

PJSC GAZPROM

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

31 MARCH 2017

Contents

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	13
7	Accounts receivable and prepayments	13
8	Inventories.....	13
9	Property, plant and equipment.....	14
10	Investments in associates and joint ventures.....	15
11	Long-term accounts receivable and prepayments.....	17
12	Other current and non-current assets.....	17
13	Long-term borrowings, promissory notes	17
14	Profit tax.....	20
15	Equity	20
16	Sales	21
17	Operating expenses.....	21
18	Finance income and expenses	22
19	Basic and diluted earnings per share, attributable to owners of PJSC Gazprom	22
20	Provisions for liabilities and charges.....	22
21	Fair value of financial instruments	23
22	Related parties.....	25
23	Commitments and contingencies	29
24	Post balance sheet events.....	34

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 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.

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 31 March 2017 – 56.3779 (as of 31 March 2016 – 67.6076);
- 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 31 March 2017 – 60.5950 (as of 31 March 2016 – 76.5386);
- 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) – 31 MARCH 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) – 31 MARCH 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 to exchange rates that should be used on initial recognition of payment made or received in advance.
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IFRS 4 Insurance Contracts (issued in September 2016 and effective for annual periods beginning on or after 1 January 2018) concern the issues of the application of IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments at one time.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the requirements on transfers to, or from, investment properties.

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

5 SEGMENT INFORMATION

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

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

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

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

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

The inter-segment sales mainly consist of:

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

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

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

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

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Three months ended 31 March 2017									
Total segment revenues	234,549	257,918	1,092,076	13,685	297,301	396,173	159,990	88,673	2,540,365
Inter-segment sales	228,573	199,331	90,032	13,042	158,464	2,510	-	-	691,952
External sales	5,976	58,587	1,002,044	643	138,837	393,663	159,990	88,673	1,848,413
Segment result	11,349	(12,400)	35,500	2,349	54,265	2,246	32,751	10,708	136,768
Depreciation	46,818	130,058	4,318	7,104	28,029	14,105	12,414	9,756	252,602
Share of net income (loss) of associates and joint ventures	1,603	4,890	(749)	40	19,603	529	68	3,571	29,555
Three months ended 31 March 2016									
Total segment revenues	191,409	234,821	1,147,217	12,146	202,652	340,560	147,570	68,530	2,344,905
Inter-segment sales	184,680	187,225	81,092	10,861	127,123	2,620	-	-	593,601
External sales	6,729	47,596	1,066,125	1,285	75,529	337,940	147,570	68,530	1,751,304
Segment result	(287)	2,611	169,950	1,881	3,028	(1,094)	25,201	5,685	206,975
Depreciation	43,750	116,075	4,200	5,977	28,790	8,308	10,727	8,851	226,678
Share of net income (loss) of associates and joint ventures	1,683	7,202	1,693	197	(2,292)	1,308	114	2,940	12,845

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 31 March	
	2017	2016
Segment result for reportable segments	126,060	201,290
Other segments' result	10,708	5,685
Segment result	136,768	206,975
Difference in depreciation ¹	102,908	84,730
Expenses associated with pension obligations	(2,857)	(3,987)
18 Net finance income	130,444	166,787
Gain on disposal of available-for-sale financial assets	46	355
10 Share of net income of associates and joint ventures	29,555	12,845
Other	57,184	14,255
Profit before profit tax	454,048	481,960

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 31 March	
	2017	2016
External sales for reportable segments	1,759,740	1,682,774
External sales for other segments	88,673	68,530
Total external segment sales	1,848,413	1,751,304
Differences in external sales ¹	(33,112)	(13,940)
Total sales per the consolidated interim condensed statement of comprehensive income	1,815,301	1,737,364

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

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

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

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 31 March 2017									
Segment assets	2,488,908	6,416,442	1,408,615	380,727	2,415,610	1,429,769	907,436	913,313	16,360,820
Investments in associates and joint ventures	27,689	128,744	25,364	975	436,704	20,419	1,280	92,543	733,718
Capital additions ¹	27,153	59,210	5,539	2,547	83,242	37,056	7,665	4,057	226,469
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 three months ended 31 March 2017.

² Capital additions for the year ended 31 December 2016.

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

Notes	31 March 2017	31 December 2016
Segment assets for reportable segments	15,447,507	15,760,518
Other segments' assets	913,313	937,460
Total segment assets	16,360,820	16,697,978
Differences in property, plant and equipment, net ¹	(2,242,440)	(2,361,075)
Loan interest capitalised	642,374	623,101
Decommissioning costs	63,331	63,639
6 Cash and cash equivalents	686,746	896,728
Restricted cash	3,562	3,471
21 Short-term financial assets	13,715	11,481
VAT recoverable	166,315	195,033
Other current assets	659,335	331,467
Goodwill	103,419	105,330
21 Available-for-sale long-term financial assets	267,678	294,345
Other non-current assets	301,037	341,274
Inter-segment assets	(560,793)	(597,369)
Other	343,768	313,535
Total assets per the consolidated interim condensed balance sheet	16,808,867	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 is provided in the tables below.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

5 SEGMENT INFORMATION (continued)

	31 March 2017	31 December 2016
Distribution of gas	592,133	608,767
Refining	279,021	337,711
Transportation	233,669	363,691
Production of gas	120,247	168,632
Production of crude oil and gas condensate	112,585	108,619
Electric and heat energy generation and sales	75,483	85,199
Gas storage	4,705	8,401
All other segments	<u>141,477</u>	<u>131,731</u>
Total segment liabilities	<u>1,559,320</u>	<u>1,812,751</u>

