

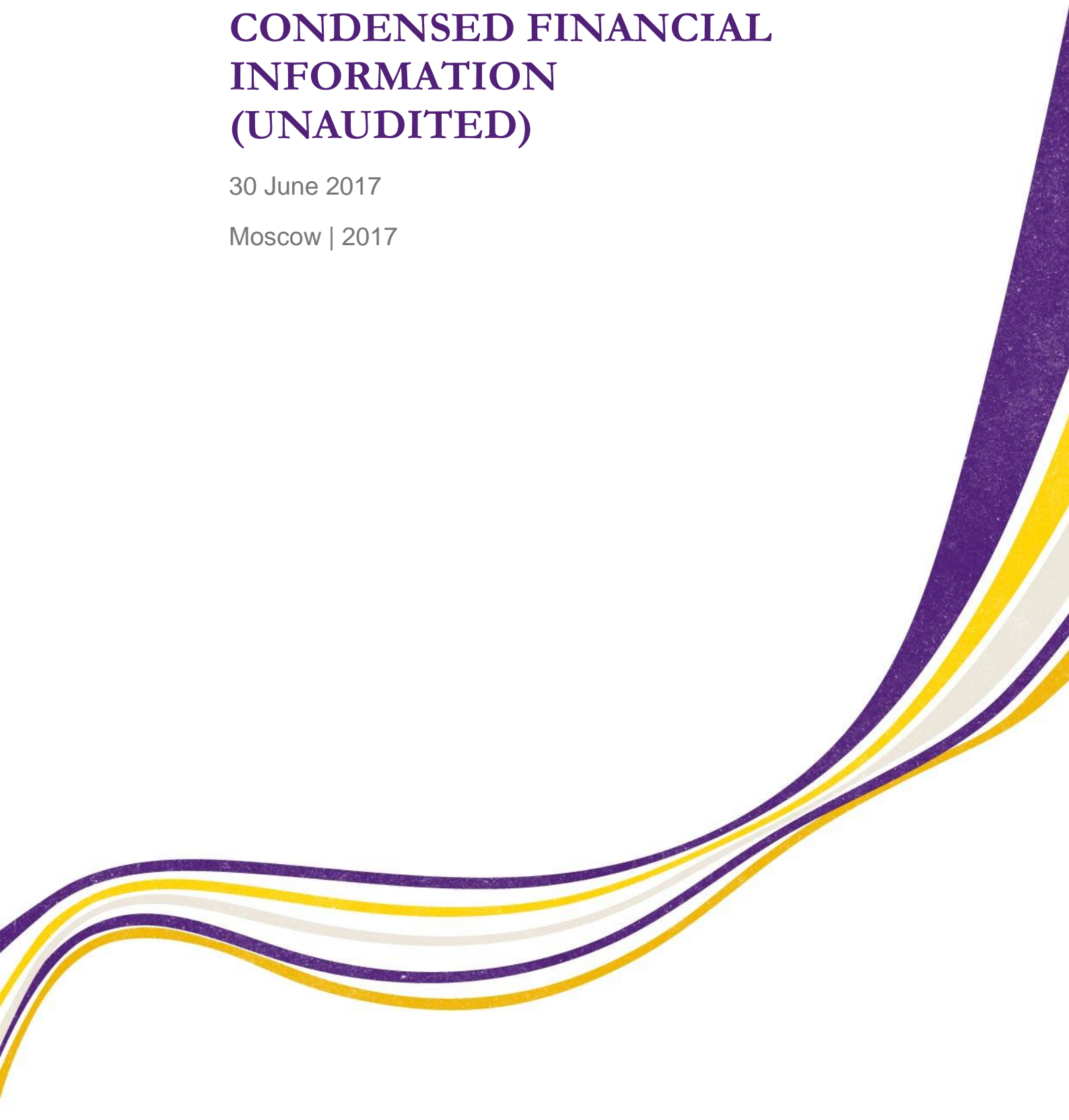
ФБК

PJSC GAZPROM

IFRS CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION (UNAUDITED)

30 June 2017

Moscow | 2017



Contents

Report on Review of Consolidated Interim Condensed Financial Information	3
Consolidated interim condensed balance sheet	4
Consolidated interim condensed statement of comprehensive income	5
Consolidated interim condensed statement of cash flows	6
Consolidated interim condensed statement of changes in equity	7

Notes to the consolidated interim condensed financial information

1	Nature of operations.....	8
2	Economic environment in the Russian Federation	8
3	Basis of presentation	8
4	Summary of significant accounting policies and accounting estimates	9
5	Segment information	10
6	Cash and cash equivalents	14
7	Accounts receivable and prepayments	14
8	Inventories.....	14
9	Property, plant and equipment.....	15
10	Investments in associates and joint ventures.....	16
11	Long-term accounts receivable and prepayments.....	18
12	Other current and non-current assets.....	18
13	Long-term borrowings, promissory notes	18
14	Profit tax.....	21
15	Equity	21
16	Sales	22
17	Operating expenses.....	23
18	Finance income and expenses	23
19	Basic and diluted earnings per share, attributable to owners of PJSC Gazprom	23
20	Provisions for liabilities and charges.....	24
21	Fair value of financial instruments	25
22	Related parties.....	26
23	Commitments and contingencies	32
24	Post balance sheet events.....	37

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 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 30 % of total annual gas volumes are shipped in the first calendar quarter and approximately 20 % in the second calendar quarter.

2 ECONOMIC ENVIRONMENT IN THE RUSSIAN FEDERATION

The economy of the Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation of the Russian Federation is 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 June 2017 – 59.0855 (as of 30 June 2016 – 64.2575);
- 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 June 2017 – 67.4993 (as of 30 June 2016 – 71.2102);
- 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

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

3 BASIS OF PRESENTATION (continued)

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.

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

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

- 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.
- 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 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.

