



# **Gazprom — 25 Years in Business 1993–2018**

**Over the past 25 years, a unified global energy company has been successfully built out of disparate facilities run by the former Soviet Ministry of the Gas Industry and linked only through process chains.**

**The resource base and process systems were not only retained but were also greatly enhanced through the expansion into new production regions.**

**The use of advanced and often unique technologies took gas production and transportation to an entirely new level.**

**Through growing its oil business, Gazprom evolved into one of Russia's leading oil companies.**

**In line with its strategic objective of business diversification, Gazprom confidently expanded into the power market, becoming Russia's largest generator.**

**The Company is implementing dozens of projects in many countries across continents, continuously consolidating its position in the global energy market.**

**Ever conscious of its corporate social responsibilities, Gazprom annually runs hundreds of initiatives to promote culture and sports, and provide social support to people in Russia. Over fifteen hundred sports facilities and cultural sites have been built or renovated through the Gazprom for Children Programme alone.**





 **ГАЗПРОМ**  
ГЕОЛОГОРАЗВЕДКА













НОВАЯ ЭНЕРГИЯ ДЛЯ МОСКВЫ

СУРАЛКРАН

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ГАЗОМОТОРНОЕ ТОПЛИВО

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*Nord Stream 2 AG*  
**OFFICIAL CEREMONY**

PARIS, 24<sup>th</sup> of April 2017



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ГАЗПРОМ  
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ГАЗПРОМНЕФТЬ



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G<sub>95</sub> 39.90

95<sup>0</sup> 39.00

92<sup>0</sup> 37.70

ДТ<sup>0</sup> 41.50















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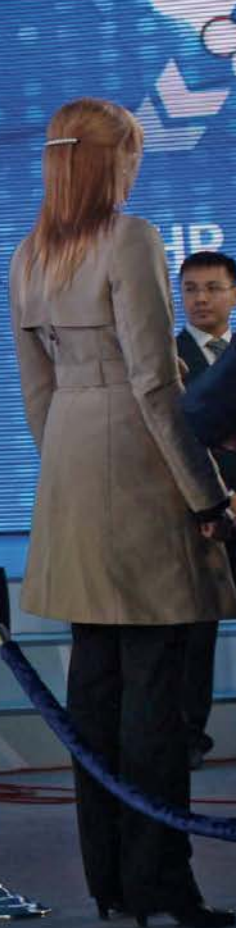
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Saint Petersburg







This Annual Report has been prepared based on Resolution No. 1 of PJSC Gazprom's Management Committee On Organising Activities Related to Holding PJSC Gazprom's Annual General Shareholders Meeting dated 25 January 2018.

The terms "PJSC Gazprom" and the "Company" used in this Annual Report refer to the parent company of Gazprom Group, i.e. to Public Joint Stock Company Gazprom (Open Joint Stock Company Gazprom, JSC Gazprom, before 17 June 2015). The terms "Gazprom Group", the "Group" or "Gazprom" mean an aggregate of entities which includes PJSC Gazprom and its subsidiaries. For the purposes of this Annual Report, the lists of Gazprom Group's subsidiaries, associates and joint ventures, as well as entities in which Gazprom has investments classified as joint operations, were prepared based on the principles used in the preparation of PJSC Gazprom's IFRS consolidated financial statements.

Similarly, the terms "Gazprom Neft Group" and "Gazprom Neft" refer to PAO Gazprom Neft and its subsidiaries; "Gazprom energoholding" refers to OOO Gazprom energoholding and its subsidiaries; and "Gazprom neftekhim Salavat" refers to OOO Gazprom neftekhim Salavat and its subsidiaries.

This Annual Report determines some operating and economic parameters in accordance with the IFRS principles for Gazprom Group's entities included in the IFRS consolidated financial statements of PJSC Gazprom for the year ended 31 December 2017. Therefore, they may differ from similar parameters in reports of PJSC Gazprom prepared under Russian statutory requirements.

Moreover, some operating parameters of PJSC Gazprom, its subsidiaries, associates and joint ventures are determined in accordance with the principles underlying management reporting. Parameters calculated using these methods might be not comparable between each other due to differences in the methodologies used for preparing consolidated financial statements and for management reporting.

Analysis of financial results should be read in conjunction with the audited consolidated financial statements of PJSC Gazprom for the year ended 31 December 2017 prepared in accordance with IFRS.

Among other things, the Annual Report discloses information on the future production and economic activities of Gazprom Group, based on Gazprom management's forecasts and estimates considering the current situation. Actual results may differ from the said forecasts and estimates due to the effect of various objective factors.



**PJSC Gazprom  
Annual Report 2017**



# Contents



**Letter to Shareholders  
by the Chairman of PJSC Gazprom's  
Board of Directors  
and the Chairman of PJSC Gazprom's  
Management Committee → 52**

**1  
Company Information → 54**

**2  
Strategy → 84**

**3  
Performance Results → 106**

**4  
Environmental and Social Responsibility → 160**

**5  
Corporate Governance → 182**

**6  
Appendices → 224**



# Letter to Shareholders by the Chairman of PJSC Gazprom's Board of Directors and the Chairman of PJSC Gazprom's Management Committee

## Dear Shareholders,

February 2018 marked the 25<sup>th</sup> anniversary of PJSC Gazprom. These years saw us evolve from a national leader in the gas industry into strong, efficient, and diversified Gazprom Group — a major player in the global energy market. We've expanded into new production regions in Russia to establish and develop new gas production hubs. We have built new unique, high-tech gas pipelines and brought our underground storage deliverability to a new level. We established new export routes, and our gas exports to far abroad countries have almost doubled as a result. Gazprom was the first company in Russia to launch LNG production and supply to the global market, as well as a number of international hydrocarbon exploration and production projects across the globe, achieving a strong position in the oil and power generation markets.

Gazprom's performance in 2017 is a vivid example of its dynamic development — the Company was named a leader among the top 250 global energy companies, reached record highs in production and exports, and continued active preparations for launches of projects strategically significant to Russia.

Gazprom produced 472.1 bcm of gas in 2017\*, up by 12.4% year-on-year and the fastest growth in the Company's entire history. In 2017, we continued to expand the capacity at our giant Bovanenkovskoye field in the Yamal Peninsula — production start-up is scheduled for 2018 at the field's production site No. 3, which will be key to ramping up production from the project to a design capacity of 115 bcm per year.

New pipelines are being installed to enable gas transport from the Yamal production hub. The linear section of the Ukhta — Torzhok 2 trunk pipeline was 80% finished as at the end of 2017 and scheduled for completion in 2018. A pipeline connecting Gryazovets to the future Slavyanskaya compressor station, which is to become the starting point of the Nord Stream 2 pipeline, is scheduled for commissioning in 2019. Once complete, the two projects will deliver the bulk of the infrastructure to support the fundamentally new gas flow routes within the European part of Russia and further to Europe via the Northern Gas Transmission Corridor.

Consistent implementation of the Nord Stream 2 project was continued in 2017. The pipeline will double our capacity for gas supply to European consumers through the Baltic Sea, where we already successfully operated the Nord Stream 1 pipeline. Nord Stream 2 is scheduled to be launched in late 2019.

By that time, we expect to have completed the construction of TurkStream, another gas trunk pipeline to Southern Europe. The pipeline's construction was commenced in the Black Sea in May 2017, and the installation of Line 1 deep-water section was completed as early as April 2018.

The need for new gas export routes is clear. Gazprom's gas exports to far abroad countries have hit all-time highs for a second consecutive year. We reached a milestone of 194.4 bcm in 2017 — a remarkable achievement, although not the limit. The long-term trends in the European gas market include growing consumption and falling domestic production, which implies that Europe's demand for gas imports will continue to grow.

\* Including the Group's share in production volumes of entities in which Gazprom has investments classified as joint operations.



At the same time, Gazprom is preparing to enter China's market, the largest market in Asia Pacific, with 20 December 2019 confirmed as the date for Russia's gas pipeline crossing the border with China for the first time in history.

To support these gas supplies, Gazprom is building large-scale gas production, transportation, and processing infrastructure. The construction effort is well underway, with two thirds of the Power of Siberia pipeline's first section completed as at the end of 2017. The remaining section will be completed by the end of 2018. Construction at the Chayandinskoye field, the core resource base for the Power of Siberia pipeline, is progressing on schedule. The main construction phase for the Amur Gas Processing Plant project was launched in 2017 — the plant will become the world's No. 2 gas processing facility by capacity.

In addition to executing its long-term strategic plans, Gazprom is committed to delivering on its day-to-day tasks of ensuring reliable gas supplies to consumers, which is especially critical during the autumn/winter period. As in previous years, Gazprom confidently met the challenge of supplying peak demand both domestically and in its external markets during the 2017/2018 winter season. During the extremely cold weather in February and March, the unprecedented supply requests from European buyers were satisfied, registering a run of ten consecutive record highs in daily export supplies.

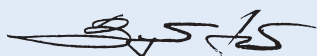
Gazprom's generating fleet experiences substantially higher loads in winter, but always meets the challenge. Gazprom is the market leader by electricity output among heat generators and the largest heat generating company globally. With the launch of 360 MW Grozny TPP construction in 2017, Gazprom Group entered the final stage of the Capacity Supply Agreements (CSAs) programme.

Gazprom's oil business delivered strong performance in 2017, with oil production up by 3% year-on-year to 48.6 mm tonnes\*. Most importantly, this production growth was achieved primarily through projects in the newly tapped oil production areas in the Yamal Peninsula and on the Arctic shelf.

We successfully continued our Programme for Expansion of Gas Infrastructure in Russian Regions, Gazprom's major social initiative. Gazprom brought pipeline gas to 200 communities during 2017, facilitating a better quality of life for tens of thousands of Russian citizens and increasing the gas penetration rate in Russia to 68.1%. These efforts will continue into 2018.

The Gazprom for Children Programme is another key social responsibility project of Gazprom. In 2017, the Group completed the construction of 165 sports facilities, with another 50 facilities under construction. The Programme covers 29 Russian regions.

Dear Shareholders, all targets set by Gazprom for 2017 have been successfully met on time. Our ambitious projects are on track to be completed as scheduled. This will further sharpen Gazprom's competitive edge in the rapidly changing external environment and ensure its sustainable growth for the benefit of its shareholders, consumers, and Russia in general.



**Viktor Zubkov**

Chairman of PJSC Gazprom's Board of Directors



**Alexey Miller**

Chairman of PJSC Gazprom's Management Committee

\* Including the Group's share in production volumes of entities in which Gazprom has investments classified as joint operations.







**Gazprom Group Today** → 56

**Gazprom Group's Position  
in the Global and Russian Energy Industry** → 66

**Business Model** → 70

**The Company's History and Background** → 74

**PJSC Gazprom's Board of Directors** → 77

**PJSC Gazprom's Management Committee** → 80



Gazprom is one of the world's largest oil and gas companies in terms of reserves, production, and market capitalisation.

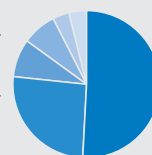
## Key Figures for 2017

### Gazprom Group's net sales revenue

RUB **6,546.1** bn

### Gazprom Group's net sales revenue breakdown, RUB bn

Net revenue from gas sales	3,340.6
Net revenue from sales of refined products	1,687.1
Net revenue from sales of crude oil and gas condensate	539.9
Net revenue from sales of electricity and heat	503.8
Net revenue from sales of gas transportation services	235.1
Other revenues	239.6



### Capital expenditures

RUB **1,504.6** bn

### Profit for the year attributable to the owners of PJSC Gazprom

RUB **714.3** bn

### Natural gas reserves in Russia as at 31 December 2017\*

**35,355.4** bcm

\* Russian classification of reserves. A+B<sub>1</sub>+C<sub>1</sub>, gas reserves, including reserves of entities in which Gazprom has investments classified as joint operations.

### Natural and associated gas production in Russia\*

**472.1** bcm

\* Including the Group's share in production volumes of entities in which Gazprom has investments classified as joint operations.

### Total headcount as at 31 December 2017

**469.6** thousand people

Shares are listed on  
**PAO Moscow Exchange — ordinary shares,**  
**London Stock Exchange (LSE) — ADRs**  
**Tickers: GAZP, OGZD**  
**Industry: Integrated Oil and Gas**



### Mission

Reliable, efficient and balanced supply of natural gas, other energy resources and their derivatives to consumers.

### Strategic Goal

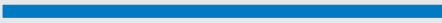
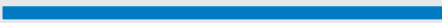
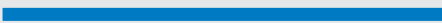
Establishing itself as a leader among global energy companies by diversifying sales markets, ensuring reliable supplies, improving performance, and leveraging R&D capabilities.

### Company's Ranking Positions and Certification of PJSC Gazprom's Management Systems to Internationally Recognised Standards

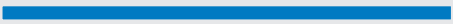
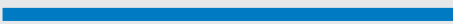
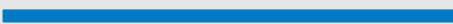
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in the annual <b>S&amp;P Global Platts</b> <b>Top 250 Global Energy Company</b> <b>Rankings</b>	in the 2017 ranking of Russia's most attractive employers according to university students majoring in Engineering / Natural Science, compiled by <b>Universum</b>	in the 2017 Environmental Responsibility Rating of Oil and Gas Companies in Russia according to <b>CREON</b> , an advisory and analytical group specialising in the fuel and energy sector, and <b>WWF</b>
<hr/> <b>OHSAS 18001:2007</b>	<hr/> <b>ISO 9001:2015</b>	<hr/> <b>ISO 14001:2015</b>
Certificate of compliance for PJSC Gazprom's Unified Occupational Health and Safety Management System	Certificate of compliance for PJSC Gazprom's Quality Management System	Certificate of compliance for PJSC Gazprom's Environmental Management System



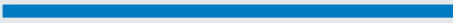
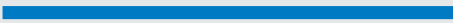
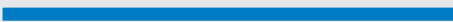
## Operating Highlights

Natural and associated gas production in Russia, bcm*		
2015		419.5
2016		420.1
2017		472.1

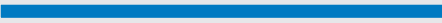
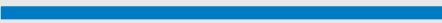
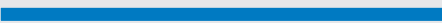
\* Including the Group's share in production volumes of entities in which Gazprom has investments classified as joint operations.

Oil production in Russia, mm tonnes*		
2015		44.0
2016		47.2
2017		48.6

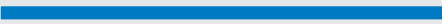
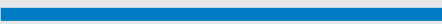
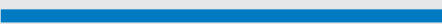
\* Including the Group's share in production volumes of entities in which Gazprom has investments classified as joint operations.

Gas condensate production in Russia, mm tonnes*		
2015		15.3
2016		15.9
2017		15.9

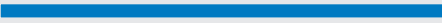
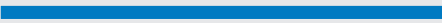
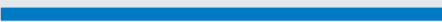
\* Including the Group's share in production volumes of entities in which Gazprom has investments classified as joint operations.

Total hydrocarbon production in Russia, mm boe*		
2015		3,170.2
2016		3,202.5
2017		3,550.2

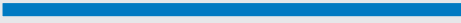
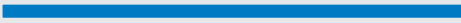
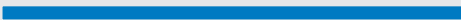
\* Including the Group's share in production volumes of entities in which Gazprom has investments classified as joint operations.


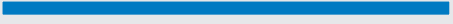

Liquid hydrocarbon processing, mm tonnes*		
2015		66.8
2016		65.9
2017		64.1

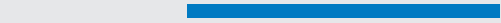
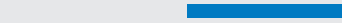
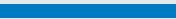
\* Excluding tolling arrangements.

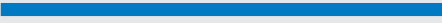
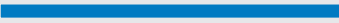
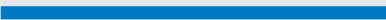
Power generation, billion kW-h		
2015		148.0
2016		157.5
2017		156.5


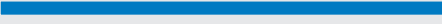

## Financial Highlights

Net sales revenue, RUB bn		
2015		6,073.3
2016		6,111.1
2017		6,546.1

Capital expenditures, RUB bn		
2015		1,349.6
2016		1,357.3
2017		1,504.6

Free cash flow, RUB bn		
2015		389.9
2016		202.3
2017		-218.8

Adjusted EBITDA, RUB bn		
2015		1,874.7
2016		1,322.2
2017		1,466.9

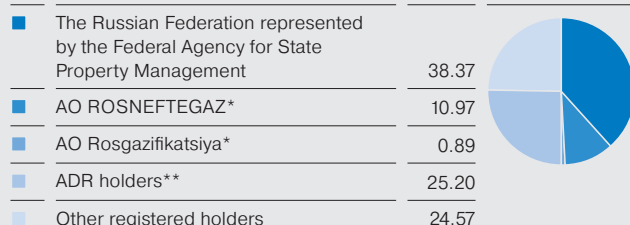
Net debt / Adjusted EBITDA		
2015		1.1
2016		1.5
2017		1.6

**Note:** Calculated as the ratio of net debt to adjusted EBITDA denominated in Russian roubles



## Share Capital and Debt Capital

## PJSC Gazprom's shareholding structure as at 31 December 2017, %



\* As at 31 December 2017, the cumulative shareholding in PJSC Gazprom controlled directly or indirectly by the Russian Federation and calculated by direct addition totals 50.23% and is owned through the full ownership of AO ROSNEFTEGAZ, which also holds a 74.55% stake in AO Rosgazifikatsiya.

\*\* ADRs representing PJSC Gazprom's shares were issued by The Bank of New York Mellon.

## Total debt, RUB bn



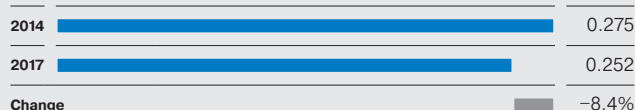
## Net debt, RUB bn



## Cost of debt as at 31 December 2017

# 5.6%

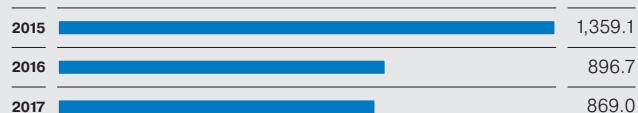
## Environmental and Social Responsibility

Relative greenhouse gas emissions from Gazprom Group's gas operations vs the 2014 baseline, tonnes of CO<sub>2</sub> equivalent per toe of products sold

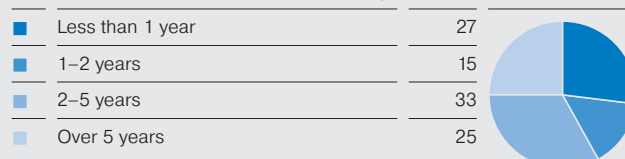
## Credit ratings of PJSC Gazprom

Rating agency	Long-term foreign currency rating	Rating date	Investment grade
Standard & Poor's	BBB- (stable outlook)	27 February 2018	■
Fitch Ratings	BBB- (positive outlook)	28 September 2017	■
Moody's	Baa3 (positive outlook)	29 January 2018	■
Dagong	AAA (stable outlook)	21 April 2016	■
ACRA	AAA (stable outlook)	2 February 2018	■

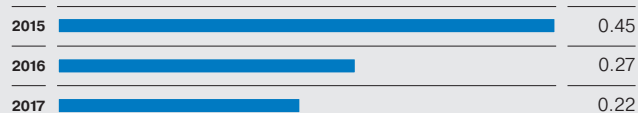
## Cash and cash equivalents, restricted cash, RUB bn



## Debt maturities as at 31 December 2017, %



## Injury frequency rate at the entities covered by the Company's Unified Occupational Health and Safety Management System

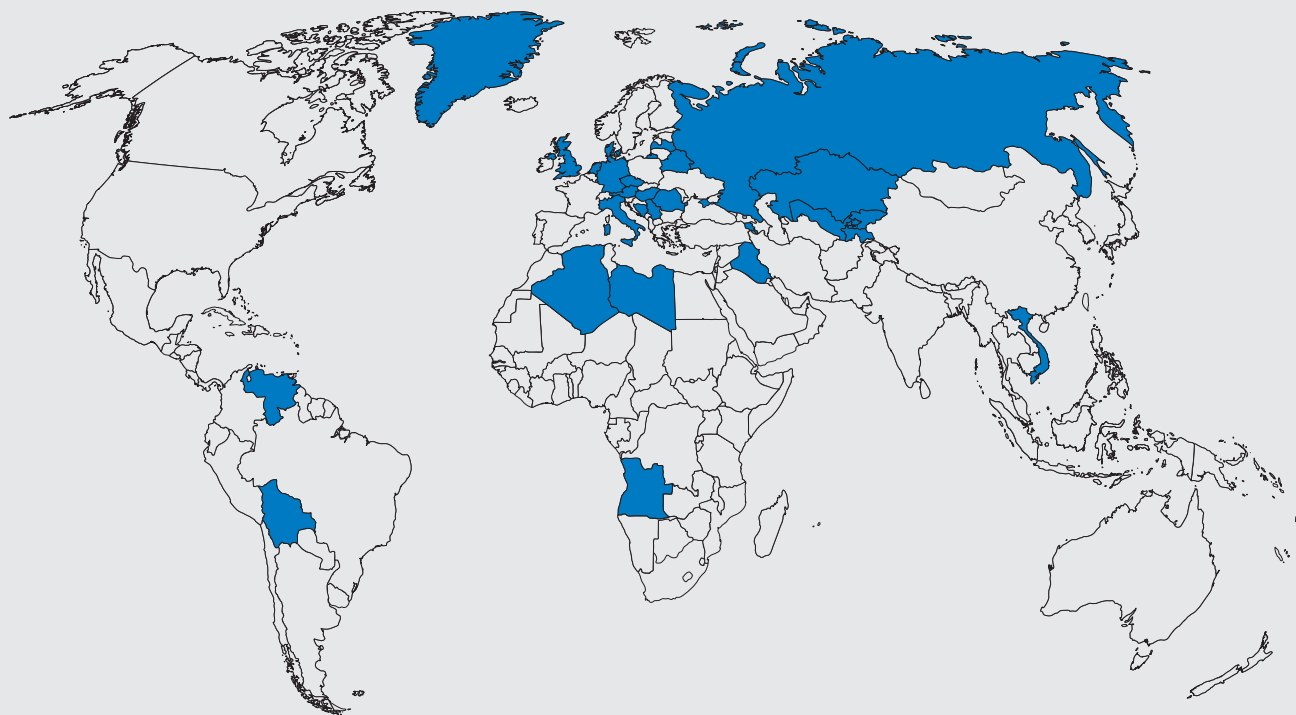




## Operations and Marketing Geography

(in 2017 or as at 31 December 2017)

### Gazprom Group's operating geography



### Gazprom Group's marketing geography





Countries		Operations										Marketing							
		Hydrocarbons prospecting and exploration	Gas and gas condensate production	Oil production	Gas transportation	Gas underground storage	Gas distribution	Gas processing	Oil refining	Production of electricity and heat	Oil and gas chemical production	Trunk pipeline gas sales	Sales of refined hydrocarbon products	Oil and gas condensate sales	LNG sales	Gas sales to end consumers	Electricity and heat sales	Product sales through the gasoline, CNG filling, gas filling and multi-fuel filling stations	
FSU	Russia	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Armenia	-	-	-	■	■	■	-	-	■	-	■	■	-	-	■	■	-	
	Azerbaijan	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-	
	Belarus	-	-	-	■	■	-	-	■	-	-	■	■	■	■	■	-	■	
	Estonia	-	-	-	-	-	-	-	-	-	-	■	■	-	■	-	-	-	
	Georgia	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-	
	Kazakhstan	-	-	-	-	-	-	-	-	-	-	■	■	■	-	■	-	■	
	Kyrgyzstan	■	-	-	■	-	■	-	-	-	-	■	■	■	-	-	■	■	
	Latvia	-	-	-	-	■	-	-	-	-	-	■	■	■	-	-	-	-	
	Lithuania	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-	
	Moldova	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-	
	South Ossetia	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-	-	
	Tajikistan	■	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	■	
	Turkmenistan	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	
	Ukraine	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-	
	Uzbekistan	■	■	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	
Europe	Austria	-	-	-	-	■	-	-	-	-	-	■	■	-	-	■	-	-	
	Belgium	-	-	-	-	-	-	-	-	-	-	-	■	■	-	■	-	-	
	Bosnia and Herzegovina	■	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	■	
	Bulgaria	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-	■	
	Croatia	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	■	-	
	Cyprus	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-	
	Czech Republic	-	-	-	-	■	-	-	-	-	-	■	■	-	■	■	-	■	
	Denmark	-	-	■	-	-	-	-	-	-	-	■	■	■	-	-	-	-	
	Finland	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	■	-	
	France	-	-	-	-	-	-	-	-	-	-	■	■	■	-	■	-	-	
	Germany	-	-	-	-	■	-	-	-	-	-	■	■	■	-	■	-	■	
	Greece	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-	-	
	Hungary	■	-	-	-	-	-	-	-	-	-	■	■	-	-	■	-	-	
	Iceland	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-	
	Ireland	-	-	-	-	-	-	-	-	-	-	-	■	-	-	■	-	-	
	Italy	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-	-	
	Macedonia	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-	
	Malta	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-	
	Montenegro	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-	
	Netherlands	■	■	-	-	-	-	-	-	-	-	■	■	■	-	■	■	-	
	Norway	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	■	-	
	Poland	-	-	-	-	-	-	-	-	-	-	■	■	-	■	-	-	■	
	Portugal	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	
	Romania	■	-	-	-	-	■	-	-	-	-	■	■	■	-	■	■	■	
	Serbia	■	■	■	-	■	-	-	■	■	-	■	■	■	-	-	■	■	
	Slovakia	-	-	-	-	-	-	-	-	-	-	■	■	-	-	■	-	-	
	Slovenia	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	■	-	



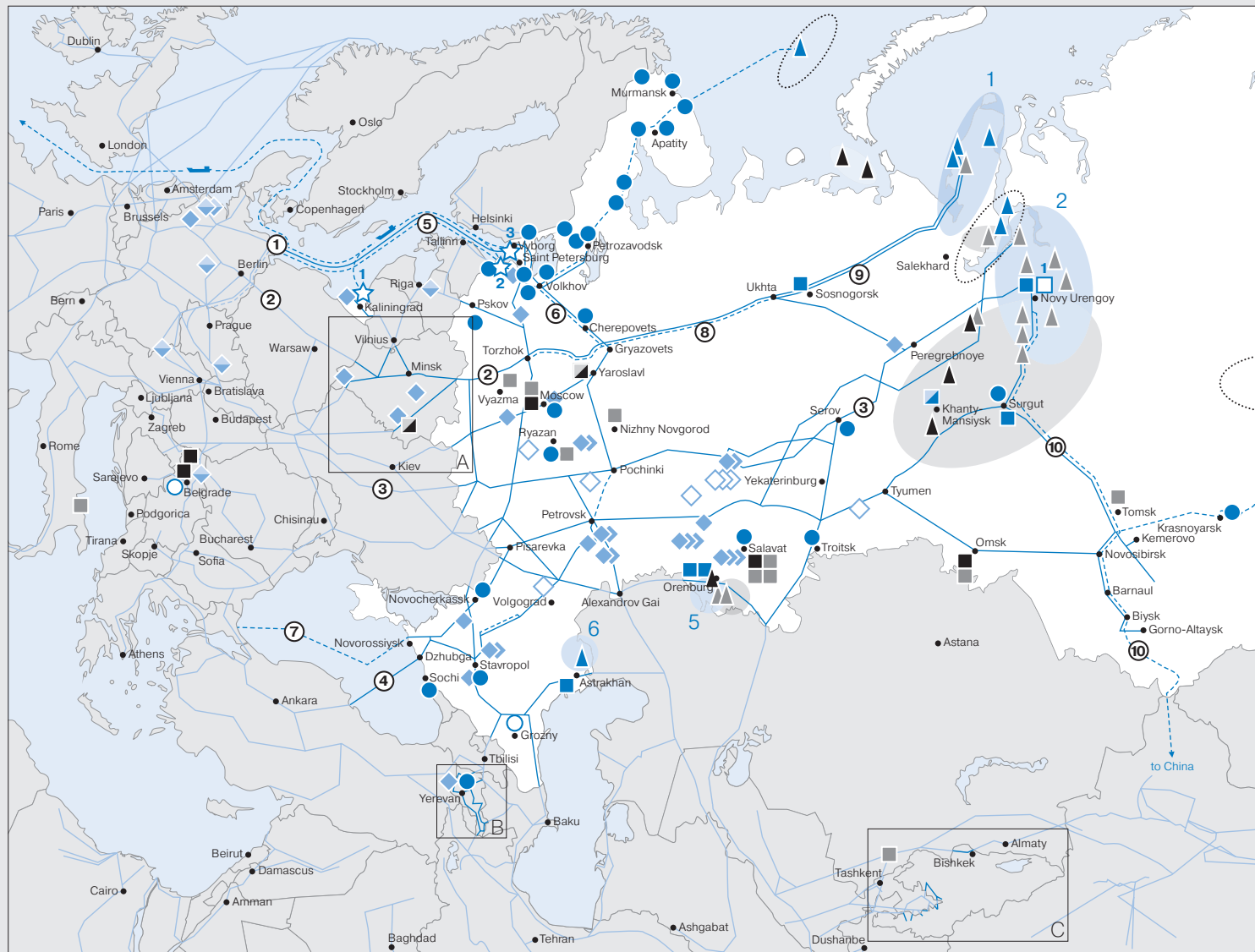
Countries		Operations										Marketing						
		Hydrocarbons prospecting and exploration	Gas and gas condensate production	Oil production	Gas transportation	Gas underground storage	Gas distribution	Gas processing	Oil refining	Production of electricity and heat	Oil and gas chemical production	Trunk pipeline gas sales	Sales of refined hydrocarbon products	Oil and gas condensate sales	LNG sales	Gas sales to end consumers	Electricity and heat sales	Product sales through the gasoline, CNG filling, gas filling and multi-fuel filling stations
Europe	Spain	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
	Sweden	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-
	Switzerland	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-
	Turkey	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-
	United Kingdom	■	■	-	-	-	-	-	-	-	-	■	■	■	-	■	■	-
Africa	Algeria	■	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Angola	-	-	■	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Benin	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Cameroon	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Djibouti	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	DRC	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Egypt	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Equatorial Guinea	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Ethiopia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Ghana	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Guinea	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Guinea-Bissau	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Kenya	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Libya	■	■	■	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Mauritania	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Mauritius	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Morocco	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Mozambique	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Nigeria	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Senegal	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Seychelles	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	South Africa	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Tanzania	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Togo	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Tunisia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Uganda	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Near and Middle East	Afghanistan	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Iraq	■	■	■	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Israel	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-
	Jordan	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Kuwait	-	-	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-
	Lebanon	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Pakistan	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Qatar	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Saudi Arabia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	UAE	-	-	-	-	-	-	-	-	-	-	-	■	-	■	-	-	-
	Yemen	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-



Countries		Operations										Marketing						
		Hydrocarbons prospecting and exploration	Gas and gas condensate production	Oil production	Gas transportation	Gas underground storage	Gas distribution	Gas processing	Oil refining	Production of electricity and heat	Oil and gas chemical production	Trunk pipeline gas sales	Sales of refined hydrocarbon products	Oil and gas condensate sales	LNG sales	Gas sales to end consumers	Electricity and heat sales	Product sales through the gasoline, CNG filling, gas filling and multi-fuel filling stations
Asia-Pacific	Australia	-	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-
	Bangladesh	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Cambodia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	China	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
	India	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
	Indonesia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Japan	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
	Malaysia	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-
	Marshall Islands	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Myanmar	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Philippines	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Singapore	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-
	South Korea	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
	Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Taiwan (China)	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
	Thailand	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
	Vietnam	■	■	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
North America	Canada	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Mexico	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	United States	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Central and South America	Argentina	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Bolivia	■	■	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Brazil	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Chile	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Colombia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Costa Rica	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Ecuador	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	El Salvador	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Guatemala	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Guyana	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Nicaragua	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Panama	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Paraguay	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Peru	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Uruguay	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Venezuela	■	-	■	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Other countries	Bahamas	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-
Dominica		-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Dominican Republic		-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Jamaica		-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Maldives		-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Mongolia		-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-



## Gazprom Group's major production assets and projects in Russia, FSU and European far abroad countries



## Largest fields

- ▲ Gas and gas condensate fields
- ▲ Oil fields
- ▲ Oil and gas, oil and gas condensate fields

## Major trunk gas pipelines

- Gazprom Group's existing gas pipelines
- Other existing gas pipelines
- - - Gas pipelines under construction and projected gas pipelines

## Gas production centres in operation

- 1 Yamal Peninsula
- 2 Nadym-Pur-Taz region
- 3 Sakhalin
- 4 Kamchatka
- 5 Orenburg
- 6 Astrakhan

## Projected gas production centres

- 7 Irkutsk
- 8 Yakutsk
- Other
- Existing oil production centres

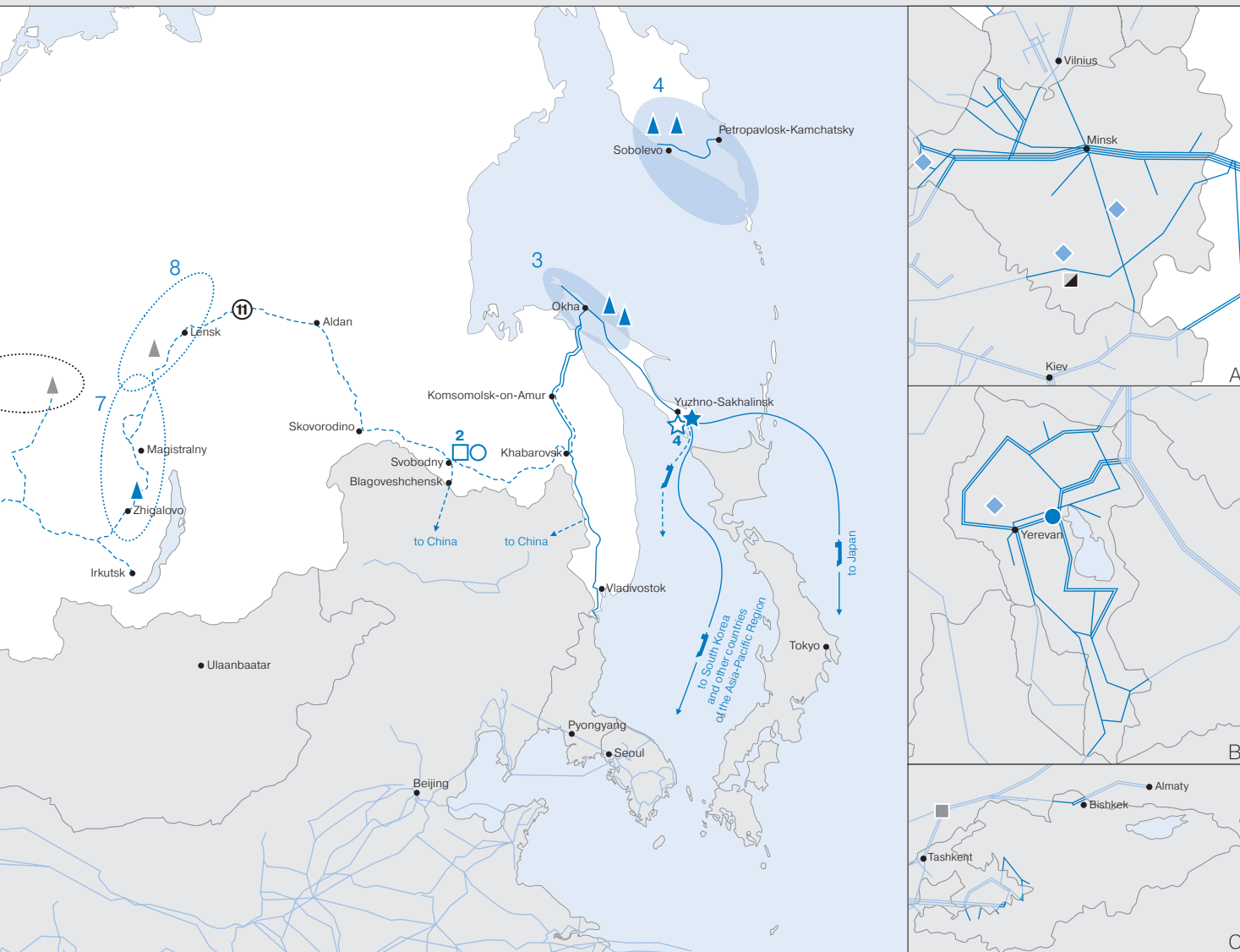
## Underground gas storage facilities

- Existing UGSFs
- Existing UGSFs co-invested by Gazprom Group
- UGSFs under construction and projected UGSFs

## Power generation facilities

- Existing power generation facilities
- Power generation facilities under construction and projected power generation facilities





## Existing refining/processing and petrochemical assets

- GPPs
- Refineries
- Petrochemical and gas chemical production
- ▤ Gazprom Group's access to the GPP's capacity
- ▤ Gazprom Group's access to the refinery's capacity
- Projects in refining/processing, oil and gas chemistry
- 1 Novourengoy's Gas Chemical Complex
- 2 Amur GPP

## LNG production and regasification assets

- ★ LNG plant, Sakhalin
- ☆1 Kaliningrad regasification terminal project
- ☆2 Baltic LNG — LNG plant project in Leningrad region
- ☆3 LNG production, storage and shipping complex near Portovaya compressor station
- ☆4 Phase 3 of LNG plant, Sakhalin
- LNG supply routes
- ⇌ Existing LNG supply routes
- ⇌ Projected LNG supply routes

## Key gas export routes

- 1 Nord Stream gas pipeline
- 2 Yamal — Europe gas pipeline
- 3 Urengoy — Uzhgorod gas pipeline
- 4 Blue Stream gas pipeline
- Gas transportation projects
- 5 Nord Stream 2 gas pipeline
- 6 Expansion of UGSS' gas transportation capacity at the Gryazovets — Slavyanskaya CS section in the North-West region
- 7 TurkStream gas pipeline
- 8 Ukhta — Torzhok 2 gas pipeline
- 9 Bovanenkovo — Ukhta 2 gas pipeline
- 10 Power of Siberia 2 gas pipeline
- 11 Power of Siberia gas pipeline



# Gazprom Group's Position in the Global and Russian Energy Industry

(for 2017 or as at 31 December 2017)

## Natural Gas

---

**1**  
No. **1** globally  
by natural gas reserves

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**17**%  
of global natural gas reserves\*

---

---

**72**%  
of Russia's natural gas reserves\*

---

---

**1**  
No. **1** globally  
by natural gas production

---

---

**12**%  
of global natural gas production\*

---

---

**68**%  
of Russia's natural gas production\*

---

---

**1**  
No. **1** globally  
by total length of gas transportation system (GTS)

---

---

**1**  
No. **1** globally  
by gas exports

---

---

**34,2**%  
of total gas consumption  
in European far abroad countries\*\*

---

\* Including the Group's share in the reserves and production volumes of entities in which Gazprom has investments classified as joint operations.

\*\* Share of PJSC Gazprom's gas sales under OOO Gazprom export's contracts and GAZPROM Schweiz AG's direct contracts in the total gas consumption in European far abroad countries.



## Oil and Gas Condensate

**3**  
No. **3** in Russia  
by oil and gas condensate production

**11**%  
of Russia's oil and gas condensate production\*

## Refined Products

**1**  
No. **1** in Russia  
by gas processing volumes

**53**%  
of Russia's total gas processing volumes

**2**  
No. **2** in Russia  
by oil and stable gas condensate refining volumes

**18**%  
of Russia's total oil and stable gas condensate refining volumes

## Electricity and Heat Generation

**1**  
No. **1** in Russia  
by installed power generating capacity  
and electricity output in heat generation

**15**%  
of Russia's total electricity generation

**1**  
No. **1** in Russia  
by heat generation

\* Including the Group's share in production volumes of entities in which Gazprom has investments classified as joint operations.

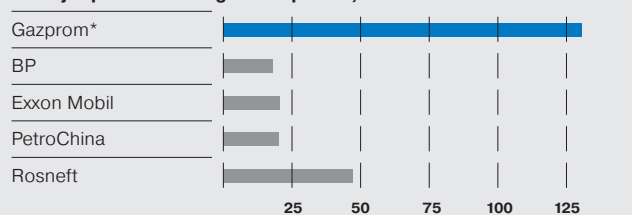


## Operations

Gazprom is the global leader by natural gas reserves and gas production, ahead of national oil and gas companies, as well as major global public oil and gas companies.