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

Notes	31 March 2017	31 December 2016
Segment liabilities for reportable segments	1,417,843	1,681,020
Other segments' liabilities	<u>141,477</u>	<u>131,731</u>
Total segment liabilities	<u>1,559,320</u>	<u>1,812,751</u>
Current profit tax payable	42,125	62,479
Short-term borrowings, promissory notes and current portion of long-term borrowings	432,506	447,080
13 Long-term borrowings and promissory notes	2,297,553	2,382,543
20 Long-term provisions for liabilities and charges	433,658	406,234
14 Deferred tax liabilities	725,196	688,503
Other non-current liabilities	63,775	78,011
Dividends	2,855	3,029
Inter-segment liabilities	(560,793)	(597,369)
Other	<u>168,032</u>	<u>193,838</u>
Total liabilities per the consolidated interim condensed balance sheet	<u>5,164,227</u>	<u>5,477,099</u>

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.

	31 March 2017	31 December 2016
Cash on hand and bank balances payable on demand	507,041	793,169
Term deposits with original maturity of three months or less	<u>179,705</u>	<u>103,559</u>
Total cash and cash equivalents	<u>686,746</u>	<u>896,728</u>

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2017	31 December 2016
Trade receivables	734,050	731,566
Short-term loans	140,320	142,068
Advances given and prepayments	103,406	76,981
Other receivables	<u>139,507</u>	<u>134,352</u>
Total accounts receivable and prepayments	<u>1,117,283</u>	<u>1,084,967</u>

Accounts receivable and prepayments are presented net of impairment allowance of RUB 857,526 million and RUB 868,452 million as of 31 March 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 31 March 2017 and 31 December 2016 net of impairment allowance of RUB 188,132 million and RUB 188,307 million as of 31 March 2017 and 31 December 2016, respectively.

8 INVENTORIES

Inventories are presented net of allowance for obsolescence of RUB 3,903 million and RUB 4,201 million as of 31 March 2017 and 31 December 2016, respectively.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 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
Three months ended 31 March 2016				
Net book value as of 31 December 2015	8,429,160	58,102	2,516,619	11,003,881
Depreciation	(138,679)	(521)	-	(139,200)
Additions	14,333	-	276,681	291,014
Translation differences	(45,350)	(33)	(9,287)	(54,670)
Transfers	151,352	30	(151,382)	-
Disposals	(4,944)	(324)	(16,967)	(22,235)
Charge for impairment allowance	-	-	<u>(599)</u>	<u>(599)</u>
Net book value as of 31 March 2016	8,405,872	57,254	2,615,065	11,078,191
Nine months ended 31 December 2016				
Net book value as of 31 March 2016	8,405,872	57,254	2,615,065	11,078,191
Depreciation	(429,568)	(2,093)	-	(431,661)
Additions	96,726	199	1,071,808	1,168,733
Translation differences	(79,670)	(68)	(43,062)	(122,800)
Transfers	941,565	1,903	(943,468)	-
Disposals	(47,680)	(2,801)	(60,471)	(110,952)
Change of impairment allowance	<u>(16,738)</u>	-	<u>(62,026)</u>	<u>(78,764)</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
Three months ended 31 March 2017				
Net book value as of 31 December 2016	8,870,507	54,394	2,577,846	11,502,747
Depreciation	(146,889)	(631)	-	(147,520)
Additions	14,885	191	229,254	244,330
Translation differences	(34,257)	(25)	(15,581)	(49,863)
Transfers	46,136	30	(46,166)	-
Disposals	(3,093)	-	(1,252)	(4,345)
Charge of impairment allowance	-	-	<u>(5,464)</u>	<u>(5,464)</u>
Net book value as of 31 March 2017	8,747,289	53,959	2,738,637	11,539,885
As of 31 March 2017				
Cost	14,353,138	95,425	2,738,637	17,187,200
Accumulated depreciation	<u>(5,605,849)</u>	<u>(41,466)</u>	-	<u>(5,647,315)</u>
Net book value as of 31 March 2017	8,747,289	53,959	2,738,637	11,539,885

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

Assets under construction are presented net of allowance for impairment of RUB 170,662 million and RUB 167,546 million as of 31 March 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 that was partially compensated by 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 184 million and RUB 200 million as of 31 March 2017 and 31 December 2016, respectively.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Notes			Share of net income (loss) of associates and joint ventures for			
			Carrying value as of		the three months ended 31 March	
			31 March 2017	31 December 2016	2017	2016
22	Sakhalin Energy Investment Company Ltd.	Associate	181,671	185,013	9,946	(7,535)
22	OJSC NGK Slavneft and its subsidiaries	Joint venture	131,202	129,082	2,097	2,648
22	LLC Yamal razvitie and its subsidiaries	Joint venture	90,975	86,600	4,375	2,320
22, 23	Gazprombank (Joint-stock Company) and its subsidiaries	Associate	79,917	77,109	3,897	3,243
22	Nord Stream AG	Joint venture	60,874	63,319	3,696	5,753
22	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	39,807	40,510	1,383	1,370
22	JSC Achimgaz	Joint venture	33,850	32,043	1,807	3,427
22, 23	SGT EuRoPol GAZ S.A.	Associate	25,916	26,387	(246)	96
22	Wintershall AG	Associate	13,418	14,233	1	71
22	CJSC Northgas	Joint venture	12,681	11,735	946	(118)
22	KazRosGaz LLP	Joint venture	12,378	14,470	(1,115)	627
22	Wintershall Noordzee B.V.	Joint venture	6,409	6,862	54	(346)
22	JSC Latvijas Gaze ¹	Associate	4,220	6,588	261	778
	Other (net of allowance for impairment of RUB 10,873 million and RUB 10,755 million as of 31 March 2017 and 31 December 2016, respectively) ²		<u>40,400</u>	<u>36,198</u>	<u>2,453</u>	<u>511</u>
			733,718	730,149	29,555	12,845

¹The 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 31 March 2017 the carrying value of investment in JSC Conexus Baltic Grid amounted at RUB 2,379 million and was included into other investments in associates.