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

5 SEGMENT INFORMATION (continued)

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

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Six months ended									
30 June 2017									
Total segment revenues	466,756	525,596	1,790,122	29,113	570,975	785,387	263,155	171,349	4,602,453
Inter-segment sales	455,367	408,114	137,233	27,589	297,677	4,575	-	-	1,330,555
External sales	11,389	117,482	1,652,889	1,524	273,298	780,812	263,155	171,349	3,271,898
Segment result	38,406	(2,354)	159,318	5,135	119,184	13,032	41,650	3,042	377,413
Depreciation	94,063	262,127	8,532	14,294	57,979	27,801	24,483	20,845	510,124
Share of net income of associates and joint ventures	3,237	9,243	467	55	32,768	1,263	181	8,755	55,969
Six months ended									
30 June 2016									
Total segment revenues	358,832	494,631	1,864,252	25,151	448,853	708,179	236,292	142,209	4,278,399
Inter-segment sales	346,489	398,859	121,324	22,845	282,304	4,711	-	-	1,176,532
External sales	12,343	95,772	1,742,928	2,306	166,549	703,468	236,292	142,209	3,101,867
Segment result	10,345	28,976	174,440	3,373	12,127	12,154	28,532	2,531	272,478
Depreciation	85,521	227,564	9,446	11,866	56,918	15,950	22,505	18,339	448,109
Share of net income of associates and joint ventures	3,433	12,591	1,733	13	9,861	2,813	66	3,256	33,766
	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Three months ended									
30 June 2017									
Total segment revenues	232,207	267,678	698,046	15,428	273,674	389,214	103,165	82,676	2,062,088
Inter-segment sales	226,794	208,783	47,201	14,547	139,213	2,065	-	-	638,603
External sales	5,413	58,895	650,845	881	134,461	387,149	103,165	82,676	1,423,485
Segment result	27,057	10,046	123,818	2,786	64,919	10,786	8,899	(7,666)	240,645
Depreciation	47,245	132,069	4,214	7,190	29,950	13,696	12,069	11,089	257,522
Share of net income of associates and joint ventures	1,634	4,353	1,216	15	13,165	734	113	5,184	26,414
Three months ended									
30 June 2016									
Total segment revenues	167,423	259,810	717,035	13,005	246,201	367,619	88,722	73,679	1,933,494
Inter-segment sales	161,809	211,634	40,232	11,984	155,181	2,091	-	-	582,931
External sales	5,614	48,176	676,803	1,021	91,020	365,528	88,722	73,679	1,350,563
Segment result	10,632	26,365	4,490	1,492	9,099	13,248	3,331	(3,154)	65,503
Depreciation	41,771	111,489	5,246	5,889	28,128	7,642	11,778	9,488	221,431
Share of net income (loss) of associates and joint ventures	1,750	5,389	40	(184)	12,153	1,505	(48)	316	20,921

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

5 SEGMENT INFORMATION (continued)

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

Notes	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	248,311	68,657	374,371	269,947
Segment result for reportable segments				
Other segments' result	(7,666)	(3,154)	3,042	2,531
Segment result	240,645	65,503	377,413	272,478
Difference in depreciation ¹	103,913	81,264	206,821	165,994
Expenses associated with pension obligations	(4,038)	(5,116)	(6,895)	(9,103)
18 Net finance (expense) income	(134,027)	166,094	(3,583)	332,881
Gain on disposal of available-for-sale financial assets	4	666	50	1,021
10 Share of net income of associates and joint ventures	26,414	20,921	55,969	33,766
Other	(150,222)	(30,455)	(93,038)	(16,200)
Profit before profit tax	82,689	298,877	536,737	780,837

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

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

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
External sales for reportable segments	1,340,809	1,276,884	3,100,549	2,959,658
External sales for other segments	82,676	73,679	171,349	142,209
Total external segment sales	1,423,485	1,350,563	3,271,898	3,101,867
Differences in external sales ¹	(28,852)	(23,555)	(61,964)	(37,495)
Total sales per the consolidated interim condensed statement of comprehensive income	1,394,633	1,327,008	3,209,934	3,064,372

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 gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 30 June 2017									
Segment assets	2,502,120	6,456,602	1,378,906	383,864	2,460,994	1,467,385	887,922	1,026,069	16,563,862
Investments in associates and joint ventures	26,508	148,345	21,073	1,288	459,517	20,566	1,503	178,722	857,522
Capital additions ¹	52,464	173,888	11,766	6,611	171,080	96,770	15,536	11,472	539,587
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 six months ended 30 June 2017.

² Capital additions for the year ended 31 December 2016.

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

5 SEGMENT INFORMATION (continued)

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

Notes	30 June 2017	31 December 2016
Segment assets for reportable segments	15,537,793	15,760,518
Other segments' assets	<u>1,026,069</u>	<u>937,460</u>
Total segment assets	16,563,862	16,697,978
Differences in property, plant and equipment, net ¹	(2,142,973)	(2,361,075)
Loan interest capitalised	662,038	623,101
Decommissioning costs	62,987	63,639
6 Cash and cash equivalents	779,999	896,728
Restricted cash	2,294	3,471
21 Short-term financial assets	13,571	11,481
VAT recoverable	119,793	195,033
Other current assets	778,929	331,467
Goodwill	105,021	105,330
21 Available-for-sale long-term financial assets	255,475	294,345
Other non-current assets	290,976	341,274
Inter-segment assets	(557,943)	(597,369)
Other	<u>385,790</u>	<u>313,535</u>
Total assets per the consolidated interim condensed balance sheet	17,319,819	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 June 2017	31 December 2016
Distribution of gas	573,532	608,767
Refining	272,925	337,711
Transportation	230,174	363,691
Production of gas	108,858	168,632
Production of crude oil and gas condensate	81,379	108,619
Electric and heat energy generation and sales	73,828	85,199
Gas storage	5,421	8,401
All other segments	<u>196,193</u>	<u>131,731</u>
Total segment liabilities	1,542,310	1,812,751

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

Notes	30 June 2017	31 December 2016
Segment liabilities for reportable segments	1,346,117	1,681,020
Other segments' liabilities	<u>196,193</u>	<u>131,731</u>
Total segment liabilities	1,542,310	1,812,751
Current profit tax payable	11,834	62,479
Short-term borrowings, promissory notes and current portion of long-term borrowings	545,998	447,080
13 Long-term borrowings and promissory notes	2,526,107	2,382,543
20 Long-term provisions for liabilities and charges	443,734	406,234
14 Deferred tax liabilities	733,409	688,503
Other non-current liabilities	65,867	78,011
Dividends	190,955	3,029
Inter-segment liabilities	(557,943)	(597,369)
Other	<u>192,244</u>	<u>193,838</u>
Total liabilities per the consolidated interim condensed balance sheet	5,694,515	5,477,099

