747

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 15,694 million and RUB 16,481 million as of 30 September 2017 and 31 December 2016, respectively.

12 OTHER CURRENT AND NON-CURRENT ASSETS

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RUB 208,020 million and RUB 97,869 million and profit tax in the amount of RUB 25,184 million and RUB 12,916 million as of 30 September 2017 and 31 December 2016, respectively. Other current assets include short-term deposits in the amount of RUB 507,162 million and RUB 144,035 million as of 30 September 2017 and 31 December 2016, respectively.

As of 30 September 2017 and 31 December 2016 other non-current assets include:

- intangible assets in the amount of RUB 47,228 million and RUB 46,126 million;
- VAT recoverable related to assets under construction totalling RUB 38,393 million and RUB 35,702 million;
- long-term deposits in the amount of RUB 2,679 million and RUB 42,230 million;
- net pension assets in the amount of RUB nil million and RUB 20,499 million (see Note 20).

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	30 September 2017	31 December 2016
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009 ¹	US Dollar	2019	135,838	138,863
Bank of China Limited, London branch	Euro	2021	134,974	126,414
Loan participation notes issued in November 2013 ²	US Dollar	2023	88,809	91,485
Loan participation notes issued in September 2012 ²	US Dollar	2022	87,141	92,102
Loan participation notes issued in October 2007 ¹	Euro	2018	85,557	81,035
Loan participation notes issued in March 2007 ¹	US Dollar	2022	75,749	80,480
China Construction Bank Corporation, Beijing branch ³	US Dollar	2020	75,302	92,627
Loan participation notes issued in August 2007 ¹	US Dollar	2037	73,182	77,893
Loan participation notes issued in April 2004 ¹	US Dollar	2034	72,172	73,886
Loan participation notes issued in October 2015 ¹	Euro	2018	71,484	64,434
Loan participation notes issued in March 2013 ¹	Euro	2020	69,688	65,512
Loan participation notes issued in November 2016 ¹	Euro	2023	69,685	63,353
	British Pound			
Loan participation notes issued in April 2017 ^{1, 4}	Sterling	2024	67,599	-
Loan participation notes issued in April 2008 ¹	US Dollar	2018	66,274	67,930
Loan participation notes issued in July 2013 ¹	Euro	2018	62,028	58,361
Loan participation notes issued in July 2012 ¹	US Dollar	2022	58,591	62,008
J.P. Morgan Europe Limited ³	Euro	2020	54,494	-
Mizuho Bank Ltd. ³	US Dollar	2019	53,508	93,228
Loan participation notes issued in February 2013 ¹	US Dollar	2028	52,610	55,680
Loan participation notes issued in February 2014 ¹	Euro	2021	52,435	49,317
Loan participation notes issued in April 2013 ²	Euro	2018	51,984	48,817
Credit Agricole CIB	Euro	2022	47,509	-
Loan participation notes issued in February 2013 ¹	US Dollar	2020	46,687	49,278
PJSC Sberbank	US Dollar	2018	44,867	46,099
Loan participation notes issued in March 2017 ¹	US Dollar	2027	43,026	-
PJSC Sberbank	Russian Ruble	2022	42,912	-
PJSC VTB Bank	Russian Ruble	2022	42,297	-

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	30 September 2017	31 December 2016
	British Pound			
Loan participation notes issued in September 2013 ^{1, 4}	Sterling	2020	40,948	38,593
Loan participation notes issued in March 2007 ¹	Euro	2017	35,923	32,191
Loan participation notes issued in November 2011 ¹	US Dollar	2021	35,205	37,353
Loan participation notes issued in March 2013 ¹	Euro	2025	35,018	32,997
Loan participation notes issued in November 2016 ^{1, 4}	Swiss Franc	2021	32,344	29,492
Loan participation notes issued in July 2017 ^{1, 4}	Swiss Franc	2022	30,894	-
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	30,698	29,863
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	30,574	29,513
PJSC VTB Bank	Russian Ruble	2021	29,808	29,800
UniCredit Bank Austria AG	Euro	2021	23,742	19,172
Alfa-Bank (Joint Stock Company)	US Dollar	2019	23,219	24,271
Gazprombank (Joint Stock Company)	US Dollar	2019	20,886	21,836
VTB Bank Austria AG	Euro	2027	20,600	-
Wintershall Nederland Transport and Trading B.V. ⁵	Euro	2035	19,752	-
OMV Gas Marketing Trading & Finance B.V. ⁵	Euro	2035	19,752	-
Shell Exploration and Production (LXXI) B.V. ⁵	Euro	2035	19,752	-
Engie Energy Management Holding Switzerland AG ⁵	Euro	2035	19,751	-
Uniper Gas Transportation & Finance B.V. ⁵	Euro	2035	19,751	-
Gazprombank (Joint Stock Company)	US Dollar	2019	19,146	20,017
Gazprombank (Joint Stock Company)	US Dollar	2019	17,985	18,804
Bank of America Securities Limited	US Dollar	2018	17,767	18,368
PJSC Sberbank	Euro	2020	16,488	15,373
Russian bonds issued in April 2017 ²	Russian Ruble	2022	15,596	-
BNP Paribas S.A. ³	Euro	2022	15,445	15,644
Russian bonds issued in November 2013 ⁶	Russian Ruble	2043	15,270	15,111
Russian bonds issued in November 2013 ⁶	Russian Ruble	2043	15,270	15,111
Russian bonds issued in August 2017 ²	Russian Ruble	2024	15,180	-
Russian bonds issued in February 2017 ⁷	Russian Ruble	2027	15,165	-
Russian bonds issued in February 2017 ⁷	Russian Ruble	2027	15,165	-
Russian bonds issued in March 2016 ²	Russian Ruble	2046	15,024	15,344
Gazprombank (Joint Stock Company)	Russian Ruble	2025	15,000	9,809
PJSC VTB Bank	Russian Ruble	2021	14,654	14,654
Deutsche Bank Luxembourg S.A.	Euro	2022	13,733	-
PJSC Sberbank	Euro	2022	13,453	7,713
Bank of America Securities Limited	Euro	2017	12,484	11,541
UniCredit Bank Austria AG	US Dollar	2018	11,725	12,135
Commerzbank International S.A.	US Dollar	2018	11,603	24,265
UniCredit Bank Austria AG	Euro	2019	11,070	14,745
Russian bonds issued in April 2009 ²	Russian Ruble	2019	10,386	10,182
Russian bonds issued in June 2016 ²	Russian Ruble	2046	10,306	10,062
Russian bonds issued in December 2012 ²	Russian Ruble	2022	10,286	10,075
Russian bonds issued in February 2011 ²	Russian Ruble	2021	10,146	10,368
Russian bonds issued in August 2016 ²	Russian Ruble	2046	10,082	10,317
Russian bonds issued in March 2016 ²	Russian Ruble	2046	10,034	10,378
Gazprombank (Joint Stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint Stock Company)	Russian Ruble	2019	10,000	-
Citibank International plc ³	US Dollar	2021	8,606	10,042
J.P. Morgan Europe Limited ³	US Dollar	2018	7,254	18,962
Loan participation notes issued in July 2012 ¹	Euro	2017	-	92,019
Loan participation notes issued in November 2006 ¹	Euro	2017	-	33,185
PJSC Sberbank	Russian Ruble	2017	-	19,802
PJSC Sberbank	Russian Ruble	2017	-	15,068