²Other investments in associates include investment in JSC Gastransit in the amount of RUB 232 million that was seized on the grounds of the Decree of the Department of the State Executive Service of the Ministry of Justice of Ukraine (see Note 23).

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 venture prepared and presented in accordance with IFRS, 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 on differences in accounting policies.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 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 31 March 2017		Three months ended 31 March 2017	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint-stock Company) and its subsidiaries ¹	37 %	Russia	5,162,968	4,783,497	52,774	10,479
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	970,673	607,331	83,486	19,891
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	438,060	171,507	58,039	4,402
LLC Yamal razvitie and its subsidiaries	50 %	Russia	404,839	249,033	36,172	9,343
Nord Stream AG ³	51 %	Russia, Germany	399,826	280,464	16,860	7,248
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	214,036	136,368	9,205	475
JSC Achimgaz	50 %	Russia	76,771	9,071	6,823	4,069
Wintershall AG ⁴	49 %	Libya	65,262	44,321	4,537	1
SGT EuRoPol GAZ S.A.	48 %	Poland	60,715	6,725	4,218	(545)
CJSC Northgas	50 %	Russia	58,138	31,850	5,867	1,891
Wintershall Noordzee B.V.	50 %	Netherlands	45,227	34,809	2,592	108
KazRosGaz LLP	50 %	Kazakhstan	35,215	10,458	11,098	(2,230)
JSC Latvijas Gaze	34 %	Latvia	20,763	6,223	8,662	765

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 March 2016		Three months ended 31 March 2016	
			Assets	Liabilities	Revenues	Profit (loss)
Gazprombank (Joint-stock Company) and its subsidiaries ¹	37 %	Russia	5,046,553	4,633,517	53,678	8,727
Sakhalin Energy Investment Company Ltd. ²	50 %	Russia	1,239,344	807,716	83,977	14,816
Nord Stream AG ³	51 %	Russia, Germany	536,740	396,245	22,396	9,292
OJSC NGK Slavneft and its subsidiaries	50 %	Russia	426,400	182,291	46,236	5,312
LLC Yamal razvitie and its subsidiaries	50 %	Russia	390,808	271,292	30,133	3,930
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	50 %	Germany	273,873	173,065	11,454	2,894
Wintershall AG ⁴	49 %	Libya	82,758	52,696	-	145
SGT EuRoPol GAZ S.A.	48 %	Poland	80,085	13,020	6,596	199
JSC Achimgaz	50 %	Russia	69,992	9,466	9,288	6,854
Wintershall Noordzee B.V.	50 %	Netherlands	61,219	45,265	3,394	(693)
CJSC Northgas	50 %	Russia	54,285	36,126	6,297	(229)
JSC Latvijas Gaze	34 %	Latvia	48,430	11,539	12,639	2,286
KazRosGaz LLP	50 %	Kazakhstan	43,668	3,639	13,164	1,252

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.

	31 March 2017	31 December 2016
JSC Latvijas Gaze	6,875	7,594

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

11 LONG-TERM ACCOUNTS RECEIVABLE AND PREPAYMENTS

	31 March 2017	31 December 2016
Long-term accounts receivable and prepayments	195,995	198,242
Advances for assets under construction	<u>443,079</u>	<u>512,505</u>
Total long-term accounts receivable and prepayments	639,074	710,747

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 16,291 million and RUB 16,481 million as of 31 March 2017 and 31 December 2016, respectively.

12 OTHER CURRENT AND NON-CURRENT ASSETS

Included within other current assets are short-term deposits in the amount of RUB 472,112 million and RUB 144,035 million as of 31 March 2017 and 31 December 2016, respectively.

Included within other non-current assets are VAT recoverable related to assets under construction totalling RUB 36,486 million and RUB 35,702 million and long-term deposits totalling RUB 40,733 million and RUB 42,230 million as of 31 March 2017 and 31 December 2016, respectively.

Other non-current assets include net pension assets in the amount of RUB nil million and RUB 20,499 million as of 31 March 2017 and 31 December 2016, respectively (see Note 20).