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 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 June 2017	31 December 2016
Cash on hand and bank balances payable on demand	613,619	793,169
Term deposits with original maturity of three months or less	<u>166,380</u>	<u>103,559</u>
Total cash and cash equivalents	779,999	896,728

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2017	31 December 2016
Trade receivables	554,802	731,566
Short-term loans	162,126	142,068
Advances given and prepayments	96,345	76,981
Other receivables	<u>174,327</u>	<u>134,352</u>
Total accounts receivable and prepayments	987,600	1,084,967

Accounts receivable and prepayments are presented net of impairment allowance of RUB 896,930 million and RUB 868,452 million as of 30 June 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 June 2017 and 31 December 2016 net of impairment allowance of RUB 201,004 million and RUB 188,307 million as of 30 June 2017 and 31 December 2016, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 3,900 million and RUB 4,201 million as of 30 June 2017 and 31 December 2016, respectively.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 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>(4,928,934)</u>
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
Six months ended 30 June 2016				
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
Depreciation	(276,402)	(903)	-	(277,305)
Additions	25,200	340	527,672	553,212
Translation differences	(79,544)	(53)	(22,792)	(102,389)
Transfers	286,203	312	(286,515)	-
Disposals	(13,532)	(1,105)	(21,516)	(36,153)
Release for impairment allowance	-	-	<u>126</u>	<u>126</u>
Net book value as of 30 June 2016	8,371,085	56,693	2,713,594	11,141,372
Six months ended 31 December 2016				
Net book value as of 30 June 2016	8,371,085	56,693	2,713,594	11,141,372
Depreciation	(291,845)	(1,711)	-	(293,556)
Additions	85,859	-	820,817	906,676
Translation differences	(45,476)	(48)	(29,557)	(75,081)
Transfers	806,714	1,621	(808,335)	-
Disposals	(39,092)	(2,161)	(55,922)	(97,175)
Change of impairment allowance	<u>(16,738)</u>	-	<u>(62,751)</u>	<u>(79,489)</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>(5,499,795)</u>
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
Six months ended 30 June 2017				
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
Depreciation	(298,650)	(1,252)	-	(299,902)
Additions	22,265	52	565,310	587,627
Translation differences	6,810	21	17,191	24,022
Transfers	136,734	80	(136,814)	-
Disposals	(9,044)	-	(4,775)	(13,819)
Change of impairment allowance	-	-	<u>(5,157)</u>	<u>(5,157)</u>
Net book value as of 30 June 2017	8,728,622	53,295	3,013,601	11,795,518
As of 30 June 2017				
Cost	14,486,232	95,382	3,013,601	17,595,215
Accumulated depreciation	<u>(5,757,610)</u>	<u>(42,087)</u>	-	<u>(5,799,697)</u>
Net book value as of 30 June 2017	8,728,622	53,295	3,013,601	11,795,518

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

Assets under construction are presented net of allowance for impairment of RUB 175,277 million and RUB 167,546 million as of 30 June 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 169 million and RUB 200 million as of 30 June 2017 and 31 December 2016, respectively.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 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 six months ended 30 June	
			30 June 2017	31 December 2016	2017	2016
22	Sakhalin Energy Investment Company Ltd.	Associate	196,781	185,013	16,095	(3,452)
22, 23	Gazprombank (Joint Stock Company) and its subsidiaries ¹	Associate	142,014	77,109	8,961	4,267
22	OJSC NGK Slavneft and its subsidiaries	Joint venture	131,646	129,082	2,526	6,810
22	LLC Yamal razvitie and its subsidiaries	Joint venture	94,362	86,600	7,762	6,382
22	Nord Stream AG	Joint venture	72,973	63,319	7,281	9,915
22	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	45,500	40,510	2,460	2,547
22	JSC Achimgaz	Joint venture	33,722	32,043	4,203	4,923
22, 23	SGT EuRoPol GAZ S.A.	Associate	28,488	26,387	(558)	134
22	Wintershall AG	Associate	15,009	14,233	(1)	123
22	CJSC Northgas	Joint venture	12,595	11,735	1,631	791
22	KazRosGaz LLP	Joint venture	10,866	14,470	193	1,093
22	Wintershall Noordzee B.V.	Joint venture	6,443	6,862	(100)	(156)
22	JSC Latvijas Gaze ²	Associate	4,746	6,588	303	811
	Other (net of allowance for impairment of RUB 14,840 million and RUB 10,755 million as of 30 June 2017 and 31 December 2016, respectively)		<u>62,377</u>	<u>36,198</u>	<u>5,213</u>	<u>(422)</u>
			857,522	730,149	55,969	33,766

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 June 2017 the carrying value of investment in JSC Conexus Baltic Grid amounted at RUB 2,670 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 JUNE 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 June 2017		Six months ended 30 June 2017	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint Stock Company) and its subsidiaries ¹	48 %	Russia	5,089,898	4,623,016	103,892	27,406
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	976,939	583,376	153,702	32,190
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	466,230	198,280	111,410	5,445
Nord Stream AG ³	51 %	Russia, Germany	431,391	288,306	33,796	14,277
LLC Yamal razvitie and its subsidiaries	50 %	Russia	398,693	235,664	67,892	16,568
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	239,849	146,647	17,437	2,629
JSC Achimgaz	50 %	Russia	79,373	11,930	14,747	8,860
Wintershall AG ⁴	49 %	Libya	71,344	49,105	4,609	(2)
SGT EuRoPol GAZ S.A.	48 %	Poland	65,077	5,727	6,889	(1,200)
CJSC Northgas	50 %	Russia	59,728	33,611	10,889	3,262
Wintershall Noordzee B.V.	50 %	Netherlands	49,077	37,759	4,531	(200)
KazRosGaz LLP	50 %	Kazakhstan	32,076	10,344	21,633	386
JSC Latvijas Gaze	34 %	Latvia	22,343	5,341	11,111	885