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	30 September 2017	31 December 2016
PJSC Sberbank	Russian Ruble	2017	-	15,067
PJSC Sberbank	Euro	2017	-	14,388
PJSC Sberbank	Russian Ruble	2017	-	12,511
PJSC Sberbank	Russian Ruble	2017	-	12,511
Russian bonds issued in February 2013 ⁷	Russian Ruble	2017	-	10,279
PJSC Sberbank	Russian Ruble	2017	-	10,009
Gazprombank (Joint Stock Company)	Russian Ruble	2017	-	10,000
Other long-term borrowings, promissory notes	Various	Various	323,869	291,249
Total long-term borrowings, promissory notes			3,033,211	2,768,991
Less: current portion of long-term borrowings			(609,167)	(386,448)
			2,424,044	2,382,543

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

² Issuer of these bonds is PJSC Gazprom Neft.

³ Loans received from consortiums of banks, named lender is the bank-agent

⁴ According to the signed agreements between the bond issuer Gas Capital S.A. and the banks, settlements for the bonds are made in Euro (up to achieve of a coefficient based on the ratio of exchange rates set in the agreements).

⁵ Borrowings were obtained for financing of the Nord Stream – 2 project.

⁶ Issuer of these bonds is PJSC Gazprom.

⁷ Issuer of these bonds is Gazprom capital LLC.

The analysis of due for repayment of borrowings and promissory notes is provided in the table below.

	30 September 2017	31 December 2016
Due for repayment		
between one and two years	651,608	708,355
between two and five years	1,024,970	956,731
after five years	747,466	717,457
	2,424,044	2,382,543

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,294,050 million and RUB 2,086,181 million and fair value of RUB 2,542,968 million and RUB 2,209,883 million as of 30 September 2017 and 31 December 2016, respectively.

All other long-term borrowings have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 739,161 million and RUB 682,810 million and fair value is RUB 756,131 million and RUB 702,251 million as of 30 September 2017 and 31 December 2016, respectively.

As of 30 September 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 December 2012 due in 2022 bondholders can execute the right of early redemption in November 2017 at par, including interest accrued.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

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

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

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

14 PROFIT TAX

Profit tax is recognised based on the estimated average annual effective profit tax rate applied to the profit before tax for the nine months ended 30 September 2017. Differences between the recognition criteria in IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

	Differences recognition		Differences recognition			
	30 September 2017	and reversals	31 December 2016	30 September 2016	and reversals	31 December 2015
Tax effects of taxable temporary differences:						
Property, plant and equipment	(808,870)	(58,497)	(750,373)	(731,474)	(45,404)	(686,070)
Inventories	<u>(7,449)</u>	<u>4,170</u>	<u>(11,619)</u>	<u>(14,298)</u>	<u>445</u>	<u>(14,743)</u>
	(816,319)	(54,327)	(761,992)	(745,772)	(44,959)	(700,813)
Tax effects of deductible temporary differences:						
Financial assets	2,581	645	1,936	1,338	961	377
Tax losses carried forward	9,056	3,397	5,659	11,190	(7,166)	18,356
Retroactive gas price adjustments	22,626	(131)	22,757	22,537	1,937	20,600
Other deductible temporary differences	<u>39,489</u>	<u>(3,648)</u>	<u>43,137</u>	<u>21,817</u>	<u>(21,259)</u>	<u>43,076</u>
	<u>73,752</u>	<u>263</u>	<u>73,489</u>	<u>56,882</u>	<u>(25,527)</u>	<u>82,409</u>
Total net deferred tax liabilities	(742,567)	(54,064)	(688,503)	(688,890)	(70,486)	(618,404)

Taxable temporary differences recognised for the nine months ended 30 September 2017 and 2016 include the effect of depreciation premium on certain property, plant and equipment. A deferred tax liability related to property, plant and equipment was recognised in the amount of RUB 11,532 million and RUB 6,941 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the nine months ended 30 September 2017 and 2016.