13 LONG-TERM BORROWINGS, PROMISSORY NOTES

	Currency	Final maturity	31 March 2017	31 December 2016
Long-term borrowings and promissory notes payable to:				
Loan participation notes issued in April 2009 ¹	US Dollar	2019	132,000	138,863
Bank of China Limited, London branch	Euro	2021	118,990	126,414
Loan participation notes issued in November 2013 ²	US Dollar	2023	86,301	91,485
China Construction Bank Corporation, Beijing branch ³	US Dollar	2020	85,067	92,627
Loan participation notes issued in September 2012 ²	US Dollar	2022	84,680	92,102
Loan participation notes issued in March 2007 ¹	US Dollar	2022	73,609	80,480
Loan participation notes issued in October 2007 ¹	Euro	2018	73,332	81,035
Loan participation notes issued in August 2007 ¹	US Dollar	2037	71,114	77,893
Loan participation notes issued in April 2004 ¹	US Dollar	2034	70,133	73,886
Mizuho Bank Ltd. ³	US Dollar	2019	69,336	93,228
Loan participation notes issued in April 2008 ¹	US Dollar	2018	64,401	67,930
Loan participation notes issued in October 2015 ¹	Euro	2018	61,877	64,434
Loan participation notes issued in March 2013 ¹	Euro	2020	60,663	65,512
Loan participation notes issued in November 2016 ¹	Euro	2023	60,616	63,353
Loan participation notes issued in July 2012 ¹	US Dollar	2022	56,936	62,008
Loan participation notes issued in July 2013 ¹	Euro	2018	55,918	58,361
Loan participation notes issued in February 2013 ¹	US Dollar	2028	51,124	55,680
J.P. Morgan Europe Limited ³	Euro	2020	47,906	-
Loan participation notes issued in April 2013 ²	Euro	2018	46,684	48,817
Loan participation notes issued in February 2014 ¹	Euro	2021	45,599	49,317
Loan participation notes issued in February 2013 ¹	US Dollar	2020	45,368	49,278
PJSC Sberbank	US Dollar	2018	42,847	46,099
Credit Agricole CIB	Euro	2022	41,925	-
Loan participation notes issued in March 2017 ¹	US Dollar	2027	41,802	-
	British Pound			
Loan participation notes issued in September 2013 ¹	Sterling	2020	36,250	38,593
Loan participation notes issued in November 2011 ¹	US Dollar	2021	34,210	37,353
Loan participation notes issued in March 2007 ¹	Euro	2017	30,975	32,191
Loan participation notes issued in March 2013 ¹	Euro	2025	30,337	32,997
PJSC VTB Bank	Russian Ruble	2021	29,800	29,800
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	28,637	29,863

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	31 March 2017	31 December 2016
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	28,364	29,513
Loan participation notes issued in November 2016 ¹	Swiss Franc	2021	28,192	29,492
Alfa-Bank (Joint-stock Company)	US Dollar	2019	22,561	24,271
UniCredit Bank Austria AG	Euro	2021	20,952	19,172
Gazprombank (Joint-stock Company)	US Dollar	2019	20,296	21,836
PJSC Sberbank	Russian Ruble	2017	19,811	19,802
Gazprombank (Joint-stock Company)	US Dollar	2019	18,605	20,017
Gazprombank (Joint-stock Company)	US Dollar	2019	17,477	18,804
Banc of America Securities Limited	US Dollar	2018	17,249	18,368
Commerzbank International S.A.	US Dollar	2018	16,914	24,265
Russian bonds issued in November 2013 ⁴	Russian Ruble	2043	15,374	15,111
Russian bonds issued in November 2013 ⁴	Russian Ruble	2043	15,374	15,111
Russian bonds issued in February 2017 ⁵	Russian Ruble	2024	15,161	-
Russian bonds issued in February 2017 ⁵	Russian Ruble	2024	15,161	-
PJSC Sberbank	Russian Ruble	2021	15,068	15,068
PJSC Sberbank	Russian Ruble	2021	15,068	15,067
Russian bonds issued in March 2016 ²	Russian Ruble	2046	15,031	15,344
Gazprombank (Joint-stock Company)	Russian Ruble	2021	15,000	-
Gazprombank (Joint-stock Company)	Russian Ruble	2022	14,988	9,809
BNP Paribas S.A. ³	Euro	2022	14,918	15,644
PJSC VTB Bank	Russian Ruble	2021	14,650	14,654
PJSC Sberbank	Euro	2020	14,598	15,373
J.P. Morgan Europe Limited ³	US Dollar	2018	14,096	18,962
PJSC Sberbank	Euro	2017	13,661	14,388
UniCredit Bank Austria AG	Euro	2019	12,600	14,745
PJSC Sberbank	Russian Ruble	2019	12,511	12,511
PJSC Sberbank	Russian Ruble	2019	12,511	12,511
UniCredit Bank Austria AG	US Dollar	2018	11,387	12,135
Bank of America Securities Limited	Euro	2017	11,052	11,541
Russian bonds issued in April 2009 ²	Russian Ruble	2019	10,384	10,182
Russian bonds issued in June 2016 ²	Russian Ruble	2046	10,304	10,062
Russian bonds issued in December 2012 ²	Russian Ruble	2022	10,284	10,075
Russian bonds issued in February 2011 ²	Russian Ruble	2021	10,144	10,368
Russian bonds issued in August 2016 ²	Russian Ruble	2046	10,080	10,317
Russian bonds issued in March 2016 ²	Russian Ruble	2046	10,020	10,378
PJSC Sberbank	Russian Ruble	2019	10,009	10,009
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2017	10,000	10,000
HSBC Bank plc	Euro	2022	9,416	9,880
Citibank International plc ³	US Dollar	2021	9,400	10,042
PJSC Credit Bank of Moscow	US Dollar	2018	9,302	7,582
BNP Paribas S.A.	Euro	2023	9,088	9,451
JSC BANK ROSSIYA	Russian Ruble	2019	8,730	4,920
PJSC Sberbank	US Dollar	2018	8,551	9,113
Banca Intesa a.d. Beograd	US Dollar	2019	8,471	9,114
Bank of America Merrill Lynch International Limited	US Dollar	2018	8,418	9,157
PJSC Sberbank	Euro	2022	8,344	7,713
PJSC VTB Bank	Russian Ruble	2018	8,250	8,250
PJSC Sberbank	Russian Ruble	2025	7,220	7,221
PJSC VTB Bank	Russian Ruble	2019	6,510	6,510
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	6,507	6,509
Intesa Sanpaolo S.p.A.	Euro	2019	6,503	6,848
GC Vnesheconombank	Russian Ruble	2025	6,405	6,500
PJSC Sberbank	US Dollar	2018	6,035	6,493