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		Six months ended 30 June 2016	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint Stock Company) and its subsidiaries ¹	37 %	Russia	4,757,703	4,384,725	99,877	11,482
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	1,006,345	636,320	150,691	22,981
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	431,711	169,946	104,500	14,255
Nord Stream AG ³	51 %	Russia, Germany	416,875	292,719	42,571	17,453
LLC Yamal razvitie and its subsidiaries	50 %	Russia	387,516	241,054	63,568	11,637
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	227,154	143,680	20,683	5,319
Wintershall AG ⁴	49 %	Libya	72,134	50,551	-	251
JSC Achimgaz	50 %	Russia	71,778	7,693	14,409	9,846
SGT EuRoPol GAZ S.A.	48 %	Poland	62,485	7,513	10,566	549
CJSC Northgas	50 %	Russia	56,543	32,136	12,932	1,582
Wintershall Noordzee B.V.	50 %	Netherlands	49,008	38,088	5,844	(301)
KazRosGaz LLP	50 %	Kazakhstan	46,158	17,220	24,003	2,184
JSC Latvijas Gaze	34 %	Latvia	37,720	12,417	17,220	2,379

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 June 2017	31 December 2016
JSC Latvijas Gaze	8,314	7,594

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

11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	30 June 2017	31 December 2016
Long-term accounts receivable and prepayments	198,409	198,242
Advances for assets under construction	<u>477,196</u>	<u>512,505</u>
Total long-term accounts receivable and prepayments	675,605	710,747

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 16,076 million and RUB 16,481 million as of 30 June 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 172,036 million and RUB 97,869 million and profit tax in the amount of RUB 57,429 million and RUB 12,916 million as of 30 June 2017 and 31 December 2016, respectively. Other current assets include short-term deposits in the amount of RUB 503,453 million and RUB 144,035 million as of 30 June 2017 and 31 December 2016, respectively.

Included within other non-current assets are VAT recoverable related to assets under construction totalling RUB 37,530 million and RUB 35,702 million and long-term deposits in the amount of RUB 983 million and RUB 42,230 million as of 30 June 2017 and 31 December 2016, respectively. Other non-current assets include net pension assets in the amount of RUB 21,943 million and RUB 20,499 million as of 30 June 2017 and 31 December 2016, respectively (see Note 20).

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	30 June 2017	31 December 2016
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009 ¹	US Dollar	2019	135,265	138,863
Bank of China Limited, London branch	Euro	2021	134,139	126,414
China Construction Bank Corporation, Beijing branch ²	US Dollar	2020	90,236	92,627
Loan participation notes issued in September 2012 ³	US Dollar	2022	89,716	92,102
Loan participation notes issued in November 2013 ³	US Dollar	2023	89,115	91,485
Loan participation notes issued in October 2007 ¹	Euro	2018	83,022	81,035
Loan participation notes issued in March 2007 ¹	US Dollar	2022	78,395	80,480
Loan participation notes issued in August 2007 ¹	US Dollar	2037	75,875	77,893
Mizuho Bank Ltd. ²	US Dollar	2019	72,652	93,228
Loan participation notes issued in April 2004 ¹	US Dollar	2034	71,972	73,886
Loan participation notes issued in October 2015 ¹	Euro	2018	69,706	64,434
Loan participation notes issued in November 2016 ¹	Euro	2023	68,152	63,353
Loan participation notes issued in March 2013 ¹	Euro	2020	68,145	65,512
Loan participation notes issued in April 2008 ¹	US Dollar	2018	66,171	67,930
	British Pound			
Loan participation notes issued in April 2017 ¹	Sterling	2024	66,076	-
Loan participation notes issued in July 2013 ¹	Euro	2018	62,849	58,361
Loan participation notes issued in July 2012 ¹	US Dollar	2022	60,402	62,008
Loan participation notes issued in February 2013 ¹	US Dollar	2028	54,237	55,680
J.P. Morgan Europe Limited ²	Euro	2020	53,317	-
Loan participation notes issued in February 2014 ¹	Euro	2021	51,249	49,317
Loan participation notes issued in April 2013 ³	Euro	2018	50,888	48,817
Loan participation notes issued in February 2013 ¹	US Dollar	2020	48,001	49,278
Credit Agricole CIB	Euro	2022	47,089	-
PJSC Sberbank	US Dollar	2018	44,905	46,099
Loan participation notes issued in March 2017 ¹	US Dollar	2027	44,361	-
PJSC Sberbank	Russian Ruble	2022	42,626	-
PJSC VTB Bank	Russian Ruble	2022	42,283	-

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

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	30 June 2017	31 December 2016
	British Pound			
Loan participation notes issued in September 2013 ¹	Sterling	2020	40,823	38,593
Loan participation notes issued in November 2011 ¹	US Dollar	2021	36,385	37,353
Loan participation notes issued in March 2007 ¹	Euro	2017	34,962	32,191
Loan participation notes issued in March 2013 ¹	Euro	2025	34,161	32,997
Loan participation notes issued in November 2016 ¹	Swiss Franc	2021	31,666	29,492
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	31,452	29,863
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	31,252	29,513
PJSC VTB Bank	Russian Ruble	2021	29,800	29,800
Alfa-Bank (Joint-stock Company)	US Dollar	2019	23,642	24,271
UniCredit Bank Austria AG	Euro	2021	23,391	19,172
Gazprombank (Joint Stock Company)	US Dollar	2019	21,271	21,836
VTB Bank Austria AG	Euro	2027	20,263	-
Gazprombank (Joint Stock Company)	US Dollar	2019	19,498	20,017
Gazprombank (Joint Stock Company)	US Dollar	2019	18,317	18,804
Bank of America Securities Limited	US Dollar	2018	17,897	18,368
Commerzbank International S.A.	US Dollar	2018	17,726	24,265
PJSC Sberbank	Euro	2020	16,259	15,373
Russian bonds issued in February 2017 ⁴	Russian Ruble	2024	15,494	-
Russian bonds issued in February 2017 ⁴	Russian Ruble	2024	15,494	-
Russian bonds issued in March 2016 ³	Russian Ruble	2046	15,419	15,344
Russian bonds issued in April 2017 ³	Russian Ruble	2022	15,266	-
PJSC Sberbank	Euro	2017	15,219	14,388
BNP Paribas S.A. ²	Euro	2022	15,167	15,644
Russian bonds issued in November 2013 ⁵	Russian Ruble	2043	15,078	15,111
Russian bonds issued in November 2013 ⁵	Russian Ruble	2043	15,078	15,111
Gazprombank (Joint Stock Company)	Russian Ruble	2022	15,000	9,809
PJSC VTB Bank	Russian Ruble	2021	14,650	14,654
Wintershall Nederland Transport and Trading B.V.	Euro	2035	14,534	-
OMV Gas Marketing Trading & Finance B.V.	Euro	2035	14,534	-
Shell Exploration and Production (LXXI) B.V.	Euro	2035	14,534	-
Engie Energy Management Holding				
Switzerland AG	Euro	2035	14,534	-
Uniper Gas Transportation & Finance B.V.	Euro	2035	14,534	-
UniCredit Bank Austria AG	Euro	2019	12,476	14,745
Bank of America Securities Limited	Euro	2017	12,207	11,541
UniCredit Bank Austria AG	US Dollar	2018	11,821	12,135
PJSC Sberbank	Euro	2022	11,464	7,713
J.P. Morgan Europe Limited ²	US Dollar	2018	11,080	18,962
Gazprombank (Joint Stock Company)	Russian Ruble	2019	11,000	-
Russian bonds issued in February 2011 ³	Russian Ruble	2021	10,366	10,368
Russian bonds issued in August 2016 ³	Russian Ruble	2046	10,314	10,317
Russian bonds issued in March 2016 ³	Russian Ruble	2046	10,296	10,378
Russian bonds issued in April 2009 ³	Russian Ruble	2019	10,180	10,182
Russian bonds issued in December 2012 ³	Russian Ruble	2022	10,072	10,075
Russian bonds issued in June 2016 ³	Russian Ruble	2046	10,059	10,062
Gazprombank (Joint Stock Company)	Russian Ruble	2018	10,000	10,000
Citibank International plc ²	US Dollar	2021	8,697	10,042
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 Sberbank	Russian Ruble	2017	-	15,067
PJSC Sberbank	Russian Ruble	2017	-	12,511