### Proved hydrocarbon reserves

of major public oil and gas companies, bboe



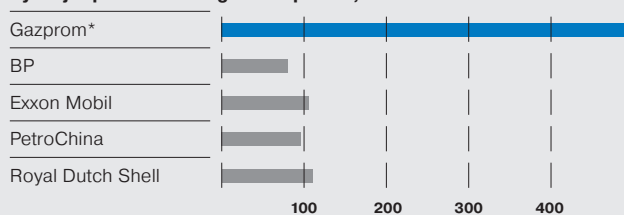
\* Gazprom Group's proved hydrocarbon reserves under PRMS, including share in reserves of entities in which Gazprom has investments classified as joint operations and excluding share in reserves of associates and joint ventures. 94% of Gazprom Group's A+B<sub>1</sub>+C<sub>1</sub> reserves (as per the Russian Classification of Reserves and Resources) were estimated under PRMS standards as totalling 257.5 bboe.

Source: Gazprom data, Bloomberg data, companies' reports data

PAO Gazprom Neft is one of Russia's leading oil companies in terms of production and refining of liquid hydrocarbons. Gazprom Group includes Russia's largest power generation holding company and market leader by installed capacity in heat generation.

### Gas production

by major public oil and gas companies, bcm

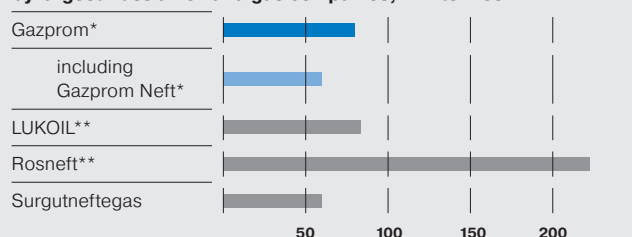


\* Natural and associated gas production of Gazprom Group in Russia including share in production volumes of entities in which Gazprom has investments classified as joint operations, and including share in production volumes of associates and joint ventures for data comparability with major public oil and gas companies.

Source: Gazprom data, Bloomberg data, companies' reports data

### Liquid hydrocarbon production in Russia

by largest Russian oil and gas companies, mm tonnes



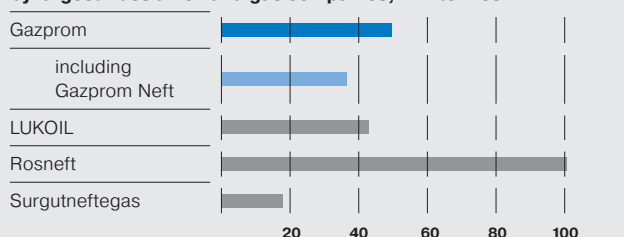
\* For data comparability with Russian oil and gas majors, Gazprom Group figures include share in liquid hydrocarbon production volumes of associates and joint ventures.

\*\* Including share in production volumes of associates and joint ventures.

Source: PJSC Gazprom data, company reports and website data available as at the time of writing this Annual Report

### Oil and stable gas condensate refining in Russia

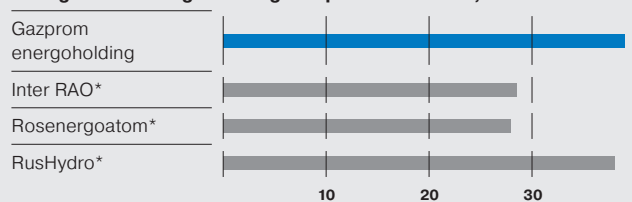
by largest Russian oil and gas companies, mm tonnes



Source: PJSC Gazprom data, companies' reports and website data available as at the time of writing this Annual Report

### Installed electrical capacity

of largest Russian generating companies in Russia, GW



\* Including subsidiaries.

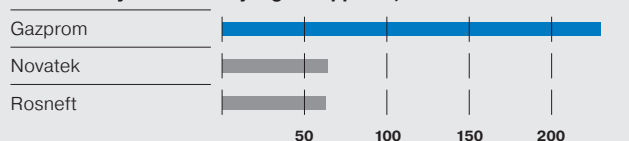
Source: PJSC Gazprom data, company reports and website data available as at the time of writing this Annual Report



## Marketing

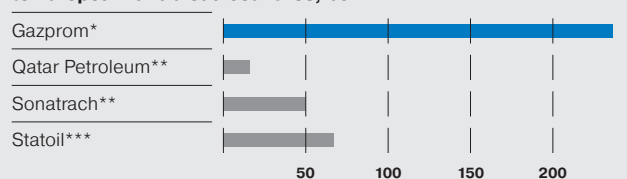
PJSC Gazprom is the biggest supplier of natural gas to European far abroad countries, covering 34.2% of total gas consumption in the region\*. Over the last five years, supplies of Russian natural gas to European far abroad countries increased by more than 30 bcm. Gazprom is the absolute leader by sales in the Russian market.

**Gas sales by Russia's major gas suppliers, bcm**



Source: PJSC Gazprom's IFRS consolidated financial statements

**Gas sales by major gas suppliers to European far abroad countries, bcm**



\* Gazprom's IFRS data.

\*\* Sales volumes of joint ventures are taken into account proportionally to share of participation.

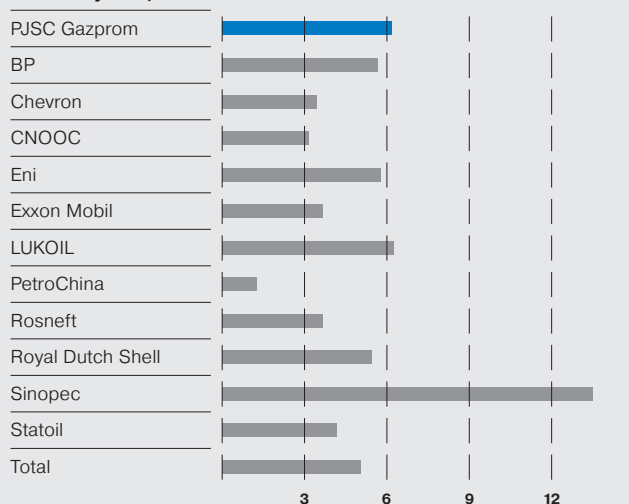
\*\*\* Excluding volumes of gas sold under contract SDFI.

**Note.** PJSC Gazprom data, companies' reports and website data available as at the time of writing this Annual Report. Volumes of natural gas are given according to the Russian standard conditions (calorific value of 8,850 kcal per cu. m at 20°C).

## Dividends

PJSC Gazprom's balanced dividend policy reflects the Company's commitment to achieve long-term growth targets while increasing shareholder returns.

**Dividend yields, %\***



\* Dividend yield for 2017 is calculated as a ratio of total dividend paid per share for the relevant year to the share price as at 31 December 2017. For Gazprom, recommended dividends for 2017 are shown.

**PJSC Gazprom's dividend history and dividend yields, 2013–2017\***

	2013	2014	2015	2016	2017**
Dividend per share, RUB	7.20	7.20	7.89	8.0397	8.04
PJSC Gazprom's dividend yield, %**	5.2	5.5	5.8	5.2	6.2

\* Dividend yield for the relevant period is calculated as a ratio of total dividend paid per share for the relevant year to the share price as at 31 December.

\*\* Recommended dividend shown for 2017.

\* Share of PJSC Gazprom's gas sales to European far abroad countries under OOO Gazprom export's contracts and GAZPROM Schweiz AG's direct contracts.



# Business Model

(for 2017 or as at 31 December 2017)

Gazprom Group encompasses all types of activities required to ensure uninterrupted supply of energy to consumers.

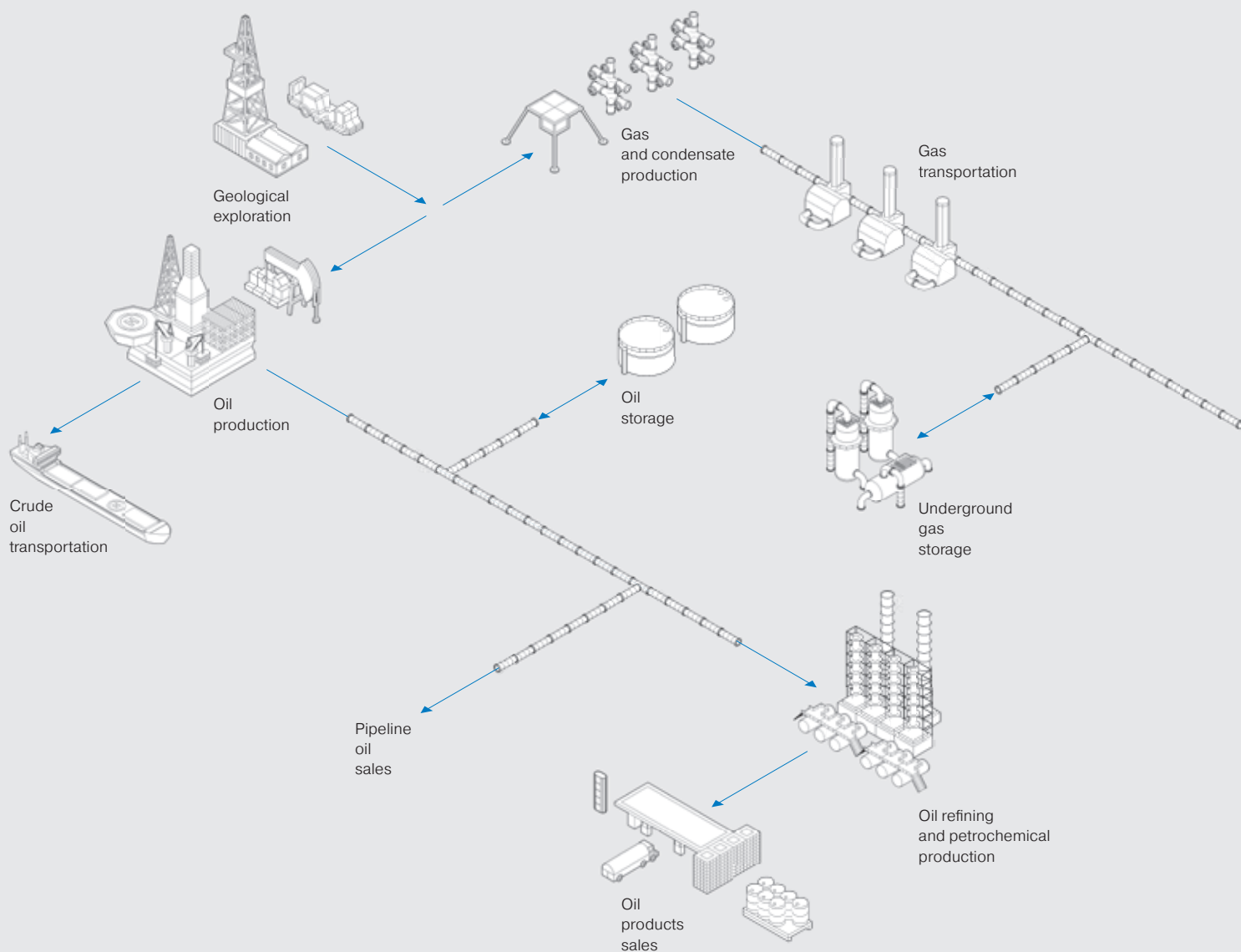
Its comprehensive vertically integrated business model is aligned with Gazprom's strategic goal, driving operational efficiencies, improving reliability of supplies, and leveraging the existing production and R&D capabilities.

All elements of Gazprom Group's business complement one another. At the same time, each element represents a complex system, an aggregate of tangible assets, human resources, and accumulated experience and knowledge in relevant areas.

Consumers are the focus of the Group's business. Stable, trust-based relationships with our consumers are the foundation for building long-term business value.

Gazprom Group is a major global energy company whose performance results influence a great number of stakeholders. These stakeholders include shareholders and investors, federal and local authorities of the Russian Federation, EU regulators and other gas market participants, local communities, business partners, NGOs, and employees.

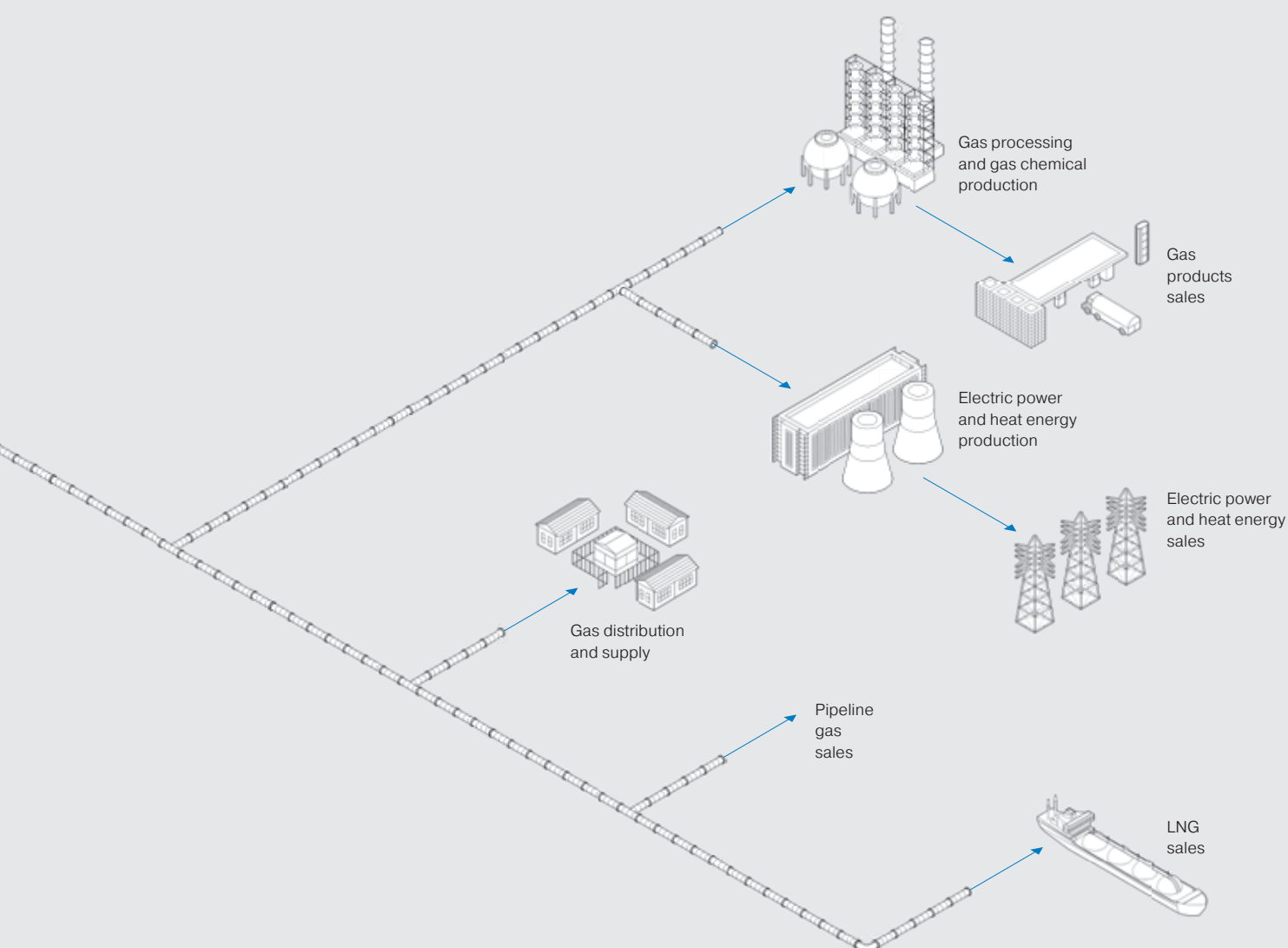
## Production and marketing of Gazprom Group





### Competitive Advantages

- the Company's extensive resource base and robust production infrastructure
- unique Unified Gas Supply System (UGSS) of Russia
- vertical integration of the Company
- favourable geographical position between Europe and Asia
- track record of cooperation with foreign partners and a strong reputation as a reliable supplier
- an established portfolio of long-term contracts for gas supplies to European and Asian consumers
- access to international capital markets on terms acceptable to the Company
- extensive production, research and design capabilities
- social policy that makes the Company an attractive employer for highly skilled professionals





## Exploration and Production

### Resources and capital

- 35,355.4 bcm of natural gas reserves in Russia\*,\*\*
- 3,640.9 mm tonnes of oil and gas condensate reserves in Russia\*,\*\*
- 7,438 active gas production wells in Russia
- 7,358 active oil production wells in Russia

\* Russian classification of reserves A+B<sub>1</sub>+C<sub>1</sub>.

\*\* Including the Group's share in the reserves and production volumes of entities in which Gazprom has investments classified as joint operations.

### Performance highlights

- 472.1 bcm of natural and associated gas production in Russia\*\*
- 64.5 mm tonnes of oil and gas condensate production in Russia\*\*
- 1.82 — natural gas reserve replacement ratio\*\*
- 1.64 — crude oil and gas condensate reserve replacement ratio\*\*

For more details see the Exploration and Production section → Pages 108–116

## Gas Transportation and Underground Storage

### Resources and capital

- 172.1 thousand km — total length of trunk gas pipelines in Russia
- 74.9 bcm of aggregate working gas capacity across
- 26 underground gas storage facilities in Russia
- 5.0 bcm of accessible working gas capacity in UGSFs in Europe

### Performance highlights

- 672.1 bcm of gas transported via Gazprom's GTS in Russia, including 137.9 bcm of gas supplied by companies outside the Group

For more details see the Transportation and Underground Storage section → Pages 117–120

## Processing/Refining

### Resources and capital

- 3 gas processing plants, a helium plant, condensate pre-transportation preparation plant, and condensate stabilisation plant in Russia
- 3 refineries in Russia, and 2 refineries abroad
- Gas chemical and petrochemical plants

### Performance highlights

- 30.8 bcm — natural and associated gas processing volumes\*
- 64.1 mm tonnes — oil and gas condensate refining volumes\*
- 49.4 mm tonnes — output of oil products

\* Excluding tolling arrangements.

For more details see the Hydrocarbon Processing and Petrochemicals section → Pages 125–130

## Power Generation

### Resources and capital

- 40.2 GW — total installed electric capacity of generating assets in Russian and abroad

### Performance highlights

- 156.5 billion kWh — total power generation
- 127.3 mm Gcal — total heat generation

For more details see the Power Generation section → Pages 131–134

## Marketing

### Resources and capital

- An established portfolio of long-term contracts for gas supplies to European and Asian consumers
- Reputation as a reliable supplier

### Performance highlights

- 506.9 bcm of gas sales
- 27.6 mm tonnes of oil and gas condensate sales
- 66.1 mm tonnes of refined products sales

For more details see the Gas Distribution, Gas Infrastructure Expansion, and NGV Fuel Markets section and the Marketing section → Pages 121–124, 135–142



## Other Important Aspects of Activities

### Resources and capital

- Access to international capital markets on terms acceptable to Company
- Human capital
- Integrated corporate R&D capabilities

For more details see the sections: Innovations, Import Substitution, and Quality Management; Financial Performance; Personnel; Share Capital and Securities Market → Pages 143–150, 158–159, 162–165, 220–221

### Performance highlights

- Significant contribution to the energy security of the Russian Federation
- Ensuring reliable and stable supplies of gas and other high-quality products and services to consumers in Russia and abroad
- Gas infrastructure expansion across Russian regions, and developing their social and economic potential, paying taxes, and contributing to investment activity and improved business environment; job creation
- Ensuring demand for Russian products; supporting SMEs
- Providing safe workplace environment for employees
- Staff training and social programmes
- Involvement in the efforts to improve tax, land, natural resources, and environmental protection laws
- Sustainable use of natural resources, improved energy efficiency of operations, and better environment in Russian regions through extending gas infrastructure to communities, and energy and transport facilities
- Support for vulnerable groups; constructing and developing sports and social and economic infrastructure
- Cooperation with indigenous small-numbered peoples of the North
- Support for education, science, culture, arts, and sports

For more details see the sections: Gas Distribution and Gas Infrastructure Expansion, Development of NGV Fuel Markets; Marketing; Innovations, Import Substitution, and Quality Management; Environmental and Social Responsibility; Procurement Performance → Pages 121–124, 135–142, 143–152, 161–181, 210–212

## Supply Chain

### Inventory procurement

- Gas, energy and liquid hydrocarbons
- Large-diameter pipes
- Processing equipment
- Gas pumping units and components
- Electrical equipment
- Valves and fittings

### Procurement of work and services

- Construction and installation
- Overhauls
- Well construction (production drilling and associated operations)
- Gas and liquid hydrocarbon transportation and storage
- Maintenance and repair
- Exploration
- FEED services
- Transportation and logistics services
- Lease
- Acquisition of real property
- Insurance

### Gazprom Group

### Products and services

- Natural gas
- Crude oil and gas condensate
- Refined products
- Electricity and heat
- Gas transportation services



# The Company's History and Background

Over the 25 years since it was founded in 1993, the Company has grown into one of the global energy market leaders.

Gazprom has successfully diversified its core business. In addition to its gas business, the Group has been successfully operating in the oil and power markets, ranking among Russia's top oil companies and number one in Russia by installed heat generation capacity.

Gazprom has significantly expanded the geography of its operations: it entered the high-potential Asia Pacific market, launched operations in the Central Asia, Africa, and Latin America, and is a player in the global LNG trade.

Gazprom pioneered the development of the Russian Arctic shelf, launched a fundamentally new gas production hub in the Yamal Peninsula, and is building large-scale gas infrastructure in eastern Russia. Gazprom was the first in Russia to introduce underwater production technology enabling gas extraction without above-water structures, and teamed up with its foreign partners to launch Russia's first large-scale LNG plant.

This success is underpinned by the Company's long-term strategy, tight vertical integration, and sound governance providing a firm foundation for Gazprom's continued success in competing on equal footing against global majors, implementing ambitious projects, and achieving impressive results.

## Milestones

### 17 February

According to the Russian Government's Resolution pursuant to the Presidential Decree, Gazprom State Gas Concern was reorganised into Gazprom Russian Joint Stock Company (RAO Gazprom).

### 31 May

RAO Gazprom's first annual General Shareholders Meeting was held.

### November

Gas supply started via the Yamal — Europe gas pipeline, running across four countries: Russia, Belarus, Poland, and Germany.

### 20 February

Commercial gas supplies started via Blue Stream, Russia's first gas export offshore pipeline and one of the world's deepest undersea pipelines.

### 18 August

Gazprom's first LNG shipment to an Asian market, purchased by Japan.

1993 — 1994 — 1995 — 1998 — 1999 — 2001 — 2003 — 2005 — 2006 — 2007

### April

Privatisation of RAO Gazprom started.

### 26 June

Pursuant to the resolution of its General Shareholders Meeting, Gazprom Russian Joint Stock Company (RAO Gazprom) was reorganised into Gazprom Open Joint Stock Company (JSC Gazprom).

### 30 May

Alexey Miller was elected Chairman of the Company's Management Committee.

### 31 October

Gas production started at the Zapolyarnoye field, one of the largest in the world.

### 2 September

Gazprom's first LNG shipment; the gas tanker arrived at a US LNG regasification terminal.

### 21 October

Gazprom Group took control of 75.679% of OAO Sibneft, which provided a platform for further development of Gazprom's oil business.

### December

The law prohibited the State from holding less than 50% plus one share in the Company. Restrictions were lifted on the acquisition of shares in the Company by foreign investors.

### 25 April

The Board of Directors approved JSC Gazprom's Power Generation Strategy, the implementation of which transformed the Company into one of Russia's largest power producers and number one heat producer in the world.

### 18 December

The Yuzhno-Russkoye field came on stream, Russia's first international gas production project based on asset swap.







## 2017 in the Company's History

All-time high exports of gas to European far abroad countries were achieved — 194.4 bcm.

Gazprom Group was ranked number one in the annual S&P Global Platts Top 250 Global Energy Company Rankings.

New production capacity was added at the Bovanenkovskoye field.

Expansion of the Northern Gas Transmission Corridor was continued. Launch events were held in January 2017 for ca. 1,100 km long Bovanenkovo — Ukhta 2 trunk gas pipeline. Construction of the Ukhta — Torzhok 2 gas pipeline continued in 2017.

In April and June 2017, financing agreements were signed with ENGIE, OMV, Shell, Uniper, and Wintershall Holding for the Nord Stream 2 offshore pipeline project. The European energy companies committed to provide long-term financing for 50% of the total cost of the project.

Construction of the TurkStream gas pipeline commenced in May 2017.

PJSC Gazprom and Shell continued their joint Baltic LNG project. In June 2017, the two companies signed the Joint Study Framework Agreement for the Baltic LNG project and the Heads of Agreement to set up a joint venture which would construct and operate the planned LNG plant in the Leningrad Region.

The starting date was finalised for natural gas supplies to China via the eastern route. In July 2017, PJSC Gazprom and CNPC signed a supplementary agreement to the gas sales and purchase agreement, providing for the delivery of the first natural gas supplies via the eastern China's gas transmission system on or before 20 December 2019.

The Group started the main construction phase of the Amur Gas Processing Plant. When online, the Amur Gas Processing Plant will become Russia's No. 1 and the world's No. 2 gas processing facility by production capacity (42 bcm per year), and also the global leader in helium production (up to 60 mmcm per year). The plant will be an essential part of the process chain of natural gas supply to China via the Power of Siberia gas pipeline.

A framework was established to expand Russian-Iranian cooperation. During 2017, PJSC Gazprom and Iranian companies signed a number of agreements for cooperation in exploration, production, transportation, processing, and marketing of hydrocarbons. The documents provide a framework to further expand bilateral partnerships across the entire value chain from production to marketing.



# PJSC Gazprom's Board of Directors

(as at 31 December 2017)



**Viktor  
Alekseevich  
Zubkov**

**Chairman  
of the Board of Directors**

**Non-executive director**

Born in 1941.  
Postgraduate vocational education.  
Graduate of Leningrad Agricultural  
Institute.  
Doctor of Economics.

2007–2008:  
Prime Minister of the Russian  
Federation.  
2008–2012:  
First Deputy Prime Minister  
of the Russian Federation.  
Since 2012 —  
Russian Special Presidential  
Representative for Cooperation  
with Gas Exporting Countries Forum.  
2012–2014:  
member of the Board of Directors,  
Director General, Chairman of  
the Management Committee of  
OOO Gazprom gazomotornoe  
toplivo.  
Since 2014 —  
Deputy Chairman of the Board  
of Directors of OOO Gazprom  
gazomotornoe toplivo.

[Chairman of the Company's  
Board of Directors  
since 2008.](#)



**Alexey  
Borisovich  
Miller**

**Deputy Chairman  
of the Board of Directors**

**Executive director**

Born in 1962.  
Postgraduate vocational education.  
Graduate of N.A. Voznesensky  
Leningrad Finance and Economics  
Institute.  
Candidate of Economics.

Since 2001 —  
Chairman of the Company's  
Management Committee.

[Deputy Chairman of the Company's  
Board of Directors  
since 2002.](#)



**Andrey  
Igorevich  
Akimov**

**Non-executive director**

Born in 1953.  
Higher vocational education.  
Graduate of Moscow Finance  
Academy.

Since 2002 —  
Chairman of the Management  
Board of Joint Stock Bank of Gas  
Industry Gazprombank (Closed  
Joint Stock Company), since  
2007 — Gazprombank (Open Joint  
Stock Company), since 2014 —  
Gazprombank (Joint Stock  
Company).

[Member of the Company's  
Board of Directors  
since 2011.](#)



**Timur  
Askarovich  
Kulibaev**

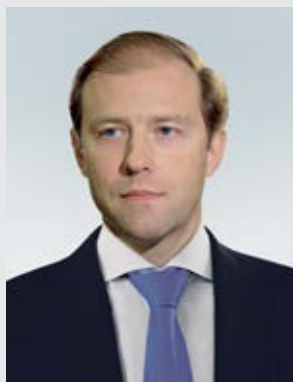
**Independent director**

Born in 1966.  
Postgraduate vocational education.  
Graduate of M.V. Lomonosov  
Moscow State University.  
Candidate of Economics.

Since 2007 —  
Head of the Association of Legal  
Entities the Kazenergy Kazakh  
Association of Oil, Gas and Energy  
Companies.  
Since 2010 —  
Chairman of the Presidium of the  
Atameken National Chamber of  
Entrepreneurs of the Republic of  
Kazakhstan.  
In 2011 —  
member of the Board of Directors,  
and Chairman of the Management  
Board of AO Samruk-Kazyna  
National Welfare Fund.

[Member of the Company's  
Board of Directors  
since 2011.](#)





**Denis  
Valentinovich  
Manturov**

**Non-executive director**

Born in 1969.  
Postgraduate vocational education.  
Graduate of M.V. Lomonosov  
Moscow State University.  
Candidate of Economics.

Since 2012 —  
Minister of Industry and Trade  
of the Russian Federation.

[Member of the Company's  
Board of Directors  
since 30 June 2017.](#)



**Vitaly  
Anatolievich  
Markelov**

**Executive director**

Born in 1963.  
Postgraduate vocational education.  
Graduate of S.P. Korolev Kuibyshev  
Aviation Institute.  
Candidate of Technical Sciences.

2003–2011:  
Director General  
of OOO Tomsktransgaz (since  
2008 — OOO Gazprom transgaz  
Tomsk).  
In 2011 —  
Director General of OOO Gazprom  
invest Vostok.  
Since 2011 —  
Deputy Chairman of the Company's  
Management Committee.

[Member of the Company's  
Board of Directors s  
ince 2012.](#)



**Viktor  
Georgievich  
Martynov**

**Independent director**

**Chairman of the Board  
of Directors' Audit Committee,  
member of the Board  
of Directors' Nomination  
and Remuneration Committee**

Born in 1953.  
Postgraduate vocational education.  
Graduate of the I.M. Gubkin  
Moscow Institute of the  
Petrochemical and Gas Industry.  
Candidate of Geology and  
Mineralogy, Doctor of Economics.

Since 2008 —  
Rector of I.M. Gubkin Russian  
State Oil and Gas University  
(a federal budget-funded  
educational institution of higher  
professional education, national  
research university).

[Member of the Company's  
Board of Directors  
since 2013.](#)



**Vladimir  
Alexandrovich  
Mau**

**Independent director**

**Member of the Board  
of Directors' Audit Committee,  
member of the Board  
of Directors' Nomination  
and Remuneration Committee**

Born in 1959.  
Postgraduate vocational education.  
Graduate of the G.V. Plekhanov  
Moscow Institute of National  
Economy.  
Doctor of Economics.

2002–2010:  
Rector of the State Educational  
Institution of Higher Professional  
Education, the Academy  
of National Economy under  
the Government of the Russian  
Federation.  
Since 2010 —  
Rector of the Russian Presidential  
Academy of National Economy  
and Public Administration (a federal  
state budget-funded institution  
of higher education).

[Member of the Company's  
Board of Directors  
since 2011.](#)





**Alexander  
Valentinovich  
Novak**

**Non-executive director**

Born in 1971.  
Higher vocational education.  
Graduate of Norilsk Industrial  
Institute.

2010–2012:  
Deputy Minister of Finance  
of the Russian Federation.  
Since 2012 —  
Minister of Energy of the Russian  
Federation.

[Member of the Company's  
Board of Directors  
since 2015.](#)



**Dmitry  
Nikolaevich  
Patrushev**

**Non-executive director**

Born in 1977.  
Postgraduate vocational education.  
Graduate of the State University  
of Management, and of the  
Diplomatic Academy of the  
Russian Ministry of Foreign Affairs.  
Doctor of Economics.

2007–2010:  
Senior Vice-President  
of OAO Vneshtorgbank.  
Since 2010 —  
member of the Supervisory Board  
of AO Russian Agricultural Bank,  
Chairman of the Management  
Board of AO Russian Agricultural  
Bank.

[Member of the Company's  
Board of Directors  
since 2016.](#)



**Mikhail  
Leonidovich  
Sereda**

**Executive director**

**Member of the Board  
of Directors' Audit Committee,  
Chairman of the Board  
of Directors' Nomination  
and Remuneration Committee**

Born in 1970.  
Higher vocational education.  
Graduate of Saint Petersburg  
State University of Economics  
and Finance.

Since 2004 —  
Deputy Chairman of the  
Management Committee, Head  
of the Management Committee  
Administration of the Company.

[Member of the Company's  
Board of Directors  
since 2002.](#)

**Changes to the Board  
of Directors in 2017**

**Denis  
Valentinovich  
Manturov**

**Member of PJSC Gazprom's  
Board of Directors since  
30 June 2017**

**Note.** The status of a member of the  
Board of Directors has been determined  
in compliance with the criteria set by the  
Code of Corporate Governance approved  
by the Board of Directors of the Bank  
of Russia on 21 March 2014.

The biographical details of the  
members of PJSC Gazprom's Board  
of Directors are also available on  
PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)





# PJSC Gazprom's Management Committee

(as at 31 December 2017)



**Alexey  
Borisovich  
Miller**

**Chairman  
of the Management  
Committee**

Born in 1962.  
Postgraduate vocational education.  
Graduate of N.A. Voznesensky  
Leningrad Finance and Economics  
Institute.  
Candidate of Economics.

Chairman of the Company's  
Management Committee  
since 2001.



**Elena  
Alexandrovna  
Vasilieva**

**Deputy Chairwoman  
of the Management  
Committee — Chief Accountant  
of PJSC Gazprom**

Born in 1959.  
Higher vocational education.  
Graduate of N.A. Voznesensky  
Leningrad Finance and Economics  
Institute.

Member of the Company's  
Management Committee  
since 2001.



**Valery  
Alexandrovich  
Golubev**

**Deputy Chairman  
of PJSC Gazprom's  
Management Committee**

Born in 1952.  
Postgraduate vocational education.  
Graduate of V.I. Ulyanov (Lenin)  
Leningrad Electrotechnical Institute.  
Doctor of Economics.

Member of the Company's  
Management Committee  
since 2003.



**Andrey  
Vyacheslavovich  
Kruglov**

**Deputy Chairman  
of PJSC Gazprom's  
Management Committee**

Born in 1969.  
Postgraduate vocational education.  
Graduate of the Saint Petersburg  
Technological Institute of the  
Refrigeration Industry.  
Doctor of Economics.

Member of the Company's  
Management Committee  
since 2002.





**Vitaly  
Anatolievich  
Markelov**

**Deputy Chairman  
of PJSC Gazprom's  
Management Committee**

Born in 1963.  
Postgraduate vocational education.  
Graduate of S.P. Korolev Kuibyshev  
Aviation Institute.  
Candidate of Technical Sciences.

[Member of the Company's  
Management Committee  
since 2012.](#)



**Alexander  
Ivanovich  
Medvedev**

**Deputy Chairman  
of PJSC Gazprom's  
Management Committee**

Born in 1955.  
Postgraduate vocational education.  
Graduate of the Moscow Institute  
of Physics and Technology.  
Candidate of Economics.

[Member of the Company's  
Management Committee  
since 2002.](#)



**Sergey  
Fyodorovich  
Khomyakov**

**Deputy Chairman  
of PJSC Gazprom's  
Management Committee,  
Director General  
of PJSC Gazprom's Corporate  
Security Service Branch**

Born in 1953.  
Postgraduate vocational education.  
Graduate of V.I. Ulyanov (Lenin)  
Leningrad Electrotechnical Institute.  
Candidate of Economics.

[Member of the Company's  
Management Committee  
since 2007.](#)



**Oleg  
Evgenievich  
Aksyutin**

**Head of Department  
(Prospective Development)**

Born in 1967.  
Postgraduate vocational education.  
Graduate of S.P. Korolev Kuibyshev  
Aviation Institute.  
Doctor of Technical Sciences.

[Member of the Company's  
Management Committee  
since 2008.](#)





**Vladimir  
Konstantinovich  
Markov**

**Head of Department  
(Government Relations)**

Born in 1955.  
Postgraduate vocational  
education.  
Graduate of Ryazan Radio  
Engineering Institute.  
Candidate of Law, Candidate  
of Economics.

[Member of the Company's  
Management Committee  
since 2012.](#)



**Elena  
Vladimirovna  
Mikhailova**

**Head of Department  
(Asset Management  
and Corporate Relations),  
Deputy Director General  
for Corporate Relations  
and Asset Management at  
OOO Gazprom mezhregiongaz**

Born in 1977.  
Higher vocational education.  
Graduate of Moscow State  
Industrial University.

[Member of the Company's  
Management Committee  
since 2012.](#)



**Vyacheslav  
Alexandrovich  
Mikhalev**

**Head of Department  
(Gas Transportation  
and Underground Storage)**

Born in 1965.  
Postgraduate vocational education.  
Graduate of Bryansk Transport  
Machine-Building Institute.  
Candidate of Technical Sciences.

[Member of the Company's  
Management Committee  
since 2015.](#)



**Sergey  
Frolovich  
Prozorov**

**Head of Department  
(managing the construction  
of production facilities)**

Born in 1958.  
Higher vocational education.  
Graduate of Bryansk Transport  
Machine-Building Institute.

[Member of the Company's  
Management Committee  
since 2014.](#)





**Kirill  
Gennadievich  
Seleznev**

**Head of Department (marketing; gas and liquid hydrocarbons processing; development of power and heat generation), Director General of OOO Gazprom mezhregiongaz**

Born in 1974.  
Postgraduate vocational education.  
Graduate of D.F. Ustinov Baltic State Technical University, and Saint Petersburg State University.  
Candidate of Economics.

Member of the Company's Management Committee since 2002.



**Igor  
Yurievich  
Fyodorov**

**Head of Department (Legal Support)**

Born in 1965.  
Postgraduate vocational education.  
Graduate of A.A. Zhdanov Leningrad State University, and the Saint Petersburg State Academy of Service and Economics.  
Candidate of Economics.

Member of the Company's Management Committee since 2007.



**Vsevolod  
Vladimirovich  
Cherepanov**

**Head of Department (Hydrocarbon Exploration and Production)**

Born in 1966.  
Postgraduate vocational education.  
Graduate of M.V Lomonosov Moscow State University.  
Candidate of Geology and Mineralogy.

Member of the Company's Management Committee since 2010.

## Changes in the Management Committee in 2017

In 2017, the powers of the following members were terminated:

**Nikolai  
Nikolaevich  
Dubik**

(powers of the Management Committee member terminated by Resolution of PJSC Gazprom's Board of Directors No. 2955 dated 19 May 2017).

**Alexander  
Nikolaevich  
Kozlov**

(powers of the Management Committee member terminated by Resolution of PJSC Gazprom's Board of Directors No. 3062 dated 26 December 2017).