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

	Currency	Final maturity	31 March 2017	31 December 2016
PJSC VTB Bank	Euro	2020	6,018	6,761
PJSC Sberbank	Russian Ruble	2026	5,637	5,670
BNP Paribas S.A. ³	Euro	2022	5,628	5,904
Credit Agricole CIB	Euro	2024	5,426	5,691
Russian bonds issued in November 2015 ⁶	Russian Ruble	2020	5,203	5,061
Russian bonds issued in November 2015 ⁶	Russian Ruble	2020	5,203	5,061
PJSC VTB Bank	Russian Ruble	2021	5,150	5,151
Sberbank Serbia a.d.	US Dollar	2019	5,083	5,469
Russian bonds issued in February 2013 ⁵	Russian Ruble	2018	5,044	5,140
Russian bonds issued in August 2016 ²	Russian Ruble	2046	5,040	5,158
Alfa-Bank (Joint-stock Company)	Russian Ruble	2019	5,006	5,008
Banca Intesa a.d. Beograd	Euro	2018	4,346	4,617
Gazprombank (Joint-stock Company)	Russian Ruble	2017	3,220	3,220
Loan participation notes issued in July 2012 ¹	Euro	2017	-	92,019
Loan participation notes issued in November 2006 ¹	Euro	2017	-	33,185
Russian bonds issued in February 2013 ⁵	Russian Ruble	2017	-	10,279
Other long-term borrowings, promissory notes	Various	Various	<u>105,538</u>	<u>115,790</u>
Total long-term borrowings, promissory notes			2,646,984	2,768,991
Less: current portion of long-term borrowings			<u>(349,431)</u>	<u>(386,448)</u>
			2,297,553	2,382,543

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

² Issuer of these bonds is PJSC Gazprom Neft.

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

⁴ Issuer of these bonds is PJSC Gazprom.

⁵ Issuer of these bonds is Gazprom capital LLC.

⁶ Issuer of these bonds is PJSC WGC-2.

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

Due for repayment	31 March 2017	31 December 2016
between one and two years	554,780	708,355
between two and five years	1,066,221	956,731
after five years	<u>676,552</u>	<u>717,457</u>
	2,297,553	2,382,543

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 1,936,606 million and RUB 2,086,181 million and fair value of RUB 2,049,205 million and RUB 2,209,883 million as of 31 March 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 710,378 million and RUB 682,810 million and fair value is RUB 736,587 million and RUB 702,251 million as of 31 March 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.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

13 LONG-TERM BORROWINGS, PROMISSORY NOTES (continued)

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

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

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

14 PROFIT TAX

Profit tax is recognised based on the estimated average annual effective profit tax rate applied to the profit before tax for the three months ended 31 March 2017. Differences between the recognition criteria in IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

	Differences recognition		Differences recognition			
	31 March 2017	and reversals	31 December 2016	31 March 2016	and reversals	31 December 2015
Tax effects of taxable temporary differences:						
Property, plant and equipment	(787,227)	(36,854)	(750,373)	(715,043)	(28,973)	(686,070)
Inventories	<u>(9,359)</u>	<u>2,260</u>	<u>(11,619)</u>	<u>(11,016)</u>	<u>3,727</u>	<u>(14,743)</u>
	(796,586)	(34,594)	(761,992)	(726,059)	(25,246)	(700,813)
Tax effects of deductible temporary differences:						
Financial assets	2,228	292	1,936	672	295	377
Tax losses carried forward	6,116	457	5,659	9,517	(8,839)	18,356
Retroactive gas price adjustments	22,222	(535)	22,757	21,300	700	20,600
Other deductible temporary differences	<u>40,824</u>	<u>(2,313)</u>	<u>43,137</u>	<u>37,130</u>	<u>(5,946)</u>	<u>43,076</u>
	71,390	(2,099)	73,489	68,619	(13,790)	82,409
Total net deferred tax liabilities	(725,196)	(36,693)	(688,503)	(657,440)	(39,036)	(618,404)

Taxable temporary differences recognised for the three months ended 31 March 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 19,356 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 three months ended 31 March 2017 and 2016.

15 EQUITY

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 31 March 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 31 March 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.