15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 30 September 2017 and 31 December 2016 and consists of 23.7 billion ordinary shares, each with a historical par value of 5 Russian Rubles.

Treasury shares

As of 30 September 2017 and 31 December 2016 subsidiaries of PJSC Gazprom held 1,573 million ordinary shares of PJSC Gazprom, which are accounted for as treasury shares.

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

15 EQUITY (continued)

Shares of PJSC Gazprom including American depositary receipts held by the subsidiaries represent 6.6 % of PJSC Gazprom shares as of 30 September 2017 and 31 December 2016.

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

16 SALES

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Gas sales gross of excise tax and customs duties to customers in:				
Russian Federation	121,453	110,288	587,978	530,683
Former Soviet Union (excluding Russian Federation)	55,925	51,962	223,119	234,101
Europe and other countries	<u>628,406</u>	<u>530,091</u>	<u>1,952,011</u>	<u>1,930,031</u>
	805,784	692,341	2,763,108	2,694,815
Customs duties	(125,639)	(108,108)	(388,590)	(374,815)
Excise tax	(14,268)	(7,858)	(37,059)	(28,338)
Retroactive gas price adjustments ¹	<u>2,076</u>	<u>(6,227)</u>	<u>(5,228)</u>	<u>33,757</u>
Total gas sales	667,953	570,148	2,332,231	2,325,419
Sales of refined products to customers in:				
Russian Federation	311,974	271,879	820,857	721,802
Former Soviet Union (excluding Russian Federation)	31,040	21,885	82,030	64,047
Europe and other countries	<u>102,984</u>	<u>99,099</u>	<u>323,923</u>	<u>310,482</u>
Total sales of refined products	445,998	392,863	1,226,810	1,096,331
Sales of crude oil and gas condensate to customers in:				
Russian Federation	14,842	20,841	56,299	56,821
Former Soviet Union (excluding Russian Federation)	6,477	5,094	20,732	19,225
Europe and other countries	<u>93,336</u>	<u>79,061</u>	<u>310,922</u>	<u>195,499</u>
Total sales of crude oil and gas condensate	114,655	104,996	387,953	271,545
Electric and heat energy sales	86,444	86,416	349,599	322,708
Gas transportation sales	57,046	49,994	174,528	145,766
Other revenues	<u>59,566</u>	<u>52,575</u>	<u>170,475</u>	<u>159,595</u>
Total sales	1,431,662	1,256,992	4,641,596	4,321,364

¹ Retroactive gas price adjustments relate to gas deliveries in 2013-2016 for which a discount has been agreed or is in the process of negotiations. The effects of gas price adjustments, including corresponding impacts on profit tax, are recorded when they become probable and a reliable estimate of the amounts can be made.

The effects of retroactive gas price adjustments on sales for the three and nine months ended 30 September 2017 recorded as an increase of sales by RUB 2,076 million and as a decrease of sales by RUB 5,228 million, respectively.

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

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

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

17 OPERATING EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Taxes other than on income	303,565	215,058	869,742	644,551
Purchased gas and oil	272,407	268,924	838,007	896,182
Staff costs	173,907	159,437	514,981	493,313
Depreciation	145,276	141,535	448,579	423,650
Transit of gas, oil and refined products	152,486	150,306	440,317	454,096
Materials	67,091	75,652	191,604	205,129
Cost of goods for resale, including refined products	57,612	57,909	170,451	133,998
Repairs and maintenance	46,383	46,798	105,566	108,626
Electricity and heating expenses	24,547	24,900	77,631	69,854
Charge for impairment and other provisions	10,355	16,129	64,559	79,553
Rental expenses	7,917	8,142	28,797	26,165
Social expenses	8,678	8,068	23,898	22,486
Insurance expenses	7,062	7,867	21,594	22,566
Transportation services	4,335	7,091	20,071	22,899
Processing services	4,338	3,822	11,789	11,643
Research and development expenses	4,029	11,628	10,236	24,704
Foreign exchange rate differences on operating items	(594)	(49,437)	(9,354)	13,882
Derivatives (gain) loss	(4,348)	648	(11,699)	10,851
Other	95,599	75,095	273,481	225,402
	<u>1,380,645</u>	<u>1,229,572</u>	<u>4,090,250</u>	<u>3,889,550</u>
Changes in inventories of finished goods, work in progress and other effects	<u>(154,401)</u>	<u>(85,601)</u>	<u>(158,700)</u>	<u>(64,847)</u>
Total operating expenses	1,226,244	1,143,971	3,931,550	3,824,703

Staff costs include RUB 11,044 million and RUB 33,120 million of expenses associated with post-employment benefit obligations for the three and nine months ended 30 September 2017, respectively, and RUB 11,235 million and RUB 33,715 million of expenses associated with post-employment benefit obligations for the three and nine months ended 30 September 2016, respectively (see Note 20).