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

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	30 June 2017	31 December 2016
PJSC Sberbank	Russian Ruble	2017	-	12,511
Russian bonds issued in February 2013 ⁴	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	<u>321,098</u>	<u>291,249</u>
Total long-term borrowings, promissory notes			3,005,274	2,768,991
Less: current portion of long-term borrowings			<u>(479,167)</u>	<u>(386,448)</u>
			2,526,107	2,382,543

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

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

³ Issuer of these bonds is PJSC Gazprom Neft.

⁴ Issuer of these bonds is Gazprom capital LLC.

⁵ Issuer of these bonds is PJSC Gazprom.

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

Due for repayment	30 June 2017	31 December 2016
between one and two years	692,072	708,355
between two and five years	990,038	956,731
after five years	<u>843,997</u>	<u>717,457</u>
	2,526,107	2,382,543

The amount of secured borrowings was RUB 60,000 million and RUB nil million as of 30 June 2017 and 31 December 2016, respectively.

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,226,862 million and RUB 2,086,181 million and fair value of RUB 2,429,938 million and RUB 2,209,883 million as of 30 June 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 778,412 million and RUB 682,810 million and fair value is RUB 796,428 million and RUB 702,251 million as of 30 June 2017 and 31 December 2016, respectively.

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.

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.

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

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 six months ended 30 June 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 and reversals		Differences recognition and reversals		
	30 June 2017	31 December 2016	30 June 2016	31 December 2015	
Tax effects of taxable temporary differences:					
Property, plant and equipment	(798,126)	(47,753)	(750,373)	(724,535)	(38,465)
Inventories	<u>(7,930)</u>	<u>3,689</u>	<u>(11,619)</u>	<u>(12,213)</u>	<u>2,530</u>
	(806,056)	(44,064)	(761,992)	(736,748)	(700,813)
Tax effects of deductible temporary differences:					
Financial assets	2,281	345	1,936	1,028	651
Tax losses carried forward	7,044	1,385	5,659	11,230	(7,126)
Retroactive gas price adjustments	21,215	(1,542)	22,757	19,711	(889)
Other deductible temporary differences	<u>42,107</u>	<u>(1,030)</u>	<u>43,137</u>	<u>36,100</u>	<u>(6,976)</u>
	72,647	(842)	73,489	68,069	(14,340)
Total net deferred tax liabilities	(733,409)	(44,906)	(688,503)	(668,679)	(50,275)

Taxable temporary differences recognised for the six months ended 30 June 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 15,373 million and RUB 23,632 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the six months ended 30 June 2017 and 2016.

15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 30 June 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 June 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 depository 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 depository receipts as security of liabilities in the amount of 506 million PJSC Gazprom's ordinary shares.

Shares of PJSC Gazprom held by the subsidiaries represent 6.6 % of PJSC Gazprom shares as of 30 June 2017 and 31 December 2016.

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

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

16 SALES

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Gas sales gross of excise tax and customs duties to customers in:				
Russian Federation	154,270	128,545	466,525	420,395
Former Soviet Union (excluding Russian Federation)	53,509	54,205	167,194	182,139
Europe and other countries	<u>587,005</u>	<u>583,982</u>	<u>1,323,605</u>	<u>1,399,940</u>
	794,784	766,732	1,957,324	2,002,474
Customs duties	(121,116)	(115,679)	(262,951)	(266,707)
Excise tax	(10,355)	(7,727)	(22,791)	(20,480)
Retroactive gas price adjustments ¹	<u>(7,055)</u>	<u>39,091</u>	<u>(7,304)</u>	<u>39,984</u>
Total gas sales	656,258	682,417	1,664,278	1,755,271
Sales of refined products to customers in:				
Russian Federation	271,151	234,842	510,899	449,923
Former Soviet Union (excluding Russian Federation)	21,277	21,559	42,460	42,162
Europe and other countries	<u>94,721</u>	<u>109,127</u>	<u>227,453</u>	<u>211,383</u>
Total sales of refined products	387,149	365,528	780,812	703,468
Sales of crude oil and gas condensate to customers in:				
Russian Federation	18,344	18,079	41,457	35,980
Former Soviet Union (excluding Russian Federation)	7,099	9,031	14,255	14,131
Europe and other countries	<u>109,018</u>	<u>63,910</u>	<u>217,586</u>	<u>116,438</u>
Total sales of crude oil and gas condensate	134,461	91,020	273,298	166,549
Electric and heat energy sales	103,165	88,722	263,155	236,292
Gas transportation sales	58,895	48,176	117,482	95,772
Other revenues	<u>54,705</u>	<u>51,145</u>	<u>110,909</u>	<u>107,020</u>
Total sales	<u>1,394,633</u>	<u>1,327,008</u>	<u>3,209,934</u>	<u>3,064,372</u>

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 six months ended 30 June 2017 recorded as a decrease of sales by RUB 7,055 million and RUB 7,304 million, respectively. These effects are due to change in related accruals following agreements reached prior to the issuance of the respective consolidated interim condensed financial information. The effects of retroactive gas price adjustments on sales for the three and six months ended 30 June 2016 as an increase of sales by RUB 39,091 million and RUB 39,984 million, respectively, 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.