The biographical details of the members of PJSC Gazprom's Management Committee are also available on PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)





## 2 Strategy



# **Progress in Implementing the Development Strategy Achieved in 2017** → 86

## **Implementation of Strategic Projects in the Medium Term** → 89

### **Strategic Performance Targets** → 90

### **Long-Term Development Programme** → 91

### **Key Performance Indicators** → 92

### **Trends and Developments on Gas Markets** → 94

### **Outlook** → 99

# Progress in Implementing the Development Strategy Achieved in 2017

## Gas Business

### Exploration and Production of Gas

#### Strategic priorities

- Building gas production hubs in eastern Russia
- Bringing into development the Yamal Peninsula's unique, large fields
- Bringing online new fields in the Nadym-Pur-Taz region
- Further exploration of the deposits in deep-lying Achimov and Jurassic sediments and above the Cenomanian sediments in fields under development in the Yamal-Nenets Autonomous Area
- Bringing into development continental shelf fields in Russian northern seas

#### Activities to support the strategic priorities

- Field construction continued to develop the Chayandinskoye oil and gas condensate field (OGSF)
- Development of the Cenomanian-Aptian deposits continued at the Bovanenkovskoye OGCF
- Preparations continued to move the Kovyktinskoye gas and condensate field from pilot development to the commercial production phase
- Upgrades and technical re-equipment of gas production facilities carried out (at the Yamburgskoye, Urengoyenskoye, Medvezhye, Yubileynoye, Zapadno-Tarkosalinskoye, Komsomolskoye, Orenburgskoye, and Astrakhanskoye fields)
- Drilling and construction at the Kirinskoye field
- Exploration-based gas reserve growth achieved at the levels exceeding production volumes
- Further exploration of the Achimov and Jurassic sediments at the Urengoyenskoye, Yamburgskoye, and other fields in the Yamal-Nenets Autonomous Area
- Feasibility studies of developing deposits above the Cenomanian sediments carried out at the Yuzhno-Russkoye, Medvezhye, Yamburgskoye, Zapolyarnoye, Vyngapurovskoye, and other fields in the Yamal-Nenets Autonomous Area

### Expansion of Gas Transportation Capacity

#### Strategic priorities

- Comprehensive expansion in tandem with the expansion of gas production and storage, taking into account the degree of readiness to receive gas shown by new consumers, as well as export projects
- Diversification of gas export routes
- Construction of new gas transportation capacity
- Upgrades and retrofits of existing gas transportation facilities

#### Activities to support the strategic priorities

- Construction of the Power of Siberia gas pipeline continued
- Financing agreements signed for the Nord Stream 2 offshore pipeline project; pipes supplied and coated, and other activities carried out in accordance with the project implementation schedule
- Expansion of the GTS in Russia started to support gas supplies to the Nord Stream 2 gas pipeline
- Construction of the Ukhta — Torzhok 2 trunk gas pipeline continued
- Construction of the TurkStream gas pipeline's offshore section commenced
- Upgrades to gas transportation infrastructure carried out



## Underground Gas Storage

### Strategic priorities

- Sustaining the capacity levels achieved for the UGSF network, improving the flexibility of the UGSF system, and providing UGSF capacity to Russian regions where such capacity is in short supply
- Expansion of Gazprom Group's UGSF capacity outside Russia

### Activities to support the strategic priorities

- Projects carried out in Russia to expand and renovate existing UGSFs, as well as identify geological structures suitable for new UGSF construction

## Expansion of Gas and Gas Condensate Processing, and Gas Chemical Production

### Strategic priorities

- Construction of new gas processing facilities to support hydrocarbon developments in Eastern Siberia and the Far East
- Processing of the projected volumes of liquid hydrocarbons produced at fields in Western Siberia

### Activities to support the strategic priorities

- Construction of the Amur GPP continued
- Projects continued to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region

## Expansion of LNG Production and Trading

### Strategic priorities

- Expansion of own LNG production capacity

### Activities to support the strategic priorities

- Positive opinions were obtained from Russia's Main Directorate of State Expert Review (GlavgosExpertiza) for the the third process train at the Sakhalin 2 project, including for design documents developed to Russian standards for the expansion of the project's gas transportation system and LNG plant, and construction of an LNG loading berth
- To implement the Baltic LNG project, PJSC Gazprom and Shell signed the Heads of Agreement to set up a joint venture which will secure financing, and ensure design, construction and operation for the Baltic LNG plant, along with the Joint Study Framework Agreement to carry out pre-FEED for the project
- Construction of an LNG production, storage, and shipping complex continued near the Portovaya compressor station in the Leningrad Region

## Oil Business and Power Generation Business

### Exploration and Production of Oil

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#### Strategic priorities

- Efficient development of mature assets
- Maximising return on investment for new projects

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#### Activities to support the strategic priorities

- Development of the Novoportovskoye OGCF and the Prirazlomnoye oil field continued

### Refining of Oil

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#### Strategic priorities

- Refining capacity upgrades and operational efficiency improvements

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#### Activities to support the strategic priorities

- Refinery upgrade programme continued.
- Construction of project infrastructure started for the second phase upgrades at Omsk Refinery
  - Construction of Euro+ combined refining unit continued, and construction of Biosphere water treatment complex completed at Moscow Refinery
  - Construction of an advanced oil refining facility started at the refinery in Pančevo, Serbia

### Power Generation

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#### Strategic priorities

- Optimisation of the generation capacity mix
- Operational excellence and cost optimisation

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#### Activities to support the strategic priorities

- Operational excellence and cost optimisation programmes implemented
- Low-performing generating capacity decommissioned
- Operation modes for generating equipment optimised



# Implementation of Strategic Projects in the Medium Term

	2019	2020	2021	2022
<b>Exploration and production of gas</b>	Chayandinskoye field (start of commercial development)	Blocks 4 and 5 of the Achimov deposits in the Urengoyevskoye field (start of commercial development)		Bovanenkovskoye field (ramp-up the Cenomanian-Aptian deposits to design capacity)  Kovyktinskoye field (start of commercial development)
<b>Expansion of gas transportation capacity</b>	Power of Siberia gas pipeline (commissioning)  TurkStream gas pipeline (commissioning)  Nord Stream 2 gas pipeline (commissioning)	Bovanenkovskoye — Ukhta 2 gas pipeline (ramp-up to full capacity)  Ukhta — Torzhok 2 gas pipeline (ramp-up to full capacity)		
<b>Expansion of gas and gas condensate processing, and gas chemical production</b>	Projects to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region (commissioning)		Amur GPP (commissioning)  Novourengovskiy Gas Chemical Complex (commissioning)	
<b>Expansion of LNG production and trading</b>	Construction of an LNG production, storage, and shipping complex near the Portovaya compressor station (commissioning)			
<b>Exploration and production of oil</b>		Novoportovskoye field (ramp-up to design capacity)	Eastern block of the Orenburgskoye OGCF (ramp-up to design capacity)	

**Note.** Timelines for commissioning and ramp-up may be adjusted subject to the energy market environment.

# Strategic Performance Targets

PJSC Gazprom's strategic planning framework employs a two-tier system of Strategic Performance Targets (SPTs) that describe the Company's strategic objectives in production, marketing, economic performance, internal corporate processes, innovation, and HR management.

Tier-1 SPTs (SPT<sub>1</sub>) are set by the Company's Board of Directors for the end of a ten-year planning period and provide a basis for developing PJSC Gazprom's Long-Term Development Programme.

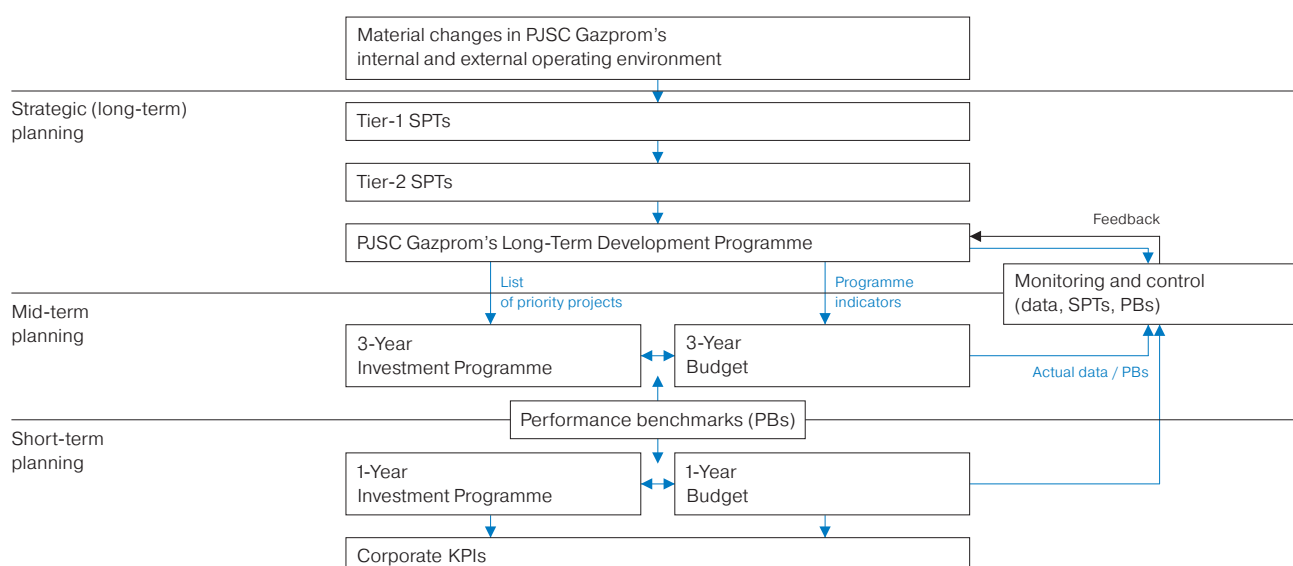
Tier-2 SPTs (SPT<sub>2</sub>) flesh out SPT<sub>1</sub> for specific lines of business and operations, providing more details on the targets in production, marketing, economic performance, internal corporate processes, innovation, and HR management.

The SPT-based long-term planning framework covers the operations of the Company and its key subsidiaries in the gas business. The Company is actively taking efforts to develop a mechanism to roll out the long-term planning framework to PJSC Gazprom's international operations and its oil and power generation businesses, which will improve Gazprom Group's overall performance. SPT lists for Gazprom Group's oil and power generation business were developed in 2017.

## SPTs, values for the end of a ten-year period (approved by Resolution of PJSC Gazprom's Board of Directors No. 1528 dated 29 December 2009)

Metrics	Target value
Economic profit growth	Positive
Return on capital (ROC) (return on capital employed)	At least 6%
Debt/equity ratio (ratio between debt and equity)	Not more than 40%
Gas production and sales volumes	
Gross production of natural gas	Not less than 550 bcm
Sales of natural gas	Not less than 490 bcm
Total gas reserves	Not less than 29 tcm of natural gas
Reserve replacement ratio	Not less than 100%

## Interfaces between SPT-based long-, mid-, and short-term planning frameworks





The Company's Long-Term Development Programme is a key tool for the Company's longer-term planning.

The Long-Term Development Programme is updated annually in accordance with JSC Gazprom's Planning Procedures Based on the Strategic Performance Targets (SPTs) approved by resolution of JSC Gazprom's Management Committee in June 2006, and incorporating the Guidelines on Long-Term Development Programmes for Strategic Open Joint Stock Companies and Federal State Unitary Enterprises, and Open Joint Stock Companies in which the Aggregate Share of the Russian Federation Exceeds 50% (Instruction of the Government of the Russian Federation No. ISh-P13-2583 dated 15 April 2014). The Programme is subject to approval by the Company's Board of Directors.

Its purpose is to provide a comprehensive integrated plan ensuring the Company's balanced and successful growth, achievement of SPTs, and maximisation of systemic economic benefits based on risk and opportunity analysis.

The key objectives of the Long-Term Development Programme of PJSC Gazprom include:

- identifying priority areas for the development of the Company based on insights into trends in the global and Russian energy markets and competition analysis
- defining development options and prioritising projects for PJSC Gazprom
- financial and economic evaluation of the Company's development options
- qualitative and quantitative assessment of PJSC Gazprom's strategic risks
- drafting recommendations and developing action plans to achieve the Company's strategic targets and support its sustainable growth.

When drafting the Long-Term Development Programme, the Company takes into account resolutions by management bodies of PJSC Gazprom, including decisions by the Board of Directors of PJSC Gazprom made in accordance with the Russian Government directives for the government representatives on the Board of Directors of PJSC Gazprom, relating to the Long-Term Development Programme of PJSC Gazprom. The governing documents defining key development areas for the Russian economy and energy sector include: Forecasts of Social and Economic Development of the Russian Federation, Russia's Energy Strategy, the General Scheme for the Development of the Gas Industry, key provisions of federal targeted programmes for the gas industry, directives and other instructions of the Government of the Russian Federation, as well as other documents regulating development of the fuel and energy sector.

Russian Government Directives No. 4955p-P13 dated 17 July 2014 provide for audits of the implementation of the Long-Term Development Programme. In 2017, such audit of the Company's Long-Term Development Programme was carried out by OOO FBK. The audit was performed in accordance with the Standard for Conducting an Audit of the Implementation of PJSC Gazprom's Long-Term Development Programme (approved by Resolution of the Board of Directors of PJSC Gazprom No. 2629 dated 26 November 2015) and the Terms of Reference for Conducting an Audit of the Implementation of PJSC Gazprom's Long-Term Development Programme (approved by Resolution of the Board of Directors of PJSC Gazprom No. 2908 dated 1 March 2017). Based on the results of the audit procedures, the auditor prepared a report (No. 600 dated 19 March 2018), which concluded that Gazprom Group's current internal performance monitoring and reporting system and the relevant document flow could be considered effective and supporting the provision of reliable information about progress on the Long-Term Development Programme.

In December 2017, PJSC Gazprom's Long-Term Development Programme (for 2018–2027, covering the gas business) was approved by Resolution of the Board of Directors No. 3059 dated 19 December 2017 (Minutes of the Board of Directors' meeting No. 1176 dated 19 December 2017).

Section on production expansion outside Russia was added in 2017 to PJSC Gazprom's Long-Term Development Programme.

# Key Performance Indicators

Over the medium and short term, investment, financial and operational planning at PJSC Gazprom is streamlined into the budget planning framework.

Targets for corporate key performance indicators (KPIs) are calculated based on PJSC Gazprom's annual budget (financial plan) and Investment Programme. The KPIs incorporate the Company's most important efficiency and effectiveness metrics and are subject to approval by the Board of Directors.

The Company's KPI framework was approved by Resolution of the Board of Directors of JSC Gazprom No. 2435 dated 21 October 2014 (Minutes of the Board of Directors' meeting No. 972 dated 21 October 2014) as part of the Regulations on JSC Gazprom's Key Performance Indicators. Subsequently, the KPI framework was amended by PJSC Gazprom's Board of Directors to incorporate the instructions issued by government authorities.

KPI targets for 2017 were set by resolutions of the Board of Directors based on PJSC Gazprom's 2017 budget (financial plan) and Investment Programme, with some of the KPIs subsequently adjusted as per the new version of the 2017 budget (financial plan) and Investment Programme.

The adjustment was mainly driven by the growing demand for gas and increased gas supplies to consumers in Russia and abroad, leading to higher gas production and sales.

Target corporate KPIs for 2018 were approved by Resolution of PJSC Gazprom's Board of Directors No. 3096 dated 17 April 2018.

## Target and actual values of corporate KPIs for 2017

KPI metric	Target value		Actual value
	Initial*	Adjusted**	
Financial and economic KPIs			
Per unit costs in Production, RUB/t c.e.	1,001.69	993.19	955.06
Per unit costs in Transportation, RUB per unit of transportation (mcm / 100 km)	74.22	71.86	68.83
Reduction of operating costs (expenses), %	2	No adjustments	2.14
Total shareholder return (TSR)	0.10	No adjustments	−0.102
Return on Equity (ROE), %	6	No adjustments	6.29
Labour productivity, RUB thousand / man-hour	62.92	66.39	70.56
Industry-specific KPIs			
Gas sales by volume, bcm	402.39	427.25	443.88
Commissioning of priority operating facilities	10	9	8
Integral key performance indicator for innovation, %	95	No adjustments	105.7

\* Resolution of PJSC Gazprom's Board of Directors No. 2929 dated 20 April 2017.

\*\* Resolution of PJSC Gazprom's Board of Directors No. 3065 dated 28 December 2017.



	KPI achievement, % of the target	Explanation of variance between target and actual KPI values
	104	Higher volumes of gas production and transportation vs the assumptions used in calculating the targets due to increased gas supplies to far abroad countries and domestic consumers.
	104	
	107	Changes in operating costs (expenses) vs the 2016 baseline on a comparable basis (adjusted for inflation and the year-average RUB exchange rate — factors beyond control of the Company's management).
	–	Decreased market value of PJSC Gazprom shares on the Moscow Exchange.
	105	Growth in operating profit due to increased sales and higher prices for the key products sold by Gazprom Group, partially offset by the negative impact of changes in RUB/USD and RUB/EUR exchange rates.
	106	Higher revenue for PJSC Gazprom, combined with lower expenses on products purchased for resale and reduced man-hours vs the assumptions used in calculating the target.
	104	Higher demand for gas from consumers in far abroad countries and Russia vs the assumptions used in calculating the target.
	89	Weather issues during construction of a facility in the Kaliningrad Region.
	111	Implementation of PJSC Gazprom's Innovative Development Programme and well-organised innovation.

## Target corporate KPIs for 2018

KPI metric	Target value*
Financial and economic KPIs	
Per unit costs in Production, RUB/t c.e.	933.30
Per unit costs in Transportation, RUB per unit of transportation (mcm / 100 km)	69.90
Reduction of operating costs (expenses), %	2
Total shareholder return (TSR)	0.10
Return on Equity (ROE), %	6
Labour productivity, RUB thousand / man-hour	68.89
Industry-specific KPIs	
Gas sales by volume, bcm	439.899
Commissioning of priority operating facilities	10
Integral key performance indicator for innovation, %	95

\* KPI values were calculated in accordance with PJSC Gazprom's annual budget (financial plan) and Investment Programme approved by the Board of Directors and may be adjusted following the established procedures if the Board of Directors resolves to approve new versions of these documents.

Most events and trends in the global energy industry contribute to a favourable environment for Gazprom to further strengthen its position in the global energy market.

## Record-High Supplies of Russian Gas to European Far Abroad Countries and Outlook for the European Gas Market

The reporting year saw record-high gas supplies by PJSC Gazprom to European far abroad countries under OOO Gazprom export's contracts and GAZPROM Schweiz AG's direct contracts, reaching 194.4 bcm for full-year 2017. The share of PJSC Gazprom's gas supplies under OOO Gazprom export's contracts and GAZPROM Schweiz AG's direct contracts in the total consumption by European far abroad countries (including Turkey) rose to 34.2%.

The key factors driving Russian gas supplies were increased economic activity and growth in domestic gas consumption in Europe as domestic gas production remained flat, leading to increased demand for gas imports.

Based on preliminary estimates, gas consumption in European far abroad countries totalled 568.2 bcm in 2017, up by 26.5 bcm, or 4.9%, year-on-year, the highest level of gas demand over the past five years.

Domestic gas production in European far abroad countries grew marginally by 3.7 bcm, or 1.4%, year-on-year in 2017.

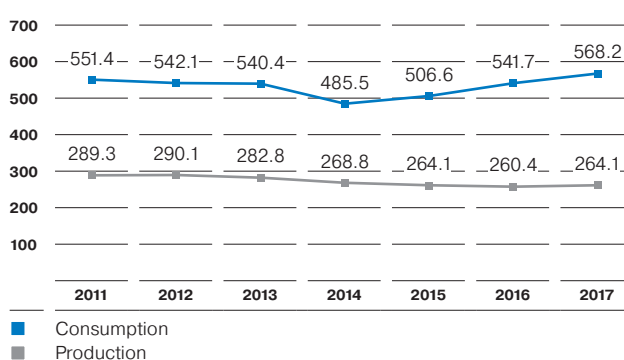
In 2017, total gas exports to the European market increased by 22.8 bcm, up 8.1%. Gas exports to European far abroad countries under OOO Gazprom export's contracts and GAZPROM Schweiz AG's direct contracts grew in 2017 by 15.1 bcm, or 8.4%, year-on-year to 194.4 bcm. LNG imports in Europe increased by 9.2 bcm, or 16.5%, year-on-year to 65.0 bcm.

# 34.2%

share of PJSC Gazprom's supplies in the total consumption by European far abroad countries

For more details on Gazprom Group's sales of natural gas to far abroad European countries in 2017 see the Marketing section → Pages 136–137

## Consumption and domestic production of gas in European far abroad countries, 2011–2017, bcm



**Note.** Calculated based on the International Energy Agency data, with natural gas volumes converted to Russian standards (calorific value of 8,850 kcal per cu. m at 20°C). Figures for 2016 and previous years may differ from the data in Annual Report 2016 since international statistics may be subsequently updated.



**Breakdown of gas supplies to European far abroad countries, 2011–2017, bcm**

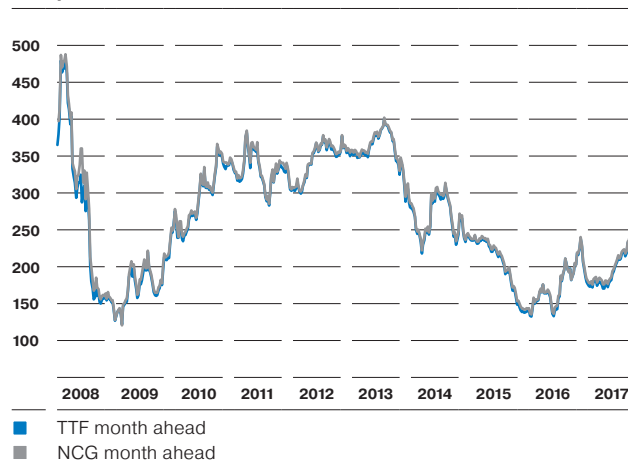
	2011	2012	2013	2014	2015	2016	2017
2011							
2012							
2013							
2014							
2015							
2016							
2017							
	2011	2012	2013	2014	2015	2016	2017
Supplies by major gas exporters							
■ PJSC Gazprom (contracts of OOO Gazprom export and direct contracts of GAZPROM Schweiz AG)	150.3	139.9	162.7	147.6	159.4	179.3	194.4
■ Algeria (incl. LNG)	50.9	49.2	43.4	39.0	38.1	51.2	49.5
■ Qatar	44.3	31.6	24.6	24.3	29.1	24.1	24.0
■ Nigeria	15.5	12.0	6.7	6.2	8.0	9.8	12.6
■ Iran	8.5	8.5	9.0	9.2	8.1	8.0	9.6
Supplies by major European producers							
■ Norway	109.3	120.6	114.1	115.1	124.5	124.1	134.7
■ UK	51.1	43.8	41.2	41.2	44.6	44.9	45.0
■ The Netherlands	72.5	72.1	77.7	65.4	48.9	45.5	39.5
■ Other supplies (excluding re-export)	49.1	64.4	60.9	37.6	45.8	54.8	58.9
Total	551.4	542.1	540.4	485.5	506.6	541.7	568.2

**Note.** Calculated based on the International Energy Agency data, with natural gas volumes converted to Russian standards (calorific value of 8,850 kcal per cu. m at 20°C). Figures for 2016 and previous years may differ from the data in Annual Report 2016 since international statistics may be subsequently updated. The said values may differ from estimates due to rounding.

2017 saw a reversal of the declining trend of crude oil and oil product prices, with oil prices averaging USD 54 per barrel in 2017, up 24% year-on-year. Coal prices showed an even higher growth, up by almost 50%, and averaging USD 77 per tonne in 2017. Increasing prices for competing energy sources led to higher prices at Europe's gas hubs. The average TTF month-ahead price reached USD 200.3 per mcm (+25.2% year-on-year) while the average NCG month-ahead price was USD 203.2 per mcm (+25.6% year-on-year).

**Brent crude oil price in 2017, USD per barrel**

Source: Bloomberg

**Month-ahead gas prices on TTF and NCG (weekly), 2008–2017, USD per mcm**

Source: Bloomberg

### Outlook for the European Gas Market

European gas consumption scenarios and outlooks are diverging; however, the upward trend seen over the recent years suggests steady growth in demand in most European countries. These increases will be facilitated by growing competitiveness of gas-fired power generation and spread of NGV.

### Declining Domestic Production in Europe

Declines in domestic gas production in European countries has been an important trend over the past few years. This trend will continue over the longer term, with annual production in the region projected to halve by 2035. The Netherlands and the UK are expected to show the biggest declines in domestic gas production.

### Growing Gas Imports

Moderate growth in gas demand combined with declining rates of domestic production will lead to Europe's increased import dependency. Extra demand for gas imports will be partially covered by LNG supplies; however the biggest share of European consumption will continue to be supplied by trunk pipelines, including by PJSC Gazprom's new pipeline projects.

Some anticipate potential competition in the European market between PJSC Gazprom's gas exports and US LNG shipments. In fact, the current price differentials between global LNG markets and the high full-cycle costs of LNG production combined with sea transport and regasification costs make LNG shipments to Europe less attractive compared to other regional markets.

### Growth in the Global LNG Trade Volume, and the Impact of Global Gas Market Pricing Environment on LNG Development

**Global LNG trade volume, 2011–2017, mm tonnes**

2011	241
2012	238
2013	239
2014	242
2015	248
2016	267
2017	297

**Note.** The data were adjusted to exclude re-export volumes, and reflect LNG deliveries (including boil-off gas).

The global LNG trade volume increased in 2017 by 29.8 mm tonnes, or 11%, to 297 mm tonnes, the biggest year-on-year increase since the Fukushima nuclear accident in 2011.

Asia Pacific remained the largest LNG demand growth centre in 2017, with China accounting for over 40% of the global demand growth. China's LNG imports increased by 12.3 mm tonnes, or 46%, to 39.4 mm tonnes, which made China the second largest LNG importer globally, overtaking South Korea. LNG imports also grew in South Korea (+4.6 mm tonnes), Pakistan (+1.8 mm tonnes), and Taiwan (+1.6 mm tonnes).

Spot LNG prices in 2017 were higher overall year-on-year: the average LNG price was USD 7.1 per mm BTU in the Japanese and South Korean markets, and USD 5.8 per mm BTU at the NBP hub.

The low energy prices of the past few years combined with oversupply in the LNG market sharply reduced the investment appeal of new LNG plant projects.

Experts estimate that Central and South America, as well as Asia Pacific will remain the most attractive markets for American LNG, with prices in these regions expected to be higher than in Europe. Therefore, the impact of US LNG shipments on the European market will continue to be limited.

Moreover, with global natural gas prices falling from the levels seen at the time US LNG projects were sanctioned, the viability of North American LNG shipments to certain regional markets, particularly Europe, was put into question. Actual data for US LNG shipments suggest limited potential for sales of American gas in the European gas market in the current environment. In 2017, gas exports from Sabine Pass LNG Terminal totalled ca. 18 bcm, of which just 2.6 bcm were shipped to Europe. The share of American LNG in European gas consumption for the period thus stood at just 0.5%.



### Growth in China's Gas Consumption, and Outlook for China's Energy Sector

Natural gas consumption in China totalled 237 bcm in 2017, up by 32 bcm, or 15%, year-on-year. This growth rate is significantly higher than in the previous years — 7% in 2016, and just 3% in 2015.

The surge in consumption was due to the overall increase in gas demand driven by China's accelerating economic growth in 2017, and the accelerated implementation of the national Airborne Pollution Prevention and Control Action Plan (2013–2017). The relatively slow growth in domestic gas production (up by 8.5% to 149 bcm in 2017) pushes China to actively increase gas imports.

As a result, China's gas imports reached 92 bcm in 2017 (up by 20 bcm, or 28%).

Demand for natural gas in China is expected to continue growing at relatively high rates over the next few years: according to the 13th Five-Year Plan for Natural Gas Development (2016–2020), China's natural gas consumption can reach 360 bcm by 2020, with the share of natural gas in China's fuel mix increasing from 6% in 2015 to 8.3%–10% in 2020.

#### Outlook for China's Energy Sector

China is a key driver of the global energy market and a priority target market to diversify PJSC Gazprom's business.

Most forecasts by leading global institutions indicate that China will account for up to 25% of the global energy demand growth and ca. 25% of the global gas consumption growth over the mid- and longer term. China's energy consumption will thus total 3.2 bn to 4.2 bn tonnes of oil equivalent by 2035, with gas consumption up to 680 bcm. China may become the world's largest gas importer in the next few years.

The key drivers of gas consumption in China both in the short- and longer term include the overall growth in industrial production and energy generation, higher penetration rates of gas distribution infrastructure, and environmental concerns which push China to introduce regulatory restrictions on the use of coal. These focus areas were reflected in the policy documents charting the course for China's development in the coming years: the 13th Five-Year Plan for Economic and Social Development of the People's Republic of China (2016–2020), the 13th Five-Year Plan for Natural Gas Development (2016–2020), and the Airborne Pollution Prevention and Control Action Plan in the energy sector.

**Up to 680 bcm per year**  
China's potential gas consumption by 2035

### Gas Consumption Growth in Russia, and Initiatives to Develop the Domestic Market

**468** bcm

#### natural gas consumption in Russia in 2017

In 2017, the total gas consumption in Russia was 468.0 bcm, which is 2.5% higher than in 2016. Growth consumption is mainly due to colder weather conditions in the first half of 2017.

In 2017, natural gas accounted for ca. 54% in Russia's primary energy mix, remaining virtually flat over the past few years.

The largest consumers of natural gas in Russia include power and heat generation industry (37%), household consumers (11%), the oil industry (9%), the housing and utilities sector (8%), and metallurgy (6%).

#### Russia's gas consumption, 2013–2017, bcm

2013	461.3
2014	458.4
2015	444.3
2016	456.7
2017	468.0

**Gazprom's contribution to covering domestic gas consumption in Russia, 2013–2017**

	2013	2014	2015	2016	2017
Domestic gas consumption in Russia, bcm	461.3	458.4	444.3	456.7	468.0
Supplies to Russian consumers via Gazprom's GTS (excluding GTS process needs), bcm	351.7	353.7	339.4	348.8	351.3
share of Gazprom Group's production, bcm	254.5	237.0	211.2	210.2	216.3
share of Gazprom Group's production, %	72	67	62	60	62

In Russia, gas is sold and purchased using two different pricing approaches, which results in the existence of two gas sales sectors — with prices fixed by the Government or unregulated prices.

Gas produced by subsidiaries of PJSC Gazprom is sold mostly at prices fixed by the Government. In accordance with applicable Russian laws, wholesale prices of gas produced by PJSC Gazprom and its affiliates are subject to regulation. These prices are differentiated between consumer groups (households vs industrial consumers), as well as by price zone, based on the relative distance from the gas production region to the consumer.

The Forecast of Russia's Socio-economic Development drafted by the Russian Ministry of Economic Development and approved by the Government in September 2017 assumes increases in domestic regulated wholesale gas prices by 3.4% from 1 July 2018, by 3.1% from 1 July 2019, and by 3.0% from 1 July 2020.

As part of the efforts to create an equal field for competition in the domestic market, PJSC Gazprom works towards partial deregulation of wholesale gas prices. These efforts resulted in Resolution of the Government of the Russian Federation No. 1663 dated 27 December 2017, which allowed PJSC Gazprom and its affiliates to use unregulated wholesale prices in marketing produced natural gas to LNG producers for liquefaction and export.

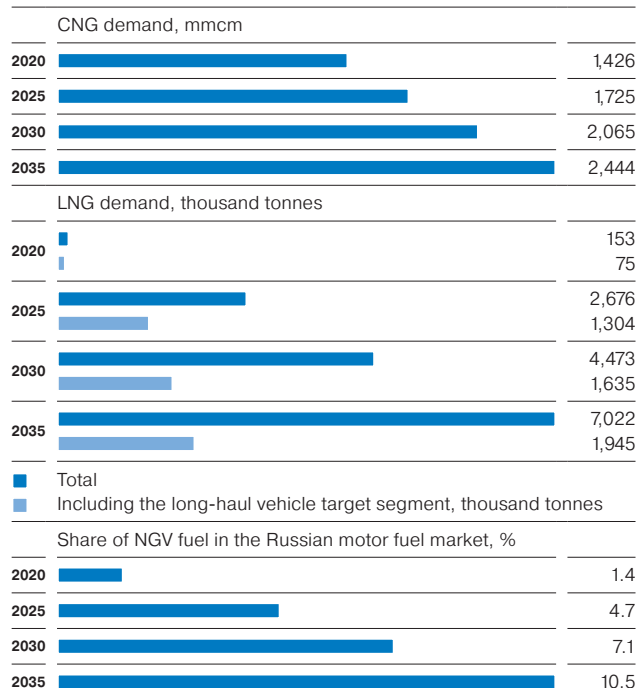
**Changes in regulated wholesale gas prices as per the Forecast of the Ministry of Economic Development of the Russian Federation, 2018–2020, annual average increase vs the previous year, %**

	2018	2019	2020
An average across all consumer groups	3.4	3.1	3.0
For industrial consumers	3.4	3.1	3.0
For household consumers	3.4	3.1	3.0

To promote market-driven pricing principles, PJSC Gazprom is actively engaged in exchange-based gas trade at the Saint Petersburg International Mercantile Exchange (SPIMEX). In 2017, PJSC Gazprom sold 17.5 bcm of gas through the exchange-based trading channel, the maximum it is allowed to sell in this channel.

A significant increase in demand for NGV fuel (CNG and LNG) is projected in the Russian market.

# 17.5<sub>bcm</sub>

**of natural gas sold by PJSC Gazprom through the exchange-based trading channel in Russia****Long-term prospects for the development of Russia's NGV fuel market**

For more details on Gazprom Group's sales of natural gas in the Russian market in 2017 see the Marketing section and the Gas Distribution, Gas Infrastructure Expansion, and NGV Fuel Markets section → Pages 121–124, 138



The most important trends in the global energy industry driving longer-term development forecasts for the global fuel and energy sector include:

- population and economic growth in certain countries, above all in Asia, and also in South America, the Middle East and Africa, leading to increased energy consumption
- emerging markets in Asia Pacific gradually replacing developed European and North American economies as the largest energy consumers
- development of energy-saving technologies
- greater focus on environmental performance and climate change
- the increasing role of energy markets regulation: from the introduction of directive methods to guide resource distribution to prohibiting the use of certain energy-intensive technologies to reduce energy consumption.

Long-term forecasting is complicated by the heterogeneous, multi-directional nature of the development of the modern global energy market.

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**Key uncertainties with potentially the highest impact on the future development of the global energy industry**

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- Economic growth rates in individual countries (especially in the emerging markets)
- The rate of improvement in the global economy energy efficiency
- Continued subsidies for the development of various power generation technologies (mostly renewable)
- Changes in environmental policies of various countries
- Development of new energy resource production, transportation, and consumption technologies potentially disruptive for the entire global energy industry

Global energy consumption will continue to grow over the longer term; however, the global energy mix will change. The growth in oil and coal consumption will slow down, while natural gas consumption will demonstrate steady growth. Therefore, it will be the only traditional energy source to consolidate its position in the global fuel energy mix.

As a clean and cost-efficient fuel, gas gains popularity across the world, actively competing with other fossil fuels such as oil and coal.

Despite the changing global energy market environment, natural gas will remain the fastest-growing energy source among fossil fuels over the long term. Global gas consumption will grow at a rate between 1.5% and 2% per year, reaching 4.8 tcm–5.3 tcm by 2035, or ca. 25% of the global fuel energy mix. Power generation will remain the largest gas consuming industry. In this sector, gas will have to compete against renewables, nuclear power, and coal. The key advantages of natural gas will still be its higher cost efficiency vs renewables, and better environmental performance, along with greater flexibility as a fuel in the energy system vs other fossil fuels. The combination of the above factors will make natural gas the leading energy source by share of consumption growth by 2035 in absolute terms.

## Gas Business

In the longer term, gas production will increase in all regions of the world, except for Europe. The total growth in global gas production will exceed 1 tcm by 2035. The greatest contribution to the growth in global gas production will come from CIS countries, above all, from the Russian Federation.

### Risks affecting the achievement of PJSC Gazprom's strategic goals

- Risks related to the global economy slowdown
- Political risk
- Risks related to changes in government regulation of the gas industry in Russia
- Unconventional gas development risks
- Renewable energy risks
- Market risks

For more details on the key risk drivers see the Risk Management section  
→ Pages 207–209

The fastest growth in natural gas consumption will be demonstrated by the Asian region, with its share in global gas consumption projected to increase from the current 19% to 25% by 2035.

### Changes in PJSC Gazprom's development strategy in 2017

No significant adjustments were made to PJSC Gazprom's strategy in 2017. Commissioning dates for certain fields and major project timelines were adjusted based on the current market forecasts.

On 4 July 2017, PJSC Gazprom and CNPC signed a supplementary agreement to the gas sales and purchase agreement concluded in 2014. Under the new agreement, Russian pipeline gas supplies to China via the eastern route are to begin before or on 20 December 2019.

On 7 May 2017, construction of the TurkStream gas pipeline's offshore section commenced. The pipeline's two strings with a capacity of 15.75 bcm per year each are to be commissioned before the end of 2019. The first string will supply gas for Turkey's domestic gas market, while the other one will supply consumers in Europe.

## Exploration and Production

Gas reserves contained in the conventional hydrocarbon fields operated by Gazprom Group represent over 70 years of supply to the domestic and foreign markets at the current production rate of 471 bcm of gas per year (excluding the share in production volumes of entities in which Gazprom has investments classified as joint operations).

**70** years

### the Group's proved reserve life at the production rate of 471 bcm of gas per year

One of Gazprom's key production objectives is to achieve target production rates for the existing fields, bring online new fields in the Nadym-Pur-Taz region, further explore the deposits in deep-lying Achimov and Jurassic sediments and above the Cenomanian sediments in fields under development in the Yamal-Nenets Autonomous Area, and launch production at unique, large fields in the Yamal Peninsula and on the continental shelf in Russian northern seas to sustain and increase hydrocarbon production levels. Gazprom consistently adds production capacity within the Nadym-Pur-Taz region and the Bovanenkovskoye field in the Yamal Peninsula.

Strategic priority gas production regions over the longer term include the Yamal Peninsula (Cenomanian-Aptian deposits of the Kharasaveyskoye field, Neocomian-Jurassic deposits of the Bovanenkovskoye and Kharasaveyskoye fields, and the Kruzenshternskoye field), and Russian northern seas (fields in the Ob and Taz Bays, primarily the Severo-Kamennomysskoye and Kamennomysskoye-Sea fields, and the offshore Shtokman field in the Barents Sea).

Gazprom is making consistent progress in building gas production hubs in Russia's Eastern regions. The Chayandinskoye OGCF is the core field for the future Yakutia gas production hub, and the Kovyktinskoye gas and condensate field is key to the future Irkutsk gas production hub. These fields will comprise the resource base for the Power of Siberia trunk pipeline. The priority developments to add production capacity at the Sakhalin gas production hub include Sakhalin-3 fields — the Kirinskoye gas and condensate field put into commercial development in 2014, and the Yuzhno-Kirinskoye gas and condensate field, one of Gazprom's priority projects in gas production over the longer term.



## Expansion of Gas Transportation Capacity

Expansion of PJSC Gazprom's gas transportation capacity is done in tandem and close coordination with the development of gas production and storage, and also takes into account the degree of readiness to receive gas shown by new consumers, as well as export projects.

Timelines for commissioning new and upgrading existing gas transportation facilities are scheduled with a long-term perspective and depend on their effective utilisation periods and the need to maintain optimal throughput of the existing GTS. This approach helps prevent introducing excessive capacity, ensure efficient and flexible use of PJSC Gazprom's investments, and optimise gas transportation costs.

Apart from greenfield gas transmission projects, Gazprom also upgrades and retrofits its existing gas transportation facilities.

Gazprom is decommissioning excess capacity of the Central Gas Transmission Corridor to improve operational efficiency of its gas transmission capacity taking into account the diversification of its gas export routes. Excess capacity is slated for retirement taking into account the need to have required back-up capacity available to maintain the reliability of the transportation network in the future.

To ensure gas supplies to the domestic market and meet its obligations under export contracts, PJSC Gazprom is implementing a number of gas transmission projects.

The Bovanenkovo — Ukhta and Ukhta — Torzhok trunk gas pipeline systems are intended to carry gas from the Yamal fields.

To diversify export routes for Russian pipeline gas supplies to PJSC Gazprom's traditional European market, the Company continued to implement its Nord Stream 2 project. The new pipeline, to be laid from Russia to Germany across the Baltic Sea will comprise two offshore strings with a capacity of 27.5 bcm each. Western and Central European countries are the project's target markets. Pipeline capacity additions are planned along the Gryazovets — Volkhov — Russian Baltic Sea Coast route to support gas supplies via Nord Stream 2. The Nord Stream 2 project is proceeding on schedule, with both strings expected to be commissioned in Q4 2019.

### Nord Stream 2 progress in 2017

- A contract was signed between Nord Stream 2 AG and Allseas Group for the installation of the deep-water section of the Nord Stream 2 pipeline
- During 2017, Nord Stream AG signed contracts for the supply of all key materials and equipment, and delivery of services required for construction
- As part of the Nord Stream 2 project financing, Nord Stream 2 AG received EUR 1,394.1 mm as mezzanine financing and EUR 226 mm as interim financing (as at 31 December 2017) from Western financial investors
- Pipe supplies and coating were continued. Coated pipe deliveries to the logistics hubs have been performed on schedule
- Detailed design of the offshore section is underway
- According to the project implementation schedule, obtaining national permits for the pipeline construction operations from the Danish, German, Russian and Finnish authorities is planned for H1 2018

In 2017, PJSC Gazprom continued to focus on the TurkStream project to supply Russia's natural gas across the Black Sea to Turkey, and further to its neighbouring countries.

37%

### of the TurkStream offshore section installed as at 31 December 2017

### TurkStream progress in 2017

- Installation of the offshore section of the TurkStream pipeline was started in May 2017. Allseas' Pioneering Spirit, the world's largest pipe construction vessel, is employed to build the deep-water section of the pipeline. Installation of pipes in Russia's exclusive economic zone was completed in November 2017. As at the end of 2017, ca. 700 km of pipe was installed for the offshore section
- On 29 September 2017, location of the receiving terminal for the TurkStream pipeline's offshore section was approved following the review of the Environmental Impact Assessment
- In December 2017, a permit was obtained for the installation of one string of the TurkStream pipeline's offshore section in Turkey's exclusive economic zone and territorial waters
- On 22 September 2017, PJSC Gazprom's Board of Directors approved the Company's participation in a joint venture established with Turkey's Botas company for the construction of the onshore transit section of the TurkStream pipeline to the border between Turkey and its neighbouring countries

Options are being considered for the extension of the TurkStream pipeline's onshore transit string into the territory of European countries. In June 2017, PJSC Gazprom, the Italian Edison, and the Greek DEPA signed a Cooperation Agreement, which envisages establishing a southern route for Russian gas supplies from Russia to Europe, which will run across Turkey to Greece and further to Italy. The Company is also exploring options of utilising TurkStream to deliver Russian gas to consumers in Bulgaria, Serbia, and Hungary.