Shares of PJSC Gazprom held by the subsidiaries represent 6.6 % of PJSC Gazprom shares as of 31 March 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) – 31 MARCH 2017
(in millions of Russian Rubles)

16 SALES

	Three months ended 31 March	
	2017	2016
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	312,255	291,850
Former Soviet Union (excluding Russian Federation)	113,685	127,934
Europe and other countries	<u>736,600</u>	<u>815,958</u>
	1,162,540	1,235,742
Customs duties	(141,835)	(151,028)
Excise tax	(12,436)	(12,753)
Retroactive gas price adjustments ¹	<u>(249)</u>	<u>893</u>
Total gas sales	1,008,020	1,072,854
Sales of refined products to customers in:		
Russian Federation	239,748	215,081
Former Soviet Union (excluding Russian Federation)	21,183	20,603
Europe and other countries	<u>132,732</u>	<u>102,256</u>
Total sales of refined products	393,663	337,940
Sales of crude oil and gas condensate to customers in:		
Russian Federation	23,113	17,901
Former Soviet Union (excluding Russian Federation)	7,156	5,100
Europe and other countries	<u>108,568</u>	<u>52,528</u>
Total sales of crude oil and gas condensate	138,837	75,529
Electric and heat energy sales	159,990	147,570
Gas transportation sales	58,587	47,596
Other revenues	<u>56,204</u>	<u>55,875</u>
Total sales	<u>1,815,301</u>	<u>1,737,364</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 months ended 31 March 2017 and 2016 recorded as a decrease of sales by RUB 249 million and as an increase of sales by RUB 893 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.

17 OPERATING EXPENSES

	Three months ended 31 March	
	2017	2016
Purchased gas and oil	316,905	345,940
Taxes other than on income	295,025	217,658
Staff costs	169,681	170,085
Depreciation	149,694	141,948
Transit of gas, oil and refined products	147,013	165,910
Materials	59,595	59,631
Cost of goods for resale, including refined products	57,004	31,415
Charge for impairment and other provisions	35,370	48,149
Electricity and heating expenses	30,130	23,579
Repairs and maintenance	23,407	19,511
Rental expenses	10,662	8,881
Transportation services	7,806	7,188
Research and development expenses	7,398	7,275
Insurance expenses	7,365	7,256
Social expenses	6,600	6,446
Processing services	3,556	4,325
Foreign exchange rate differences on operating items	887	42,655
Derivatives gain	(10,021)	(7,775)
Other	<u>108,295</u>	<u>62,874</u>
	<u>1,426,372</u>	<u>1,362,951</u>
Changes in inventories of finished goods, work in progress and other effects	<u>80,723</u>	<u>90,948</u>
Total operating expenses	<u>1,507,095</u>	<u>1,453,899</u>

Staff costs include RUB 11,037 million and RUB 11,211 million of expenses associated with post-employment benefit obligations for the three months ended 31 March 2017 and 2016, respectively (see Note 20).

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

18 FINANCE INCOME AND EXPENSES

	Three months ended 31 March	
	2017	2016
Foreign exchange gain	160,786	377,559
Interest income	<u>22,346</u>	<u>25,780</u>
Total finance income	183,132	403,339
Foreign exchange loss	37,581	215,192
Interest expense	<u>15,107</u>	<u>21,360</u>
Total finance expense	52,688	236,552

Total interest paid amounted to RUB 47,854 million and RUB 57,262 million for the three months ended 31 March 2017 and 2016, respectively.

Foreign exchange gain and loss for the three months ended 31 March 2017 and 2016 were recognised as a result of the changes of US Dollar and Euro 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 and 23.0 billion weighted average shares outstanding for the three months ended 31 March 2017 and 2016, respectively.

There are no dilutive financial instruments outstanding in the Group.

20 PROVISIONS FOR LIABILITIES AND CHARGES

	31 March 2017	31 December 2016
	Provision for post-employment benefit obligations	257,488
Provision for decommissioning and site restoration costs	164,008	161,764
Other	<u>12,162</u>	<u>7,618</u>
Total provisions for liabilities and charges	433,658	406,234

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

The net pension liabilities related to benefits, provided by NPF GAZFOND, in the amount of RUB 5,705 million as of 31 March 2017, are presented within provisions for liabilities and charges in the consolidated interim condensed balance sheet.

The net pension assets related to benefits, provided by NPF GAZFOND, in the amount of RUB 20,499 million as of 31 December 2016 are presented within other non-current assets in the consolidated interim condensed balance sheet.

In accordance with IAS 19 Employee benefits, pension assets are recorded at estimated fair value subject to certain limitations. As of 31 March 2017 and 31 December 2016 management estimated the fair value of these assets at RUB 390,285 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.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

20 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

	31 March 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	(395,990)	(251,783)	(372,845)	(236,852)
Fair value of plan assets	<u>390,285</u>	<u>-</u>	<u>393,344</u>	<u>-</u>
Net balance (liability) asset	(5,705)	(251,783)	20,499	(236,852)

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

	Three months ended 31 March	
	2017	2016
Current service cost	6,441	5,722
Net interest expense	<u>4,596</u>	<u>5,489</u>
Total expenses included in staff costs	11,037	11,211

The principal assumptions used for post-employment benefit obligations for the three months ended 31 March 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 8.1 % resulted in recognition of an actuarial loss of RUB 24,686 million in other comprehensive income for the three months ended 31 March 2017.

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

	Three months ended 31 March	
	2017	2016
Actuarial losses	(24,686)	(24,236)
Return on assets excluding amounts included in net interest expense	(12,045)	(6,667)
Translation differences	<u>161</u>	<u>122</u>
Total	(36,570)	(30,781)

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 31 March 2017 and 31 December 2016 the Group had the following assets and liabilities that are measured at fair value:

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

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 31 March 2017 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. Another 11.859 % are owned JSC Rosneftegaz and OJSC 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.