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

17 OPERATING EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Taxes other than on income	271,152	211,835	566,177	429,493
Purchased gas and oil	248,695	281,318	565,600	627,258
Staff costs	171,393	163,791	341,074	333,876
Depreciation	153,609	140,167	303,303	282,115
Transit of gas, oil and refined products	140,818	137,880	287,831	303,790
Materials	64,918	69,846	124,513	129,477
Cost of goods for resale, including refined products	55,835	44,674	112,839	76,089
Repairs and maintenance	35,776	42,317	59,183	61,828
Charge for impairment and other provisions	18,834	15,275	54,204	63,424
Electricity and heating expenses	22,954	21,375	53,084	44,954
Rental expenses	10,218	9,142	20,880	18,023
Transportation services	7,930	8,620	15,736	15,808
Social expenses	8,620	7,972	15,220	14,418
Insurance expenses	7,167	7,443	14,532	14,699
Processing services	3,895	3,496	7,451	7,821
Research and development expenses	109	5,801	6,207	13,076
Foreign exchange rate differences on operating items	(9,647)	20,664	(8,760)	63,319
Derivatives loss (gain)	2,670	17,978	(7,351)	10,203
Other	68,287	87,433	177,882	150,307
	1,283,233	1,297,027	2,709,605	2,659,978
Changes in inventories of finished goods, work in progress and other effects	(85,022)	(70,194)	(4,299)	20,754
Total operating expenses	1,198,211	1,226,833	2,705,306	2,680,732

Staff costs include RUB 11,039 million and RUB 22,076 million of expenses associated with post-employment benefit obligations for the three and six months ended 30 June 2017, respectively, and RUB 11,269 million and RUB 22,480 million of expenses associated with post-employment benefit obligations for the three and six months ended 30 June 2016, respectively (see Note 20).

18 FINANCE INCOME AND EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Foreign exchange gain	30,595	268,073	191,381	645,632
Interest income	22,317	28,856	44,663	54,636
Total finance income	52,912	296,929	236,044	700,268
Foreign exchange loss	171,103	116,086	208,684	331,278
Interest expense	15,836	14,749	30,943	36,109
Total finance expense	186,939	130,835	239,627	367,387

Total interest paid amounted to RUB 31,812 million and RUB 79,666 million for the three and six months ended 30 June 2017, respectively, and RUB 41,065 million and RUB 98,327 million for the three and six months ended 30 June 2016, respectively.

Foreign exchange gain and loss for the six months ended 30 June 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, attributable to owners of PJSC Gazprom by the weighted average number of shares outstanding during the period, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 15).

There were 22.1 billion weighted average shares outstanding for the three and six months ended 30 June 2017 and 23.0 billion – for the three and six months ended 30 June 2016, respectively.

There are no dilutive financial instruments outstanding in the Group.

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

20 PROVISIONS FOR LIABILITIES AND CHARGES

	30 June 2017	31 December 2016
Provision for post-employment benefit obligations	261,617	236,852
Provision for decommissioning and site restoration costs	169,288	161,764
Other	<u>12,829</u>	<u>7,618</u>
Total provisions for liabilities and charges	443,734	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 assets related to benefits, provided by NPF GAZFOND, in the amount of RUB 21,943 million and RUB 20,499 million as of 30 June 2017 and 31 December 2016, respectively, 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 June 2017 and 31 December 2016 management estimated the fair value of these assets at RUB 430,162 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 June 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	(408,219)	(261,617)	(372,845)	(236,852)
Fair value of plan assets	<u>430,162</u>	<u>-</u>	<u>393,344</u>	<u>-</u>
Net balance asset (liability)	21,943	(261,617)	20,499	(236,852)

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

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Current service cost	6,441	5,722	12,882	11,444
Net interest expense	<u>4,598</u>	<u>5,547</u>	<u>9,194</u>	<u>11,036</u>
Total expenses included in staff costs	11,039	11,269	22,076	22,480

The principal assumptions used for post-employment benefit obligations for the six months ended 30 June 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 8.0 % resulted in recognition of an actuarial loss of RUB 31,677 million in other comprehensive income for the six months ended 30 June 2017.

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

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
Actuarial losses	(6,991)	(50,343)	(31,677)	(74,579)
Return on assets excluding amounts included in net interest income (expense)	29,693	2,289	17,648	(4,378)
Translation differences	<u>(368)</u>	<u>210</u>	<u>(207)</u>	<u>332</u>
Total	22,334	(47,844)	(14,236)	(78,625)

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 30 JUNE 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 June 2017 and 31 December 2016 the Group had the following assets and liabilities that are measured at fair value:

	30 June 2017			Total
	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)	
Financial assets held for trading:				
Bonds	13,024	-	-	13,024
Equity securities	447	-	-	447
Available-for-sale financial assets:				
Promissory notes	-	100	-	100
Total short-term financial assets	13,471	100	-	13,571
Available-for-sale financial assets:				
Equity securities	205,807	40,584	8,767	255,158
Promissory notes	-	317	-	317
Total available-for-sale long-term financial assets	205,807	40,901	8,767	255,475
Derivatives	9,976	43,283	520	53,779
Total assets	229,254	84,284	9,287	322,825
Derivatives	6,138	91,828	2,150	100,116
Total liabilities	6,138	91,828	2,150	100,116

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

21 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	31 December 2016			Total
	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)	
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 six months ended 30 June 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 255,475 million and RUB 294,345 million are shown net of allowance for impairment of RUB 1,451 million and RUB 1,275 million as of 30 June 2017 and 31 December 2016, respectively.