As part of its consistent efforts to ensure geographic diversification of routes for Russian gas exports, the Company pays particular attention to pipeline gas supplies from Russia to China.

The Company has been constructing the Power of Siberia trunk gas pipeline since 2014 to transmit gas from the Yakutia and Irkutsk gas production hubs to consumers in Russia's Far East and in China.

64%

#### of the Power of Siberia pipeline constructed as at 31 December 2017

The project is pursued to meet Russia's obligations under the 2014 agreement for Russian pipeline gas supplies to China via the eastern route. The sales and purchase agreement provides for exports of 38 bcm of gas per year over 30 years, and came into full force in May 2015. In July 2017, PJSC Gazprom and CNPC signed a supplementary agreement to the contract, providing for the delivery of natural gas supplies into China's gas transmission system to commence before or on 20 December 2019.

#### Power of Siberia progress in 2017

- Over 900 km of linear section pipeline were constructed in 2017, bringing the total length of the completed linear section to over 1,383 km as at 31 December 2017, ahead of the planned schedule
- According to a schedule set out in the EPC-contract, construction of an underwater crossing of the Amur River commenced from the Russian side in April 2017 (the construction from the Chinese side was commenced in September 2016). Construction of the pipeline's tunnel crossing line 1 was completed in November 2017

In May 2015, PJSC Gazprom and CNPC signed the Heads of Agreement for pipeline gas supplies to China via the Power of Siberia 2 gas pipeline.

In addition, PJSC Gazprom and CNPC signed in December 2017 the Heads of Agreement for natural gas supplies from Russia's Far East to China. The document outlines the basic parameters of future supplies, namely the volumes, the term of the contract, the starting date of supplies, the ramp-up period, and the cross-border point location.

#### Expansion of the Underground Gas Storage System

Gazprom's forward-looking plans provide for further expansion of its UGSF network with a focus on the following areas:

- sustaining the capacity levels achieved for the UGSF network through renovation and replacement of worn-out and obsolete fixed assets, as well as debottlenecking of UGSFs and the GTS
- improving the flexibility of Russia's UGSF system by constructing small, peak load balancing gas storage facilities in salt caverns to maintain deliverability rates during increased gas withdrawal periods through to 1 February (the estimated date of the extreme low temperature during the season)
- providing underground gas storage capacity to the regions where such capacity is in short supply (new UGSFs are planned for construction in the Northwestern, Siberian, and Far Eastern Federal Districts of the Russian Federation).

A total of 47 UGSF capex projects are planned in Russia (including well workovers and drilling, expansion and upgrades of the GTS connections), of which 36 projects aim to sustain the achieved capacity through upgrades and retrofits, four to expand existing capacity, and seven to construct new gas storage facilities (peak load balancing facilities and facilities in the regions with a shortage of storage capacity).

Plans until 2030 include commissioning total gas storage capacity of 4.77 bcm and 11 compressor plants with an aggregate capacity of 228 MW, and connecting 130 wells.

A major focus of the Group's investment programmes is on expanding its underground gas storage system to ensure uninterrupted gas supply to European consumers during autumn/winter peak demand periods and during repairs at GTS, as well as to boost gas sales from foreign-based underground gas storage facilities. In terms of international underground gas storage expansion, the challenge is to expand Gazprom Group's UGSFs in foreign countries to an aggregate working gas capacity equal to at least 5% of annual export volumes by 2030, with a focus on constructing own storage capacity. The Company is planning to further expand aggregate working gas capacity by adding new capacity to the Katarina UGSF in Germany and Dambořice UGSF in the Czech Republic based on their respective expansion schedules.



## Expansion of Gas and Gas Condensate Processing, and Gas Chemical Production

To process the projected volumes of liquid hydrocarbons extracted through natural gas production at gas and condensate fields in Western Siberia, the Company is implementing a number of projects, including a capacity expansion and upgrade project at the Urengoy Condensate Pre-Transportation Preparation Plant to ramp it up to design capacity; construction of Achimov deposit condensate and oil treatment and transport facilities, completion of the construction of uncompleted sections of the Urengoy — Surgut gas condensate pipeline, and upgrades and retrofits of the Surgut Condensate Stabilisation Plant.

PJSC Gazprom continues to implement a project to construct a gas chemical complex near Novy Urengoy, with gases recovered from de-ethanized gas condensate in the Nadym-Pur-Taz region to be used as a key feedstock.

Upgrade of the motor fuel production facilities is planned at the Astrakhan GPP to increase their output while ensuring compliance with Class 5 standards of the Technical Regulations.

Construction commenced in August 2017 for the core production facilities of a gas processing and helium complex of the Amur GPP near Svobodny in the Amur Region, to be supplied via the Power of Siberia gas pipeline with gas from the Yakutia and Irkutsk gas production hubs currently developed by PJSC Gazprom under the Eastern Gas Programme.

## Expansion of LNG Production and Trading

To ensure expansion of own LNG production capacity, Gazprom is implementing a project to construct the third process train (up to 5.4 mm tonnes per annum) at the Sakhalin-2 project, and the Baltic LNG project (10 mm tonnes per annum, with an expansion option to bring capacity to 15 mm tonnes of LNG per annum).

In 2017, Gazprom Group continued the construction of an LNG production, storage, and shipping complex with an annual production capacity of ca. 1.5 mm tonnes near the Portovaya compressor station in the Leningrad Region. LNG will be marketed as an off-mains solution and as an NGV and bunker fuel, or supplied as necessary to an LNG regasification terminal in the Kaliningrad Region.

In addition, Gazprom is considering the construction of mid-scale LNG plants near the Black Sea coast and near Vladivostok.

Gazprom continues to grow LNG supplies from the Group's trading portfolio. Efforts are also taken to secure additional gas sales through contracts for small-scale LNG supplies, supported by additions to production capacity and expanded LNG production geography.

## Oil Business

Gazprom Group's oil business operates through its subsidiary, PAO Gazprom Neft. Its operations are guided by the 2025 Development Strategy approved by PAO Gazprom Neft's Board of Directors in 2013.

In exploration and production, Gazprom Neft is focused on maintaining efficient production at mature fields and ensuring maximum ROI for new upstream projects.

The delivery of refinery upgrade programmes and maximising sales of oil products produced by Gazprom Neft's refineries via controlled sales channels remain the key focus of its processing and marketing business.

The implementation of plans set out in the company's Strategy 2025 aims to create the highest shareholder value added in Russia's oil and gas industry.

### Changes in PAO Gazprom Neft's Development Strategy in 2017

In late 2017, PAO Gazprom Neft's Board of Directors decided to remove the target for oil refining outside from the company's long-term development strategy, in response to changing market environment: over the past few years, the European market environment has been intensely competitive amidst declining consumption of oil products. The rapid growth in refining capacity in Asia and the Middle East is also limiting the potential for expansion into the oil refining sector in these markets.

The removal of the international refining target does not mean the company has given up plans to develop the existing refining assets outside Russia. Gazprom Neft is proceeding with large-scale upgrades of its refinery in Pančevo, Serbia, which will exceed the refining depth of 99% after its delayed coking unit is commissioned. The company is making a bet on technical efficiency of production as a key driver of its competitive edge. In addition, PAO Gazprom Neft is focused on maintaining and developing its international marketing business through expanding presence in airports and seaports around the world, and maintaining production of advanced lubricants in Italy.

## Exploration and Production

Gazprom Neft aims to increase its annual hydrocarbon production to 100 mm tonnes of oil equivalent by 2020 and sustain this rate through 2025, maintaining a proved reserve life of at least 15 years. To achieve these targets, Gazprom Neft intends to maximise the profitability of the remaining resource extraction at its active production sites through the roll-out of best development optimisation practices, the reduction of the cost of tested production technologies, and the adoption and commercial introduction of new technologies. The company contemplates a new production hub in the northern part of the Yamal-Nenets Autonomous Area. Gazprom Neft treats unconventional reserves as a growth opportunity and will expand this asset class as an important component of its portfolio.

## Refining

Implementing refinery upgrade programmes and improvements to operational performance remain to be Gazprom Neft's strategic priority in the development of its Russian oil refinery business. The company completed Phase 1 of a major refinery upgrade programme, improving the quality of its refined products, with all motor fuels produced by the Company now meeting Euro 5 standards. The company continues the implementation of its key projects to increase the refining depth and yields for light products. Operational excellence initiatives and projects to reduce environmental footprint have been continued. During the year, Biosphere biological water treatment complex was commissioned, and Phase 1 renovation of the catalytic cracking unit completed at Moscow Refinery. Oil bitumen production unit renovation was completed at Omsk refinery. Group III base oil plant was commissioned, and advanced refining facility configuration approved at Slavneft-YANOS.

## Marketing

Gazprom Neft is focused on the following two key marketing segments: motor fuel sales through the corporate filling station network and small wholesale channels, and oil products sales to industrial consumers. Each business line has its specific targets. The target scale of Gazprom Neft's distribution business should ensure marketing of 100% of the oil products produced by the company's refineries via controlled sales channels to maximise the coverage of the entire value chain in the oil business.

### Motor Fuel Sales

By 2025, Gazprom Neft intends to increase its total motor fuel sales in Russia and the CIS, primarily by driving sales in the retail channel. To this end, Gazprom Neft plans to expand its filling station network in Russia and the CIS.

### Oil Product Sales to Industrial Consumers

To improve oil product sales performance, several segments were carved out in Gazprom Neft such as distribution of jet fuels, lubricants, bituminous materials, petrochemicals, and bunker fuels. In the distribution business, Gazprom Neft intends to further boost its sales, increase its market share, launch new products, and expand its sales platform.



## Power Generation Business

Power generation sector is a strategic line of business for Gazprom Group. Enhanced presence in the power generation sector facilitates the entire Group's business sustainability over the longer term and provides additional revenue streams. Gazprom Group's Power Generation Strategy was adopted in 2007.

Strategic objectives in the power generation business include:

- optimisation of the generation capacity mix
- business diversification for the Group's generating companies
- diversification of tariff regulation risks
- fuel mix diversification
- operational excellence and cost optimisation.

Gazprom Group is developing its long-term power generation strategy until 2027; this effort includes analyses of the following:

- the results of the implementation of the Group's strategy adopted in 2007
- the Group's operational and capex performance and improvement potential
- opportunities to develop the power generation business.

Gazprom Group's new, long-term power generation strategy is expected to be approved in mid-2018.





## **Operations and Marketing** → 108

Exploration and Production → 108

Transportation and Underground Storage → 117

Gas Distribution, Gas Infrastructure Expansion,  
and NGV Fuel Markets → 121

Hydrocarbon Processing and Petrochemicals → 125

Power Generation → 131

Marketing → 135

## **Innovations, Import Substitution, and Quality Management** → 143

## **Financial Performance** → 154

## Exploration and Production

Gazprom is the global leader by natural gas reserves and gas production, successfully implementing its projects both in Russia and abroad. The Company's core resource base is shifting further and further into the Arctic — to the Yamal Peninsula, where in the harsh climate environment Gazprom has established and is consistently building a new major gas production hub.

While maintaining its leadership in gas reserves and production among Russian and global supermajors, Gazprom ensures annual reserve replacement at the levels exceeding its volumes of hydrocarbon production.

According to DeGolyer and MacNaughton, Gazprom Group's proved and probable PRMS reserves as at 31 December 2017 were 24,146.6 bcm of natural gas, 1,105.7 mm tonnes of gas condensate, and 1,360.0 mm tonnes of oil, including share in reserves of entities in which Gazprom has investments classified as joint operations (23.5 bcm of natural gas and 158.8 mm tonnes of oil).

Most of Gazprom Group's projects have been audited, totalling 94.1% of gas reserves, 92.7% of condensate reserves and 93.5% of oil reserves in A+B<sub>1</sub>+C<sub>1</sub> reserve categories.

In addition to the annual production from the fields operated by Gazprom, the key factors behind the changes in reserve estimates under international standards included an audit of the Yuzhno-Lunskoye, Zemlyanskoye, Novosamarskoye, Severo-Samburgskoye, and Kamennomysskoye (onshore) fields, as well as re-estimation of reserves contained in the Malyginskoye field, Achimov deposits of the Urengoyeskoye field, and Cenomanian deposits of the Yamburgskoye field.

### Proved and probable PRMS hydrocarbon reserves of Gazprom Group (including share in reserves of entities in which Gazprom has investments classified as joint operations)

	As at 31 December 2016	As at 31 December 2017
Natural gas, bcm	23,855.1	24,146.6
including proved reserves	18,596.5	18,253.4
Gas condensate, mm tonnes	1,018.9	1,105.7
including proved reserves	759.2	797.7
Oil, mm tonnes	1,378.7	1,360.0
including proved reserves	789.6	736.8
Total, bn boe*	173.3	175.7
including proved reserves	132.7	130.4

\* For management accounting purposes, Gazprom Group measures hydrocarbon reserves and production in metric units. In this Annual Report, gas reserves are converted from metric units to barrels of oil equivalent at a ratio of 1,000 cubic metres to 6.49 boe.

The relevant conversion ratios are provided in the Glossary section → Page 236



## Operations in Russia

### Mineral Resource Base

As at 31 December 2017, Gazprom Group's A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves in Russia were 35,355.4 bcm of natural gas, 1,595.6 mm tonnes of gas condensate, and 2,045.3 mm tonnes of oil, including share in reserves of entities in which Gazprom has investments classified as joint operations — 24.3 bcm of gas, 2.8 mm tonnes of gas condensate, and 183.2 mm tonnes of oil. This corresponds to 257.5 bn boe.

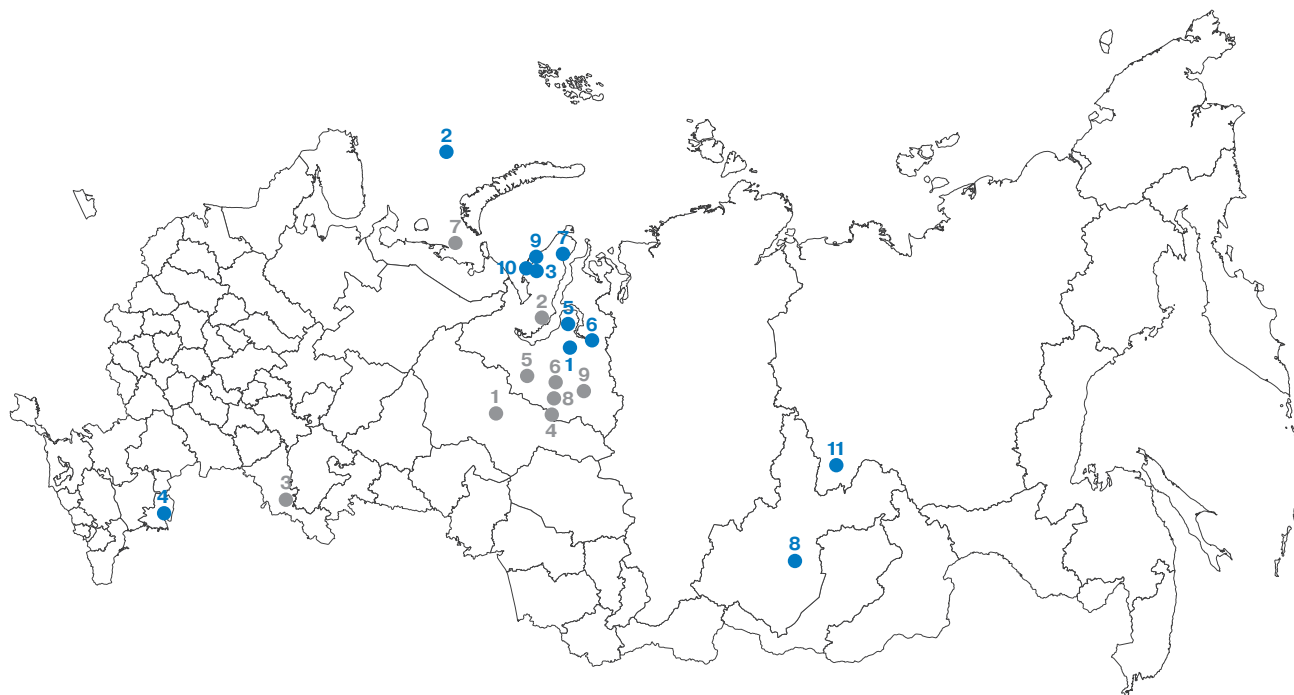
The Group's share in A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves of associates and joint ventures as at the same date was 1,003.8 bcm of natural and associated gas, 100.8 mm tonnes of gas condensate, and 578.3 mm tonnes of oil.

### Subsoil licence portfolio as at 31 December 2017

Gazprom Group	
265	licences for geological surveying, exploration, and production of hydrocarbons
547.5 thousand square km	total area of licence blocks
Entities in which Gazprom has investments classified as joint operations	
36	licences for geological surveying, exploration, and production of hydrocarbons
23.1 thousand square km	total area of licence blocks

For more details on Gazprom Group's licences for major hydrocarbon fields and licencing activities see Gazprom in Figures 2013–2017 Factbook

### Gazprom Group's fields in Russia with the largest reserves of natural gas and oil



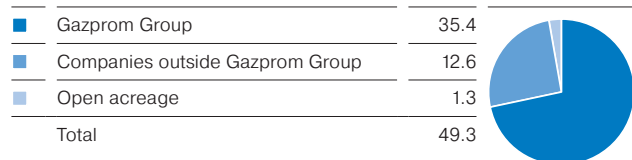
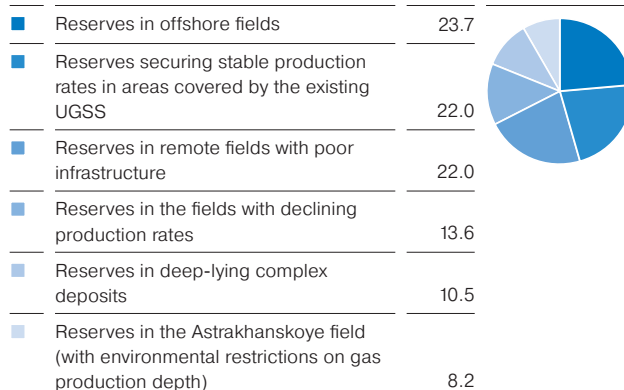
#### The largest fields by natural gas reserves

- 1 Urengoykoye
- 2 Shtokman
- 3 Bovanenkovskoye
- 4 Astrakhanskoye
- 5 Yamburgskoye
- 6 Zapolyarnoye
- 7 Tambeykoye
- 8 Kovyktinskoye
- 9 Kharasaveyskoye
- 10 Kruzenshternskoye
- 11 Chayandinskoye

#### The largest fields by oil reserves

- 1 Priobskoye
- 2 Novoportovskoye
- 3 Eastern block of the Orenburgskoye OGCF
- 4 Vyngapurovskoye
- 5 Sutorminskoye and Severo-Karamovskoye
- 6 Vyngayakhinskoye
- 7 Prirazlomnoye
- 8 Novogodneye
- 9 Ety-Purovskoye

**Note.** The map shows Gazprom Group's hydrocarbon fields (excluding entities in which Gazprom has investments classified as joint operations) with combined reserves accounting for 70% or more of A+B<sub>1</sub>+C<sub>1</sub> natural gas and oil reserves as at 31 December 2017.

**Breakdown of explored gas reserves in Russia  
as at 31 December 2017, tcm**

**Breakdown of Gazprom Group's explored gas reserves, %**

**Factors behind the changes in A+B<sub>1</sub>+C<sub>1</sub> natural gas reserves in 2017, bcm**

Natural gas reserves as at 31 December 2016	36,443.9
Re-estimation	← -1,437.8
Exploration-based additions to reserves	→ +852.9
Production (including losses)	← -469.9
Other factors	← -33.7
Natural gas reserves as at 31 December 2017	35,355.4

**Re-estimation**

Accounting for reserves under the new Russian Classification of Reserves and Resources of Oil and Flammable Gases using gas recovery factors (GRFs) since January 2016 was a major factor behind the changes in natural gas reserves vs the estimate as at 31 December 2016. As at 31 December 2017, the Company completed the GRF estimation for fields containing 19% of Gazprom Group's A+B<sub>1</sub>+C<sub>1</sub> reserves (Kirinskoye, Bovanenkovskoye, Yen-Yakhinskoye, Yamburgskoye (Cenomanian), Yuzhno-Russkoye (Cenomanian and Turonian), and Chayandinskoye). Following the GRF re-estimation, the reported recoverable reserves of natural gas decreased by 1,281.6 bcm.

This factor will continue to impact the Group's metrics within the transition period set by the Ministry of Natural Resources and Environment of the Russian Federation, as GRF estimates are made and new field development project designs are approved. As the GRF value is less than one, future reported gas reserves may be lower as compared to previous periods.



## Exploration

Gazprom conducts exploration in existing gas producing areas with well-developed infrastructure to maintain production levels, and in new areas to build gas production hubs.

The Company's geological and geophysical (G&G) surveys covered all subsoil use regions, including Eastern and Western Siberia, the Far East and Arctic continental shelf, and European Russia.

3D seismic surveys completed in Russia in 2017 totalled 18.7 thousand square km. In the same period, exploration drilling totalled 85.9 thousand m of solid rock, and 36 oil and gas wells were completed, with 31 wells producing flow when tested. The Company allocated RUB 82.6 bn for its exploration programmes (inclusive of VAT).

In addition, for entities in which Gazprom has investments classified as joint operations, exploration drilling stood at 12.8 thousand m, with four exploration wells completed and flowing, and 3D seismic was acquired on 0.2 thousand square km.

In 2017, exploration-driven additions to Gazprom Group's A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves in Russia totalled 852.9 bcm of natural gas, 95.6 mm tonnes of gas condensate, and 3.3 mm tonnes of oil. The bulk of this growth in gas reserves was concentrated at the Tambeyskoye (395.5 bcm) and Malyginskoye fields (201.1 bcm) on the Yamal Peninsula, and in the Achimov deposits of the Urengoyskoye field in the Yamal-Nenets Autonomous Area (194.9 bcm). In 2017, reserves were estimated at 48.9 bcm of gas for the Yuzhno-Lunskoye field within the Kirinsky prospect on the Sea of Okhotsk continental shelf.

### Reserve additions in the Tambey cluster

C<sub>1</sub>+C<sub>2</sub> reserves grew during the reporting year at the Tambey cluster fields (Tambeyskoye and Malyginskoye) from 2.6 tcm as at 31 December 2016 to 7.7 tcm as at 31 December 2017 (including 7.4 tcm within PJSC Gazprom's licence blocks). The Company's surveys found that the Severo-Tambeyskoye, Zapadno-Tambeyskoye, and Tasiyskoye fields, previously considered to be separate fields, are in fact one and the same Tambeyskoye field.

The Group discovered four fields during 2017 — Yuzhno-Lunskoye (the Sea of Okhotsk continental shelf), Salairskoye (the Krasnoyarsk Territory), Alexander Zhagrin (the Khanty-Mansi Autonomous Area — Yugra), and Novozarinskoye (the Orenburg Region), and 47 new deposits at previously discovered fields in the Yamal-Nenets Autonomous Area, Khanty-Mansi Autonomous Area — Yugra, and in the Tomsk, Irkutsk, and Orenburg Regions. In addition, entities in which Gazprom has investments classified as joint operations discovered the Melimovskoye field in the Tomsk Region, as well as five deposits in the Khanty-Mansi Autonomous Area — Yugra, and in the Tomsk Region.

Gazprom also completed the construction of a 2,700 m exploration well within the Ayashsky licence block on the Russian Sea of Okhotsk continental shelf (Sakhalin-3 project) during the reporting year. When tested, the well produced commercial oil flow, and reserves will be estimated in 2018.

The exploration success rate in 2017 was 73.8 thousand boe per metre drilled (excluding entities in which Gazprom has investments classified as joint operations).

# 96%

**Gazprom Group's share of total exploration-based reserve growth in Russia**

# 1.82

**gas reserve replacement ratio**

# 1.64

**condensate and oil reserve replacement ratio**

## Fields Development

With its unprecedented track record of operations across different continents, PJSC Gazprom stays innovative while engaging in ambitious, most challenging upstream projects. This success is underpinned by the Company's long-term strategy and tight vertical integration providing a firm foundation for Gazprom's continued success in competing against global majors, implementing ambitious projects, and achieving impressive results.

The Nadym-Pur-Taz region in the Yamal-Nenets Autonomous Area remains Gazprom Group's core gas-producing region (92%). As new production capacity is phased in at the Bovanenkovskoye oil and gas condensate field, the gas production hub in the Yamal Peninsula is gaining importance: in 2017, it contributed 17.6% to Gazprom Group's total gas production. The Group's oil reserves are developed mainly in the Yamal Nenets Autonomous Area and Khanty-Mansi Autonomous Area — Yugra, as well as in the Irkutsk, Omsk, Orenburg, and Tomsk Regions, and on the Russian Pechora Sea continental shelf.

### Gazprom Group's hydrocarbon production assets in Russia as at 31 December 2017

Gazprom Group	
136	fields in commercial development
18	fields in pilot development
7,438	gas producing wells
1,127.9 bcm	total design capacity of comprehensive and preliminary gas treatment units
7,358	total design capacity of comprehensive and preliminary gas treatment units
Entities in which Gazprom has investments classified as joint operations	
35	fields in commercial development
6	fields in pilot development

### Gazprom Group's fields in Russia with the largest production of natural gas and oil



#### The largest fields by natural gas production

- 1 Zapolyarnoye
- 2 Urengoyevskoye
- 3 Bovanenkovskoye
- 4 Yamburgskoye
- 5 Yuzhno-Russkoye
- 6 Orenburgskoye

#### The largest fields by oil production

- 1 Priobskoye
- 2 Novoportovskoye
- 3 Vyngapurovskoye
- 4 Prirazlomnoye
- 5 Eastern block of the Orenburgskoye OGCF
- 6 Sutorminskoye
- 7 Kraineye
- 8 Tsarichanskoye
- 9 Vyngayakhinskoye
- 10 Ety-Purovskoye

**Note.** The map shows Gazprom Group's hydrocarbon fields (excluding entities in which Gazprom has investments classified as joint operations) with combined production accounting for 70% or more of total natural gas and oil production in 2017.



The Group produced 471.0 bcm of natural and associated gas (excluding entities in which Gazprom has investments classified as joint operations) in 2017, up 12.4% year-on-year due to a significant increase in demand.

The Bovanenkovskoye oil and gas condensate field significantly contributed to the growth in gas production. Following the commissioning of new production facilities in 2016–2017, the field reached a peak production of 264 mmcm per day.

#### Gazprom Group's natural and associated gas production in the Russian Federation, bcm

Gazprom Group, including the share in production volumes of entities in which Gazprom has investments classified as joint operations	
2015	419.5
2016	420.1
2017	472.1
Gazprom Group's equity share of production from associates and joint ventures	
2015	25.5
2016	27.2
2017	27.0

#### Gas production from the Bovanenkovskoye OGCF, bcm

2015	61.9
2016	67.5
2017	82.8

Upgrades and technical re-equipment of gas production facilities carried out under comprehensive programmes ensures reliable, safe, and cost-efficient operation of Gazprom Group's gas production assets to maintain target gas production levels. Activities under such programmes in 2017 covered the Yamburgskoye, Urengoyskoye, Medvezhye, Yubiley-noye, Zapadno-Tarkosalinskoye, Komsomolskoye, and Orenburgskoye oil and gas condensate fields, as well as the Astrakhanskoye gas and condensate field

For more details on Gazprom Group's priority field developments see the Strategy section and Gazprom in Figures 2013–2017 Factbook

During the year, Gazprom Group increased its associated petroleum gas (APG) production by 1.0 bcm to 11.4 bcm (including share of entities in which Gazprom has investments classified as joint operations). APG utilisation reached 98.4% at Russian fields operated by PJSC Gazprom's gas production subsidiaries and 76.2% across Gazprom Neft Group (excluding entities in which Gazprom has investments classified as joint operations) in 2017. For entities in which Gazprom has investments classified as joint operations, the rate reached 88.9%.

#### Capex projects to improve Gazprom Neft's APG utilisation rate to 95% by 2020

- a booster compressor station with an annual capacity of 450 mmcm and a gas pipeline system exceeding 100 km in total length, to be constructed under the Urmano-Archinsky project in the Tomsk Region
- a 7 bcm per year comprehensive gas treatment unit at the Novoportovskoye field
- a 4.8 bcm per year TL-4 compressor station at the Eastern block of the Orenburgskoye OGCF
- a 260 mmcm per year compressor station and comprehensive gas treatment unit for gas re-injection at the Otdalennaya group of fields

Oil production in the reporting year (excluding the share in production volumes of entities in which Gazprom has investments classified as joint operations) totalled 41.0 mm tonnes (up 1.7 mm tonnes year-on-year), including 39.5 mm tonnes produced by Gazprom Neft Group.

The production increase was driven by higher oil production from the Novoportovskoye and Prirazlomnoye fields following the drilling of production wells with a total production of 8.6 mm tonnes.

#### Oil production by Gazprom Group in Russia, mm tonnes

Gazprom Group, including the share in production volumes of entities in which Gazprom has investments classified as joint operations	
2015	44.0
	8.0
2016	47.2
	7.9
2017	48.6
	7.6
Gazprom Group's equity share of production from associates and joint ventures	
2015	9.6
2016	9.9
2017	10.9

#### Oil production from the Novoportovskoye OGCF, mm tonnes







2015	0.3
2016	2.9
2017	6.0

#### Oil production from the Prirazlomnoye oil field, mm tonnes

2015	0.9
2016	2.2
2017	2.6

Gas condensate production across Gazprom Group was 15.9 mm tonnes.

#### Gas condensate production by Gazprom Group in Russia, mm tonnes

Gazprom Group, including the share in production volumes of entities in which Gazprom has investments classified as joint operations		
2015		15.3
2016		15.9
2017		15.9
Gazprom Group's equity share of production from associates and joint ventures		
2015		4.7
2016		5.2
2017		5.0

If the Group's share in production volumes of entities in which Gazprom has investments classified as joint operations (1.1 bcm of natural and associated gas and 7.6 mm tonnes of oil) is taken into account, Gazprom Group produced 472.1 bcm of natural and associated gas, 15.9 mm tonnes of gas condensate, and 48.6 mm tonnes of oil. A drop in oil production by entities in which Gazprom has investments classified as joint operations is due to compliance with the OPEC+ production cut deal.

In 2017, associates and joint ventures produced 27.0 bcm of natural and associated gas, 5.0 mm tonnes of gas condensate, and 10.9 mm tonnes of oil (share attributable to Gazprom Group). Oil production increased due to higher production from AO Messoyakhneftegaz-operated Vostochno-Messoyakhskoye field, put into commercial development in 2H 2016. The company is owned by Gazprom Neft and Rosneft as equal shareholders.

For more details on the application of new development technologies see the Innovations, Import Substitution, and Quality Management section  
→ Pages 145–146, 148–149

#### Operations Outside Russia

Outside Russia, Gazprom Group carries out hydrocarbon field prospecting and exploration, holds stakes in a number of oil and gas projects which have entered the production phase, and provides oilfield services related to well construction.

During 2017, Gazprom Group carried out a number of geological and geophysical (G&G) surveys under the relevant contracts in FSU countries, Europe, Southeast Asia, Africa, the Middle East, and South America.

Exploration campaigns conducted by Gazprom Group on the Group-operated projects (exploratory drilling of 18.4 thousand m of rocks, with eight exploration wells completed, including five producing wells), 3D seismic surveys of 1.2 thousand square km completed.

Gazprom Group spent RUB 4.1 bn in 2017 on exploration projects outside Russia (inclusive of VAT).

Drilling operations were conducted in in Serbia, Romania and Iraq. The exploration programmes discovered three fields in Serbia, and one field in Romania.

Exploration campaigns across projects not operated by Gazprom Group resulted in the discovery of Winchelsea field in 2017.


Gazprom Group also has stakes in a number of oil and gas projects at the production stage. In terms of natural gas and gas condensate production, the largest of them include the projects within licence blocks 05–2 and 05–3 in the Vietnamese section of the South China Sea bed (49% share of participation of the Group), and in Ipati and Aquio licence blocks in Bolivia (20% share of participation of the Group). The Badra field development project in Iraq (30% share of participation of the Group) is the largest by production of oil and associated petroleum gas.

Over **5** mm tonnes

of oil were produced at the Badra field in Iraq since its development commenced



**Natural gas production from the Incahuasi field in Bolivia, bcm**

2015	—	—
2016		0.7
2017		2.5

**Note.** Total production figures are given for the project, without separating the share attributable to Gazprom Group.

**Natural gas production from the Moc Tinh and Hai Thach in Vietnam, bcm**

2015		1.9
2016		2.1
2017		2.1

**Note.** Total production figures are given for the project, without separating the share attributable to Gazprom Group.

**Oil production from Badra field in Iraq, mm tonnes**

2015		1.4
2016		2.6
2017		3.8

**Note.** Total production figures are given for the project, without separating the share attributable to Gazprom Group.

In 2017, as part of the Badra field development project in Iraq, gas supplies were started to Az-Zubaidiya power station supplying electric power to several provinces across Iraq and the capital city of Baghdad.

NIS, a Serbian subsidiary of Gazprom Neft, produced 1.0 mm tonnes of oil and 0.5 bcm of natural and associated gas in 2017.

Wintershall Noordzee joint venture (50% share of participation of the Group) produced 0.8 bcm of gas in 2017. The company also started the commercial development of the Ravn oil field in the Danish North Sea.

In Lybia, the Group's associate Wintershall AG (49% share of participation of the Group) operates nine fields on oil concessions C96 and C97, with production interruptions due to the unstable political situation in the country. A total 1.5 mm tonnes of oil and 0.2 bcm of associated petroleum gas were produced in 2017.

For more details on Gazprom Group's prospecting and exploration projects outside Russia see Gazprom in Figures 2013–2017 Factbook

Gazprom Group executes oilfield services contracts in the Republic of Bangladesh, building two oil wells in 2017 for Bangladesh Petroleum Exploration and Production Ltd. and Bangladesh Gas Fields Company Ltd.

In 2017, the Group continued to focus on exploring opportunities for participation in new oil and gas projects outside Russia. Data processing and interpretation were carried out for La Ceiba, Madidi, and Vitiacua blocks in Bolivia to assess the viability of continuing operations in the region. In addition, PJSC Gazprom signed a number of memorandums of understanding with the National Iranian Oil Company and the Petroleum Ministry of Iran to cooperate in exploration, production, transportation, processing, and marketing of hydrocarbons.

During 2017, the Company was also finalising an asset swap deal under the Basic Agreement on asset swap signed between PJSC Gazprom and OMV in December 2016. Under the deal, the Company will receive a 38.5% stake in OMV Norge AS, a company focused on hydrocarbon exploration and production on the Norwegian continental shelf, in exchange for a 24.98% stake in the project for developing Blocks 4A and 5A of the Achimov deposits in the Urengoy oil, gas and condensate field. The parties expect to sign finalised agreements and close the deal before the end of 2018. The deal is subject to regulatory approvals and respective internal corporate approvals.

## Major Capex Projects

Capital expenditures in 2017 totalled RUB 216,5 bn (down RUB 18.7 bn, or 8%, year-on-year) for gas production, and RUB 330.4 bn (marginal growth year-on-year) for oil and gas condensate production. The bulk of gas production capex was spent on field construction to develop the Chayandinskoye OGCF, the Cenomanian-Aptian deposits at the Bovanenkovskoye OGCF, and the Achimov deposits in the Urengoy OGCF while oil and gas condensate production capex was mostly directed toward field construction to develop the oil rim in the Botuobinsky horizon of the Chayandinskoye OGCF, and the implementation of Gazprom Neft's projects, including construction and production drilling at the Novoportovskoye and Pirazlomnoye fields, as well as capex projects for conventional assets.

As part of its gas production capex projects, the Company commissioned in 2017 two booster compressor stations at the Zapolyarnoye OGCF (Phase 1) and the Bovanenkovskoye OGCF (Phase 2, Stage 1) with combined capacity of 176 MW, and added new, 16 MW gas pumping unit to the booster compressor station (Phase 2) at the Zapadno-Tarkosalinskoye OGCF.

As part of oil production initiatives, the following facilities were commissioned to improve APG utilisation rates:

- a gas compressor station at the Shinginskoye field with an annual capacity of 150 mmcm and two vacuum compressor stations at the Shinginskoye and Luginetskoye groups of fields
- a gas pipeline to bring gas from the Orenburgskoye OGCF's Eastern block to the Orenburg GPP
- a CGTU with an annual capacity of 3.6 bcm at the Novoportovskoye field, to support APG treatment and utilisation through re-injection into a reservoir to maintain formation pressure.

Apart from that, new production wells were commissioned in Russia: 37 gas wells, 666 oil wells. Production drilling totalled 240.8 thousand m of gas wells and 2559.5 thousand m of oil wells.

**Production drilling was fully completed at the Kirinskoye gas and condensate field.**

Outside Russia, a CGTU (Phase 1) and an export gas pipeline were commissioned as part of the Badra field development project in Iraq.

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### Investment priorities for 2018

- Production drilling and construction at the Chayandinskoye OGCF
- Field construction to develop the Cenomanian-Aptian deposits at the Bovanenkovskoye OGCF
- Field construction to develop the Achimov deposits in the Urengoy OGCF
- Development of the Novoportovskoye OGCF and the Pirazlomnoye oil field



## Transportation and Underground Storage

Gazprom operates the world's most reliable, unique gas transportation system (GTS). The Company consistently develops it through building new, high-tech gas pipelines, and renovating and upgrading the existing ones. The northern gas transmission corridor is becoming the main conduit of gas supplies to end consumers in European Russia and in Europe while the Power of Siberia trunk gas pipeline will ensure deliveries to end users in Russia's Far East regions and in China.

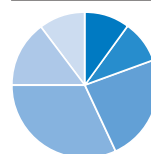
### Transportation and Underground Storage in Russia

The Unified Gas Supply System (UGSS) of Russia is a centrally operated system of natural gas treatment, transportation and storage. The UGSS incorporates the world's longest network of high-pressure trunk pipelines covering European Russia and Western Siberia. In addition, the Group owns trunk pipelines in the Russian Far East: Sakhalin — Khabarovsk — Vladivostok, and Sobolevo — Petropavlosk-Kamchat-sky pipelines.

As at the end of 2017, the combined length of trunk pipelines and connections operated by the Group's gas transportation subsidiaries in Russia totalled 172.1 thousand km (including technological jumpers). The gas transportation system (GTS) comprises 254 compressor stations (CSs), equipped with a total 3,844 gas pumping units with a combined capacity of 46,700 MW.

**Breakdown of Russian trunk gas pipelines operated by the Group's gas transportation subsidiaries by time in service as at 31 December 2017, thousand km**

■	Less than 10 years (inclusive)	17.3
■	11 to 20 years (inclusive)	16.2
■	21 to 30 years (inclusive)	40.9
■	31 to 40 years (inclusive)	55.2
■	41 to 50 years (inclusive)	24.8
■	Over 50 years	17.7
	<b>Total</b>	<b>172.1</b>



During 2017, a total 672.1 bcm of gas were supplied into Gazprom's GTS in Russia, up 8% year-on-year. The growth was driven by higher demand and subsequent increase in gas supplies by Gazprom and non-Group companies.

#### Gas supplies into the GTS in Russia, bcma

2015		602.6
2016		622.6
2017		672.1

#### Gas consumption for own operational needs of the GTS, bcm

2015		32.0
2016		32.0
2017		37.3

As the owner of the Russian section of the GTS, PJSC Gazprom leases out free pipeline capacity (subject to its availability) to independent companies outside Gazprom Group provided they have a gas production licence and a supply contract with the buyer of the supplied gas. Such third-party gas also needs to meet relevant technical standards.

#### Gas transportation services to non-Group companies via Gazprom's GTS in Russia

	2015	2016	2017
Gas transported, bcm	121.5	129.0	137.9
including Russian gas	113.9	121.3	130.4
Companies serviced	22	24	24

All overhauls of the gas transportation system facilities scheduled for the reporting year under the relevant targeted comprehensive repair programmes were completed in full. Prioritisation of trunk pipeline sections for repairs and selection of repair methods were done using Gazprom's pilot GTS Operability and Integrity Management System based on reliability metrics and probability of technology-related risks.