18 FINANCE INCOME AND EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Foreign exchange gain	81,564	95,597	272,945	741,229
Interest income	<u>20,741</u>	<u>20,399</u>	<u>65,404</u>	<u>75,035</u>
Total finance income	102,305	115,996	338,349	816,264
Foreign exchange loss	70,931	115,809	279,615	447,087
Interest expense	<u>7,779</u>	<u>16,291</u>	<u>38,722</u>	<u>52,400</u>
Total finance expense	78,710	132,100	318,337	499,487

Total interest paid amounted to RUB 39,683 million and RUB 119,349 million for the three and nine months ended 30 September 2017, respectively, and RUB 40,314 million and RUB 138,641 million for the three and nine months ended 30 September 2016, respectively.

Foreign exchange gain and loss for the nine months ended 30 September 2017 and 2016 were recognised as a result of the changes of Euro and US Dollar exchange rates against the Russian Rouble. Gain and loss primarily relate to revaluation of borrowings denominated in foreign currencies.

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

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

There were 22.1 billion weighted average shares outstanding for the three and nine months ended 30 September 2017 and 22.23 billion and 22.71 billion for the three and nine months ended 30 September 2016, respectively.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

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

There are no dilutive financial instruments outstanding in the Group.

20 PROVISIONS FOR LIABILITIES AND CHARGES

	30 September 2017	31 December 2016
Provision for post-employment benefit obligations	289,012	236,852
Provision for decommissioning and site restoration costs	172,924	161,764
Other	<u>14,026</u>	<u>7,618</u>
Total provisions for liabilities and charges	475,962	406,234

The Group operates post-employment benefits system, which is recorded as defined benefit plan in the consolidated interim condensed financial information under IAS 19 Employee benefits. Defined benefit plan covers the majority of employees of the Group. These benefits include pension benefits provided by the non-governmental pension fund, NPF GAZFOND, and post-retirement benefits from the Group provided upon retirement.

The net pension liabilities related to benefits, provided by the pension plan NPF GAZFOND, in the amount of RUB 15,728 million as of 30 September 2017 are presented within provisions for liabilities and charges in the consolidated interim condensed balance sheet. The net pension assets related to benefits, provided by NPF GAZFOND, in the amount of RUB 20,499 million as of 31 December 2016 are presented within other non-current assets in the consolidated interim condensed balance sheet.

In accordance with IAS 19 Employee benefits, pension assets are recorded at estimated fair value subject to certain limitations. As of 30 September 2017 and 31 December 2016 management estimated the fair value of these assets at RUB 408,811 million and RUB 393,344 million, respectively. The pension assets comprise shares of PJSC Gazprom, shares of Gazprombank (Joint Stock Company) and other assets held by NPF GAZFOND.

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

	30 September 2017		31 December 2016	
	Funded benefits - provided through NPF GAZFOND	Unfunded liabilities - other benefits	Funded benefits - provided through NPF GAZFOND	Unfunded liabilities - other benefits
Present value of benefit obligations	(424,539)	(273,284)	(372,845)	(236,852)
Fair value of plan assets	408,811	-	393,344	-
Net balance (liability) asset	(15,728)	(273,284)	20,499	(236,852)

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

	Three months ended 30 September 2017	2016	Nine months ended 30 September 2017	2016
Current service cost	6,441	5,722	19,323	17,166
Net interest expense	<u>4,603</u>	<u>5,513</u>	<u>13,797</u>	<u>16,549</u>
Total expenses included in staff costs	11,044	11,235	33,120	33,715

The principal assumptions used for post-employment benefit obligations for the nine months ended 30 September 2017 were the same as those applied for the year ended 31 December 2016 with exception of the discount rate based on the interest rates of government securities. The decrease in the discount rate from 8.5 % to 7.8 % resulted in recognition of an actuarial loss of RUB 45,217 million in other comprehensive income for the nine months ended 30 September 2017.

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

	Three months ended 30 September 2017	2016	Nine months ended 30 September 2017	2016
Actuarial losses	(13,540)	(11,305)	(45,217)	(85,884)
Return on assets excluding amounts included in net interest expense	(30,929)	(2,524)	(13,281)	(6,902)
Translation differences	<u>(46)</u>	<u>8</u>	<u>(253)</u>	<u>340</u>
Total	(44,515)	(13,821)	(58,751)	(92,446)

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

21 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

a) Financial instruments in Level 1

The fair value of financial instruments traded in active markets is based on quoted market closing prices at the reporting date.

b) Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined by using various valuation techniques, primarily based on market or income approach, such as discounted cash flows valuation method. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

c) Financial instruments in Level 3

If one or more of the significant inputs in the valuation model used to fair value an instrument is not based on observable market data, the instrument is included in Level 3.