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

	As of 31 March 2017		Three months ended 31 March 2017	
	Assets	Liabilities	Income	Expenses
Transactions and balances with the Government				
Current profit tax	6,982	34,785	-	62,921
Insurance contributions	569	11,199	-	31,881
VAT recoverable / payable	327,716	89,515	-	-
Customs duties	49,203	-	-	-
Other taxes	2,710	126,889	-	280,359
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	38,860	-
Electricity and heating sales	-	-	77,336	-
Gas transportation sales	-	-	12,061	-
Other services sales	-	-	948	-
Accounts receivable	73,516	-	-	-
Oil and refined products transportation expenses	-	-	-	34,819
Accounts payable	-	15,785	-	-
Borrowings	-	355,241	-	-
Interest expense	-	-	-	5,189
Short-term financial assets	11,166	-	-	-
Available-for-sale long-term financial assets	6,852	-	-	-

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

22 **RELATED PARTIES (continued)**

	As of 31 December 2016		Three months ended 31 March 2016	
	Assets	Liabilities	Income	Expenses
Transactions and balances with the Government				
Current profit tax	11,608	56,695	-	65,289
Insurance contributions	720	7,795	-	61,098
VAT recoverable / payable	322,643	72,557	-	-
Customs duties	16,183	-	-	-
Other taxes	2,457	116,769	-	216,305
Transactions and balances with other parties under control of the Government				
Gas sales	-	-	27,944	-
Electricity and heating sales	-	-	71,307	-
Gas transportation sales	-	-	11,721	-
Other services sales	-	-	728	-
Accounts receivable	49,091	-	-	-
Oil and refined products transportation expenses	-	-	-	31,862
Accounts payable	-	13,800	-	-
Borrowings	-	345,604	-	-
Interest expense	-	-	-	6,147
Short-term financial assets	10,136	-	-	-
Available-for-sale long-term financial assets	8,087	-	-	-

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 three months ended 31 March 2017 and 2016.

See Note 9 for net book values as of 31 March 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 months ended 31 March 2017 and 2016 and as of 31 March 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) – 31 MARCH 2017
(in millions of Russian Rubles)

22 **RELATED PARTIES (continued)**

	Three months ended 31 March	
	2017	2016
	Revenues	
Gas sales		
Panrusgaz Gas Trading Plc	11,166	9,178
Bosphorus Gaz Corporation A.S.	6,442	7,479
JSV Moldovagaz	6,170	10,681
KazRosGaz LLP	5,931	5,012
CJSC Gazprom YRGM Trading ¹	4,681	1,910
JSC Latvijas Gaze	3,973	2,303
JSC Gazprom YRGM Development ¹	3,344	1,722
VEMEX s.r.o. and its subsidiaries	2,817	5,683
JSC Prometheus Gas	1,748	-
SGT EuRoPol GAZ S.A.	591	1,247
Gas transportation sales		
CJSC Gazprom YRGM Trading ¹	6,699	3,047
JSC Gazprom YRGM Development ¹	4,785	2,746
Gas condensate, crude oil and refined products sales		
OJSC NGK Slavneft and its subsidiaries	11,358	9,186
CJSC SOVEX	1,203	590
Operator services sales and other services sales		
JSC Messoyakhanefegas	1,431	1,701
Gas refining services sales		
KazRosGaz LLP	2,225	2,261
	Expenses	
Purchased gas		
CJSC Gazprom YRGM Trading ¹	14,337	7,217
JSC Gazprom YRGM Development ¹	10,272	6,511
LLC SeverEnergiya and its subsidiaries	8,328	12,112
KazRosGaz LLP	5,777	7,956
Sakhalin Energy Investment Company Ltd.	2,011	2,348
VEMEX s.r.o. and its subsidiaries	58	2,299
CJSC Northgas	-	2,220
Purchased transit of gas		
Nord Stream AG	16,711	21,763
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	7,243	8,034
SGT EuRoPol GAZ S.A.	2,643	4,285
JSV Moldovagaz	1,023	1,021
Purchased crude oil and refined products		
OJSC NGK Slavneft and its subsidiaries	25,995	18,827
Sakhalin Energy Investment Company Ltd.	2,424	2,253
Purchased services of gas and gas condensate extraction		
JSC Achimgaz	6,823	9,288
Purchased processing services		
OJSC NGK Slavneft and its subsidiaries	3,060	3,374

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) – 31 MARCH 2017
(in millions of Russian Rubles)

22 **RELATED PARTIES (continued)**

	As of 31 March 2017		As of 31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	41,646	-	40,530	-
Gazprombank (Joint-stock Company)	13,927	-	14,306	-
OJSC NGK Slavneft and its subsidiaries	9,474	-	8,286	-
Wintershall Noordzee B.V.	5,478	-	5,811	-
CJSC Gazprom YRGM Trading	4,571	-	1,167	-
Panrusgas Gas Trading Plc	3,850	-	3,175	-
KazRosGaz LLP	3,736	-	3,287	-
JSC Gazprom YRGM Development	3,244	-	1,052	-
Sakhalin Energy Investment Company Ltd.	3,064	-	2,733	-
Bosphorus Gaz Corporation A.S.	1,942	-	-	-
JSC Latvijas Gaze	1,788	-	762	-
Wintershall AG	1,435	-	2,125	-
VEMEX s.r.o. and its subsidiaries	980	-	1,518	-
Cash balances				
Gazprombank (Joint-stock Company)	254,211	-	518,084	-
Other current assets				
Gazprombank (Joint-stock Company)	425,483	-	100,015	-
OJSC Belgazprombank	1,647	-	968	-
Other non-current assets				
Gazprombank (Joint-stock Company)	40,733	-	42,230	-
Long-term accounts receivable and prepayments				
JSC Messoyakhaneftegaz	19,523	-	18,962	-
LLC Yamal razvitie	14,391	-	15,722	-
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	12,114	-	12,757	-
OJSC Belgazprombank	4,957	-	4,957	-
Short-term accounts payable				
CJSC Gazprom YRGM Trading	-	5,823	-	4,490
Nord Stream AG	-	5,436	-	5,723
LLC SeverEnergiya and its subsidiaries	-	4,486	-	3,436
JSC Gazprom YRGM Development	-	4,159	-	3,682
JSC Messoyakhaneftegaz	-	3,842	-	3,694
JSC Achimgaz	-	3,227	-	3,025
OJSC NGK Slavneft and its subsidiaries	-	2,375	-	4,094
KazRosGaz LLP	-	2,372	-	4,186
SGT EuRoPol GAZ S.A.	-	899	-	2,100
Sakhalin Energy Investment Company Ltd.	-	638	-	2,948
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company)	-	33,152	-	31,797
Long-term borrowings				
Gazprombank (Joint-stock Company)	-	100,923	-	88,850