For more details on the diagnostics and overhauls of trunk gas pipelines in Russia see Gazprom in Figures 2013–2017 Factbook

A network of underground gas storage facilities (UGSFs) is an integral part of the country's Unified Gas Supply System (UGSS). Storage facilities offset any fluctuations in demand, whether seasonal, weekly or daily, accounting for 20% to 40% of Gazprom's total supplies during the heating season. Peak and base load gas storage facilities improve reliability of the UGSS infrastructure, and optimise technical parameters and capital intensity of gas transportation systems.




In Russia, Gazprom operates 22 UGSFs in 26 geological structures: 17 facilities in depleted gas deposits, eight in aquifers, and one in a salt cavern. The storage facilities are located in 19 regions. Their operation is supported by 19 compressor stations with an aggregate capacity of 948.5 MW, and the operating well stock of 2,694 units.

As at 31 December 2017, the Group's UGSFs in Russia had an aggregate total gas storage capacity of 74.9 bcm. During 2017, withdrawal and injection amounts for Russian UGSFs totalled 45.5 bcm and 44.2 bcm of gas, respectively.




# 1.9<sub>times</sub>

as much gas withdrawn from UGSFs in Russia compared to 2015

#### Gas withdrawn from UGSFs in Russia, bcm

2015		24.3
2016		44.8
2017		45.5

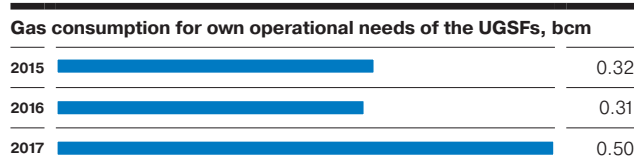
#### Gas injected into UGSFs in Russia, bcm

2015		27.1
2016		24.7
2017		44.2

The maximum aggregate daily deliverability was registered on 8 February 2017 at 590.5 mmcm. By the start of the 2017/2018 withdrawal season, the potential maximum daily deliverability was increased to 805.3 mmcm of gas, an increase of 4 mmcm from the 2016/2017 withdrawal season. By the 2017/2018 withdrawal season, operating gas reserves in Russian UGSFs increased by 0.086 bcm from the previous season to 72.2 bcm.

**UGSFs potential maximum daily deliverability and operating gas reserves reached all-time record highs in the history of the Russian gas industry.**





The improved performance in 2017 was driven by a recovery in target well productivity, and by renovations of the existing Punginskoye, Sovkhoznoye, Severo-Stavropolskoye, and Kaliningradskoye UGSFs.

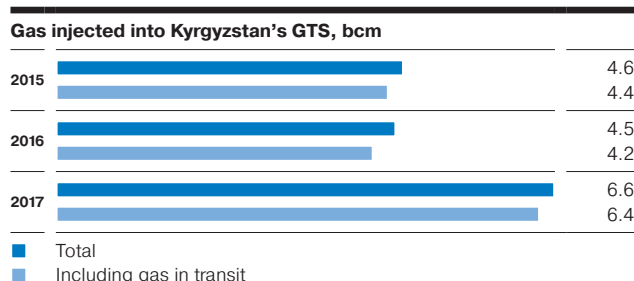
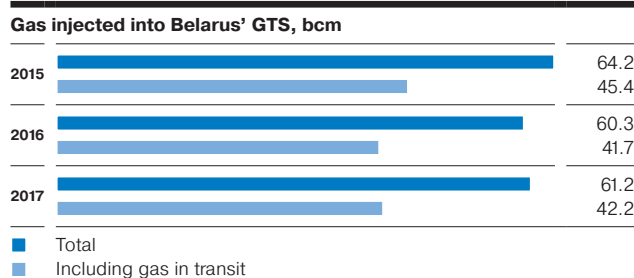
### Transportation and Underground Storage Outside Russia

Gazprom Group companies own the gas transportation systems in Belarus, Armenia, and Kyrgyzstan.

OA O Gazprom transgaz Belarus is the Group's core gas transportation asset abroad, supplying natural gas to consumers in Belarus, and carrying transit supplies of gas to Europe and Russia's Kaliningrad Region. Daily requests by PJSC Gazprom to transport Russian natural gas through Belarus were satisfied in full.

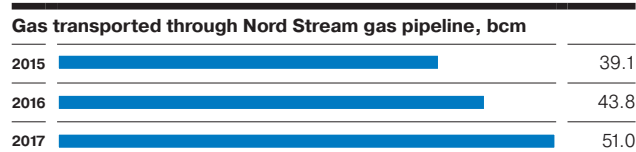
The volumes of gas injected into Kyrgyzstan's GTS were up by 46.7% year-year in 2017 as transit gas supplies to Kazakhstan increased from 2016.

For more details on profiles of Gazprom Group's gas transportation infrastructure outside Russia see Gazprom in Figures 2013–2017 Factbook

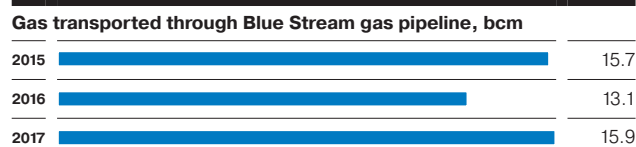


Regular inline and corrosion inspections and overhauls of gas pipelines ensure safety and reliability of gas transportation in the above countries.

Gas transportation services in foreign countries are provided to the Group by a number of entities in which Gazprom has a non-controlling interest. Nord Stream and Blue Stream, offshore cross-border pipeline systems constructed with the Group's involvement, secure gas supplies to consumers in Northwest and Central Europe, as well as in Turkey. The key drivers of gas pipeline capacity utilisation include demand from European consumers and regulatory restrictions by supervisory authorities on access to pipeline capacity for transit supplies. The increase in gas volumes transported through Nord Stream in 2017 followed the resolution of issues related to the use of the OPAL pipeline capacity for transit supplies while gas volumes carried via Blue Stream increased in response to higher demand from Turkish consumers.



Note. Gas deliveries into pipeline at the Portovaya compressor station.



Note. Gas deliveries into pipeline at the Portovaya compressor station.

For more details on gas demand growth in European far abroad countries see the Trends and Developments on Gas Markets section  
→ Pages 94–95

As a means to build strategic natural gas inventories, underground gas storage facilities are indispensable for addressing transit risks inherent to exports.

In the former Soviet Union (FSU) countries, Gazprom operates UGSFs in Belarus (Pribugskoye, Osipovichskoye, and Mozyrskoye), in Armenia (Abovianskaya underground gas storage station), and in Latvia (Inčukalna UGSF). As at 31 December 2017, the operating gas reserves in FSU-based UGSFs totalled 3.0 bcm, with a daily deliverability of 55.6 mmcm.

To secure reliable and flexible gas supplies, Gazprom's export projects make extensive use of gas storage facilities located abroad: in Austria (Haidach), Germany (Jemgum, Rehden, Katarina, and Etzel), Serbia (Banatski Dvor), the Netherlands (Bergermeer), and the Czech Republic (Dambořice).

In 2017, Gazprom's own gas storage capacity in far abroad European countries totalled 5.03 bcm, with an aggregate daily deliverability of 83.3 mmcm of gas. In 2017, a total of 8.6 bcm of gas were pumped into UGSFs in far abroad European countries, with a total gas withdrawal of 4.3 bcm.

The Group's gas storage facilities are marketed mostly through a standalone business in the European market, operated by astora GmbH & Co. KG, part of Gazprom Germania Group. As at 31 December 2017, astora GmbH & Co. KG leased out 0.8 bcm of working gas capacity at Jemgum and Haidach UGSFs to companies outside Gazprom Group, which makes up ca. 12% of available gas storage capacity of the operator.

### Major Capex Projects

In 2017, Gazprom Group's capital expenditures for gas transportation totalled RUB 498.6 bn, up by RUB 91.8 bn, or 22.6%, year-on-year.

Most of this capex was spent to finance the construction of the Power of Siberia and the Ukhta — Torzhok 2 trunk gas pipelines, and the UGSS expansion project for the Gryazovets to Ust-Luga section in the North-West region.

A total 640.2 km of new trunk gas pipelines and connections were commissioned in Russia in 2017.

During 2017, the Company made investments in upgrades to its gas transportation infrastructure. In the reporting period, the Company constructed three gas pumping units with a total capacity of 40 MW, 100.2 km of linear section trunk pipelines and connections, and six gas distribution stations.

#### Investment priorities in gas transportation for 2018

- Construction of the Power of Siberia trunk gas pipeline
- Construction of the Ukhta — Torzhok 2 trunk gas pipeline, expansion of UGSS gas transportation capacity at the Gryazovets — Slavyanskaya CS section in the North-West region, and construction of loopings at the Gryazovets — Vyborg gas pipeline
- Construction of compressor capacity for the Bovanenkovo — Ukhta 2 trunk gas pipeline
- Implementation of the Nord Stream 2 and TurkStream gas pipeline projects

The completed section of Phase 2 of the Bukhara Gas-Bearing Province — Tashkent — Bishkek — Almaty gas pipeline was commissioned in Kyrgyzstan. Including the previously renovated section of Phase 1, the gas pipeline's annual throughput capacity in Kyrgyzstan was almost doubled to 3.9 bcm. With this upgrade, the Company was able to achieve a fundamentally new level of reliability in supplying gas to Northern Kyrgyzstan and Southern Kazakhstan.

Capital expenditures for underground gas storage totalled RUB 37.7 bn (up by RUB 2.2 bn, or 6.2%, year-on-year).

The bulk of capital expenditures for underground gas storage in Russia was used towards salt cavern construction at the Kaliningradskoye and Volgogradskoye UGSFs, renovation of the Sovkhoznoye UGSF and the existing capacity to transmit gas from the Severo-Stavropolskoye UGSFs, as well as production drilling at underground gas storage facilities.

In 2017, production facilities were commissioned at the Punginskoye, Kaliningradskoye and Sovkhoznoye UGSF facilities, which resulted in an increase in active capacity of 1.3 bcm. A compressor station with a capacity of 32.0 MW at the Punginsky UGSF facility, and 24 wells connected. Renovation of gas production facilities and gas treatment unit was completed at the Krasnodarskoye UGSF.

#### Investment priorities in gas underground storage for 2018

- Capacity commissioning at the Volgogradskoye and Sovkhoznoye UGSF
- Expansion of the Punginskoye UGSF
- Further construction of facilities at the Kaliningradskoye UGSF
- Well workovers and production facilities upgrades at the Kasimovskoye, Peschano-Umetskoye, Elshanskoye, and Stepnovskoye UGSFs

The Group announced that a major focus of its investment programmes would be on expanding its underground gas storage system to ensure uninterrupted gas supply to European customers during winter peak demand periods and during repairs at GTS, as well to boost gas sales from underground gas storage facilities.

The Company is planning to further expand working gas capacity at UGSFs located abroad by adding new capacity to the Katarina UGSF in Germany and Dambořice UGSF in the Czech Republic based on their respective expansion schedules.

For more details on new technologies used in gas transportation and underground storage see the Innovations, Import Substitution, and Quality Management section  
→ Pages 146–147



## Gas Distribution, Gas Infrastructure Expansion, and NGV Fuel Markets

Through its ambitious programme to expand gas infrastructure across Russia, Gazprom is improving the quality of life for many thousands of households while setting the stage for social and economic growth in Russian regions. Promoting the use of NGV fuel is an integral part of this effort. New advanced and easy-to-use facilities are added to the Company's network of CNG filling stations every year.

Gazprom Group operates its network in a safe and reliable way while providing corporate control over compliance with industrial safety requirements for the operation of gas distribution systems in Russia. The Group's gas distribution networks are operated by AO Gazprom gazoraspredelenie, its subsidiaries and associates, and OOO Gazprom transgaz Kazan.

As at 31 December 2017, the Group's gas distribution subsidiaries and associates owned and operated a total of 773.4 thousand km of gas distribution networks in Russia.

In 2017, Gazprom Group's gas distribution subsidiaries and associates transported 239.0 bcm of natural gas via their gas distribution networks. Gas was supplied to:

- 28.5 million apartments and private households
- 31.46 thousand industrial facilities
- 7.6 thousand agricultural facilities
- 326.1 thousand utility facilities.

Additionally, the Group's subsidiaries provide gas distribution services in Armenia (ZAO Gazprom Armenia), Kyrgyzstan (OsOO Gazprom Kyrgyzstan), and in Romania (WIROM GAS S.A.).

### Expansion of Gas Infrastructure in Russian Regions

Gazprom is making sustained progress in delivering its ambitious Programme for Expansion of Gas Infrastructure in Russian Regions to bolster their social and economic growth and improve the quality of life for local communities.

As part of the Programme, the Group completed the construction of 121 inter-community gas pipelines in 2017, spanning a total of 1,848 km across 32 Russian regions and supplying gas to 207 locations. 51.8 thousand households and 173 boiler houses, with a total annual gas consumption of 0.4 bcm, will be ready to receive gas as soon as regional administrations fully meet their commitments.

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**RUB 29.45<sub>bn</sub>**

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**allocated in 2017 to expand gas infrastructure across Russian regions**

For more details on Gazprom Group's gas distribution business see Gazprom in Figures 2013–2017 Factbook

By the end of 2017, the gas infrastructure coverage in Russia reached 68.1% (including 71.4% in urban and 58.7% in rural areas).

In 2007, PJSC Gazprom continued working towards its key strategic targets in expanding regional gas infrastructure, including:

- maximise gas infrastructure coverage in Russian regions in a viable way, meet effective demand for gas, improve living conditions of local residents (particularly in rural areas), and unlock the economic potential of Russian regions
- improve coordination between PJSC Gazprom and regional administrations across Russia to ensure that both sides sync their efforts in putting in place arrangements for pipeline gas supplies to end consumers, and that capacity is fully utilised as soon as it comes online.

During the reporting year, the Company made progress with an off-mains LNG project in the Tomsk Region.

In 2017, the Company continued supplying gas and expanding gas infrastructure in priority development areas (PDAs) in the Primorye, Khabarovsk, and Kamchatka Territories, and in the Sakhalin Region: the Mikhailovsky, Nadezhdinskaya, Komsomolsk, Kamchatka, and Gorny Vozdukh PDAs. The Company completed the construction of gas transportation infrastructure to supply gas to the Zvezda ship-building complex in the Primorye Territory. The Company also continued designing the infrastructure for gas transportation to Nakhodka to supply gas to the Eastern Petrochemical Complex. Gas supply contracts were signed with a number of potentially large industrial consumers in the Amur Region and Primorye Territory. The Company made efforts to improve its natural gas sales platform in the Far Eastern Federal District.

Through a strong focus on its Eastern Gas Programme to build new gas production hubs and trunk pipelines, PJSC Gazprom is setting the stage for extending gas infrastructure to consumers in Eastern Siberia and the Russian Far East.

With the completion of the Power of Siberia trunk gas pipeline, the Company will be able to extend its gas infrastructure to Yakutia and the Amur Region. PJSC Gazprom and the Government of the Republic of Sakha (Yakutia) signed a programme to expand gas supply and gas infrastructure across the Republic covering the period until 2026. A similar document is currently being drafted to provide a framework for cooperation between the Company and the Government of the Amur Region. The Company is also exploring options for gas infrastructure expansion to regions of the Siberian Federal District, including the Irkutsk Region and Krasnoyarsk Territory.

The Programme for Expansion of Gas Infrastructure in Russian Regions for 2018 covers 66 regions.

## NGV Fuel Markets

### Development of the NGV Fuel Market in Russia

Demand for natural gas vehicle (NGV) fuel has a considerable upside potential in Russia.

For more details on trends in the Russian NGV fuel market see the Trends and Developments on Gas Markets section → Page 98

The Group is promoting the NGV fuel market (including sales of gas as a motor fuel) through OOO Gazprom gazomotornoe toplivo, owned on a parity basis by a subsidiary of PJSC Gazprom and a company of Gazprombank Group.

As at 31 December 2017, Gazprom Group operated a network of 271 compressed natural gas (CNG) filling stations in Russia. OOO Gazprom gazomotornoe toplivo has consolidated a total of 170 CNG filling stations on its books.

#### Operating CNG filling stations on the books of Gazprom Group and OOO Gazprom gazomotornoe toplivo in Russia as at 31 December, units

2015	217
2016	254
2017	271

In 2017, CNG sales via CNG filling stations operated by Gazprom Group and OOO Gazprom gazomotornoe toplivo in Russia totalled 525.9 mmcm. As at 31 December 2017, total sales of the CNG network owned by subsidiaries of Gazprom Group and OOO Gazprom gazomotornoe toplivo stood at 2 mmcm.

#### CNG sales through CNG filling stations of the Group and OOO Gazprom gazomotornoe toplivo in Russia, mmcm

2015	435.9
2016	480.0
2017	525.9

In 2017, Gazprom Group and OOO Gazprom gazomotornoe toplivo sold a total 24.2 thousand tonnes of small-scale LNG produced in Russia, showing an increase year-on-year on the back of stronger exports.

#### Sales of small-scale LNG (produced in Russia) by Gazprom Group and OOO Gazprom gazomotornoe toplivo in Russia, thousand tonnes

2015	16.5
2016	15.8
2017	24.2



## NGV Infrastructure Expansion

To set up a single federal network of CNG filling stations, OOO Gazprom gazomotornoe toplivo takes on new gas fuelling infrastructure projects in Russian regions.

In the medium term, its NGV fuel infrastructure projects will focus mostly on building CNG filling stations and installing CNG units at the existing filling stations offering liquid motor fuels. Additional options under consideration include private filling stations to be installed by vehicle fleet operators within their sites, and mobile NGV-refuelling stations.

### Russia's and Europe's largest CNG filling station launched

Russia's and Europe's largest CNG filling station was launched in Moscow in 2017, with an annual design throughput of 29.8 mmcm of natural gas. With its advanced reliable equipment mostly manufactured in Russia, the new station can serve ca. 2,000 vehicles per day.

In the reporting year, the Company commissioned a CNG filling station in Moscow, licenced OOO Gazprom Transgaz Ufa to operate two CNG modules, and launched a mobile NGV-refuelling station in Novy Urengoy. With construction and installation completed, pre-commissioning operations are underway at nine CNG filling stations and a mobile NGV-refuelling station.

Cryogenic filling stations which use both LNG and CNG regasified from LNG represent another viable solution to expand the NGV infrastructure along federal highways. The investment project for installing NGV infrastructure along the highway connecting Moscow and St. Petersburg became a pilot project for further NGV infrastructure rollout along federal highways and promotion of LNG as a motor fuel for long-haul vehicles. The project makes part of an international transport corridor between Europe and Western China, the building of which implies further increases in freight traffic. To meet potential demand for NGV fuel, a network of CNG and LNG stations is planned to be deployed along this route, comprising eight standard cryogenic filling stations with LNG-to-CNG regasification modules.

### Cooperation with Russian Automotive Manufacturers and Carriers

OOO Gazprom gazomotornoe toplivo holds the rights to the EcoGas trademark (fuel produced by PJSC Gazprom) in Russia. In 2017, Gazprom implemented a range of measures to build brand awareness of EcoGas in the market as part of its brand building programme for EcoGas.

OOO Gazprom gazomotornoe toplivo has been consistently promoting fleet conversion to NGV fuel among logistics providers. At present, there are over 120 such companies, including X5 Retail Group, OOO Delovye Linii, OOO RULOG, and others.

In 2017, PJSC Gazprom continued cooperation with its partners producing and supplying tubular products on converting their vehicle fleets to NGV fuel, including with PAO Chelyabinsk Pipe Plant, PAO TMK, PAO Severstal, and AO OMK. The vehicle fleet of PAO TMK comprises 20% of gas-powered vehicles, PAO Chelyabinsk Pipe Plant has converted 10 of its vehicles to gas, while PAO Severstal has acquired a tractor unit fuelled by a mixture of gas and diesel fuel.

A key constraint on the growth of the NGV fuel market is the lack of LNG-powered vehicles manufactured on a commercial scale. Gazprom Group has been consistently working with Russian automotive manufacturers to overcome this obstacle. In particular, the Group launched pilot operation of LNG-powered vehicles at subsidiaries of PJSC Gazprom in 2017, involving key Russian automakers.

### Government Relations

In 2017, OOO Gazprom gazomotornoe toplivo was heavily involved in the activities of the Working Group on the use of natural gas as a motor fuel at the Government Commission on the Fuel and Energy Complex, and in the drafting of regional gas infrastructure expansion programmes which set out targets for NGV fuel infrastructure construction. The company also brought forward a number of draft laws to stimulate fleet conversion to NGV fuels.

Additionally, through its government relations efforts, 36 Russian regions had regional government programmes (sub-programmes) in place to promote the NGV fuel market as at 31 December 2017, and 19 regions had zero or reduced transport tax rates for gas-powered vehicles. The company approached Russian regions that will host the 2018 FIFA World Cup to synchronise the commissioning of NGV fuel infrastructure and their plans to procure gas-powered vehicles. The company also continued efforts under the existing agreements to select construction sites for CNG filling stations, and finalise Synchronisation Schedules for the development of the NGV fuel market, to be included as addenda in the Synchronisation Schedules for the implementation of gas infrastructure expansion programmes in Russian regions.

# 53

Russian regions

**are developing their gas refuelling networks under relevant agreements**

Gazprom signs agreements with regions to align procurement of gas-powered vehicles with the expansion of its gas refuelling infrastructure. As at 31 December 2017, such agreements were signed with 53 Russian regions.

### Presence in the International NGV Fuel Market

Gazprom Group is also active in the international NGV fuel segment of the European market via Gazprom NGV Europe, a 100% subsidiary (active in the markets of Germany, Czech Republic, and Poland), and via NIS (part of Gazprom Neft Group) that markets CNG in Serbia. In the reporting year, the number of Gazprom Group's CNG filling stations in Europe stayed flat year-on-year at 60 stations. Two cryogenic filling stations are also operated in Poland. In 2017, CNG and LNG sales via own stations of Gazprom Group was 12.3 mmcm (12.2 mmcm in 2016).

The Group offers CNG via CNG filling stations in Armenia, Belarus, and Kyrgyzstan. CNG sales totalled 35 mmcm in 2017.

In the reporting year, the Company continued its project to promote the NGV fuel market in Vietnam: its joint venture, PVGAZPROM NGV, has completed a feasibility study on the Construction of LNG Facilities and LNG/CNG Filling Stations in Southern Vietnam. In Vietnam, the Company's NGV fuel business is mainly targeting urban and suburban public transport of Ho Chi Minh City.

OOO Gazprom gazomotornoye toplivo has signed a Memorandum of Intent with YPF to set up a joint venture that will build the production and marketing infrastructure for CNG and LNG to be marketed as a motor fuel and an off-mains solution in Bolivia. Additionally, PJSC Gazprom has signed memoranda of understanding with CNPC and JSC National Company KazMunayGas to cooperate on expanding the production and marketing infrastructure for NGV fuels to cover the international transport route between Europe and China, and with Delek Drilling LP for joint exploration of potential use of natural gas as a motor fuel for motor, rail, and water transport, and for agricultural and specialised machinery in Israel.

To expand NGV segment in the European market, PJSC Gazprom and Volkswagen AG signed a cooperative agreement and a roadmap for promotion of natural gas as a motor fuel in Europe. The documents provide for joint activities between PJSC Gazprom and Volkswagen AG in promoting the use of natural gas as a motor fuel.

### Marketing activities in 2017 to promote the use of natural gas as motor fuel

- In partnership with Uniper Global Commodities SE, the Blue Corridor 2017 motor rally was held for LNG-powered vehicles from Lisbon (Portugal) to St. Petersburg, including via Portugal, Spain, France, Italy, Lichtenstein, Germany, Poland, Lithuania, Latvia, and Estonia.
- The rights to the EcoGas trademark were registered under an international certificate in FSU countries: Lithuania, Belarus, and Kazakhstan.

The pre-FEED stage was continued for the construction of a small-scale LNG facility in the Republic of Belarus for subsequent LNG marketing in Belarus and EU countries.

Gazprom is also exploring potential joint implementation of small and medium-scale LNG infrastructure projects with its foreign partners. As part of these efforts, PJSC Gazprom signed a number of agreements in 2017, including:

- A framework agreement for cooperation on small-scale LNG in the Black Sea region with OMV AG, under which the parties will consider a potential project for the construction of an LNG plant in the region to produce, transport, and market small-scale LNG
- A framework agreement for cooperation on small and medium-scale LNG with Mitsui & Co., Ltd. The document reflects the parties' commitment to team up in producing, transporting, and marketing small and medium-scale LNG in Japan, and LNG bunkering in the Sea of Japan.






## Hydrocarbon Processing and Petrochemicals







Hydrocarbon processing is an essential element in Gazprom's value chain. The Company focuses on creating higher value-added products and maximising conversion rates for its hydrocarbon feedstocks. To this end, Gazprom upgrades existing and launches new processing facilities. Currently under construction, the Amur Gas Processing Plant will become Russia's No. 1 and the world's No. 2 gas processing facility by capacity.

In 2017, Gazprom Group (including its equity share of the APG processing volumes of OOO Yuzhno-Priobskiy GPP, classified as joint operations) processed 30.8 bcm of natural and associated gas (almost flat year-on-year), excluding tolling arrangements. Processing of liquid hydrocarbons was down by 2.7% to 64.1 mm tonnes of liquid hydrocarbon feedstocks (crude oil, gas condensate, and fuel oil), mainly due to lower processing volumes at Gazprom Neft Group's facilities due to renovation projects and scheduled overhauls.

In the reporting year, the Group produced 3.5 mm tonnes of liquefied petroleum gas (LPG) and 5.1 mmcm of helium. With less liquid hydrocarbons processed, the output of petroleum products declined to 49.4 mm tonnes. Gazprom neftekhim Salavat ramped up its output of mineral fertilisers and feedstocks while reducing its output of monomers and polymers.

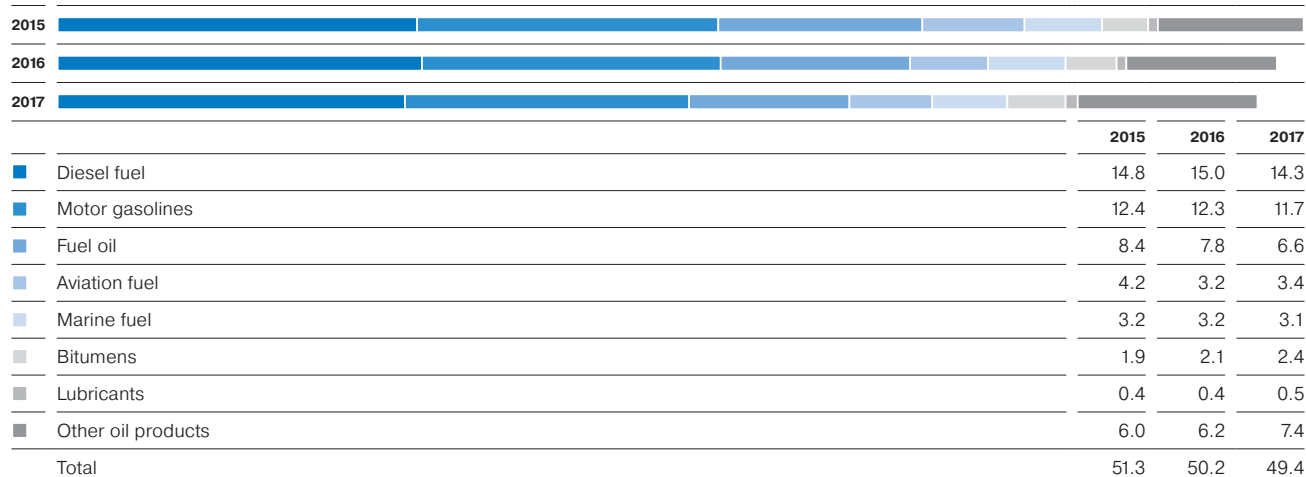
Gazprom Group's natural and associated gas processing, bcm		
2015		31.2
2016		31.0
2017		30.8

Note. Excluding tolling arrangements.

Gazprom Group's liquid hydrocarbon processing, mm tonnes		
2015		66.8
		63.2
2016		65.9
		62.7
2017		64.1
		60.6

■ Total  
■ Including on the territory of Russia

Note. Excluding tolling arrangements.

**Gazprom Group's output of oil products, mm tonnes****Gazprom Group's production of mineral fertilisers and relevant feedstocks, thousand tonnes****Gazprom Group's monomer and polymer production, thousand tonnes**

For more details on Gazprom Group's hydrocarbon processing/refining capacities see Gazprom in Figures 2013–2017 Factbook



## Gazprom Group's hydrocarbon processing, and gas chemical and petrochemical capacity as at 31 December 2017



1	Serbia	Novi Sad Refinery*	
		Pančevo Refinery	4.6
2	Belarus	Mozyr Refinery**	14.0
3	Moscow	Moscow Refinery	12.76
4	Yaroslavl	Slavneft-YANOS***	7.5
5	Sosnogorsk	Sosnogorsk GPP	3.0 2.5
6	Astrakhan	Astrakhan GPP	12.0 7.3
7	Orenburg	Orenburg GPP	37.5 6.26
		Orenburg Helium Plant	15.0
8	Salavat	Monomer plant	
		Gas chemical plant	
		Mineral fertilizers plant	
		Salavat Refinery	10.0
9	Khanty-Mansiysk	Yuzhno-Priobskiy GPP***	0.45
10	Surgut	Condensate stabilisation plant	12.05
11	Novy Urengoy	Condensate pre-transportation preparation plant****	13.67
12	Omsk	Omsk Refinery	22.23
13	Tomsk	Methanol plant	

	Gas processing plants (GPPs) with installed throughput capacity		Natural and associated gas, bcm
	Refineries with installed throughput capacity		Oil, mm tonnes
	Petrochemical and gas chemical production		Unstable gas condensate, mm tonnes
			Oil, stable gas condensate, deethanised gas condensate, mm tonnes

\* Suspended as at 31 December 2017.

\*\* Up to 50% of oil supplied to the refinery.

\*\*\* Gazprom Group has access to 50% of capacity.

\*\*\*\* Capacity by non-degassed condensate; degassed condensate capacity is 12.2 mm tonnes.

### Gas and Gas Condensate Processing by Gazprom's Gas processing and gas production subsidiaries

In 2017, PJSC Gazprom's gas processing and gas production subsidiaries processed 28.9 bcm of natural gas and 1.1 bcm of APG, and refined 17.5 mm tonnes of crude oil and unstable gas condensate (flat year-on-year), excluding tolling arrangements. Primary processing of stable gas condensate (oil) was 6.5 thousand tonnes.

The Group's gas processing plants ensure continuous quality assurance for their products and only produce Euro 5 compliant motor fuels. The Group's marketable product mix has been expanded: in 2017, the Astrakhan GPP launched the production of Arctic and winter grades of diesel fuel compliant with Euro emission standards.

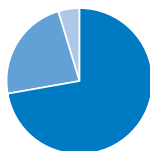
Given the natural decline in gas production from the Orenburgskoye and Vuktylskoye OGCFs, which supply the Orenburg and Sosnogorsk GPPs, tolling arrangements prove to be a viable solution to ensure utilisation of their capacity. In 2017, the Sosnogorsk GPP received 298.4 mmcm of APG from OOO LUKOIL-Komi's northern fields representing an additional feedstock source for the plant (276.6 mmcm in 2016). Through these arrangements, the utilisation rate of natural gas processing capacity was raised to 79.0% (70.6% in 2016). In 2017, the Orenburg GPP processed 8.8 bcm of gas from the Karachaganakskoye gas and condensate field (Kazakhstan) under tolling arrangements.

### Oil Refining, Petrochemicals, and Mineral Fertiliser Production at Gazprom Neftekhim Salavat's Facilities

In 2017, Gazprom neftekhim Salavat's production facilities refined 6.5 mm tonnes of liquid hydrocarbons and processed 0.4 bcm of natural gas.

**Liquid hydrocarbons refined  
at Gazprom neftekhim Salavat's refinery in 2017, mm tonnes**

■ Stable gas condensate	4.7
■ Oil	1.5
■ Fuel oil from the Astrakhan GPP	0.3
<b>Total</b>	<b>6.5</b>



Factors such as gas condensate increasing its share in the total throughput of the refineries to 73% (67% in 2016), and crude oil from the Tsarichanskoye oil field to 74% (40% in 2016), as well as fuel oil with high content of kerosene and gas oil fractions from the Astrakhan GPP first involved in the refining process in 2017, contributed to a 22% decline in the yield of heavy products and a record high 73% light product yield. The refining depth was 86%. With the pentane-hexane fraction isomerisation plant commissioned in 2017, the refinery expanded its range of marketable products to include the isomerisation product and isopentane fraction.

The acrylic acid and butyl acrylate plant commissioned in 2016 was ramped up to its design capacity: in 2017, the plant produced 14.5 thousand tonnes of glacial acrylic acid and 68.7 thousand tonnes of butyl acrylate. The year-on-year increase in the output of mineral fertilisers and relevant feedstocks was driven by the stable operation of the Gas Chemical Plant in the reporting year, supported by favourable market conditions. The decline in the output of monomers and polymers at Gazprom neftekhim Salavat's facilities was due to extended repairs at the Monomer Plant.

**Gazprom neftekhim Salavat is among top Russian producers of butyl alcohols, styrene, benzene, and ethylene.**

### Oil Refining and Petrochemicals Production at Gazprom Neft Group's Facilities

In 2017, Gazprom Neft Group refined 40.1 mm tonnes of oil and stable gas condensate (down 4.2% year-on-year), and 0.4 bcm of APG supplied to the Yuzhno-Priobskiy GPP as Gazprom Neft Group's equity share of production. Oil refining volumes decreased due to renovation projects and scheduled overhauls at Russian refineries operated by Gazprom Neft Group.

While reducing the output of motor gasolines and diesel fuel as a result of a lower total throughput the refineries ramped up their bitumen output on the back of higher domestic demand and the expanded distribution geography.

The minor decline in primary refining was offset by higher quality of products: in 2017, the refining depth was 83.5%, up 1.6 p.p. year-on-year. In line with the Technical Regulations, only Euro-5 compliant gasoline grades were produced.

The refineries continued to expand their product ranges, improve product quality, and launch new higher value-added products.

**New products launched by Gazprom Neft's refineries**

Refinery	Product
Moscow Refinery	Individual hydrocarbons: isobutane fraction, and normal butane fraction
	Diesel fuel with new additives, including Russian-made
Omsk Refinery	Road bitumens grades BND 70/100 and BND 100/300
	Marine fuel TSU-80 E grade with improved environmental performance
	Branded motor gasoline G-DRIVE 100 with improved anti-knock properties
	Alkylate (motor gasoline component)
	Microspheric zeolite-containing equilibrium catalyst



## Major Capex Projects

In 2017, Gazprom Group's capital expenditures for processing and refining totalled RUB 225.2 bn, up by RUB 32.0 bn, or 16.6%, year-on-year, and were directed towards the following projects:

- Projects to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region: Construction of the Urengoy — Surgut gas condensate pipeline (Line 2). 107 km — 288 km section; construction of a stabilisation unit for Achimov deposit condensate from the Nadym-Pur-Taz region; construction of the Urengoy — Purpe oil and condensate pipeline, and the Urengoy oil pumping station
- Construction of the Amur GPP
- Renovation of Phase 1 and Phase 2 of the Astrakhan Gas Processing Plant into an integrated operation
- Construction and upgrade of oil refining and petrochemical facilities at Gazprom neftekhim Salavat, including the construction of a hydrogen unit with a pressure swing adsorption (PSA) facility; a pentane-hexane fraction isomerisation plant, a catalytic cracking complex, a sulphide and alkaline waste neutralisation unit, a propane-propylene processing unit, and an elemental sulphur production unit
- Construction and upgrades of production facilities at Moscow Refinery (comprehensive upgrade of a catalytic cracking unit, and the construction of Euro+ combined refining unit), and at Omsk Refinery (construction of a primary refining unit (a desalter and atmospheric / vacuum distillation unit)).

In 2017, major activities under the Comprehensive Programme for Upgrading and Technical Re-equipment of Gas Production Facilities for 2016–2020 included the Upgrade of Phase 1 and Phase 2 at the Astrakhan Gas Processing Plant into an Integrated Operation.

Gazprom Neft continued implementing its refinery upgrade programme to improve overall refining efficiency, increase refining depth, and enhance industrial safety and environmental protection.

For more details on the application of new processing/refining technologies see the Innovations, Import Substitution, and Quality Management section  
→ Pages 147, 149

Refining/processing capacity commissioned in 2017		
Facility	Capacity commissioned	Impact on throughput volumes, production volume and state, and product quality
Orenburg GPP	Sixth startup loading rack	Additional production of 500 tonnes of liquid sulphur per day
Omsk Refinery	Oil bitumen production unit (renovation)	Will enable production of road bitumens grades BND 70/100 and BND 100/130 compounded with unoxidised components
Moscow Refinery	New treatment facilities	Will reduce pollutant concentrations in industrial wastewater, reduce open-air nonpoint sources of pollution, and decrease fresh water consumption
	Fluid catalytic cracking facility (upgrade)	Increased unit capacity and naphtha yield
DAO Slavneft-YANOS	Group III base oil plant with an annual design capacity of 148 thousand tonnes	Will produce premium Group III base oils and oil bases for drilling muds to reduce exposure to imports
Refinery of Gazprom neftekhim Salavat	Pentane-hexane fraction isomerisation unit with an annual design capacity of 434 thousand tonnes of feedstock	Designed to produce a high-octane component, which will increase the output of premium Euro 5 motor gasolines

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**Investment priorities for 2018**

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- Construction of the Amur GPP
- Implementation of projects to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region
- Construction and upgrades of refining and petrochemical facilities of Gazprom neftekhim Salavat
- Projects to boost refining depths at Omsk Refinery (construction of a delayed coking unit) and Moscow Refinery (construction of an advanced oil refining facility)

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For more details on Gazprom Group's key refining and processing projects see Gazprom in Figures 2013–2017 Factbook



## Power Generation

Gazprom has created Russia's largest power generation holding company, and is the market leader by electricity output among heat generators.

Established within PJSC Gazprom, the vertically integrated power generation holding company has consolidated electricity and heat generating assets, heat transmission and distribution assets, as well as assets in related segments.

Gazprom Group's generating assets are consolidated within its 100% subsidiary, OOO Gazprom energoholding.

Gazprom energoholding comprises PAO Mosenergo, PAO TGC-1, PAO MIPC, and PAO OGK-2. Outside Russia, the Group owns Unit 5 at the Hrazdan TPP through its subsidiary ZAO Gazprom Armenia.

# 16%

**share of Gazprom energoholding  
in installed electric capacity of united electric system  
of Russia**

**Gazprom Group's generating capacity as at 31 December 2017**

	Installed electrical capacity, GW	Installed heat capacity, thousand Gcal/h
Gazprom energoholding	38.82	67.81
Other generating assets in Russia and abroad	1.38	2.22
Total	40.20	70.03

## Gazprom energoholding's generating assets as at 31 December 2017



1	Adler	Adler TPP, PAO OGK-2	364 76	7	Cherepovets	Cherepovetskaya GRES, PAO OGK-2	1,052 39
2	Stavropol	Stavropolskaya GRES, PAO OGK-2	2,423 145	8	Moscow and the Moscow Region	15 power stations of PAO Mosenergo PAO MIPC, OOO TSK Novaya Moskva and OOO TSK Mosenergo	12,873 42,761 7,236
3	Novocherkassk	Novocherkasskaya GRES, PAO OGK-2	2,258 60	9	Ryazan	Ryazanskaya GRES, PAO OGK-2	3,130 213
4	Pskov	Pskovskaya GRES, PAO OGK-2	440 91	10	Troitsk	Troitskaya GRES, PAO OGK-2	1,400 315
5	Saint Petersburg, Republic of Karelia, the Leningrad and Murmansk Regions	53 power stations of PAO TGC-1	6,950 13,646	11	Serov	Serovskaya GRES, PAO OGK-2	808 110
6	Kirishi	Kirishskaya GRES, PAO OGK-2	2,595 1,234	12	Surgut	Surgutskaya GRES-1, PAO OGK-2	3,268 903
				13	Krasnoyarsk	Krasnoyarskaya GRES-2, PAO OGK-2	1,260 976

- Installed electric capacity, MW
- Installed heat capacity, Gcal/h

## Electricity and Heat Generation

According to the UES System Operator, power consumption within the Unified Energy System (UES) of Russia grew in 2017 by 1.3% year-on-year to 1,039.88 billion kWh while electricity generation was 1,053.86 kWh, up 0.5% year-on-year.