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

As of 30 September 2017 and 31 December 2016 the Group had the following assets and liabilities that are measured at fair value:

	30 September 2017			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non- observable inputs (Level 3)	Total
Financial assets held for trading:				
Bonds	13,606	-	-	13,606
Equity securities	447	-	-	447
Available-for-sale financial assets:				
Promissory notes	-	104	-	104
Total short-term financial assets	14,053	104	-	14,157
Available-for-sale financial assets:				
Equity securities	213,016	40,584	7,320	260,920
Promissory notes	-	317	-	317
Total available-for-sale long-term financial assets	213,016	40,901	7,320	261,237
Derivatives	7,255	48,046	1,871	57,172
Total assets	234,324	89,051	9,191	332,566
Derivatives	7,516	82,116	6,755	96,387
Total liabilities	7,516	82,116	6,755	96,387

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	31 December 2016			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non- observable inputs (Level 3)	Total
Financial assets held for trading:				
Bonds	10,976	-	-	10,976
Equity securities	387	-	-	387
Available-for-sale financial assets:				
Promissory notes	-	118	-	118
Total short-term financial assets	11,363	118	-	11,481
Available-for-sale financial assets:				
Equity securities	246,866	40,584	6,584	294,034
Promissory notes	-	311	-	311
Total available-for-sale long-term financial assets	246,866	40,895	6,584	294,345
Derivatives	16,931	81,110	3,545	101,586
Total assets	275,160	122,123	10,129	407,412
Derivatives	11,922	135,648	2,819	150,389
Total liabilities	11,922	135,648	2,819	150,389

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the three and nine months ended 30 September 2017 and 2016 the Group has not reclassified losses arising from decrease in fair value of available-for-sale financial assets from other comprehensive income to profit or loss.

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

Available-for-sale long-term financial assets in the total amount of RUB 261,237 million and RUB 294,345 million are shown net of allowance for impairment of RUB 1,526 million and RUB 1,275 million as of 30 September 2017 and 31 December 2016, respectively.

As of 30 September 2017 and 31 December 2016 long-term available-for-sale financial assets include PJSC NOVATEK shares in the amount of RUB 206,426 million and RUB 238,817 million, respectively.

Carrying value of financial assets and liabilities not measured at fair value are reflected in the balance sheet of the Group in the amount significantly not different from their fair value.

22 RELATED PARTIES

For the purpose of this consolidated interim condensed financial information, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding is detailed below.

Government (the Russian Federation)

The Government of the Russian Federation is the ultimate controlling party of PJSC Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50 % in PJSC Gazprom.

As of 30 September 2017 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. Another 11.859 % of PJSC Gazprom's issued shares are owned by JSC Rosneftegaz and JSC Rosgazifikatsiya controlled by the Government.

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

As a condition of privatization in 1992, the Government of the Russian Federation imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government controlled prices.

Parties under control of the Government

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

As of 30 September 2017 prices of natural gas sales, gas transportation and electricity tariffs in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS").

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

As of 30 September 2017 and 31 December 2016 and for the three and nine months ended 30 September 2017 and 2016, the Group had the following significant transactions and balances with the Government and parties under control of the Government.

	As of		Three months ended		Nine months ended	
	30 September 2017	30 September 2017	30 September 2017	30 September 2017	30 September 2017	30 September 2017
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	22,615	3,450	-	45,103	-	120,100
Insurance contributions	989	7,534	-	40,311	-	98,527
VAT recoverable / payable	350,581	83,298	-	-	-	-
Customs duties	24,726	-	-	-	-	-
Other taxes	3,596	131,038	-	282,790	-	816,764
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	14,976	-	72,746	-
Electricity and heating sales	-	-	32,552	-	154,584	-
Gas transportation sales	-	-	12,462	-	36,753	-
Other services sales	-	-	2,775	-	4,511	-
Accounts receivable	50,455	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	30,662	-	91,477
Accounts payable	-	16,948	-	-	-	-
Loans and borrowings	-	342,571	-	-	-	-
Interest expense	-	-	-	3,401	-	13,099
Short-term financial assets	12,460	-	-	-	-	-
Available-for-sale long-term financial assets	6,626	-	-	-	-	-

	As of		Three months ended		Nine months ended	
	31 December 2016	30 September 2016	30 September 2016	30 September 2016	30 September 2016	30 September 2016
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	11,608	56,695	-	24,754	-	124,007
Insurance contributions	720	7,795	-	23,816	-	82,355
VAT recoverable / payable	322,643	72,557	-	-	-	-
Customs duties	16,183	-	-	-	-	-
Other taxes	2,457	116,769	-	156,751	-	582,692
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	9,521	-	50,326	-
Electricity and heating sales	-	-	33,869	-	142,273	-
Gas transportation sales	-	-	11,638	-	34,071	-
Other services sales	-	-	851	-	2,300	-
Accounts receivable	49,091	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	28,324	-	85,751
Accounts payable	-	13,800	-	-	-	-
Loans and borrowings	-	345,604	-	-	-	-
Interest expense	-	-	-	4,694	-	13,307
Short-term financial assets	10,136	-	-	-	-	-
Available-for-sale long-term financial assets	8,087	-	-	-	-	-

22 RELATED PARTIES (continued)

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

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

See the consolidated interim condensed statement of changes in equity for returns of social assets to governmental authorities during the nine months ended 30 September 2017 and 2016.

See Note 9 for net book values as of 30 September 2017 and 31 December 2016 of social assets vested to the Group at privatisation.

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies. Directors, who are government officials, do not receive remuneration from the Group. The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company.

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

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

Key management personnel also participate in certain post-retirement benefit programs. The programs include pension benefits provided by the non-governmental pension fund, NPF GAZFOND, and a one-time retirement payment from the Group.

Employees of the majority of Group companies are eligible for such benefits.

The Group provided medical insurance and liability insurance for key management personnel.