As of 30 June 2017 and 31 December 2016 long-term available-for-sale financial assets include PJSC NOVATEK shares in the amount of RUB 199,654 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 June 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 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 JUNE 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 June 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 June 2017 and 31 December 2016 and for the three and six months ended 30 June 2017 and 2016, the Group had the following significant transactions and balances with the Government and parties under control of the Government.

	As of 30 June 2017		Three months ended 30 June 2017		Six months ended 30 June 2017	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	56,541	3,028	-	12,076	-	74,997
Insurance contributions	578	10,393	-	26,335	-	58,216
VAT recoverable / payable	323,145	82,963	-	-	-	-
Customs duties	24,661	-	-	-	-	-
Other taxes	1,914	117,606	-	253,615	-	533,974
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	18,910	-	57,770	-
Electricity and heating sales	-	-	44,696	-	122,032	-
Gas transportation sales	-	-	12,230	-	24,291	-
Other services sales	-	-	788	-	1,736	-
Accounts receivable	59,657	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	31,057	-	65,876
Accounts payable	-	14,594	-	-	-	-
Loans and borrowings	-	360,977	-	-	-	-
Interest expense	-	-	-	4,509	-	9,698
Short-term financial assets	10,397	-	-	-	-	-
Available-for-sale long-term financial assets	6,189	-	-	-	-	-
As of 31 December 2016						
	As of 31 December 2016		Three months ended 30 June 2016		Six months ended 30 June 2016	
	Assets	Liabilities	Income	Expenses	Income	Expenses
Transactions and balances with the Government						
Current profit tax	11,608	56,695	-	33,964	-	99,253
Insurance contributions	720	7,795	-	27,289	-	57,457
VAT recoverable / payable	322,643	72,557	-	-	-	-
Customs duties	16,183	-	-	-	-	-
Other taxes	2,457	116,769	-	209,636	-	425,941
Transactions and balances with other parties under control of the Government						
Gas sales	-	-	12,861	-	40,805	-
Electricity and heating sales	-	-	37,097	-	108,404	-
Gas transportation sales	-	-	10,712	-	22,433	-
Other services sales	-	-	721	-	1,449	-
Accounts receivable	49,091	-	-	-	-	-
Oil and refined products transportation expenses	-	-	-	25,565	-	57,427
Accounts payable	-	13,800	-	-	-	-
Loans and borrowings	-	345,604	-	-	-	-
Interest expense	-	-	-	2,466	-	8,613
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 six months ended 30 June 2017 and 2016.

See Note 9 for net book values as of 30 June 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 six months ended 30 June 2017 and 2016 and as of 30 June 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 JUNE 2017
(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	Revenues		Revenues	
Gas sales				
Panrusgaz Gas Trading Plc	10,990	9,075	22,156	18,253
Bosphorus Gaz Corporation A.S.	2,748	1,075	9,190	8,554
CJSC Gazprom YRGM Trading ¹	4,323	1,722	9,004	3,632
JSV Moldovagaz	2,214	3,821	8,384	14,502
JSC Latvijas Gaze	3,162	1,830	7,135	4,133
JSC Gazprom YRGM Development ¹	3,087	1,552	6,431	3,274
KazRosGas LLP	433	1,137	6,364	6,149
VEMEX s.r.o. and its subsidiaries	1,992	3,687	4,809	9,370
Prometheus Gas S.A.	1,727	-	3,475	-
SGT EuRoPol GAZ S.A.	596	1,143	1,187	2,390
PremiumGas S.p.A	-	1,731	677	2,634
Gas transportation sales				
CJSC Gazprom YRGM Trading ¹	6,187	2,747	12,886	5,794
JSC Gazprom YRGM Development ¹	4,419	2,476	9,204	5,222
KazRosGas LLP	589	593	1,244	1,395
Gas condensate, crude oil and refined products sales				
OJSC NGK Slavneft and its subsidiaries	9,332	12,314	20,690	21,500
CJSC SOVEX	1,201	789	2,404	1,379
LLC Poliom	686	252	1,538	770
Sakhalin Energy Investment Company Ltd.	515	332	1,376	1,260
LLC NPP Neftekhimia	573	411	1,146	1,149
Operator services sales and other services sales				
JSC Messoyakhaneftegaz	1,185	1,120	2,616	2,821
Gas refining services sales				
KazRosGas LLP	1,997	1,837	4,222	4,098

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

22 RELATED PARTIES (continued)

	Three months ended 30 June		Six months ended 30 June	
	2017	2016	2017	2016
	Expenses		Expenses	
Purchased gas				
CJSC Gazprom YRGM Trading ¹	13,200	5,666	27,537	12,883
LLC SeverEnergiya and its subsidiaries	12,816	13,567	21,144	25,679
JSC Gazprom YRGM Development ¹	9,437	5,120	19,709	11,631
KazRosGas LLP	8,776	8,560	14,553	16,516
Sakhalin Energy Investment Company Ltd.	2,328	2,520	4,339	4,868
CJSC Northgas	1,205	2,163	1,205	4,383
VEMEX s.r.o. and its subsidiaries	156	377	214	2,676
Purchased transit of gas				
Nord Stream AG	17,267	19,653	33,978	41,416
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	6,405	7,990	13,648	16,024
SGT EuRoPol GAZ S.A.	2,821	3,845	5,464	8,130
JSV Moldovagaz	781	797	1,804	1,818
Purchased crude oil and refined products				
OJSC NGK Slavneft and its subsidiaries	23,411	25,309	49,406	44,136
Sakhalin Energy Investment Company Ltd.	4,163	6,178	6,587	8,431
Purchased services of gas and gas condensate extraction				
JSC Achimgaz	7,924	5,121	14,747	14,409
Purchased processing services				
OJSC NGK Slavneft and its subsidiaries	3,302	2,957	6,362	6,331

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 JUNE 2017
(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