Accounts receivable due from Bosphorus Gaz Corporation A.S. are RUB 1,942 million and RUB nil million as of 31 March 2017 and 31 December 2016, respectively, net of impairment allowance of RUB 5,210 million and RUB 7,802 million as of 31 March 2017 and 31 December 2016, respectively.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

22 RELATED PARTIES (continued)

Accounts receivable due from Overgaz Inc. AD are RUB nil million as of 31 March 2017 and 31 December 2016 net of impairment allowance of RUB 5,930 million and RUB 6,380 million as of 31 March 2017 and 31 December 2016, respectively.

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 31 March 2017 and 31 December 2016 net of impairment allowance of RUB 323,344 million and RUB 342,765 million as of 31 March 2017 and 31 December 2016, respectively.

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

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

23 COMMITMENTS AND CONTINGENCIES

Taxation

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 March 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 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;

(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.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

23 COMMITMENTS AND CONTINGENCIES (continued)

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 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 31 March 2017 – RUB 87,748 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.

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. The period for the market testing procedure established by the European Commission is seven weeks. 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.

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 31 March 2017 – RUB 46,052 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 31 March 2017 – RUB 41,144 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 31 March 2017 – RUB 44,234 million). The parties are currently undergoing a mutual information disclosure procedure. The hearings are scheduled for May 2018.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

23 COMMITMENTS AND CONTINGENCIES (continued)

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 31 March 2017 – RUB 179,403 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. 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 31 March 2017 – RUB 394,687 million), including an execution fee of Ukrainian hryvnia 17,193 mln (at the exchange rate as of 31 March 2017 – RUB 35,881 million), and the seizure of the stocks of JSC Gaztransit owned by PJSC Gazprom. Management of the Group made a decision to accrue liabilities in the amount of the net book value of the shares of JSC Gaztransit. The amount of the obligation is reflected in the line Accounts payable, accruals and provisions for liabilities and charges of the consolidated interim condensed balance sheet.

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

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

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

Based on the complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal proceedings and recognise PJSC Gazprom guilty of violation of the antitrust law of the European Union. These claims relate to issues covered by the European Commission investigation into the activities of PJSC Gazprom and LLC Gazprom export activities in the countries of Central

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

23 COMMITMENTS AND CONTINGENCIES (continued)

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 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
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

23 COMMITMENTS AND CONTINGENCIES (continued)

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

	31 March 2017	31 December 2016
Outstanding guarantees issued for:		
Blackrock Capital Investments Limited	3,844	4,968
Ostchem Holding Limited	3,429	3,427
Other	<u>32,988</u>	<u>36,362</u>
Total financial guarantees	40,261	44,757

For the three months ended 31 March 2017 and in 2016 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 68 million and USD 87 million as of 31 March 2017 and 31 December 2016, respectively, as well as amounts denominated in Euros of EUR 66 million and EUR 66 million as of 31 March 2017 and 31 December 2016, respectively.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by 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 31 March 2017 and 31 December 2016 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 3,844 million (USD 68 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 31 March 2017 and 31 December 2016 the above guarantee amounted to RUB 3,429 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 1,849,127 million.

PJSC GAZPROM
NOTES TO THE CONSOLIDATED INTERIM CONDENSED FINANCIAL INFORMATION
(UNAUDITED) – 31 MARCH 2017
(in millions of Russian Rubles)

24 POST BALANCE SHEET EVENTS

Investments

In April 2017 the Group acquired from CJSC Leader 20.83 % shares in PJSC Gazkon and 20.83 % shares in PJSC Gaz-service for RUB 12,158 million и RUB 11,894 million, respectively.

Borrowings and loans

In April 2017 the Group issued Loan Participation Notes in the amount of 850 million of British Pounds Sterling at an interest rate of 4.25 % due in 2024 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In April 2017 the Group issued Russian bonds in the amount of RUB 15,000 million at an interest rate of 8.70 % due in 2022.

In April 2017 the Group obtained a long-term loan from JSC BANK ROSSIYA in the amount of RUB 15,000 million at an interest rate of 9.74 % due in 2022.

In May 2017 the Group obtained a long-term loan from JSC Russian Agricultural Bank in the amount of RUB 15,000 million at an interest rate of 10.3 % due in 2020.

In May 2017 the Group signed an agreement to obtain a long-term loan from VTB Bank Austria AG in the amount of EUR 300 million at an interest rate of EURIBOR + 0.98 % due in 2027.

PJSC GAZPROM
INVESTORS RELATIONS

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