Associates and joint ventures

For the three and nine months ended 30 September 2017 and 2016 and as of 30 September 2017 and 31 December 2016 the Group had the following significant transactions and balances with associates and joint ventures.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
	Revenues		Revenues	
Gas sales				
Panrusgaz Gas Trading Plc	15,155	12,114	37,311	30,367
JSC Latvijas Gaze	6,358	2,404	13,493	6,537
CJSC Gazprom YRGM Trading ¹	3,746	1,956	12,750	5,588
JSV Moldovagaz	3,329	3,622	11,713	18,124
Bosphorus Gaz Corporation A.S.	2,140	2,934	11,330	11,488
JSC Gazprom YRGM Development ¹	2,676	1,763	9,107	5,037
VEMEX s.r.o. and its subsidiaries	2,045	2,177	6,854	11,547
KazRosGas LLP	317	1,216	6,681	7,365
Prometheus Gas S.A.	1,944	-	5,419	-
JSC EUROPOL GAZ	555	1,221	1,742	3,611
PremiumGas S.p.A.	-	-	677	2,634
Gas transportation sales				
CJSC Gazprom YRGM Trading ¹	5,671	2,582	18,557	8,376
JSC Gazprom YRGM Development ¹	4,051	2,328	13,255	7,550
KazRosGas LLP	545	556	1,789	1,951
Gas condensate, crude oil and refined products sales				
OJSC NGK Slavneft and its subsidiaries	8,356	9,069	29,046	30,569
CJSC SOVEX	1,277	1,293	3,681	2,672
LLC Poliom	594	278	2,132	1,048
LLC NPP Neftekhimia	698	600	1,844	1,749
Sakhalin Energy Investment Company Ltd.	15	-	1,391	1,260
Operator services sales and other services sales				
OJSC NGK Slavneft and its subsidiaries	681	116	3,789	369
JSC Messoyakhaneftegaz	614	839	3,230	3,660
Gas refining services sales				
KazRosGas LLP	1,810	1,712	6,032	5,810
Interest income				
Gazprombank (Joint Stock Company)	9,925	8,634	31,043	30,946
JSC Messoyakhaneftegaz	1,604	1,541	4,901	3,821

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
	Expenses		Expenses	
Purchased gas				
CJSC Gazprom YRGM Trading ¹	12,223	5,328	39,760	18,211
LLC SeverEnergiya and its subsidiaries	13,880	13,629	35,024	39,308
JSC Gazprom YRGM Development ¹	8,733	4,752	28,442	16,383
KazRosGas LLP	10,105	7,959	24,658	24,475
Sakhalin Energy Investment Company Ltd.	6,442	3,492	10,781	8,360
CJSC Northgas	1,527	2,066	2,732	6,449
VEMEX s.r.o. and its subsidiaries	170	75	384	2,751
Purchased transit of gas				
Nord Stream AG	18,671	19,529	52,649	60,945
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	6,617	15,002	20,265	31,026
JSC EUROPOL GAZ	3,033	3,925	8,497	12,055
JSV Moldovagaz	728	644	2,532	2,462
Purchased crude oil and refined products				
OJSC NGK Slavneft and its subsidiaries	28,064	22,920	77,470	67,056
JSC Messoyakhaneftegas	7,857	-	19,438	8
Sakhalin Energy Investment Company Ltd.	4,240	4,318	10,827	12,749
Purchased services of gas and gas condensate extraction				
JSC Achimgaz	8,282	5,847	23,029	20,256
Purchased processing services				
OJSC NGK Slavneft and its subsidiaries	5,886	4,488	15,554	13,370
Purchased transit of crude oil and oil refinery products				
OJSC NGK Slavneft and its subsidiaries	1,218	1,866	4,544	5,059
JSC Messoyakhaneftegas	1,013	-	2,748	-
Interest expense				
Gazprombank (Joint Stock Company)	3,357	2,376	8,393	8,158

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

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

	As of 30 September 2017		As of 31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	35,383	-	40,530	-
Gazprombank (Joint Stock Company)	32,483	-	14,306	-
OJSC NGK Slavneft and its subsidiaries	6,968	-	8,286	-
Panrusgas Gas Trading Plc	6,456	-	3,175	-
Wintershall Noordzee B.V.	5,883	-	5,811	-
CJSC Gazprom YRGM Trading	3,251	-	1,167	-
JSC Gazprom YRGM Development	2,322	-	1,052	-
Bosphorus Gaz Corporation A.S.	1,870	-	-	-
Wintershall AG	1,672	-	2,125	-
JSC Achimgaz	1,300	-	30	-
VEMEX s.r.o. and its subsidiaries	974	-	1,518	-
KazRosGas LLP	662	-	3,287	-
Sakhalin Energy Investment Company Ltd.	294	-	2,733	-
Cash balances				
Gazprombank (Joint Stock Company)	153,774	-	518,084	-
OJSC Belgazprombank	11,688	-	917	-
Other current assets				
Gazprombank (Joint Stock Company)	469,683	-	100,015	-
OJSC Belgazprombank	5,796	-	968	-
Other non-current assets				
Gazprombank (Joint Stock Company)	1	-	42,230	-
Long-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	20,664	-	18,962	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	13,684	-	12,757	-
LLC Yamal razvitie	12,444	-	15,722	-
OJSC Belgazprombank	4,957	-	4,957	-
Gazprombank (Joint Stock Company)	4,068	-	745	-
Short-term accounts payable				
OJSC NGK Slavneft and its subsidiaries	-	22,986	-	4,094
JSC Achimgaz	-	7,918	-	3,025
Nord Stream AG	-	6,134	-	5,723
CJSC Gazprom YRGM Trading	-	5,134	-	4,490
LLC SeverEnergiya and its subsidiaries	-	5,089	-	3,436
JSC Gazprom YRGM Development	-	3,665	-	3,682
KazRosGas LLP	-	2,103	-	4,186
JSC Messoyakhaneftegaz	-	2,033	-	3,694
Sakhalin Energy Investment Company Ltd.	-	1,569	-	2,948
JSC EUROPOL GAZ	-	968	-	2,100
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint Stock Company)	-	46,743	-	31,797
Long-term borrowings				
Gazprombank (Joint Stock Company)	-	153,829	-	88,850