	As of 30 June 2017		As of 31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
Gazprombank (Joint Stock Company)	86,778	-	14,306	-
JSC Messoyakhaneftegaz	41,998	-	40,530	-
OJSC NGK Slavneft and its subsidiaries	9,469	-	8,286	-
Wintershall Noordzee B.V.	5,791	-	5,811	-
Panrusgas Gas Trading Plc	5,040	-	3,175	-
Sakhalin Energy Investment Company Ltd.	4,033	-	2,733	-
CJSC Gazprom YRGM Trading	3,895	-	1,167	-
Wintershall AG	1,626	-	2,125	-
JSC Gazprom YRGM Development	1,541	-	1,052	-
Bosphorus Gaz Corporation A.S.	1,380	-	-	-
JSC Achimgaz	1,308	-	30	-
KazRosGas LLP	1,019	-	3,287	-
VEMEX s.r.o. and its subsidiaries	964	-	1,518	-
Cash balances				
Gazprombank (Joint Stock Company)	214,176	-	518,084	-
Other current assets				
Gazprombank (Joint Stock Company)	470,500	-	100,015	-
OJSC Belgazprombank	8,778	-	968	-
Other non-current assets				
Gazprombank (Joint Stock Company)	1	-	42,230	-
Long-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	20,090	-	18,962	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its Subsidiaries	13,494	-	12,757	-
LLC Yamal razvitie	13,042	-	15,722	-
OJSC Belgazprombank	4,957	-	4,957	-
Short-term accounts payable				
OJSC NGK Slavneft and its subsidiaries	-	14,043	-	4,094
Nord Stream AG	-	6,055	-	5,723
LLC SeverEnergiya and its subsidiaries	-	5,277	-	3,436
CJSC Gazprom YRGM Trading	-	5,075	-	4,490
JSC Achimgaz	-	4,961	-	3,025
JSC Gazprom YRGM Development	-	4,838	-	3,682
KazRosGas LLP	-	3,310	-	4,186
Sakhalin Energy Investment Company Ltd.	-	2,831	-	2,948
WIGA Transport Beteiligungs-GmbH & Co. KG and its Subsidiaries	-	1,127	-	124
SGT EuRoPol GAZ S.A.	-	971	-	2,100
JSC Messoyakhaneftegaz	-	204	-	3,694
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint Stock Company)	-	8,328	-	31,797
Long-term borrowings				
Gazprombank (Joint Stock Company)	-	159,587	-	88,850

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

22 RELATED PARTIES (continued)

Accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 1,380 million and RUB nil million as of 30 June 2017 and 31 December 2016, respectively, net of impairment allowance of RUB 5,805 million and RUB 7,802 million as of 30 June 2017 and 31 December 2016, respectively.

Accounts receivable for gas due from Overgas Inc. AD are RUB nil million as of 30 June 2017 and 31 December 2016 net of impairment allowance of RUB 6,215 million and RUB 6,380 million as of 30 June 2017 and 31 December 2016, respectively.

Accounts receivable for gas due from JSV Moldovagaz are RUB nil million as of 30 June 2017 and 31 December 2016 net of impairment allowance of RUB 339,386 million and RUB 342,765 million as of 30 June 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.

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 June 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. The arbitration panel is expected to deliver its ruling until 30 June 2017. On 31 May 2017 the arbitrators delivered an interim (separate) award on certain key legal issues. The final award is to be delivered not later than 30 November 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 JUNE 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. On 19 June 2017 the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, decided that the final award in the case is to be delivered not later than 30 November 2017.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders’ agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 30 June 2017 – RUB 97,746 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 and is preparing a statement to contest it. 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 is expected to file a counter-statement before 18 September 2017.

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.

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

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 June 2017 – RUB 51,299 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 June 2017 – RUB 45,832 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 June 2017 – RUB 49,274 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for May 2018.

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 June 2017 – RUB 194,685 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. 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 June 2017 – RUB 428,308 million), including an execution fee of Ukrainian hryvnia 17,193 mln (at the exchange rate as of 30 June 2017 – RUB 38,937 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 JUNE 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 recognize 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

In 2014 and 2015 the EU, the United States ("U.S.") and some other countries introduced a series of sanctions against the Russian Federation and some Russian entities. Some of these sanctions are aimed directly against PJSC Gazprom, PJSC Gazprom Neft and other companies, including Gazprombank (Joint Stock Company), and some of them include general restrictions of economic activity in certain sectors of the Russian 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 or newly issued share capital, property or rights to property in respect of a number of Russian energy companies, including PJSC Gazprom Neft;
- 2) to carry out operations, to provide funding or otherwise make transactions related to new borrowings with maturity of longer than 30 days or newly issued share capital, property or rights to property of a number of Russian companies of the banking sector, including Gazprombank (Joint Stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);
- 3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction includes the Yuzhno-Kirinskoye field located in the Sea of Okhotsk.

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

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

23 COMMITMENTS AND CONTINGENCIES (continued)

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 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 June 2017	31 December 2016
Outstanding guarantees issued for:		
Ostchem Holding Limited	3,430	3,427
Blackrock Capital Investments Limited	3,224	4,968
Other	<u>32,765</u>	<u>36,362</u>
Total financial guarantees	39,419	44,757

For the six months ended 30 June 2017 and in 2016 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 55 million and USD 87 million as of 30 June 2017 and 31 December 2016, respectively, as well as amounts denominated in Euros of EUR 75 million and EUR 66 million as of 30 June 2017 and 31 December 2016, respectively.

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

23 COMMITMENTS AND CONTINGENCIES (continued)

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by SGT EuRoPol GAZ S.A. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 30 June 2017 and 31 December 2016 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 3,224 million (USD 55 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 June 2017 and 31 December 2016 the above guarantee amounted to RUB 3,430 million and RUB 3,427 million, respectively, and was fully provided.

Capital commitments

The total investment program related to gas, oil and power assets for 2017 is RUB 1,580,928 million.

24 POST BALANCE SHEET EVENTS

Borrowings and loans

In July 2017 the Group issued Loan Participation Notes in the amount of 500 million of Swiss Franc at an interest rate of 2.25 % due in 2022 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In July 2017 the subsidiary Nord Stream 2 AG issued long-term loans from Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation & Finance B.V. in the amount of EUR 324 million, within the terms of the long-term financing agreement, signed between the parties in April 2017.

In August 2017 the Group issued Russian bonds in the amount of RUB 15,000 million at an interest rate of 8.25 % due in 2024.

Sanctions

On 2 August 2017 the U.S. signed the law that provides for the imposition of further sanctions against the Russian Federation that potentially affects also the interests of the Group. The implications of the law on the activities the Group pursues in Europe and on its international projects depend largely on the acts that will be introduced by the U.S. President and the U.S. Treasury Department for the implementation of the provisions of the Law. The Group is currently assessing the impact of the sanctions on its activities.

PJSC GAZPROM
INVESTORS RELATIONS

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