# 15%

Gazprom's share in power generation in Russia



During 2017, the Group generated 155.46 billion kWh of electricity (156.73 billion kWh in 2016) and 127.34 million Gcal of heat (129.48 billion Gcal in 2016) at its generating assets in Russia. Electricity generation by the Group declined 0.8% year-on-year due to generating equipment running at the load factors requested by the UES System Operator and optimisation of its operation modes. Heat generation decrease by 1.7% year-on-year was due to warmer temperatures during the heating season.

<b>Power generation by Gazprom Group, billion kWh</b>			
	2015	2016	2017
Gazprom energoholding	145.01	153.83	150.81
PAO Mosenergo	54.71	59.07	57.87
PAO MIPC	0.13	–	–
PAO OGK-2	64.36	67.09	63.43
PAO TGC-1	25.81	27.67	29.51
Other generating assets in Russia and abroad	2.99	3.68	5.74
<b>Total</b>	<b>148.00</b>	<b>157.51</b>	<b>156.55</b>

**Note.** The table shows power generation, i.e. the amount of power generated by power stations.

<b>Heat generation by Gazprom Group, mm Gcal</b>			
	2015	2016	2017
Gazprom energoholding*	113.51	123.36	120.77
PAO Mosenergo	71.68	81.83	79.45
PAO MIPC	10.74	6.09	5.79
PAO OGK-2	6.52	6.90	6.76
PAO TGC-1	23.02	24.44	24.71
OOO TSK Novaya Moskva and OOO TSK Mosenergo	1.55	4.10	4.06
Other generating assets in Russia and abroad	5.11	6.12	6.57
<b>Total</b>	<b>118.62</b>	<b>129.48</b>	<b>127.34</b>

\* Starting from 2017, heat generation figures include PAO MIPC's subsidiaries OOO TSK Novaya Moskva and OOO TSK Mosenergo. For data comparability, the figures for 2015–2016 also include the output volumes of the above organisations.

**Note.** The table shows heat supply from TPPs, i.e. the amount of heat supplied by a power station to consumers at the asset ownership / interface boundary points.

For more details on Gazprom Group's generating capacity and output of power and heat see Gazprom in Figures 2013–2017 Factbook

Outside Russia, Gazprom Group generated 1.09 billion kWh of electricity, up by 39.7% year-on-year (0.78 billion kWh in 2016), mostly due to increased power output from Unit 5 at Hrazdan TPP, reflecting the actual operation modes of Armenia's national grid in the context of extended repair operations at the Armenian NPP.

#### Acquisition of coal assets

Given a significant share of coal in Gazprom energoholding fuel mix, Gazprom acquired Angren Group in 2016 to diversify the risk of fuel supply shortfalls and optimise its pricing policy in the coal market. The coal company is engaged in mining, processing, and marketing of coal from the Ekibastuzsky open pit in the Pavlodar Region of Kazakhstan. Coal production in 2017 was 4.5 mm tonnes.

<b>Volume-based fuel mix of Gazprom energoholding</b>			
	2015	2016	2017
Gas, bcm	38.7	41.9	40.8
including Gazprom Group's gas	26.0	28.6	27.6
Coal, mm tonnes	14.1	12.6	11.5
Fuel oil and other fuels, mm tonnes	0.3	0.3	0.3

Although natural gas dominates the fuel mix of Gazprom energoholding, the share of coal also remains significant. Coal-fired power generation is less viable in the first pricing zone due to significantly higher costs of coal-fired power generation compared to gas-fired power generation (1.5 times as high) and fuel prices outstripping prices in the electricity and capacity markets, which leads to accelerated decommissioning of coal-fired power stations and declining coal consumption.

#### Retirement of low-performing generating assets

Retirement of obsolete and underperforming generating assets is a priority for Gazprom energoholding. The current capacity market auction (Competitive Capacity Outtake) rules impose strict requirements on the performance of generating equipment, leading to termination of capacity payments in case of non-compliance. Semi-fixed costs for such facilities may be covered if the operator is granted the status of a "must-run" generator; however, by no means all equipment meets the criteria to make the operator eligible. Through these arrangements, the government encourages retirement of both physically and functionally obsolete generating facilities. A major challenge here is replacing heat generation capacity of retired facilities, with generating companies of OOO Gazprom energoholding making consistent efforts to retire such facilities. In 2017, 90 MW of capacity were decommissioned, with plans to retire over 2 GW of low-performing capacity by 2022.

## Improvements in Operational Efficiency

Generating companies across Gazprom energoholding annually develop and implement programmes to optimise costs and improve financial performance in the following focus areas:

- improvement of the production system
- operational efficiency improvements
- cost reduction
- decommissioning/optimisation of low-performing and idle facilities
- non-core asset disposal and efficient use of assets.

Economic benefit from operational efficiency and cost reduction initiatives across Gazprom energoholding in 2017 totalled RUB 3.6 bn.

## Major Capex Projects

Gazprom Group's investment programme is one of the biggest in the Russian power industry. The launch of the Grozny TPP in 2019 will complete the implementation of OOO Gazprom energoholding's ambitious investment programme to build new generating capacity in line with its obligations under capacity supply agreements (CSAs). The CSA investment programme implemented by the Group companies is expected to add 8.9 GW of new capacity in Russia between 2007 and 2019, with total investments under the programme for the same period exceeding RUB 450 bn (inclusive of VAT).

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For more details on the use of new power generation technologies see the Innovations and Import Substitution section → Page 149

The Group's capital expenditures for electricity and heat generation and distribution in 2017 totalled RUB 58.1 bn, down by RUB 5.4 bn, or 8.5%, year-on-year. The lower capex was due to the Group meeting almost all its obligations in commissioning generating facilities under its CSA investment programme by 2017.

The bulk of this capex was spent in 2017 on the construction of two new GTU-180 power unit projects at the Grozny TTP, of the second start-up complex facilities at the Troitskaya GRES, capacity expansion upgrade to the PSU-420 power unit at PAO OGK-2-operated Cherepovetskaya GRES, and equipment upgrade of Power Unit 9 at CHPP-22 operated by PAO Mosenergo.

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For more details on Gazprom Group's key power generation projects see Gazprom in Figures 2013–2017 Factbook

Outside Russia, PAO Centerenergyholding, part of Gazprom energoholding, is constructing through a joint project with NIS (a Serbian subsidiary of Gazprom Neft Group) a power station with an installed capacity of approximately 200 MW in Pančevo, Serbia. The project aims to meet the power and heat needs of Pančevo Refinery, and sell power and heat in the Serbian electricity market and via European energy exchanges. The project is currently in the FEED stage, with custom specifications approved for core equipment. The contract provides for the construction to be completed in 2020.

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## Exploring options for implementation of electricity generation projects with CNPC

During 2017, the Company continued its joint efforts with CNPC to identify and implement electricity generation projects in China, as well as assessed the viability of participating in generation projects in a number of other countries to promote LNG supplies from Gazprom Group's trading portfolio.



## Marketing

Gazprom's key objective is securing reliable gas supply to Russian consumers, particularly during the winter peak-demand season, Gazprom being the only Russian company capable of promptly ramping up gas supplies during the heating season.

Demand for Russian gas has also been growing steadily in far abroad countries, with Gazprom making sustained progress in enhancing its reputation as a reliable supplier and its gas exports to Europe and Turkey setting all-time highs for a second consecutive year.

### Far Abroad Gas Markets

Far abroad countries, including Europe, are the Company's traditional export market offering high profit margins for Gazprom Group.

In 2017, Gazprom Group sold 242.0 bcm of natural gas to far abroad countries, up by 13.7 bcm, or 6.0%, year-on-year. Net sales revenue (net of excise tax and customs duties) was RUB 2,221.2 bn, up 3.8% year-on-year. The RUB revenue from gas sales to far abroad countries grew at a lower rate than volume-based sales due to changes in the average RUB exchange rate.

### Decision to transform the operational structure of export activities, including marketing and trading

Gazprom took a decision in 2017 to reorganize its operational structure for exports, including marketing and trading. The new business model sets up an Integrated International Marketing Division, which will be responsible for supplies, trading and marketing across the entire export portfolio of PJSC Gazprom.

The Integrated Division will be built in two stages in the space of two years. The first stage will involve the merging and optimisation of activities and assets within GAZPROM Germania GmbH and its subsidiaries. At the second stage, the newly restructured GAZPROM Germania GmbH and OOO Gazprom export will consolidate their operations.

**Gazprom Group's sales of natural gas to far abroad countries**

Sales volumes, bcm	
2015	184.4
2016	228.3
2017	242.0
Average selling price (including excise tax and customs duties), USD per mcm*	
2015	245.6
2016	176.0
2017	200.2
Average selling price (including excise tax and customs duties), RUB per mcm	
2015	15,057.3
2016	11,763.3
2017	11,670.5
Net sales revenue (net of excise tax and customs duties), RUB bn	
2015	2,165.5
2016	2,140.0
2017	2,221.2

\* Calculated based on the year-average RUB/USD exchange rate.

**European Gas Market**

PJSC Gazprom is a major supplier of natural gas to the European market. In 2017, PJSC Gazprom's gas supplies to European countries totalled 194.4 bcm, up 15.1 bcm, or 8.4%, year-on-year, including under OOO Gazprom export's contracts and under direct contracts with GAZPROM Schweiz AG.

The Company's exports are diversified by markets, the largest consumers being Germany, Turkey, and Italy.

# 194.4

bcm

**an all-time record for gas supplies to European countries**

The significant increase in supplies was mainly driven by higher natural gas consumption in Europe (above all, in electricity generation), with domestic gas production in the region growing only marginally year-on-year. The increase was also supported by PJSC Gazprom's competitive gas prices.

Gas withdrawals demonstrated a significant growth in Germany and Turkey, while in Italy gas withdrawals dropped due to increased alternative supplies.

**Share of PJSC Gazprom's gas sales under contracts by OOO Gazprom export and direct contracts with GAZPROM Schweiz AG in the European consumption in 2013–2017, %**

2013	30.1
2014	30.4
2015	31.5
2016	33.1
2017	34.2

**Note.** Figures for 2016 and previous years may differ from the data in Annual Reports of PJSC Gazprom for previous periods since international statistics may be subsequently updated.

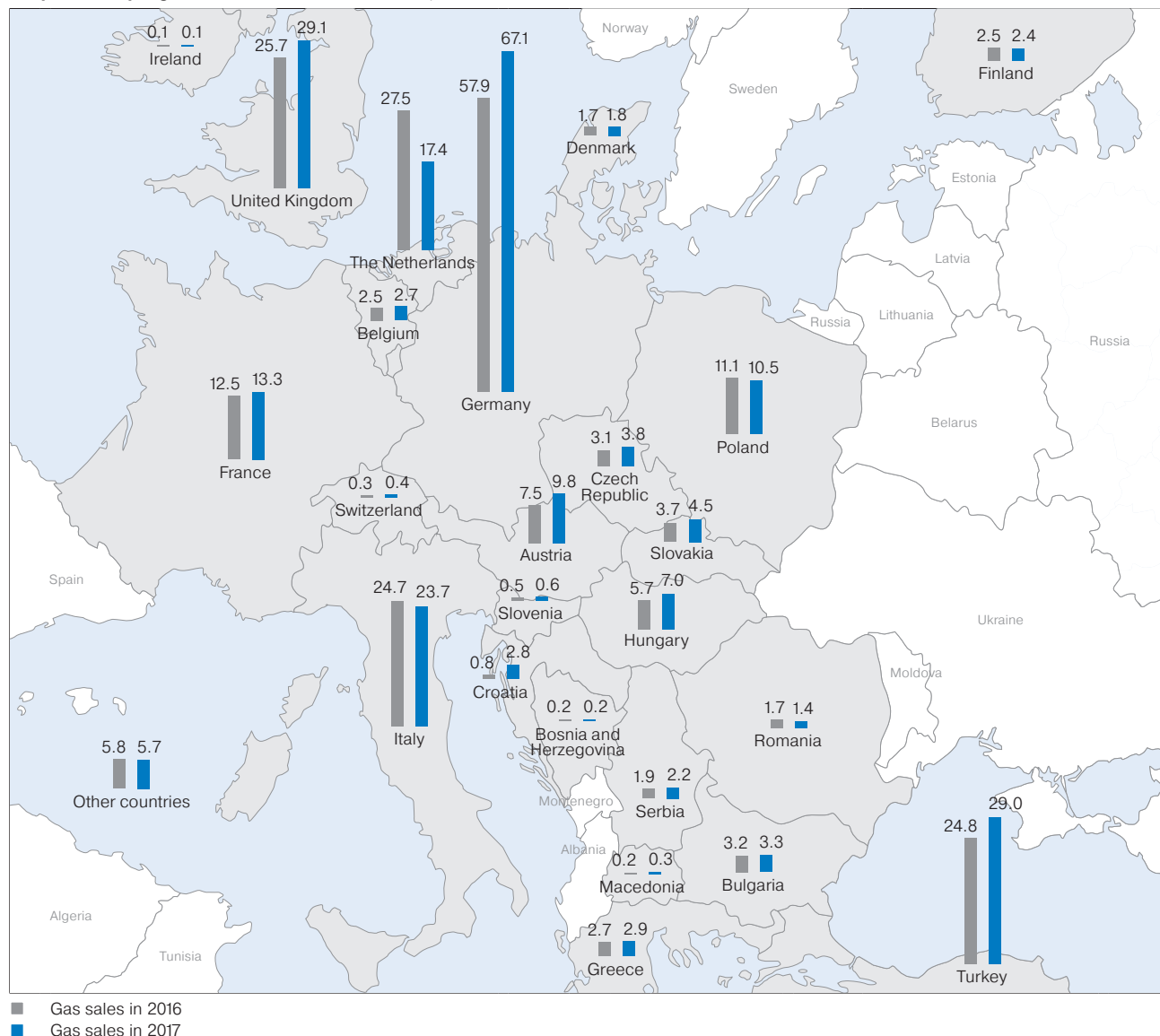
For more details see the Trends and Developments on Gas Markets section  
→ Pages 94–95

Gazprom Group's subsidiaries sold 29.9 bcm of gas directly to end consumers in Europe. WINGAS GmbH, a major gas supplier to utilities, industrial companies and electricity generators in Germany, the Netherlands, Belgium, Austria, the Czech Republic, and a number of other markets, accounted for the bulk of sales. Another subsidiary, Gazprom Marketing & Trading Retail, is a gas retailer operating in the markets of the UK, France, Ireland, and the Netherlands.

For more details on gas sales volumes to end consumers in far abroad countries see Gazprom in Figures 2013–2017 Factbook



Gazprom Group's gas sales to far abroad countries, bcm



**Note.** Gazprom Group's sales to other countries include LNG sales and sales of gas from international hydrocarbon exploration and production projects in which the Group has equity stakes.

### LNG Sales

LNG sales from Gazprom Group's trading portfolio totalled 3.34 mm tonnes, or 4.46 bcm, in 2017. Another country, Spain, was added to the list of destination markets for LNG supplies out of the Group's trading portfolio.

Corporates in Asia Pacific, in particular in Japan (36%) and China (19%), were the key buyers of LNG from Gazprom Group's trading portfolio in 2017, just like in previous years.

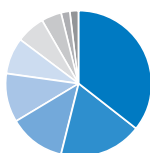
### LNG sales by Gazprom Group

	2015	2016	2017
mm BTU	169,608,265	176,474,067	159,151,850
including LNG from Sakhalin-2	86,049,604	59,443,050	72,894,365
mm tonnes	3.56	3.71	3.34
bcm	4.75	4.94	4.46

For more details on LNG market tendencies see the Trends and Developments on Gas Markets section → Page 96

**LNG sales in 2017 by country, mm BTU**

Japan	56,900,585
China	29,426,835
Taiwan (China)	19,820,160
Kuwait	16,945,230
South Korea	13,235,029
India	9,911,553
Spain	6,459,153
Thailand	3,307,565
UAE	3,145,740
<b>Total</b>	<b>159,151,850</b>



# 9

countries

**imported LNG from Gazprom Group's trading portfolio in 2017**

# 83%

**of LNG from Gazprom Group's trading portfolio supplied to Asia Pacific markets in 2017**

For more details on Gazprom Group's LNG sales to different countries see Gazprom in Figures 2013–2017 Factbook

**Russian Gas Market**

Gazprom is the largest natural gas supplier on the Russian market. Major buyers of Gazprom Group's natural gas are generating companies, household consumers, and utilities. Moreover, the Group's natural gas is heavily used in the steel-making, fertiliser, and cement industries, and other sectors of the national economy.

In 2017, Gazprom Group sold 229.9 bcm of gas to consumers in the Russian Federation, up 15.0 bcm, or 7.0% year-on-year. Net sales revenue was RUB 875.7 bn, up 6.8% year-on-year due to growth in volume-based sales.

**Gas sales by Gazprom Group in Russia**

Sales volumes, bcm	
2015	221.2
2016	214.9
2017	229.9
Average selling price (net of VAT), RUB per mcm	
2015	3,641.3
2016	3,815.5
2017	3,808.3
Net sales revenue (net of VAT), RUB bn	
2015	805.6
2016	819.9
2017	875.7

For more details on Russian gas market tendencies see the Trends and Developments on Gas Markets section → Pages 97–98

In accordance with applicable Russian laws, end consumers buy gas at regulated prices which are differentiated between consumer groups (households vs industrial consumers), as well as by price zone, based on the relative distance from the gas production region to the consumer. In 2017, wholesale gas prices for subsequent resale to household consumers were 16% lower than wholesale gas prices for industrial consumers.

**Weighted average wholesale regulated prices (net of VAT) of PJSC Gazprom's gas for industrial and household consumers, RUB per mcm**

	2015	2016	2017
Weighted average annual price for industrial and household consumers*	3,759.4	3,938.2	3,988.5
Weighted average annual price for industrial consumers**	3,958.1	4,158.1	4,202.3
Weighted average annual price for subsequent resale to households**	3,253.0	3,422.8	3,512.9

\* Calculated as the combined weighted average prices for industrial and household consumers for the year indicated. Weighting is based on actual volumes delivered to each price zone for household and industrial consumers, respectively (exclusive of gas volumes supplied pursuant to Resolution of the Government of the Russian Federation No. 333 dated 28 May 2007 On Improvement of State Gas Price Regulation).

\*\* Weighting is based on actual volumes delivered to each price zone for each group of consumers separately, household and industrial consumers, respectively (exclusive of gas volumes supplied pursuant to Resolution of the Government of the Russian Federation No. 333 dated 28 May 2007 On Improvement of State Gas Price Regulation).



## FSU Gas Markets

Gazprom Group covers a significant portion of natural gas demand in FSU countries.

In 2017, the Group sold 35.0 bcm of natural gas to FSU countries, with net sales revenue (net of customs duties) amounting to RUB 292.8 bn, down 5.5% year-on-year. The change is due to a 10.0% decrease in average prices expressed in Roubles (including customs duties), which was partially offset by an increase in gas sales volumes in physical terms by 5.4%.

The increase in gas supplies to FSU countries in 2017 resulted from higher demand and gas withdrawals in Belarus and the Baltic states, and the resumption of gas supplies to Azerbaijan.

Gas supplies to end consumers in FSU countries are delivered by OAO Gazprom transgaz Belarus, ZAO Gazprom Armenia, and OsOO Gazprom Kyrgyzstan.

Gazprom Group continued to purchase natural gas from Central Asian countries in 2017, with the weighted average purchase price for the gas supplied from Central Asia increasing slightly from 2016 (+4.5% year-on-year) due to higher oil prices and the resulting growth in prices of oil products.

### Gazprom Group's gas sales to FSU countries

Sales volumes, bcm	
2015	40.3
2016	33.2
2017	35.0
Average selling price (including customs duties), USD per mcm*	
2015	194.2
2016	153.6
2017	158.4
Average selling price (including customs duties), RUB per mcm	
2015	11,911.0
2016	10,263.1
2017	9,237.0
Net sales revenue (net of customs duties), RUB bn	
2015	429.7
2016	309.7
2017	292.8

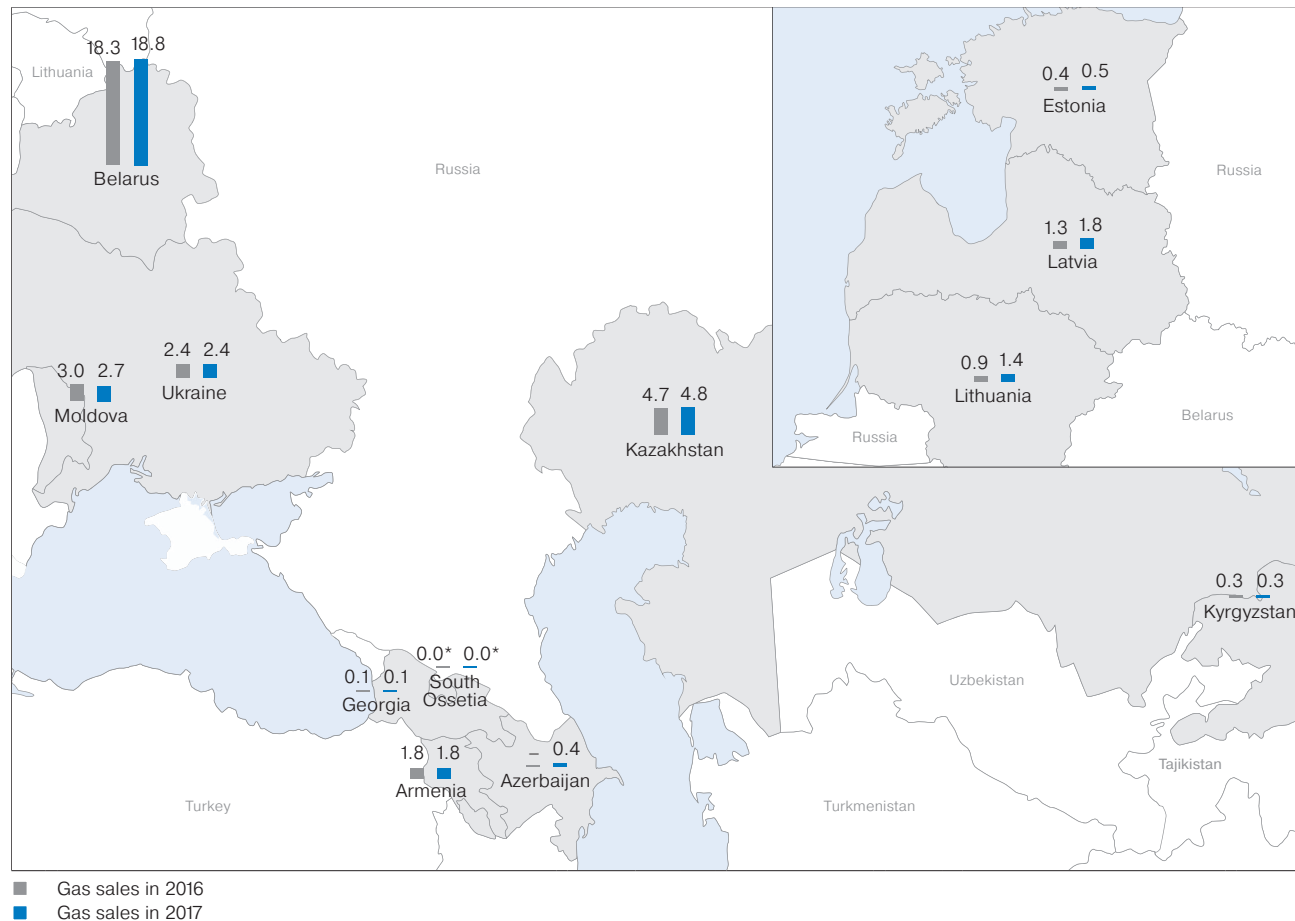
\* Calculated based on the year-average RUB/USD exchange rate.

### Gazprom Group's purchases of gas in Central Asia, bcm

	2015	2016	2017
For subsequent supplies to far abroad countries			
Turkmenistan	3.1	–	–
Uzbekistan	3.5	4.3	5.5
Kazakhstan	12.6	12.7	13.8
Weighted average purchase price on the border of supplying countries, USD per mcm	180.39	116.25	121.55
For subsequent supplies to Southern Kazakhstan			
Uzbekistan	2.9	1.9	1.7
For subsequent supplies to Kyrgyzstan			
Uzbekistan	0.0*	0.0*	0.0*
Kazakhstan	0.2	0.2	0.3

\* Less than 0.05.

## Gazprom Group's gas sales in FSU countries, bcm



## Oil and Gas Condensate Sales

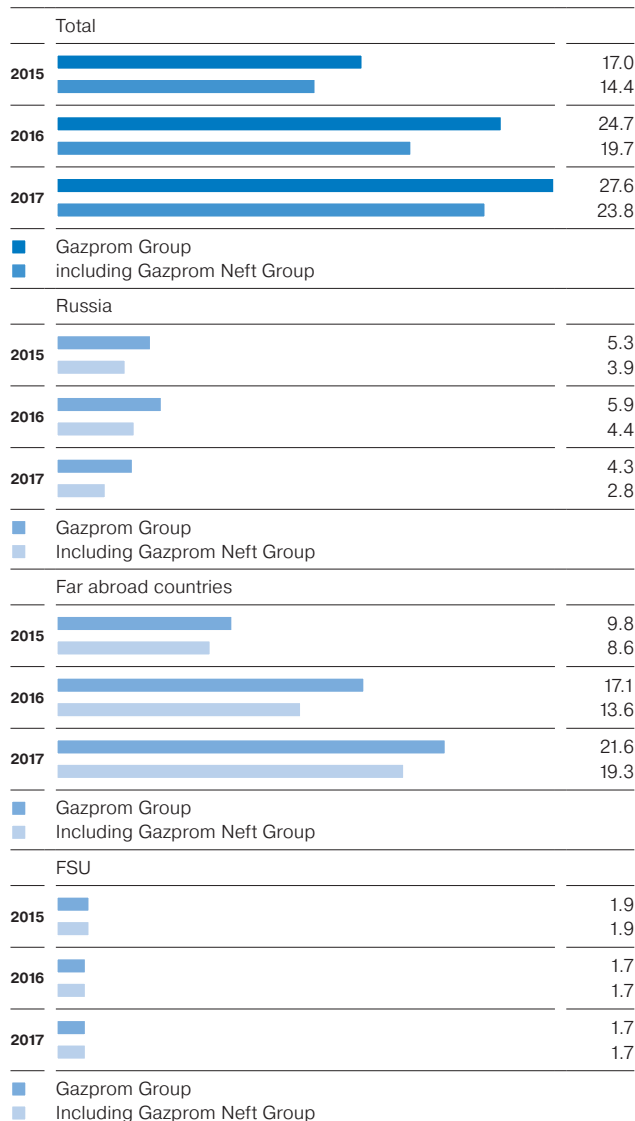
In 2017, Gazprom Group sold 27.6 mm tonnes of crude oil and stable gas condensate, up by 2.9 mm tonnes, or 11.7%, year-on-year, with total net sales revenue (net of VAT and customs duties) reached RUB 539.9 bn, demonstrating a significant growth year-on-year (up by RUB 128.0 bn, or 31.1%) mostly due to the increase in sales volumes of Gazprom Neft to far abroad countries and increase in average selling prices in all geographical segments.

Higher sales to far abroad countries in 2017 were attributable to increased oil production from the Novoportovskoye, Prirazlomnoye and Vostochno-Messoyakhskoye fields in Russia, as well as oil production growth in Iraq, and decline in oil refining volumes. Lower sales in the domestic market were due to lower cost-efficiency of oil trading operations in the domestic market.

## Net revenue from sales of crude oil and gas condensate (net of VAT and customs duties), RUB bn

	Total	
2015	260.6	
2016	411.9	
2017	539.9	
	Russia	
2015	77.5	
2016	81.3	
2017	71.4	
	Far abroad countries	
2015	155.5	
2016	307.1	
2017	438.7	
	FSU	
2015	27.6	
2016	23.5	
2017	29.8	

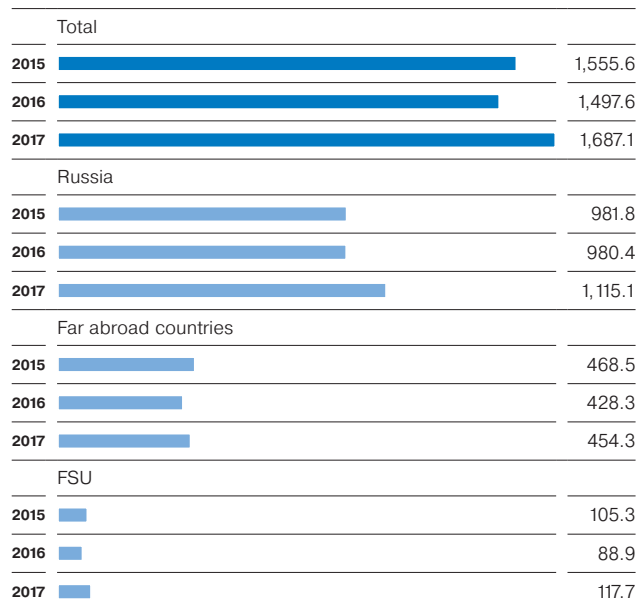


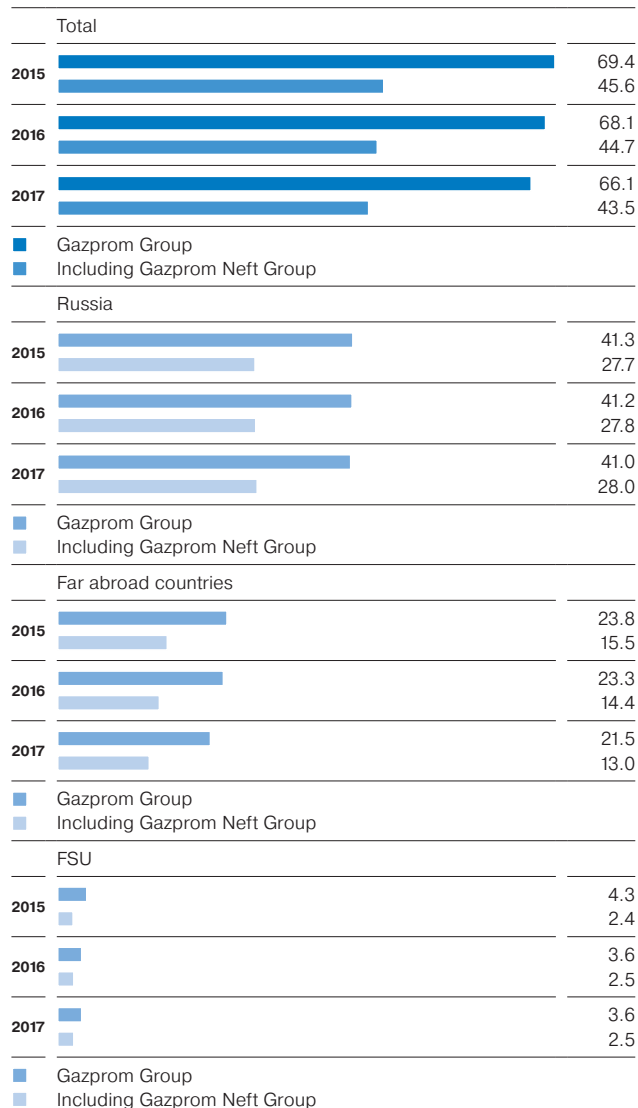
**Crude oil and gas condensate sales volumes by Gazprom Group, mm tonnes**

**Refined Product Sales**

In 2017, Gazprom Group sold 66.1 mm tonnes of refined oil and gas products, down 2.0 mm tonnes, or 2.9%, year-on-year, with net sales revenue totalled RUB 1,687.1 bn (net of excise tax, VAT, and customs duties), up by RUB 189.5 bn, or 12.7%, year-on-year despite lower volume-based sales due to higher average refined product prices.

Total sales of refined oil and gas products by Gazprom Group declined in 2017 due to a lower output of refined products resulting from scheduled overhauls at Gazprom Neft's refineries.

Sales of refined products by Gazprom Neft Group via filling stations totalled 11.0 mm tonnes in 2017, or ca. 17% of Gazprom Group's refined product sales, of which 8.8 mm tonnes were sold in the domestic market.

**Gazprom Group's net revenue from sales of refined products (net of VAT, excise tax, and customs duties), RUB bn**


**Sales volumes of refined oil and gas products  
by Gazprom Group, mm tonnes**


**Note.** Excluding sales of helium

**Sales of refined products by Gazprom Group, mm tonnes**

	2015	2016	2017
Diesel fuel	15.5	15.9	15.9
Motor gasoline	13.6	14.9	14.8
Fuel oil	8.6	7.6	5.8
Sulphur	5.2	5.5	5.3
LPG	4.8	4.5	3.7
Aviation fuel	3.8	3.5	3.6
Mineral fertilisers	0.7	1.0	0.9
Lubricants	0.4	0.4	0.4
Polymers	0.2	0.1	0.1
Other refined, petrochemical and gas chemical products	16.6	14.7	15.6

**Note.** Excluding sales of helium.

**Sales of helium by Gazprom Group**

	2015	2016	2017
Gaseous helium, mmcm	3,0	3,2	3,3
Liquid helium, tonnes	314,2	299,3	289,6

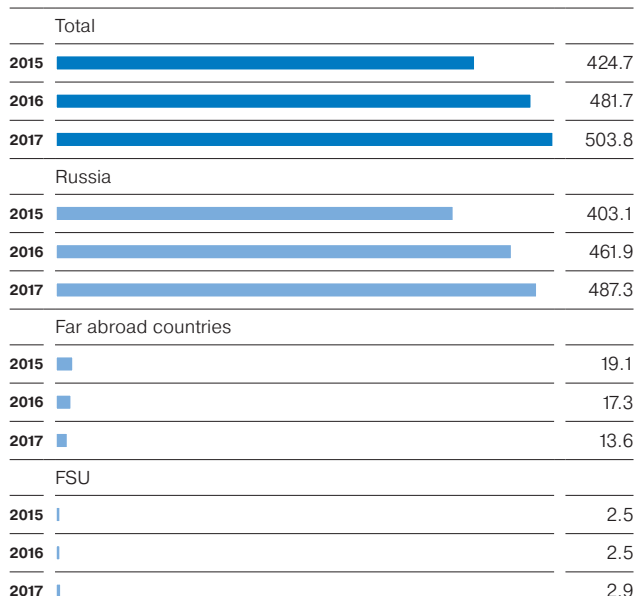
**Electricity and Heat Distribution**

Gazprom Group's net revenue from electricity and heat sales (net of VAT) in 2017 was RUB 503.8 bn, up by RUB 22.1 bn, or 4.6%, year-on-year mostly due to higher tariffs for capacity under capacity supply agreements.

Electricity produced by the Group's Russian generating companies is sold in Russia, with a small portion exported to Norway and Finland.

The weighted average sale price in the day-ahead market at delivery points of Gazprom energoholding's stations was up 1% year-on-year in Russia, mainly due to a 1.8% average annual increase in wholesale gas prices.

Gazprom Group, acting via Gazprom Marketing & Trading, trades electricity at liquid trading hubs in Europe, and signs short- and mid-term electricity offtake and tolling contracts to supply electricity to end consumers. Also in 2017, the Group supplied nearly 1.6 billion kWh of electricity to end consumers in the UK and the Netherlands, down by 0.2 billion kWh, or 11.1%, year-on-year.

**Gazprom Group's net revenue from electricity and heat sales  
(net of VAT), RUB bn**




Innovations

Gazprom aims for technology leadership in the industry. Development and adoption of innovative solutions throughout the value chain is essential to enhancing the Company’s business efficiency and competitive edge. Russian research institutions and high-tech businesses that have long-standing partnership relations with the Group are also key to this process.

In its evolution as a global energy company and a reliable energy supplier, Gazprom focuses on research and application of new knowledge and technology, as well as on continuous improvement of its innovation capabilities and acceleration of innovation to address a number of strategic, technological and economic challenges that such leadership involves.

Gazprom’s track record of achievement has been driven to a large extent by R&D carried out for the Group by in-house R&D centres, research organisations in related industries, subdivisions of the Russian Academy of Sciences, and higher education institutions.

- PJSC Gazprom’s Innovative Development Programme until 2025**
- Approved by Resolution of PJSC Gazprom’s Board of Directors No. 2762 dated 21 June 2016
  - A fundamental instrument for long-term planning and management of innovations, embedded into Gazprom’s strategic development planning
  - Sets 9 priority technology targets
  - Once delivered, the overall potential economic effect from the priority technology targets will exceed RUB 450 bn
  - Covers the gas, oil, and power generation businesses of the Company
  - An efficient tool for innovation through optimising and concentrating the Group’s diverse resources and putting in place such innovative development mechanisms as research and development (R&D) programmes, intellectual property management, joint R&D initiatives and partnerships, training and career enhancement programmes, and innovative project portfolio management

- Technological priorities (key areas of technological development) set by PJSC Gazprom’s Innovative Development Programme**
- Hydrocarbon field exploration and appraisal, including development of unconventional resources
  - Brownfield enhancement technologies
  - Offshore hydrocarbon development technologies
  - Greenfield development technologies
  - Efficiency enhancement of trunk gas pipelines, and diversification of gas distribution methods
  - Enhancement of gas storage
  - Enhancement of gas and gas condensate processing
  - LNG production technologies
  - Gas marketing and utilisation technologies

Gazprom's advanced projects for production and transportation of gas and liquid hydrocarbons are unrivalled in terms of technical sophistication. The harsh climatic conditions and geology of field developments in the Yamal Peninsula, northern seas, and Eastern Siberia require the development and use of fundamentally new technologies, equipment, and operating principles to ensure that hydrocarbon production in these regions is viable.

**PJSC Gazprom's Innovative Development Programme until 2025 focuses on continuous improvement of the Company's technological and organisational capabilities.**

Gazprom has in place an extensive innovation management framework consistently improved by the Company. A new R&D planning framework has been put in place to improve performance of R&D investments and cut project leadtimes.

#### Key developments in the R&D planning framework of PJSC Gazprom

- A permanent R&D Committee has been set up. At Gazprom, the Committee serves as a platform to discuss all matters related to R&D performance through comprehensive review and collective decision-making driven by the principles of openness, fairness, and independence while balancing the interests of Operations, Economics, and Prospective Development.
- A special expert panel, PJSC Gazprom's Pool of R&D Experts, has been set up within the Committee to provide independent expert evaluation of R&D proposals. The Pool brings together highly skilled experts and researchers with vast experience in R&D and operations in the gas industry and related research fields.
- R&D customers have been granted the right to initiate R&D projects at any time based on their current needs and challenges rather than by the annual submission deadline for R&D proposals, as was the case before.

In the reporting year, PJSC Gazprom also approved and put in place the Corporate Framework for Management of Innovations at Subsidiaries of PJSC Gazprom to promote company-wide principles for managing innovations at PJSC Gazprom's subsidiaries.

**In 2017, Gazprom's R&D framework underwent the most drastic transformation over more than 10 years.**

The Company successfully maintains an intellectual property management framework which is essentially intended to determine company-wide principles governing the creation, legal protection, registration, commercialisation, and monitoring of the use of intellectual property across Gazprom Group, as well as to provide incentive schemes encouraging employees of Gazprom Group companies to create intellectual property.

Over RUB **21** bn

**the economic effect from using patented items in operations in 2015–2017**

#### Number of patents held by PJSC Gazprom and its subsidiaries and their use in operations

	2015	2016	2017
Total number of patents held by PJSC Gazprom and its subsidiaries, as at 31 December	2,238	2,269	2,342
Including those used in operations	356	406	427
Economic effect from the use of patented items in operations, RUB bn	6	7	8

A strong focus is placed on R&D and pre-investment studies. The Group allocates significant amounts for its annual R&D budgets, and R&D results are applied in its priority projects.

#### Total spending on R&D projects commissioned by Gazprom Group (net of VAT), RUB bn

2015	9.9
2016	6.3
2017	8.2

#### Actual economic effect from the use of R&D results in Gazprom Group subsidiaries, RUB bn

2015	9.6
2016	9.2
2017	12.3

In 2017, Gazprom implemented over 325 R&D results across its facilities, with an expected economic effect totalling over RUB 310 bn.



## Gas Business

### Innovation in Exploration

Exploration R&D results delivered in the reporting year were related to development projects on the Chayandinskoye OGCF, Yamal, and Sakhalin-2 fields, and estimation of hydrocarbon resources in the Kara Sea offshore Yamal.