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

Accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 1,870 million and RUB nil million as of 30 September 2017 and 31 December 2016, respectively, net of impairment allowance of RUB 5,895 million and RUB 7,802 million as of 30 September 2017 and 31 December 2016, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 30 September 2017 and 31 December 2016 net of impairment allowance of RUB 6,102 million and RUB 6,380 million as of 30 September 2017 and 31 December 2016, respectively.

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 30 September 2017 and 31 December 2016 net of impairment allowance of RUB 336,843 million and RUB 342,765 million as of 30 September 2017 and 31 December 2016, respectively.

Borrowings from Gazprombank (Joint Stock Company) and its subsidiaries are obtained on terms not substantially different from those on financial instruments with similar characteristics and are subject to influence of changes in economic or other factors. The amount of secured borrowings was RUB 60,000 million and RUB nil million as of 30 September 2017 and 31 December 2016, respectively.

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

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

23 COMMITMENTS AND CONTINGENCIES

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 30 September 2017 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

Legal proceedings

On 16 June 2014 PJSC Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NJSC Naftogaz of Ukraine to recover unpaid debt for gas supplied under the Contract No. KP dated 19 January 2009 regarding sale and purchase of natural gas in the years 2009-2019 (the "Contract No. KP"), and related interest charged. On 12 June 2015 PJSC Gazprom submitted to arbitration a review on the claim from NJSC Naftogaz of Ukraine and a new counter-claim, in which it specified its claims totalling USD 29,200 million. On 9 October 2015 NJSC Naftogaz of Ukraine filed a response to the claim from PJSC Gazprom. On 14 March 2016 PJSC Gazprom filed an answer to the response of NJSC Naftogaz of Ukraine. The corrected amount of claim of PJSC Gazprom against NJSC Naftogaz of Ukraine exceeded USD 37,000 million. This amount includes the outstanding payment for the gas supplied in May-June 2014, and take-or-pay obligations for 2012-2016, and penalty interest for late payment for the gas supplied.

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

On 21 July 2014 both cases were consolidated. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. On 31 May 2017 the arbitrators delivered an interim (separate) award 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) award and to cancel it partially. The final award in the case is to be delivered not later than 30 December 2017.

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;

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

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, the arbitration panel is expected to deliver its ruling not earlier than the date of deliver its ruling on arbitration with NJSC Naftogaz of Ukraine under the Contract No. KP. The final award in the case is to be delivered not later than 28 February 2018.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders’ agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 30 September 2017 – RUB 99,120 million). PJSC Gazprom did not agree to the claims and on 9 November 2012 filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, response to the request for arbitration. Arbitration panel was formed and hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness statement and expert statement. On 22 June 2016 the arbitration court made a final decision which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including claims on unfair pricing of gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania has filed appeal with the Court of Appeal of Stockholm, Sweden, to cancel the Final arbitration decision of 22 June 2016. On 4 April 2017 PJSC Gazprom officially received this appeal. On 9 June 2017 PJSC Gazprom filed a response to the appeal with the Court of Appeal of Stockholm, Sweden. The Ministry of Energy of the Republic of Lithuania submitted its detailed written opinions of the case on 10 October 2017. PJSC Gazprom is keeping on analysing received documents and is preparing its legal position. The hearings of the case are scheduled for June 2018.

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

23 COMMITMENTS AND CONTINGENCIES (continued)

On 16 December 2015 South Stream Transport B.V., the subsidiary of the Group, was served with an official notification by the Secretariat of the Arbitration Court of the International Chamber of Commerce stating that Saipem S.p.A. submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by the latter of the agreement dated 14 March 2014 for the construction of the “South Stream” pipeline. In its notice of arbitration Saipem S.p.A. claimed to receive from South Stream Transport B.V. as a compensation for the work performed reimbursements for the expenses incurred and for the termination of the agreement in the amount of about EUR 760 million plus interest (at the exchange rate as of 30 September 2017 – RUB 52,021 million). On 16 February 2016 South Stream Transport B.V. sent a response to the notice of arbitration of Saipem S.p.A., where it rejected all the claims raised by Saipem S.p.A. and declared its intention to file a counterclaim. On 30 September 2016 Saipem S.p.A. submitted its claim in its entirety with all attachments. The amount of claim of Saipem S.p.A. was reduced to the amount of EUR 679 million (at the exchange rate as of 30 September 2017 – RUB 46,476 million). On 10 March 2017 South Stream Transport B.V. filed a defense on the claim along with testimony and experts’ opinions which underpin the respondent’s argument, and a counter-claim in the amount of about EUR 730 million (at the exchange rate as of 30 September 2017 – RUB 49,967 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for June 2019.