Comprehensive efforts are continuing to develop a technique for electromagnetic sounding of oil and gas deposits with ultrashort high-power pulses to explore the anisotropic near-wellbore area.

As part of its digitalisation programme covering key operating processes, PJSC Gazprom developed in 2017 a set of technical requirements for hydrocarbon prospecting, exploration, and development software.

Technological priority	Results of innovative R&D projects completed in 2017	Overview and use in Gazprom Group's priority projects
Hydrocarbon field exploration and appraisal, including development of unconventional resources	— Lithotectonic modelling of key types of terrigenous reservoir rocks in the Chayandinskoye OGCF based on the results of comprehensive lithological and petrophysical experiments	The models will be used to refine hydrodynamic models of producing horizons at the Chayandinskoye OGCF.
	— Digital geological, geomechanical, and hydrodynamic models of Sakhalin-2 fields	The project results will be used to prepare and adjust well workover plans for the Piltun-Astokhskoye and Lunskeye OGCFs.
	— A solution for integrated interpretation of well logging data in structurally complex reservoirs across Yamal oil and gas plays, which supports next-generation downhole tools, lithofacies analysis, and the upgraded petrophysical database	Requirements have been defined for geological and geophysical data processing for the Neocomian-Aptian producing play (reservoirs TP1–TP16, TP17–TP26) in the Yamal Peninsula to enable the use of modern methods for porosity and permeability estimates of these reservoirs.
	— Lithological and petrophysical models of the Rusanovskoye, Leningradskoye, and Kruzenshternskoye gas and condensate fields, and key prospects offshore Yamal	The models will produce more reliable estimates of hydrocarbon resources held in Mesozoic sediments in the Kara Sea offshore Yamal.

### Innovation in Field Development

Innovation in field development aims both to improve development efficiency of existing fields, and deliver green-field development projects in new gas producing areas, including on the Russian continental shelf.

In 2017, the Group's offshore programme in Russia included further comprehensive environmental surveys (metocean, oceanology, ice, and other parameters) over the Yuzhno-Kirinskoye field. The studies will provide more accurate current and extreme hydrological estimates for the Yuzhno-Kirinskoye offshore field to mitigate risks of potential adverse implications due to natural calamities and other hazards over the field.

Technological priority	Results of innovative R&D completed in 2017	Overview and use in Gazprom Group's priority projects
Brownfield enhancement technologies	— Operation of water-cut gas and gas condensate wells across Nadym-Pur-Taz fields using solid and liquid surfactants and concentric lift strings	Relevant solutions will be used to develop mature fields in the Nadym-Pur-Taz region.
	— Multi-flow gas dynamic tool	The tool can operate as a pump to pump liquids, as a compressor to pump gas as a multiphase pump to pump gas and liquid mixes. Multi-flow gas dynamic tools reduce hydrocarbon production costs while improving the use of reservoir energy in lower reservoir pressure conditions and thus enhancing well operation efficiency.
	— High-performance next-generation absorber	The absorber is designed for efficient glycol gas-dehydration. Its strong technical and economic performance is driven by the use of controllable wave impact. The new equipment will reduce power consumption by lowering per unit glycol consumption in the absorber by 63% and cutting down equipment capex by reducing the height of the absorber's mass-transfer section by 30%–50% as compared to standard tray column absorbers.
	— Russia-made hydraulic fracturing liquids for gas condensate and oil wells of the Urengoykoye OGCF	The new products are designed to enhance hydrocarbon production using hydraulic fracturing.
	— Small-size multi-arm tubular borehole geometry tool	This is a unique, globally unrivalled tool. The tool is used to monitor the technical condition of production casing and tubing across fields and UGSFs for emergency prevention.
Offshore hydrocarbon development technologies	— Guidelines on enhancing operating reliability of subsea production facilities and fixed offshore platforms by reducing potential adverse implications of seismic activity over the Yuzhno-Kirinskoye and similarly constructed fields	The guidelines are applied to planning, organisation, and follow-up of design, construction, and operation of subsea production facilities and fixed platforms off Sakhalin.
	— Requirements to reliability of subsea production facilities operated offshore the Russian Arctic coast	The results will be applied to designing the development of Russian offshore fields using subsea technologies.
Greenfield development technologies	— Membrane technology to recover helium from natural gas	The technology will be used in the development of the Chayandinskoye oil and gas condensate field to separate helium concentrate from natural gas and ensure its long-term storage in the productive reservoir. In 2017, PJSC Gazprom launched the construction of a membrane unit to recover helium from natural gas at the Chayandinskoye oil and gas condensate field, with an annual design capacity of 32 bcm.
	— Process solutions for the construction of production wells in the Kovyktinskoye field	The process solutions will be used in the development of the Kovyktinskoye field.
	— Next-generation separator	The separator will be used to treat gas from Neocomian-Jurassic deposits across Yamal fields. The new tool will reduce capital expenses for the manufacturing, transportation, and installation of process equipment and costs for purchasing and delivering expendables.

### Innovation in Gas Transportation and Underground Storage

In order to secure highly reliable and uninterrupted gas distribution, Gazprom has been consistently improving its gas transportation processes and equipment used both to implement new gas transportation initiatives by Gazprom Group, and to maintain smooth, robust, and efficient operation of the UGSS.

Extensive research is undertaken to develop technologies, materials, and innovative engineering solutions for the construction and operation of the Bovanenkovo — Ukhta GTS, a unique pipeline system operated in extreme climatic and geological conditions with seasonal access constraints.

#### Gas pipelines of the Northern Gas Transmission Corridor are globally unrivalled cutting-edge facilities.

#### Advanced knowledge-intensive technologies and equipment planned to be used in the construction of the Power of Siberia trunk gas pipeline

- Quick-opening highly reliable axial-flow anti-surge and control valves are not inferior to its foreign alternatives
- Automated mobile radioscopic testing unit with resolution for Class 1 welded connections of NB (Nominal Bore) 1,000 mm–1,400 mm pipes
- Digital radio relay stations custom-designed for PJSC Gazprom for operation in harsh climates
- Smart cathodic protection to optimise control of protective potential levels and reduce power consumption



Technological priority	Results of innovative R&D completed in 2017	Overview and use in Gazprom Group's priority projects
Efficiency enhancement of trunk gas pipelines, and diversification of gas distribution methods	— A method for forecasting natural and technology-related processes developing locally in gas pipelines at start-up and onwards; criteria and guidelines for comparative efficiency evaluation of engineering solutions applicable to construction conditions of the Bovanenkovo — Ukhta trunk pipeline system	The method will be used in the construction of the Bovanenkovo — Ukhta trunk pipeline system.
	— A physical multi-stage model of stress corrosion cracking in trunk gas pipelines built based on patterns identified in the behaviour of stress corrosion damage depending on steel properties, operation parameters, and external environment	The use of the model will increase the reliability of predicting how fast stress corrosion defects will develop and how severe they will be.
	— Technologies for overhauling engines of gas pumping units to extend their nameplate useful lives	The application of these technologies will reduce capex for GPU replacement.
	— High-performance mobile gas turbine driven modular compressor unit, with an hourly throughput of 60 mcm	The use of mobile compressor units will prevent gas venting during repairs at trunk gas pipelines.
Enhancement of gas storage	— A technology for selective operation of a gas storage facility by separating gas flows in an UGSF well	Engineering and process solutions have been proposed to construct an UGSF well bottom that allows selective operation of the gas storage facility by separating gas flows within the UGSF well.

### Innovation in Hydrocarbon Processing

In 2017, a programme of laboratory studies and pilot tests was completed for heavy residue hydroconversion involving nano-size molybdenum-containing catalysts. The programme's deliverables include technical regulations for the design of a pilot unit for fuel oil hydroconversion with the output subsequently separated into end products, and a catalyst recovered for regeneration from reaction products. A new wax inhibitor has been developed and introduced at OOO Gazprom pererabotka to improve stable gas condensate transport.

A range of engineering and process solutions have been developed to increase the amount of Achimov gas condensate that can be received by the Urengoy Condensate Pre-Transportation Preparation Plant of OOO Gazprom pererabotka.

### Oil Business

In Gazprom Group's oil business, innovation primarily focuses on designing solutions that further its strategic goals to boost production and improve refining in a cost-efficient way.

Among focus areas of innovation aimed at cost-efficient production growth at the Company are drilling enhancement technologies, including horizontal drilling (increasing the length of a well's horizontal section and the number of hydraulic fracturing stages), and technologies that increase the number of laterals in multi-hole wells.

Smart self-learning wizards offer tremendous potential to enhance drilling efficiency. They can be used to prepare necessary guidelines by applying big data solutions to accumulated historical data. The initiatives involving the development of cognitive solutions to improve drilling efficiency are known under an umbrella name of Cognitive Driller. A number of projects in this area have already been launched with Russian and foreign partners. In particular, under an agreement signed with IBM, tools will be designed to estimate lithological bottomhole parameters during the drilling process.

In 2017, Gazprom Group's project for designing development solutions for the Bazhenov suite was granted the status of a national project, validating its significance for the country and the industry.

**In 2017, Gazprom Neft's initiative to design development solutions for the Bazhenov suite was granted the status of a national project.**

#### Significance of the initiative to design development solutions for the Bazhenov suite

Once successfully completed, the project will:

- enable the development of new reserves and hence increase the Company's taxable base
- create up to 10 thousand jobs in the engineering industry and up to 6 thousand jobs in the oilfield services industry
- promote import substitution with respect to technologies and equipment, and relaunch operations in traditional production regions
- take advantage of newly developed process solutions and acquired skills to develop other hard-to-recover reserves in Russia.

The active phase of a pilot project has been completed on the Zapadno-Salymskoye field, which involved injection of a mixture of sodium carbonate, surfactants, and a polymer into a reservoir. By the year-end, the oil recovery ratio was increased from the initial 52% to 67%, confirming the high efficiency of the new process solution.

As part of its efforts to enhance oil refining efficiency, the Company completed the drafting of design documentation for catalyst production in the reporting year. Plans for 2018 include preparation of a construction site for production facility, equipment purchases, and commencement of construction and installation. The new Omsk-based catalyst production business will produce FCC, hydrotreating, and hydrocracking catalysts. The hydrotreating catalyst development projects are at the pilot testing stage, while hydrocracking catalysts are still at the laboratory research stage. The Company has joined efforts with Russian research institutions to develop catalyst production technologies for hydrotreating of middle distillates, and advanced hydrotreating and hydrocracking of vacuum gas oil.

Technological priority	Results of innovative R&D completed in 2017	Overview and use in Gazprom Group's priority projects
Recovery enhancement	— Underbalanced drilling	The technology was pilot-tested on the Archinskoye field. In fractured carbonate reservoirs, the technology can open a large number of natural fractures to enhance hydrocarbon flow: the daily flow rate of the new, pilot well was 160 tonnes of oil per day, which is more than double the average rate for similar wells and fully covers the costs of using such sophisticated high-tech services. Following the successful tests in the Archinskoye field, the technology will be rolled out across other fields with fractured carbonate reservoirs.
	— 20-stage packer hydraulic fracturing used across Yamal hydrocarbon deposits	The technique was first applied in the Novoportovskoye field. The pilot well's initial daily flow rate was 188 tonnes of oil.
	— Drilling of a well with four horizontal cased laterals	The pilot well was completed in the Novoportovskoye field, and is the first well of this kind in Russia. Its construction involved the use of Russia-made equipment customised for the field's geology. Multi-hole horizontal wells increase the drainage area and enhance the flow rate without drilling additional vertical wells.
	— Construction of a multilateral well with five cased laterals	An alternative to hydraulic fracturing, this type of well is known as a fishbone well as it has a series of multilateral well segments that trunk off the main horizontal well. The project has been implemented on the Vostochno-Messoyakhskoye field by AO Messoyakhaneftegaz, a joint venture set up between PAO Gazprom Neft and Rosneft Oil Company on a parity basis.
	— Domestic surfactants synthesised to replace costly imported components	The surfactants have been synthesised in cooperation with the University of Tyumen and NORCHEM. Filtration tests are planned for 2018, while in 2019 the new surfactants will be tested in a well at the Kholmogorskoye field.



## Innovation in Power Generation

A group of generating companies across Gazprom energo-holding designs and implements innovative technologies for heat and power generation at natural gas and coal-fired power stations.

### Innovation priorities in power generation

- Improve the efficiency of generating equipment
- Increase energy efficiency and energy saving in power generation and consumption
- Reduce the environmental footprint of operations
- Expand the use of renewables
- Implement advanced engineering solutions

In 2007–2017, Gazprom Group's power generation companies successfully implemented a number of innovative projects to construct new generation capacity at power stations operated by PAO OGK-2.

### Innovative projects completed by Gazprom Group in power generation

- Construction of an innovative 800 MW combined-cycle gas turbine (CCGT) unit with a two-boiler single-turbine configuration based on the existing K-300 steam turbine at the Kirishskaya GRES of PAO OGK-2
- Construction of a 330 MW coal-fired power unit with an innovative circulating fluidized bed (CFB) boiler at the Novocherkasskaya GRES of PAO OGK-2
- Construction of a 660 MW coal-fired power unit at the Troitskaya GRES of PAO OGK-2.

In addition, the Company continues to upgrade and replace T-250/300-240 steam turbines at CHPP-22 of PAO Mosenergo. The T-250/300-240 turbine, which has been in operation for around 280 thousand hours since 1972, will be replaced with a new type of turbine, T-295/335-23.5.

## R&D Collaboration

Collaboration with external institutions, research centres, and anchor universities is vital for stronger and better innovation at PJSC Gazprom.

In 2017, PJSC Gazprom continued to pursue its research collaboration programmes and implement process roadmaps with Russian pipe manufacturers, including AO OMK, PAO Severstal, PAO TMK, PAO Chelyabinsk Pipe Plant, and PAO Magnitogorsk Iron & Steel Works. In the reporting year, the Group also prepared and approved roadmaps for collaboration with Rostec, State Space Corporation ROSCOSMOS, and Rosatom aimed at exploring, developing, and deploying advanced technologies, process equipment, and materials, including for import substitution, to support technological development of PJSC Gazprom.

Under the General Cooperation Agreement between PJSC Gazprom and Rosatom, the parties implement the 2017–2019 Programme for Scientific and Technical Cooperation, which comprises eight projects across three focus areas: hydrocarbon prospecting and exploration; gas transportation; and security of operations.

The Company continues to maintain relations with innovative small and medium-sized enterprises (SMEs) as part of the government's SME support policy. In 2017, the Company soft-launched its One-Stop System web portal ([www.oknogazprom.ru](http://www.oknogazprom.ru)). The web portal supports the entire process of submitting innovative proposals to PJSC Gazprom, from proposal submission to obtaining final approval.

The One-Stop System web portal (information is available in Russian only)  
→ [www.oknogazprom.ru](http://www.oknogazprom.ru)



Relations with innovative SMEs are developed in close contact with RUSNANO. The parties are implementing a programme to boost the demand for innovative (including nano-tech) products in the gas industry.

In 2017, PJSC Gazprom was engaged in extensive research and technical collaboration with foreign partners. Relevant agreements were signed with the Agency for Natural Resources and Energy of the Japanese Ministry of Economy, Trade and Industry, Norwegian Statoil, and with Comita Group (Slovenia). The Group continued implementing existing programmes for research and technical collaboration with leading international energy companies.

In the reporting year, the Group carried out joint projects with South Korean KOGAS for the development of diagnostic equipment and technologies to repair pipelines prone to stress corrosion cracking based on the results of Russian and Korean R&D projects with a view to market the resulting products internationally.

Together with OMV, PJSC Gazprom designed and launched, in October 2017, a joint master programme at the companies' anchor universities — Gubkin Russian State Oil and Gas University and Leoben Mining University (Montanuniversität Leoben).

Foreign research partners of PJSC Gazprom		
Country	Partner	Area of collaboration
Austria	OMV	Production, transportation, storage, processing, energy saving, environmental protection, and prospective development
Vietnam	PetroVietnam	Production, NGV fuels, energy saving, environmental protection, and prospective development
Germany	Uniper Holding	Transportation, storage, LNG, NGV fuels, prospective development, and project management
	BASF / Wintershall Holding GmbH	Production, transportation, storage, and prospective development
	VNG	Transportation, storage, and NGV fuels
China	CNPC	Production, transportation, storage, NGV fuels, energy saving, environmental protection, and prospective development
The Netherlands	Gasunie	Transportation, storage, energy saving, environmental protection, prospective development, and project management
Norway	Statoil	Energy saving, environmental protection, prospective development, and project management
Serbia	Srbijagas	Transportation, storage, project management, energy equipment, energy saving, and environmental protection
Slovenia	Comita Group	Transportation, storage, energy saving, environmental protection, prospective development, and energy equipment
France	ENGIE	Prospective development, transportation, storage, energy saving, and environmental protection
	Schneider Electric	Prospective development, energy saving, environmental protection, energy equipment, and project management
South Korea	KOGAS	Production, transportation, storage, LNG, energy saving, environmental protection, and prospective development
Japan	Agency for Natural Resources and Energy of the Japanese Ministry of Economy, Trade and Industry	Production, energy equipment, NGV fuels, energy saving, environmental protection, and prospective development



## Import Substitution

In the context of economic sanctions, the use of foreign equipment and technologies in Gazprom Group's operations is a risk factor that may have an impact on both brownfield operations and greenfield construction. The Group addresses this risk through its import substitution policy by growing the share of Russian products used in Gazprom Group's operations, and by encouraging the development of Russian alternatives to critical imported products.

### Assessment of the economic impact achieved through the introduction of import substituting technologies, equipment, and materials at facilities of PJSC Gazprom

The Group has assessed the economic effect from the deployment of import substituting technologies, equipment, and materials at facilities of PJSC Gazprom, its subsidiaries and associates in 2016–2017. For 2016–2017, the economic effect from import substitution initiatives in selected areas totalled RUB 11.8 bn.

An action plan has been implemented since 2015 in a number of key focus areas to address the challenges of import substitution and identify the Company's needs for import substituting equipment and technologies.

### Comprehensive Audits of Enterprises to Determine Readiness for Launching Production of Import Substituting Products

A total of 185 audits were conducted on enterprises between 2015 and 2017, including 60 audits in 2017. The results were used to run a comparative assessment of the companies' readiness to launch production of, among other things, the following import substituting equipment:

- Russia-made Mi-171A2 helicopters for offshore operations by PJSC Gazprom (3 companies)
- self-contained power units (7 companies)
- reciprocating compressors for gas pumping units (7 companies)
- gas-powered shunting locomotives (3 companies)
- gas-fuelled reciprocating engine power stations (3 companies)

### Development of New High-Tech (Including Import Substituting) Products by Russian Businesses

In 2017, the Company coordinated and managed the process of developing high-tech (including import substituting) products under focused agreements, memoranda, road maps with businesses and organisations, roadmaps on types of equipment, and roadmaps signed with Russian regions.

A total of 17 target agreements, memoranda, and roadmaps were signed and updated.

As part of these efforts, the Company reviewed over 1,500 proposals from 327 Russian businesses. As a result, 427 Russia-made products (equipment and materials) were authorised to be used at PJSC Gazprom's facilities, with 25 groups of products certified within Gazprom's INTERGAZCERT voluntary certification system.

Based on reviews completed in 2015–2017, the number of items in the List of Priority Products for Import Substitution and Production Localisation to Promote the Technological Development of PJSC Gazprom was reduced from 486 to 253 positions.

### Examples of high-tech products, including import substituting products, put into production by Russian businesses in 2017

Use in the Group's operations	Product
Gas production and transportation	Surge valves at operating facilities
	Electric welded longitudinal pipes and connections at operating facilities
LNG production and storage	Coil-wound heat exchangers
	Cold-resistant steel grades with nickel content up to 9%
Gas production	Industrial grade tubing hydrogen sulphide-resistant head for operation at sour gas fields at pressures up to 70 MPa

In the reporting year, PJSC Gazprom signed memoranda of intent with Rostec, AO United Engine Corporation, AO Russian Helicopters, and AO United Rocket Space Corporation. PJSC Gazprom also drafted roadmaps on equipment types for projects with Rostec, State Space Corporation ROSCOSMOS, and Rosatom.

### **Long-Term Contracts as a Framework for Import Substitution Projects**

In 2017, the Company continued to sign long-term contracts with domestic manufacturers for mass production, supply, maintenance, service and repair of import substituting products against guaranteed future supplies. Eight such agreements were signed as at 31 December 2017.

### **Development of High-Tech Import Substituting Products for Subsea Production Systems Used in Hydrocarbon Development**

As part of efforts within this focus area, PJSC Gazprom and the Ministry of Industry and Trade of the Russian Federation signed in 2017 an agreement for cooperation in developing subsea production facilities under the State Programme of the Russian Federation for the Development of Shipbuilding and Equipment for Offshore Upstream Operations for 2013–2020. The Programme provides for 12 R&D projects to produce offshore upstream technologies and equipment using subsea production systems (SPS) for hydrocarbon development.

The Programme has been successfully implemented by a strong Subsea Production Facilities team of experts set up for this purpose by the Scientific and Technical Council for the Development of Oil and Gas Equipment of the Russian Ministry of Industry and Trade. The team is led by Pavel Krylov, a Department Head at PJSC Gazprom.

Also in the reporting year, PJSC Gazprom and the Governor of St Petersburg signed an agreement for joint creation of an industrial cluster focused on high-tech solutions to develop the World Ocean's and Arctic resources. The document provides for joint activities to help build capabilities of Russian engineering and shipbuilding companies in manufacturing equipment for subsea production systems. The cluster's structure helps mobilise industrial, research, and human resources and foster collaboration across St Petersburg and the Northwestern Federal District in manufacturing SPS equipment. Along with the manufacturing of core SPS equipment, collaboration will also cover building of required infrastructure, including a testing facility equipped with necessary test benches compliant with international requirements for integrated testing of new products.



## Quality Management

The Company has in place a successful Quality Management System which drives efficiencies and performance across PJSC Gazprom through ensuring reliable delivery of energy resources to consumers. The Quality Management System was strategically set up by PJSC Gazprom to improve its performance and provide a robust framework for sustainability initiatives.

Since 2006, PJSC Gazprom has in place a set of series 9000 standards for quality management systems.

**Number of entities certified to STO Gazprom 9001 standards and ISO 9001 (GOST R ISO 9001), as at 2017**

	STO Gazprom 9001	ISO 9001 (GOST R ISO 9001)
Subsidiaries of PJSC Gazprom	30	59
Service contractors of PJSC Gazprom	136	—
Inventory suppliers of PJSC Gazprom	113	—

As part of developing its Quality Management System, PJSC Gazprom has put in place an ISO 9001:2015 compliant Quality Management System (QMS) of PJSC Gazprom. The QMS scope is defined as Management of Subsidiaries and covers production, transportation, processing, and storage of natural gas, gas condensate, and oil. In the reporting year, PJSC Gazprom set up two standing quality assurance bodies (Quality Assurance Council and Quality Assurance Working Group), approved the Quality Assurance Policy of PJSC Gazprom, drafted necessary documents detailing requirements to the elements, organisational structure, and compliance with QMS procedures, and ran a first-party audit and review of its QMS.

### Quality management priorities set by the Quality Assurance Policy of PJSC Gazprom

- Ensure improved, consistent, and predictable performance against consumer requirements to quality of hydrocarbons, and operational reliability and safety of PJSC Gazprom's facilities
- Ensure that management decisions drive effective and efficient operation of the Company
- Ensure PJSC Gazprom's compliance with Russian laws
- Planning and implementation of measures to address risks and opportunities in achieving objectives and delivering operating programmes
- Foster employee professionalism, and encourage strong teamwork
- Ensure the involvement of all employees in achieving PJSC Gazprom's goals
- Deploy and enhance advanced information technologies that support informed and up-to-date decision-making by the management
- Deliver to the needs of the current generation in a sustainable way, i. e. not at the expense of future generations

The Quality Assurance Policy of PJSC Gazprom is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



In December 2017, PJSC Gazprom's QMS successfully passed a certification audit and was issued certificates of QMS's conformity to ISO 9001:2015 requirements. The QMS conformity certificate issued by IQNet, an international network of partner certification bodies, allows PJSC Gazprom to obtain certificates for its international projects from any major national certification agency in any of the world's 33 most developed countries without the need for any further audits.

The next stage in QMS development will be to build a Corporate QMS combining the Company's QMS and QMSs of its subsidiaries using a common underlying methodology, which will further improve overall performance across Gazprom Group.

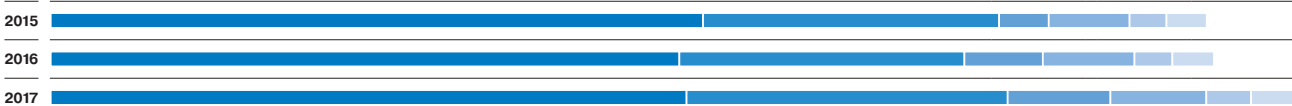
Gazprom follows a conservative approach to budget planning, optimising and closely monitoring its costs, which ensures its high financial stability.

## Revenue

Gazprom Group's sales revenue (net of VAT, excise tax, and customs duties) in 2017 grew 7.1% year-on-year to RUB 6,546.1 bn, primarily driven by higher net sales of refined products and higher sales of crude oil and gas condensate to far abroad countries.

A significant part of the Group's sales revenue is denominated in foreign currencies (mostly in US dollars and Euros).

Variation analysis of net sales revenue in 2017, RUB bn			
Net sales revenue in 2016			6,111.1
Net revenue from sales of natural gas to far abroad countries	→	+81.2	
Net revenue from sales of natural gas to FSU countries	←	-16.9	
Net revenue from sales of natural gas in Russian Federation	→	+55.8	
Retroactive gas price adjustments	←	-82.3	
Net revenue from sales of crude oil and gas condensate to far abroad countries	→	+131.6	
Net revenue from sales of crude oil and gas condensate to FSU countries	→	+6.3	
Net revenue from sales of crude oil and gas condensate in Russian Federation	←	-9.9	
Net revenue from sales of refined products	→	+189.5	
Net revenue from sales of electricity and heat	→	+22.1	
Net revenue from sales of gas transportation services	→	+36.1	
Other revenues	→	+21.5	
Net sales revenue in 2017			6,546.1

**Net sales revenue, RUB bn**


	2015	2016	2017
Net revenue from gas sales	3,427.2	3,302.8	3,340.6
Net revenue from sales of refined products	1,555.6	1,497.6	1,687.1
Net revenue from sales of crude oil and gas condensate	260.6	411.9	539.9
Net revenue from sales of electricity and heat	424.7	481.7	503.8
Net revenue from gas transportation sales	194.0	199.0	235.1
Other revenues	211.2	218.1	239.6
Total	6,073.3	6,111.1	6,546.1

**Operating Expenses**

In 2017, the Group's operating expenses (excluding the asset impairment provision and other reserves) increased by 9% to RUB 5,714.1 bn. Most operating expenses are out of the Group's control and include taxes. The Group's operating expenses as a percentage of sales increased from 86% in 2016 to 87% in 2017.

Gazprom is Russia's major taxpayer. In 2017, the taxes payable by the Group (net of income tax), totalled RUB 1,246.1 bn, up RUB 345.7 bn year-on-year.

A heavier tax burden on Gazprom Group in 2017 was predominantly driven by the higher MET.

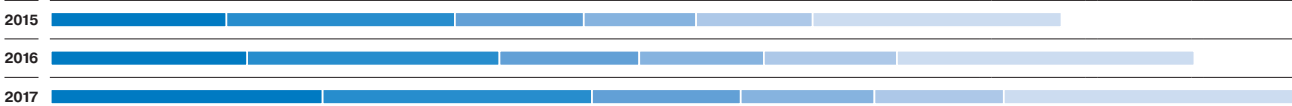
Since 2016, a surcharge rate applies to calculating the MET rate on gas for owners of UGSS facilities and/or entities with direct and/or indirect ownership of UGSS facility owners with the aggregate stake exceeding 50%. The surcharge rate applicable to calculating MET on gas in 2017 was 1.7969 from 1 January through 30 September and 2.2738 from 1 October through 31 December.

As part of scheduled changes in the upstream sector taxation, the MET on oil was up year-on-year.

The tax burden increase due to a higher MET in 2017 was also driven to a large extent by higher oil prices.

For more details on oil price changes in 2017 see the Trends and Developments on Gas Markets section → Page 95

The property tax rate applicable to trunk pipelines, power transmission lines, and facilities comprising an integral technological part thereof was also up in 2017 by 0.3% year-on-year and stood at 1.6%. Property tax increased by RUB 27.5 bn, or 21.6%, to RUB 154.6 bn in 2017 (RUB 127.1 bn in 2016). This change was mostly driven by the revaluation of property, plant, and equipment as at 31 December 2016, included in the property tax base, and by the higher tax rate for trunk pipelines.

**Operating expenses breakdown, RUB bn**


	2015	2016	2017
Taxes other than income tax	805.1	900.4	1,246.1
Purchased gas and oil	1,048.5	1,157.6	1,236.2
Staff costs	591.0	641.0	682.1
Depreciation	515.2	571.6	613.2
Transit of gas, oil, and refined products	534.5	610.3	593.3
Other	1,141.2	1,364.1	1,343.2
Total	4,635.5	5,245.0	5,714.1



**Breakdown of taxes other than on income, RUB bn**

2015	<div><div></div><div></div><div></div></div>			
2016	<div><div></div><div></div><div></div></div>			
2017	<div><div></div><div></div><div></div></div>			
		2015	2016	2017
<div></div> MET		591.3	613.7	915.2
<div></div> Property tax		112.6	127.1	154.6
<div></div> Other taxes		101.2	159.6	176.3
Total		805.1	900.4	1,246.1

**Profit**

Gazprom Group's operating profit in 2017 increased by RUB 145.0 bn, or up 20.0% year-on-year, to RUB 870.6 bn.

**RUB 1,466.9 bn**

**adjusted EBITDA for 2017**

Adjusted EBITDA increased by RUB 144.7 bn, or 11.0% year-on-year mainly due to operating profit growth. Gazprom Group's adjusted EBITDA margin in 2017 was 22%.

Income tax in the reporting year was RUB 251.1 bn, down RUB 36.9 bn year-on-year. Effective tax rate increased to 24.7% (22.4% in 2016) mainly due to an increase in expenses not deductible for tax purposes.

In 2017, the Group's profit attributable to the owners of PJSC Gazprom totalled RUB 714.3 bn, down RUB 237.3 bn, or by 24.9% year-on-year, mostly due to a higher tax burden (especially MET) and lower net foreign exchange gains due to the relatively stable Rouble during 2017. Profit margin reached 11%.

**Profit, RUB bn**

	Operating profit	
2015		1,228.3
2016		725.6
2017		870.6
	Adjusted EBITDA	
2015		1,874.7
2016		1,322.2
2017		1,466.9
	Profit for the year attributable to the owners of PJSC Gazprom	
2015		787.1
2016		951.6
2017		714.3

**Gazprom Group's profit margin, %**

	2015	2016	2017
Adjusted EBITDA margin	31	22	22
Profit margin for the year attributable to the owners of PJSC Gazprom	13	16	11

**Variation analysis of profit attributable to the owners of PJSC Gazprom, 2017, RUB bn**

Profit for 2016 attributable to the owners of PJSC Gazprom		951.6
Net sales revenue	→	+435.1
Operating expenses	←	-469.1
Impairment provision	→	+198.8
Net financial income (expense)	←	-455.9
Income tax	→	+36.9
Other factors	→	+17.0
Profit for 2017 attributable to the owners of PJSC Gazprom		714.3




## Capital Expenditures

In 2017, Gazprom Group's capital expenditures amounted to RUB 1,504.6 bn.

Transportation, Oil and Gas Condensate Production, and Refining segments account for the bulk of the Group's capital expenditures. The high share of the Transportation segment in the total capital expenditures is due to the concurrent implementation of a number of major gas transportation projects. With Gazprom Group's capex mostly denominated in Russian roubles, its investment activities are less exposed to external factors.

Actual expenditure under 2018 programmes on gas, oil, electricity, and heat generating assets will total RUB 1,982.0 bn.

For more details on Gazprom Group's key capital expenditures in 2017 and 2018 priorities see the Operations and Marketing section  
→ Pages 116, 120, 121, 123, 129–130, 134

Capital expenditures, RUB bn				
2015				
2016				
2017				
		2015	2016	2017
■ Transportation		420.9	406.8	498.6
■ Oil and gas condensate production		324.3	326.4	330.4
■ Refining		136.3	193.2	225.2
■ Gas production		225.0	235.2	216.5
■ Electricity and heat generation and sales		98.9	63.5	58.1
■ Gas distribution		26.0	41.8	51.7
■ Gas storage		48.5	35.5	37.7
■ Other segments		69.7	54.9	86.4
Total		1,349.6	1,357.3	1,504.6










**Note.** Capital expenditures are shown as reported in the segment information section of PJSC Gazprom's IFRS consolidated financial statements.

## Cash and Free Cash Flow

According to Gazprom Group's financial policy, capital expenditures are covered by the operating cash flow. In the reporting year, as investment in strategic projects and working capital increased, the Group's free cash flow totalled — RUB 218.8 bn.

Net cash from operating activities declined by RUB 384.3 bn, or 24%, to RUB 1,187.0 bn in 2017 (RUB 1,571.3 bn in 2016). This change was mostly driven by the short-term deposits reported within other current assets and by the higher income tax paid.

Short-term deposits within other current assets totalled RUB 328.0 bn as at 31 December 2017 (RUB 144.0 bn as at 31 December 2016). Long-term deposits within non-current assets totalled RUB 1.6 bn as at 31 December 2017 (RUB 42.2 bn as at 31 December 2016).

Cash from operating activities, RUB bn		
Net cash from operating activities		
2015		2,030.9
2016		1,571.3
2017		1,187.0
Cash capital expenditures		
2015		1,641.0
2016		1,369.0
2017		1,405.8
Free cash flow		
2015		389.9
2016		202.3
2017		-218.8

## Debt Management

As at 31 December 2017, the total debt of Gazprom Group was RUB 3,266.5 bn, up 15% year-on-year.

The Group's net debt increased by RUB 464.6 bn, or by 24.0% year-on-year, to RUB 2,397.5 bn as at 31 December 2017. The increase was mostly driven by growth in long-term borrowings.

In 2017, the Group's Net debt / Adjusted EBITDA ratio stood at comfortable 1.6.

Net debt / Adjusted EBITDA*	
2015	1.1
2016	1.5
2017	1.6

\* Calculated as the ratio of net debt to adjusted EBITDA denominated in Russian roubles.

Debt			
2015			
2016			
2017			
		2015	2016
■ Net debt, RUB bn.		2,083.1	1,932.9
■ Cash and cash equivalents, restricted cash, RUB bn		1,359.1	896.7
Total debt, RUB bn.		3,442.2	2,829.6
		2017	2,397.5

Gazprom Group companies are reliable borrowers on the domestic and international capital markets, able to raise funds on favourable terms.

Cost of debt, %			
	2015	2016	2017
Weighted average fixed interest rate	6.3	6.3	6.3
Weighted average floating interest rate	3.9	4.1	3.6
Weighted average interest rate	5.6	5.8	5.6

**Gazprom become a winner of the Global Capital Bond Awards 2017 in the Most Impressive Emerging Market Corporate Buyer category.**

Gazprom successfully raises capital funds on international debt markets, making informed decisions when selecting its sources of finance, and ensuring strong management of borrowed funds. The Group's borrowed funds mainly come from foreign currency borrowings: ca. 37% of its debt is denominated in US dollars and 37% in Euros. This is due to a number of factors including low interest rates on foreign markets and a sizeable currency borrowings market as compared to rouble-denominated instruments. On top of that, Gazprom Group's debt currency profile reflects prevailing foreign currency revenues, thus creating a natural hedge for debt servicing.

Rouble-denominated loans prevailing in debt portfolios of Gazprom Group's subsidiaries account for nearly 19% of the Group's total debt.

Debt maturities, %			
2015			
2016			
2017			
		2015	2016
■ Less than 1 year		19	16
■ 1–2 years		14	25
■ 2–5 years		42	34
■ Over 5 years		25	25
		2017	27



### Lower Cost of Debt

In financing its operations, Gazprom Group relies on both internal sources of financing generated by income from operating activities and borrowings. In determining its debt/equity ratio, Gazprom Group seeks to optimise the balance between the cost of capital, on the one hand, and maintaining a long-term strong financial position, on the other hand. Gazprom Group places particular emphasis on financial leverage management.

The cost of debt raised by PJSC Gazprom in 2017 on international capital markets through its 41<sup>st</sup>, 42<sup>nd</sup>, 43<sup>rd</sup>, and 44<sup>th</sup> Eurobond issues and placement under the EMTN Programme matched or was several basis points below the bond yield curve of PJSC Gazprom as at the date of each Eurobond issue.

In the Russian capital market, the changes in Gazprom Group's cost of debt in 2017 were driven mostly by the lower inflation and key rate of the Central Bank of the Russian Federation which reduced market interest rates on bank loans and debt instruments in 2017.

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For details on bond issues outstanding as at 31 December 2017 see the Share Capital and Securities Market section → Page 221



**Personnel** → 162

**Occupational Safety** → 166

**Environmental Protection** → 170

**Energy Saving and Energy Efficiency** → 175

**Social Projects** → 177



Gazprom ranks among Russia's most attractive employers. The Group companies provide their employees with ample professional development opportunities, along with extensive social security benefits.

Gazprom is actively involved in building the national qualification system through developing occupational standards for the Russian oil and gas industry.

Social and labour relations within Gazprom Group are governed by labour laws, the General Agreement between the National Associations of Trade Unions and Employers, and the Russian Government, the Industry Agreement for Oil, Gas and Construction Companies, collective bargaining agreements, and local regulations of Gazprom Group companies.

Governed by the standards of the International Labour Organisation, Gazprom Group respects the fundamental rights and principles set forth in ILO conventions and recommendations, covering in particular:

- freedom of association and the effective recognition of the right to collective bargaining
- elimination of all forms of forced or compulsory labour
- effective abolition of child labour
- elimination of discrimination in respect of employment and occupation.

Gazprom also adheres to international standards on hours and conditions of work, occupational safety, remuneration for work, social security, and holidays with pay.

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**No. 1**

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**in the 2017 ranking of Russia's most attractive employers according to university students majoring in Engineering / Natural Science, compiled by Universum**

## Personnel Structure

As at 31 December 2017, the total headcount of the Group was 469.6 thousand employees (467.4 thousand in 2016). The headcount grew by 2.2 thousand people in 2017 as Gazprom ramped up its production operations.

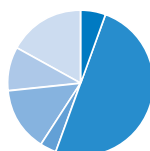
Gazprom Group's employees represent 0.6% of the total number of employed Russian citizens.

# 0.6%

**of the total number of employed Russian citizens are represented by Gazprom Group's personnel**

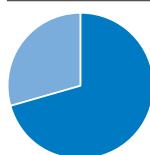
### Breakdown of Gazprom Group's personnel as at 31 December 2017, %

■ PJSC Gazprom (including branches and representative offices)	5,6
■ Major subsidiaries of Gazprom Group engaged in gas production, transportation, storage and processing	50,1
■ Gazprom neftekhim Salavat	3,5
■ Gazprom Neft Group	14,4
■ Gazprom energoholding	9,5
■ Other entities	16,9



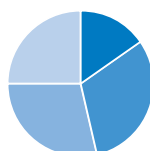
### Gender balance of Gazprom Group's workforce as at 31 December 2017, %

■ Men	70,7
■ Women	29,3



### Age balance of Gazprom Group's workforce as at 31 December 2017, %

■ Under 30 years	15.3
■ 30 to 40 years	31.3
■ 40 to 50 years	28.6
■ Over 50 years	24.8



For more details on Gazprom Group's personnel see Gazprom in Figures 2013–2017 Factbook

The Group's personnel includes 2,654 candidates of science, and 141 doctors of science. About a half of Gazprom Group's employees have higher education degrees. The mean age of Gazprom Group's employees is 42 years.

Employee turnover rate across Gazprom Group entities was 4.7% in 2017, while the subsidiaries engaged in gas production, transportation, processing, and storage showed a traditionally low rate of 1.3%.

## Talent Pool and Young Talent Management

Gazprom Group companies actively engage with vocational schools and universities on targeted professional training programmes.

Gazprom organises events to select the most promising school graduates, in particular running a Gazprom Classes project (specialised in-depth training classes with a view to subsequent enrolment in higher education programmes matching the profile of the Group's core activities), organises on-the-job training of students, and holds regular Employment Fairs and Gazprom Days.