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 30 September 2017 – RUB 187,535 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an action with the Kiev Economic Court against the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the action was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which left the primary court’s award unchanged based on the decision of 18 May 2016. On 7 June 2016 PJSC Gazprom filed a cassation appeal with the Ukraine’s Higher Economic Court. On 13 July 2016 the Ukraine’s Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the judgements in the case delivered by the lower-level courts. On 13 September 2016 the Supreme Court of Ukraine rejected to move the petition forward to review the judgements delivered in the case by the lower-level courts. On 7 October 2016 the Kiev Economic Court determined to initiate proceedings in the case in view of the application filed by the Antimonopoly Committee of Ukraine along with a claim to impose a penalty in the amount of about USD 3 billion on PJSC Gazprom, a fine in the amount of about USD 3 billion and a demand to enforce PJSC Gazprom to fulfil a portion of its decision which pertains to the performance of the terms and conditions to the fullest extent of the Contract No. TKGU regarding the volumes of gas intended for transit purposes. On 5 December 2016 the Court satisfied the claims of the Antimonopoly Committee of Ukraine to the fullest extent. On 22 February 2017 the Court dismissed the appeal of PJSC Gazprom keeping the first-instance court’s decision in force. On 14 March 2017 PJSC Gazprom filed with the Ukraine’s Higher Economic Court a cassation appeal on the decision of the Kiev Economic Court dated 5 December 2016 and the ruling of the Kiev Economic Court of Appeal dated 22 February 2017. As a result of the Ukraine’s Higher Economic Court sitting session held on 16 May 2017 the cassation appeal of PJSC Gazprom was left unsatisfied. On 11 August 2017 PJSC Gazprom filed with the Supreme Court of Ukraine an appeal with a demand to cancel decisions of lower courts. On 11 September 2017 the Supreme Court of Ukraine left these decisions in force and the appeal of PJSC Gazprom was unsatisfied. In April 2017 the Antimonopoly Committee of Ukraine filed a demand with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of Ukrainian hryvnia 171,932 million (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office an Order 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 30 September 2017 – RUB 412,576 million), including an execution fee of Ukrainian hryvnia 17,193 million (at the exchange rate as of 30 September 2017 – RUB 37,507 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 Gazprom sbyt Ukraine Ltd., the International Consortium for the Ukrainian Gas Transmission System Management and Development LLC. 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.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

23 COMMITMENTS AND CONTINGENCIES (continued)

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 into the activities of PJSC Gazprom and LLC Gazprom export activities in the countries of Central and Eastern Europe, whose formal phase was initiated in 2012. It is currently impossible to assess a potential negative impact of this ongoing investigation on the activities 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 in 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);
- 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:

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

23 COMMITMENTS AND CONTINGENCIES (continued)

- 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.

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 SEPTEMBER 2017
(in millions of Russian Rubles)

23 COMMITMENTS AND CONTINGENCIES (continued)

companies, including PJSC Gazprom and PJSC Gazprom Neft. In addition, there is the ongoing restriction on the export, sale and delivery by persons in Canada, Canadians and located outside the territory of Canada of certain goods to Russia or any person in Russia, if such goods are used for deep-water oil exploration (at a depth of more than 500 meters), for the exploration and production of oil in the Arctic, as well as the exploration and production of shale oil.

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

Financial guarantees

	30 September 2017	31 December 2016
Outstanding guarantees issued for:		
Blackrock Capital Investments Limited	2,374	4,968
JSC NIPGazpererabotka	1,135	
Ostchem Holding Limited	-	3,427
Other	31,310	36,362
Total financial guarantees	34,819	44,757

For the nine months ended 30 September 2017 and in 2016 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 41 million and USD 87 million as of 30 September 2017 and 31 December 2016, respectively, as well as amounts denominated in Euros of EUR 43 million and EUR 66 million as of 30 September 2017 and 31 December 2016, respectively.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by 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 as of 30 September 2017 and 31 December 2016 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 2,374 million (USD 41 million) and RUB 4,968 million (USD 82 million), respectively.

In December 2014 the Group provided a guarantee to Gazprombank (Joint Stock Company) related to debts from Ostchem Holding Limited under the credit facility for financing of operating activities. As of 30 September 2017 and 31 December 2016 the above guarantee amounted to RUB nil million and RUB 3,427 million, respectively, and was fully provided. As of 30 September 2017 the guarantee agreement was terminated.

Capital commitments

The total investment programs related to gas, oil and power assets for 2017 is RUB 1,644,051 million.

24 POST BALANCE SHEET EVENTS

In October 2017 the Group issued Russian bonds in the amount of RUB 25,000 million at an interest rate of 7.85 % due in 2022.

In November 2017 the Group issued Loan Participation Notes in the amount of EUR 750 million at an interest rate of 2.25 % due in 2024 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In November 2017 the Group signed an agreement to obtain a long-term loan from UniCredit S.p.A. in the amount of EUR 700 million at an interest rate of EURIBOR + 1.95 % due in 2022.

In November 2017 the Group signed an agreement to obtain a long-term loan from a consortium of banks in the total amount of EUR 1,000 million at an interest rate of EURIBOR + 1.85 % due in 2022. J.P. Morgan Europe Limited was appointed as a bank agent.

PJSC GAZPROM
INVESTORS RELATIONS

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