# 23

 schools  

# 5

 in russian federal districts

### participate in the Gazprom Classes project

To establish a quality educational process, Gazprom supports educational institutions through aligning curricula, setting up laboratories and training bases, arranging internships, engaging the Group's managers and top professionals as teachers, and holding regular Gazprom Days and Employment Fairs.

**The 2016/2017 school year saw the first industry-specific academic competition organised by Gazprom for school students.**

Building close partnerships with educational institutions helps Gazprom develop graduates' professional qualifications to match Gazprom Group companies' needs.

The Company runs a number of dedicated programmes for young employees and those new to the gas industry. The programmes, such as the Young Specialist Training School, a corporate post-graduate training programme, facilitate onboarding for young employees, identify their professional skills, and cultivate corporate traditions.

The Group has established the Youth Coordination Council of PJSC Gazprom's subsidiaries and entities. The Company's subsidiaries have their own Councils of Young Researchers and Specialists and hold R&D conferences for young employees aged under 35.

### Employee Training and Development

Gazprom has in place a corporate Continuous Vocational Education and Training System designed to upgrade employee skills to meet the ever growing operational and performance requirements and support deployment of new technologies and expansion of the Group's regional footprint. Training is mostly provided in educational organisations of the Company, in training and production centres of Gazprom subsidiaries, and at Russia's leading universities. Focused and consistent succession management is a key priority in talent pool management.

In 2017, 342.9 thousand employees of Gazprom Group were trained under career enhancement and retraining programmes.

Gazprom's personnel training and retraining practices allow the Group to efficiently manage its personnel's expertise and build up a talent pool capable of achieving innovative growth goals. Gazprom runs targeted employee training programmes tailored for specific activities, such as development of offshore hydrocarbon fields, GTS dispatch control, LNG production, use of NGV fuels, use of innovative process equipment, etc.

### Remuneration and Social Security

The Remuneration Management Policy for Employees of PJSC Gazprom's Entities sets out unified corporate remuneration standards for Gazprom Group's employees. Its purpose is to provide a framework for attracting and retaining people with required skills, and motivate employees to perform as expected.

Current remuneration schemes link fixed salaries and pay rates to qualifications and business skills, and also provide for monthly performance bonuses, premiums and additional allowances for work scope and conditions, as well as ad hoc and annual bonuses.

To maintain real pay levels, the Company in its annual budgeting process takes into account the opinion of Gazprom Interregional Trade Union to decide on the increases of employee fixed salaries and pay rates, setting the time and rate of indexation versus the preceding year to reflect the projected CPI growth for the year based on forecasts by the Ministry of Economic Development of the Russian Federation.

The Company's social policy provides it with a competitive advantage, raises its profile in the employment market, and seeks to attract and retain best talent over the long term.

The key principle that underlies the implementation of PJSC Gazprom's social policy is the use of social partnership mechanism, i.e. a constructive dialogue between employees and employers on the matters related to the regulation of social and labour relations. Gazprom Interregional Trade Union, which is part of the Russian Oil, Gas and Construction Workers' Union, represents the interests of Gazprom Group's employees.

The key aspects of employees' social security are set out in the General Collective Bargaining Agreement of PJSC Gazprom and in the collective bargaining agreements of Gazprom's subsidiaries, and provide for a set of employee social support measures, including social benefits, personal insurance, and healthcare benefits.



To attract and retain key and highly skilled employees PJSC Gazprom runs a number of special corporate programmes, including:

- a corporate housing programme, funded by both employees and the employer through bank mortgage lending facilities (using a co-financing approach)
- a private pension arrangement run through Non-State Pension Fund GAZFOND.

To better incentivise and drive improvements in employee development, promote transfer of professional skills and knowledge, and cultural exchanges, Gazprom holds regular vocational skills competitions. Competitions were held in 2017 for cable jointers, welders, corrosion prevention specialists, and the faculty of subsidiaries' educational organisations. A computer-aided design and information technologies competition was also organised in 2017.

By holding sports events and festivals for employees and their families, PJSC Gazprom seeks to maintain the corporate traditions of supporting amateur sports, promoting healthy lifestyles, and encouraging moral and aesthetic development.

In September 2017, PJSC Gazprom held its traditional summer Spartakiad in Sochi, bringing together about 2,500 amateur athletes in 28 adult and 14 children's teams from Russia and Belarus, representing 29 subsidiaries. The athletes competed for 180 medal sets in six sports — volleyball, football, swimming, kettlebell lifting, chess, and running. Children's teams competed in four sports — quadrathlon, football, chess, and running.

**For the first time in the history of Gazprom's Spartakiad, participants were also tested under the "Ready for Labour and Defence (GTO)" physical evaluation programme promoted by the Russian Government.**

Approximately 1,600 performers from 40 Gazprom subsidiaries based in Russia, Armenia, Belarus, and Kyrgyzstan, as well as performers representing the Company's corporate partners from China, Slovenia, Germany, France, Vietnam, and Bolivia took part in the finals of the 7<sup>th</sup> Flare corporate festival for amateur bands and individual amateur performers held in 2017 in Sochi. The festival participants performed in front of a panel of professional judges in five categories — Vocal Performance, Choreography, Music Band, Circus / Variety Show and Folk Music. As part of the festival, the Young Artist Contest was held for children of the Company's employees.

The success of the Company's social policy is seen in the consistent performance shown by the teams of PJSC Gazprom's subsidiaries and in the adequate staffing levels and skills mix of staff.

Gazprom puts the health and safety of its employees at the top of its agenda. The Group companies have in place a top-level framework to ensure workplace safety.

The Company's Unified Occupational Health and Safety Management System was successfully recertified in 2017 to OHSAS 18001:2007 standards.

The key objectives of PJSC Gazprom's Occupational Health, Industrial and Fire Safety Policy are to:

- create safe working conditions and protect the health and safety of employees
- reduce the risks of accidents and incidents at hazardous industrial facilities
- ensure fire safety.

These objectives are achieved through prevention of injuries, occupational diseases, accidents, incidents, fires, and fire outbreaks through:

- hazard identification
- occupational risk assessments and management
- awareness raising among employees and employee representatives, and their involvement in the occupational health and safety management system.

The Company also seeks to improve employee safety during off hours.

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# OHSAS 18001:2007

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**Gazprom's Unified Occupational Health and Safety Management System complies with the international standard**

#### Key OHS commitments of the Company

- Continuously reduce the rates of occupational injuries, diseases and emergencies, and minimise the risks of fires and fire outbreaks
- Ensure compliance with federal, regional, and corporate occupational safety regulations
- Ensure effective performance and continuous improvement of the Company's OHS management system, including by fostering the corporate safety culture
- Assess and manage occupational safety risks to prevent injuries or health damage to employees, and equipment and property damage
- Ensure consistent and continuous efforts to minimise occupational safety risks
- Implement OHS management solutions, technologies, and techniques
- Actively involve the personnel in OHS activities and foster an environment, including through employee incentives, that promotes responsible behaviours by every employee towards their own and others' safety
- Continuously improve OHS qualifications and competences of employees
- Allocate required organisational, human, financial, and technical resources to implement PJSC Gazprom's Occupational Health, Industrial and Fire Safety Policy
- Require suppliers and contractors operating at the Company's facilities to comply with federal, regional, and corporate occupational safety regulations

#### Unified Occupational Health and Safety Management System

The Unified Occupational Health and Safety Management System is part of PJSC Gazprom's integrated management system developed and introduced to manage OHS risks and meet the Company's objectives and commitments under its occupational Health, Industrial and Fire Safety Policy. The scope of the Unified Occupational Health and Safety Management System covers PJSC Gazprom, its gas exploration, production, processing, transportation, and underground storage, and energy subsidiaries, as well as subsidiaries supporting the operation of the Russian UGSS, with a total headcount of around 325 thousand employees.

**Annually PJSC Gazprom runs a self-assessment of the Unified Occupational Health and Safety Management System.**

#### Performance self-assessment of occupational health and safety management systems of PJSC Gazprom and its subsidiaries

In line with the requirements of Gazprom's Corporate Standard 18000.1-001-2014 "Unified Occupational Health and Safety Management System of PJSC Gazprom". Key Provisions", PJSC Gazprom's management annually reviews the Company's Unified Occupational Health and Safety Management System (UOHSMS) for compliance with the existing OHS Policy, and performance against the set OHS objectives and targets to evaluate the UOHSMS performance and its adequacy in meeting PJSC Gazprom OHS objectives.

The Company is compliant with the occupational safety laws of the Russian Federation, Gazprom's internal regulations, and the international standards adopted by Gazprom, including requirements applicable to management systems.

#### Approval of the Development Strategy for PJSC Gazprom's OHS Management System to 2020

In 2017, the Development Strategy for PJSC Gazprom's OHS Management System to 2020 and the Roadmap for the Development of PJSC Gazprom's OHS Management System were developed, and approved by PJSC Gazprom's order.

The Strategy's main objective is to ensure sustainable operations with defined OHS targets by improving the range of inter-related approaches, principles, frameworks, and corporate procedures, and ensuring strict compliance with federal occupational safety standards and regulations, and corporate requirements.

Compliance with the Company's OHS standards and regulations by suppliers and contractors operating at the facilities of PJSC Gazprom and its subsidiaries is an essential requirement of occupational safety. In its activities, the Company engages suppliers and contractors who share the principles set out in Gazprom's Occupational Health, Industrial and Fire Safety Policy.



## The System Certification

Since 2014, the Unified Occupational Health and Safety Management System has been regularly audited for compliance to OHSAS 18001:2007 by the Russian Register Certification Association (a member of the International Certification Bodies Association — IQNet). The scope of this certification exercise includes PJSC Gazprom and its 26 subsidiaries engaged in gas production, transportation, and underground storage, as well as in gas, gas condensate and oil processing/refining. The Company successfully passed a recertification audit in 2017.

### Benefits of implementing an OHSAS 18001 compliant management system for the Group entities

- Higher investment appeal
- Higher market capitalisation
- Lower unscheduled losses
- Improved business reputation
- Compliance with generally accepted international management practices
- Competitive advantages in bidding and contracting for international projects

Gazprom annually expands the certification scope by including new entities. By the end of 2017, the number of subsidiaries certified to OHSAS 18001:2007 reached 51 entities, with their total headcount over 300 thousand people.

**Over 300** thousand people  
employed by the Group's 51 subsidiaries  
certified to OHSAS 18001:2007

### Number of PJSC Gazprom's certified subsidiaries as at the end of the year

2014	26
2015	26
2016	43
2017	51

**2** times

growth in the number of PJSC Gazprom's subsidiaries  
certified to OHSAS 18001:2007 over the past four years

## Outcomes of OHS Activities

PJSC Gazprom makes consistent efforts to reduce injuries, accidents, and fires. The Company is currently implementing a range of programmes and plans to ensure accident-free operation of hazardous facilities, improve working conditions, and prevent accidents and fires, resulting in steadily declining accident rates.

### Number of employees covered by the UOHSMS who have passed OHS tests and certification, thousand people

2015	330.2
2016	331.9
2017	299.4

The 2017 targets for occupational health, industrial and fire safety were mostly met.

### Number of accidents, incidents, and fires at hazardous facilities covered by the UOHSMS

Accidents	
2015	12
2016	10
2017	5
Incidents	
2015	43
2016	30
2017	21
Fires	
2015	5
2016	4
2017	4

### Number of people injured in accidents and injury frequency rate in entities covered by the UOHSMS

Injuries	
2015	103
2016	78
2017	61
Injury frequency rate	
2015	0,45
2016	0,27
2017	0,22

The number of injuries was reduced by 41% between 2015 and 2017. During 2017, accidents mainly included traffic accidents and same-level falls. The number of accidents and incidents at hazardous facilities was reduced by 53% in 2017 versus 2015.

**No fires occurred at UGSS operating facilities in 2017.**

Based on the identified risks, PJSC Gazprom developed and approved its occupational health, industrial and fire safety targets for 2018 and the relevant action plan.

**51%**

**lower injury frequency rate in 2015–2017**

#### **PJSC Gazprom's OHS targets for 2018**

- Maintain zero fatality rate for PJSC Gazprom's employees
- Reduce total traffic accidents in PJSC Gazprom's subsidiaries (whether through the fault of employee or employer) by at least 5% versus the 2015–2017 average
- No breaches identified by supervisory authorities that were not identified earlier through workplace controls
- Reduce the cardiovascular mortality rate at workplaces by 5% versus the mid-term forecast using linear regression over the past five years
- Reduce the number of accidents and incidents at hazardous facilities of PJSC Gazprom by 5% versus the mid-term forecast using linear regression over the past five years
- No fires or fire outbreaks at PJSC Gazprom's facilities

For more details on the Unified Occupational Health and Safety Management System see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



## **Occupational Health and Safety in Gazprom Group Entities Outside the UOHSMS**

Gazprom Group has in place the Occupational Health and Safety Management System across its oil, power generation, and petrochemical businesses and in OOO Gazprom mezhregiongaz.

### **Gazprom Neft Group**

Gazprom Neft benefits from a vertically integrated occupational health and safety management system compliant with international ISO 14001, ISO 9001, and OHSAS 18001. PAO Gazprom Neft's operations are aligned with the in-house policy on industrial, fire and transport safety, environmental protection, health and workplace safety, and civil protection, and is coordinated by the Occupational Safety Department at the Corporate Centre. The Occupational Health and Safety (OHS) Management System has been integrated with the Operations Management System (OMS). The Joint Committee for OMS and OHS was launched at PAO Gazprom Neft in 2017, comprising members of the company's Management Committee and heads of operations. OHS committees have also been established in individual business segments and PAO Gazprom Neft's subsidiaries.

### **Gazprom Energoholding**

At Gazprom energoholding and its subsidiaries, occupational health and safety issues are addressed in line with the requirements of Russian laws and applicable statutory regulations. CEOs of generating companies are responsible for compliance with these requirements, while relevant activities are coordinated by Chief Engineers of subsidiaries and branches (power stations).

### **Gazprom Neftekhim Salavat**

PJSC Gazprom's common goals, operating principles and commitments are also reflected in Gazprom neftekhim Salavat's existing OHS Policy. The company implements them in line with the requirements of federal, regional, and industry-related laws and international standards. Gazprom neftekhim Salavat has in place an OHS management system certified to OHSAS 18001:2007.

### **Gazprom Mezhregiongaz**

Gazprom mezhregiongaz has adopted an OHS Management System Standard harmonised with the Company's Unified Occupational Health and Safety Management System.

The Company prioritises care for the environment in everything it does — both in major projects and day-to-day tasks. Gazprom employs technical solutions that keep environmental impact from its operations to a minimum.

In 2017, 682 thousand employees and their family members, schoolchildren, university students, and NGO members participated in hundreds of events and activities organised in the Company as part of the Year of the Environment.

PJSC Gazprom also puts care for the environment at the top of its agenda when implementing projects both in Russia and abroad. Sustainable use of natural resources and environmental protection are the core principles that underpin PJSC Gazprom's operations as a socially and environmentally responsible energy company.

Gazprom Group's subsidiaries operating abroad are also committed to minimising their environmental footprint in strict compliance with the local regulations and provisions of PJSC Gazprom's Environmental Policy.

**RAO Gazprom, having adopted its own Environmental policy was the first Russian oil and gas company to state about their voluntary responsibility in the field of Environmental Protection.**

The Environmental Policy is available on PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



The Environmental Policy is the primary document governing the Company's environmental activities. It is updated on an ongoing basis to comply with changing legislation and address new environmental challenges. The updated version of the Environmental Policy approved by resolution of the Company's Management Committee in 2015 reflects key trends in environmental protection, energy efficiency, and greenhouse gas (GHG) reduction. The Environmental Policy sets out additional commitments to environmental safety that the Company undertakes in developing hydrocarbon fields on the Russian continental shelf and in the Russian Arctic, and in minimising the risks of negative impact on the environment, including on particularly vulnerable natural sites and areas, and features of high conservation value.

**The motto of Gazprom's Year of the Environment 2017 was "Conserving Nature".**

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# 682

thousand people

**participated in the Year of the Environment events held across Gazprom Group in 2017**



### The Year of the Environment highlights

By developing its framework of voluntary environmental commitments, Gazprom Group has been implementing major additional environmental initiatives in its regions of operation over a number of years. During 2017, PJSC Gazprom implemented a series of events and activities as part of the Year of the Environment pursuant to Presidential Decree No. 392 On Holding the Year of Specially Protected Natural Areas in the Russian Federation dated 1 August 2015, and Presidential Decree No. 7 On Holding the Year of the Environment in the Russian Federation dated 5 January 2016.

- Over 680 thousand trees and shrubs planted
- Over 14 thousand hectares of land cleaned up and improved in settlements, natural and recreation areas
- Over 21 thousand tonnes of waste collected and removed
- 53 million fish larvae and juveniles of commercially valuable species released into water bodies
- Approximately 330 lakes, rivers, and streams rehabilitated
- Support provided to 80 specially protected natural areas of federal, regional, or local levels

The Company's environmental efforts in 2017 were recognised by governmental awards, high rankings in independent public ratings, and a recognition letter by the President of the Russian Federation.

### Recognition of Gazprom Group's environmental performance by stakeholders

- PJSC Gazprom was for the sixth time ranked as Russia's best energy sector company in the CDP's international rating of corporate climate reporting and GHG reduction strategy
- PJSC Gazprom is a leader in the Russian Union of Industrialists and Entrepreneurs' Transparency and Responsibility, and Sustainable Development Vector indices, and in the Environmental Responsibility Rating of Oil & Gas Companies in Russia 2017 in the Environmental Management, and Disclosure and Transparency categories
- Gazprom's production greening efforts and the Year of the Environment events were recognised by numerous awards from NGOs, educational institutions, local and regional authorities, and federal authorities of the Russian Federation

**6**  
For the <sup>th</sup> time

**PJSC Gazprom was ranked Russia's best energy sector company in the CDP's international rating**

### Environmental Management System

The Environmental Management System (EMS) is a key tool to implement the Company's Environmental Policy. PJSC Gazprom's EMS underwent a recertification audit in December 2017, receiving a certificate of compliance with ISO 14001:2015, valid until December 2020.

PJSC Gazprom's EMS covers 34 wholly-owned subsidiaries which are engaged in the core activities of exploration, production, transportation, storage and processing of gas and gas condensate or are managing capital projects.

Corporate Environmental Targets are set within PJSC Gazprom's EMS based on the annually updated list of significant environmental aspects, and environmental activities are grouped into programmes for focused implementation.

Five out of the six set targets for 2017–2019 were met in 2017. Growth in the above-limit impact charges (the unmet target) was due to a failure to obtain on time necessary environmental approvals (pollutant emissions and discharges permits, and waste disposal limits).

As part of the efforts to improve PJSC Gazprom's EMS system, update of the EMS-related risk identification and assessment procedures, and expansion of the EMS scope to include the Company's assets outside Russia are planned for 2018.

Those Gazprom Group companies that are not covered by PJSC Gazprom's EMS also have in place their own effective, business-specific environmental management systems.

For more details on the environmental management systems in the Group companies, see PJSC Gazprom's Environmental Report or information on the official websites of relevant companies

### Achievement of PJSC Gazprom's corporate environmental targets in 2017

Nº	Corporate environmental target	Entities within the EMS scope	Progress against the target (vs the 2014 baseline)
1	Reduction of methane emissions	All subsidiaries engaged in natural gas transportation	Down 5.03%
2	Reduction of specific emissions of nitrogen oxides	All subsidiaries engaged in natural gas transportation	Down 4.06%
3	Reduction of waste and effluent water discharge into surface water bodies	All subsidiaries	Down 18.02%
4	Reduction of landfill share	All subsidiaries	Down 5.71%
5	Reduction of above-limit impact charges	All subsidiaries	Up 6.58%
6	Reduction of specific fuel & energy consumption for own operational needs (at comparable transportation volumes)	All subsidiaries engaged in natural gas transportation	Down 0.62%

## Environmental Footprint and Environmental Protection Costs in Russia

In 2017, total air pollutant emissions from Gazprom Group's stationary sources in Russia decreased by 2.5% year-on-year to 2,795.9 thousand tonnes. Waste water discharge into surface water bodies across Gazprom Group was up by 1.3% year-on-year, with discharge of standard clean and treated water increasing by 2.5%. The share of standard clean and treated water in the net discharge into surface water bodies was 97%.

Waste generation was down 3.7% mostly due to a 12.8% decline in Class 5 waste (mostly bottom ash waste at Gazprom energoholding as the fuel mix shifted towards natural gas), and a 91.5% drop in Class 2 waste (mostly amine waste at the Astrakhan GPP operated by OOO Gazprom dobycha Astrakhan).

The Group companies disturbed 42.2 ha of land in 2017, up by 56% year-on-year. During 2017, 87.3 ha of land were contaminated due to pipeline ruptures at Gazprom Group facilities. The land was disturbed as a result of construction, maintenance, and exploration operations. Substantial stretches of land were affected by the construction of the Power of Siberia trunk gas pipeline.

The change in the emissions mix in 2017 was due to the increased natural gas production, higher volumes of gas transportation in PJSC Gazprom subsidiaries, implementation of associated petroleum gas (APG) utilisation programmes in Gazprom Neft Group, and changes in the fuel mix at OOO Gazprom energoholding facilities.

### Gazprom Group's environmental impact metrics in Russia (excluding entities in which Gazprom has investments classified as joint operations)







	2015	2016	2017
Air pollutant emissions, thousand tonnes	2,830.6	2,868.5	2,795.9
carbon oxide	533.6	550.5	529.9
nitrogen oxides	286.3	288.5	313.6
sulphur dioxide	328.4	346.1	262.7
hydrocarbons (including methane)	1,430.8	1,462.3	1,495.7
Waste water discharge into surface water bodies, mmcm	3,853.8	3,855.5	3,905.3
including clean and treated as per standards	3,660.6	3,691.2	3,781.7
Waste generation, thousand tonnes	4,954.0	4,289.8	4,130.3
Area of land disturbed during the year, thousand ha	58.1	27.0	42.2
Area of land rehabilitated during the year, thousand ha	18.2	42.5	19.6

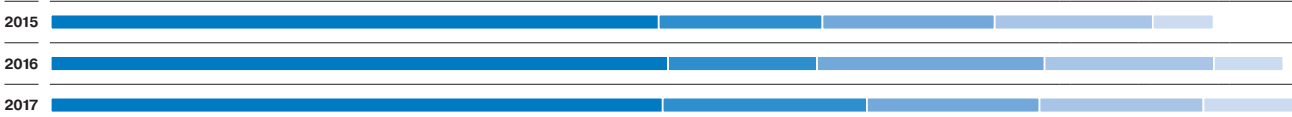
In 2017, Gazprom Group's total environmental protection costs increased by 23%, driven mostly by higher capital expenditures for environmental protection and sustainable use of natural resources.

The current environmental protection costs and fees for environmental protection services grew marginally (by 1.1%) following the overall increase in the scale of operations.

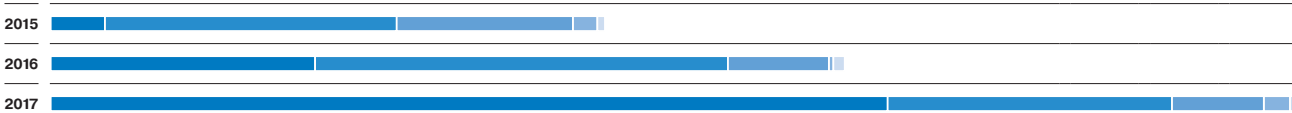
Gazprom Group's capital expenditures for environmental protection and sustainable use of natural resources were up 58% in 2017.

### Gazprom Group's environmental protection costs in Russia, RUB bn

2015				
2016				
2017				
		2015	2016	2017
 Capital investments into environmental protection and sustainable use of natural resources		15.75	22.54	35.58
 Total current environmental protection costs		32.17	34.10	34.47
 Negative environmental impact charges		1.79	0.82	0.77
Total		49.71	57.46	70.82

**Breakdown of Gazprom Group's environmental protection costs in Russia, RUB bn**


	2015	2016	2017
Waste water collection and treatment	16.82	17.08	16.93
Waste treatment	4.53	4.12	5.65
Protection and rehabilitation of land, and surface and ground waters	4.76	6.29	4.77
Ambient air protection and climate change prevention	4.38	4.69	4.54
Other activities	1.68	1.92	2.58
Total	32.17	34.10	34.47

**Gazprom Group's capital investments in environmental protection and sustainable use of natural resources in Russia, RUB bn**


	2015	2016	2017
Ambient air protection	1.55	7.55	23.90
Protection and sustainable use of water	8.33	11.79	8.12
Protection and sustainable use of land	5.03	2.88	2.62
Waste disposal, neutralisation and landfill facilities and sites	0.70	0.03	0.75
Production waste disposal and recycling systems	0.00*	0.00*	0.00*
Other focus areas	0.14	0.29	0.19
Total	15.75	22.54	35.58

\* Less than 0.005

Gazprom Group's capital expenditures for environmental protection and sustainable use of natural resources were spent under major capital construction projects. The bulk of capital expenditures for air protection (RUB 20.13 bn) in 2017 was attributable to Gazprom Neft Group, where upgrades to key environmental protection assets were carried out at oil refineries, and gas programme was implemented for the construction of necessary APG utilisation infrastructure at fields.

For more details on the capacities brought into operation in the reporting year to increase the level of APG use see the Exploration and Production section  
→ Page 116

Capital investments in protection and sustainable use of water allowed the Company to implement a range of initiatives at the facilities included in the Framework Action Plan for the Year of the Environment in the Russian Federation: construction of Biosphere closed-loop water treatment facilities at Omsk Refinery (AO Gazpromneft — Omsk Refinery) and Moscow Refinery (AO Gazpromneft — Moscow Refinery), construction of sulfur-alkaline wastewater neutralization units at Monomer plant and OOO Gazprom neftekhim Salavat gas chemical plant, and other projects.

In 2017, Gazprom Group paid RUB 0.77 bn in negative environmental impact charges to different level budgets in the Russian Federation.




The overall reduction in Gazprom Group's total environmental charges in 2017 by 6.1% year-on-year was driven by lower production waste disposal and air pollutant emissions, and by lower above-limit impact charges for discharge of pollutants into water bodies. The above-limit impact charges accounted for 33% of the total charges, due to a failure to obtain on time necessary environmental permits.

The Group paid RUB 11.41 mm of fines in 2017, including RUB 3.42 mm paid for breaches identified by audits in previous years. A total of RUB 91.13 mm were paid by the Group in compensation for environmental damage including for previous years.

For more details see PJSC Gazprom's Environmental Report



**Breakdown by impact of Gazprom Group's negative environmental impact charges in Russia in 2017, RUB bn**

2015				
2016				
2017				
		2015	2016	2017
■	Charges for air pollutant emissions	0.88	0.43	0.41
■	Charges for disposal of production and consumption waste	0.84	0.33	0.32
■	Charges for discharge of pollutants into water bodies	0.07	0.06	0.04
	Total	1.79	0.82	0.77

**Corporate Climate Policy**

The implementation of PJSC Gazprom's programmes for expansion of regional gas infrastructure and promotion of transportation conversion to natural gas contributes to lower national GHG emissions and decarbonisation of natural gas importing countries.

Taking into account the Plan for Ratification of the Paris Climate Agreement approved by the Government of the Russian Federation, PJSC Gazprom assessed the potential for cutting emissions by the Group's key business segments as part of developing a roadmap for corporate GHG reduction, which helped the Company decide on further actions to reduce its carbon footprint.

PJSC Gazprom uses secondary, alternative, and renewable sources of energy (subject to their viability) to generate energy for own operational needs and for marketing to external customers to reduce GHG emissions.

Independent auditors confirmed that PJSC Gazprom employs a highly mature corporate system for GHG monitoring, reporting, and management, which is compliant with the requirements of international GHG reporting standards and provides all stakeholders with unbiased information on GHG emissions.

PJSC Gazprom was for the sixth time ranked as Russia's best energy sector company in the climate change list of the Carbon Disclosure Project (CDP).

In 2017, GHG emissions from Gazprom Group's facilities totalled 233.8 mm tonnes of CO<sub>2</sub> equivalent, up 2.5% year-on-year. The growth was due to increased production across all production operations segments and a higher number of subsidiaries covered by the reporting.

**Greenhouse gas emissions at Gazprom Group's facilities, mm tonnes of CO<sub>2</sub> equivalent**

2015		220.0
2016		228.2
2017		233.8

In the reporting year, major steps were taken to enhance data objectivity for assessments of the carbon footprint of the Russian natural gas exports to far abroad countries. Germany's Federal Environment Agency (UBA) approved the carbon footprint profile submitted by PJSC Gazprom for Russian supplies of natural gas to Central Europe (which average 12.2 kg of CO<sub>2</sub> equivalent / GJ, and 9.3 kg of CO<sub>2</sub> equivalent / GJ for supplies via Nord Stream), which will improve the accuracy of data inputs used for regulation of the energy sector and development of forecasts for Germany's low-carbon development.

**PJSC Gazprom's corporate system for GHG monitoring, reporting, and management is compliant with the requirements of international GHG reporting standards.**

PJSC Gazprom makes consistent efforts to continuously enhance energy saving and energy efficiency across the Group. Every year the Group reduces energy consumption for own operational needs, generating considerable cost savings while making a significant contribution to environmental protection.

PJSC Gazprom consistently pursues a policy of driving energy saving and energy efficiency gains in operating processes, in line with Russia's Energy Strategy to 2030, and Federal Law No. 261 On Energy Saving and Improving Energy Efficiency and Amendments to Certain Legislative Acts of the Russian Federation dated 23 November 2009. The Company's energy efficiency and energy saving objectives are set out in PJSC Gazprom's Energy Saving and Energy Efficiency Improvement Concept for 2011–2020:

- Maximum realisation of energy-saving potential in all areas of the Company's activities through PJSC Gazprom's government-supported energy saving policy and improvements to the Company's energy management system
- Improving energy efficiency of PJSC Gazprom's subsidiaries through the use of innovative technologies and equipment
- Reduction of the environmental footprint from operations PJSC Gazprom's energy saving potential for 2011–2020 is estimated at 28.2 mm t c.e.

The targets for improving energy efficiency in operating processes at PJSC Gazprom in 2011–2020 include:

- reduction of specific natural gas consumption for own operational needs and losses in core operations of the Company by at least 11.4%
- reduction of greenhouse gas emissions by at least 48.6 mm tonnes of CO<sub>2</sub> equivalent.

The existing three-year Energy Saving and Energy Efficiency Improvement Programme of PJSC Gazprom provides for energy saving initiatives across all subsidiaries (including AO Chechengazprom) engaged in natural gas transportation, production, processing, underground storage, and distribution, as well as OOO Gazprom energo.

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## 15.8<sub>bcm</sub>

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**natural gas savings in 2011–2017**

Actual fuel and energy savings achieved in 2011–2017 through PJSC Gazprom's energy saving and energy efficiency programmes totalled 18.9 mm t c.e., including 15.8 bcm of natural gas, 1.85 billion kWh of electricity, and 1.5 mm Gcal of heat. The Group has already exceeded its 2020 target of cutting specific gas consumption for own operational needs by 11.4%. The actual reduction vs the 2011 baseline was 20.5%.

Between 2011 and 2017, the actual fuel & energy savings totalled RUB 52.1 bn by value. Overall, in 2011–2017, PJSC Gazprom achieved its energy saving and energy efficiency targets set out in PJSC Gazprom's Energy Saving and Energy Efficiency Improvement Concept to 2020, as well as the energy efficiency and energy saving targets set by the FTS of Russia (FAS of Russia from 2015).

The Government Report On the Status of Energy Saving and Energy Efficiency in the Russian Federation in 2016, prepared by the Russian Ministry of Energy, praised PJSC Gazprom's achievements in energy saving and energy efficiency management.

# 6%

## fuel & energy savings in 2017

In 2017, total fuel & energy consumption across all segments was 60.9 mm t c.e.

In 2017, total fuel & energy savings across all segments were 3.6 mm t c.e.

### Fuel & energy consumption in 2017, by segment

	Natural gas, mmcm	Electricity, million kWh	Thermal energy, thousand Gcal
Gas, gas condensate, and oil production	6,267.9	1,144.3	2,337.0
Gas transportation	37,813.7	7,960.3	3,475.0
Underground gas storage	510.7	158.6	224.9
Gas, gas condensate, and oil processing/ refining	1,188.5	3,063.6	15,457.9
Gas distribution	635.6	170.1	817.0
Total	46,416.4	12,496.9	22,311.8
Total, mm t c.e.	53.61	4.06	3.19

**Note.** Fuel & energy consumption rates have been converted to t c.e. using the following ratios:  
1 mcm of gas = 1.155 t c.e.; 1 thousand kWh = 0.325 t c.e.; 1 thousand Gcal = 0.143 t c.e.

### Fuel & energy savings in 2017, by segment

	Natural gas, mmcm	Electricity, million kWh	Thermal energy, thousand Gcal
Gas, gas condensate, and oil production	362.8	28.1	11.6
Gas transportation	2,579.8	222.7	60.1
Underground gas storage	16.63	9.4	0
Gas, gas condensate, and oil processing/ refining	39.2	56.0	193.0
Gas distribution	14.5	8.5	3.6
Other	0.6	6.7	0.2
Total	3,013.5	331.4	268.4
Total, mm t c.e.	3.48	0.11	0.04

**Note.** Fuel & energy savings have been converted to t c.e. using the following ratios:  
1 mcm of gas = 1.155 t c.e.; 1 thousand kWh = 0.325 t c.e.; 1 thousand Gcal = 0.143 t c.e.

In 2017, we continued implementing projects for the use of waste heat from exhaust gases at compressor stations (implemented by OOO Gazprom transgaz Yugorsk under an energy service contract), turbo-expanders at gas distribution stations (implemented by OOO Gazprom transgaz Tchaikovsky under an energy service contract), and venting reduction technologies during repairs.

# 5.4 bcm

## natural gas saving target for 2018–2020

### Energy saving and energy efficiency objectives to 2020

The Company has developed and approved PJSC Gazprom's Energy Saving and Energy Efficiency Improvement Programme for 2018–2020. The Programme provides for saving ca. 5.4 bcm of natural gas, 685.9 million kWh of electricity, and 581.7 mm Gcal of heat over three years.

A total of more than 3,000 energy saving initiatives are planned for the period between 2018 and 2020, targeting over 6.5 mm t c.e. of total savings worth over RUB 20 bn.

Companies of Gazprom Neft, Gazprom energoholding, and Gazprom neftekhim Salavat are not covered by PJSC Gazprom's Energy Saving and Energy Efficiency Improvement Programme as they have in place their own energy saving programmes compliant with federal laws and corporate requirements of Gazprom Group.



For many years, Gazprom has been engaged in ambitious social projects. Among other things, they focus on developing children's sports, conserving historic heritage, reviving spiritual values, and expanding cultural relations.

PJSC Gazprom and its subsidiaries are actively engaged in a wide array of social and economic programmes and projects, both in Russia and internationally. Gazprom Group companies channel significant funds towards construction of sports and community facilities, and restoration of cultural heritage sites while promoting healthy lifestyles, fostering children's creativity, and supporting arts and science. The Company's commitment to social development of the regions of its operation is the Company's fundamental policy.

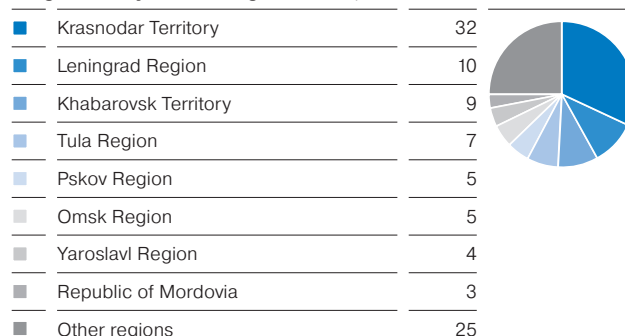
## Charitable Activities

In its charitable activities, the Company seeks to achieve social and economic development targets of regions in which it operates and strengthen partnership relations with them. PJSC Gazprom and its subsidiaries focus its sponsorship and charity efforts on such areas of public life as fitness and sports, education, culture, science, technology, and environmental protection. The Company also supports projects that aim to revive national spiritual and cultural values.

## Gazprom for Children Programme

Being aware of the central role that the younger generations will play in the country's future, the Company places particular emphasis on projects providing support for the development of children and young people. The Gazprom for Children Programme is PJSC Gazprom's key social responsibility project. It aims to create a favourable environment for harmonious intellectual, cultural and physical development of children and young people and get as many of them as possible into sports and arts. PJSC Gazprom is the only Russian company that implements such an ambitious social project.

**PJSC Gazprom's expenditures under the Gazprom for Children Programme by Russian region in 2017, %**



Since the launch of the Programme in 2007, over 1,600 various facilities have been built in Russia. In 2017, the Group completed the construction of 165 sports facilities under the Programme: 14 fitness and health facilities, 151 outdoor fitness and sports facilities, including 81 school stadiums, 126 multi-courts and 10 playgrounds. In 2017, 50 infrastructure projects were under construction. Financing under the Programme covered 29 Russian regions (134 cities and over 80 other locations), with social projects also underway in Kyrgyzstan.

**214** locations

across **29** Russian regions

are covered by the Gazprom for Children Programme

The indoor sports facility featuring two ice rinks and commissioned in the Nevsky District of St Petersburg was among the largest community facilities launched by the Group in 2017. Among other facilities completed and commissioned in the reporting year are the Cheremushki fitness and health facility with an ice rink in Nizhny Lomov (Penza Region), a fitness and health facility with a swimming pool in Novochoerkassk (Rostov Region), and a fitness and sports facility with a covered ice rink in Stroitel (Belgorod Region).

#### Support for Renovation of War Memorials and Military Monuments

Gazprom places a particular emphasis on preserving the historical memory about the Great Patriotic War (World War II) in Russia. In 2017, Gazprom made donations to maintain 60 Eternal Flame memorials in Russia's Hero Cities and Cities of Military Glory.

As part of its Eternal Flame programme, the Company organised a tour of war memorials in Moscow as a Hero City for finalists of the Energy of Generations social project. The finalists (children from boarding schools and orphanages) visited Moscow's Kremlin and took part in an interactive tour of the Kolomenskoye Museum-Reserve. A visit to the Museum of Victory on the Poklonnaya Gora where they saw the legendary Victory Banner was among the most exciting highlights of the tour for the children.

In 2017, Gazprom Group's gas distribution entities renovated gas infrastructures of 1,351 Eternal Flame memorials across 1,214 locations ahead of the Victory Day. New memorials were connected to the gas grid in a number of regions. An Eternal Flame was installed at the memorial in the Tsentralny garden in the town of Rasskazovo (Tambov Region) and at the memorials in the village of Agapovka (Chelyabinsk Region), village of Medvedovskaya (Timashevsky District, Krasnodar Territory), village of Bolshoy Tsaryn (Republic of Kalmykia), and at the war memorial in Tutayev (Yaroslavl Region). As part of the programme to connect Eternal Flame memorials to a gas grid instead of using gas cylinders, the Group has constructed gas supply pipelines to the memorials in the towns of Bobrovo (Voronezh Region) and Mikhaylov (Ryazan Region), and the villages of Yashalta (Republic of Kalmykia) and Tashla (Orenburg Region). In the reporting year, employees of Gazprom Group's gas distribution entities renovated memorial complexes across the Bryansk, Voronezh, Smolensk, Tambov, Tula, and Ulyanovsk Regions, and in the Kabardino-Balkarian Republic.

A new exhibition, Army Club, was opened at the Brest Hero-Fortress Memorial Complex with the financial support from OAO Gazprom transgaz Belarus, a subsidiary of Gazprom. The new exhibition is equipped with advanced climate control systems to preserve the most valuable exhibits.

PJSC Gazprom also funded renovation projects at war grave sites in Latvia.

#### Support for Healthcare

**In 2017, PJSC Gazprom started a collaboration project with Dmitry Rogachev National Research Centre of Paediatric Haematology, Oncology, and Immunology.**

In 2017, OOO Gazprom transgaz Saint Petersburg, a subsidiary of PJSC Gazprom, continued providing financial support for the construction of the Centre for Palliative Aid to Oncological and Cerebral Palsy Children in the village of Toksovo (Leningrad Region), and the in-patient facility of the Children's Hospice in Pavlovsk (St Petersburg).

OOO Gazprom transgaz Tomsk provided support to the Tomsk National Research Medical Centre of the Russian Academy of Sciences for repairs and equipment purchases for the atherosclerosis and chronic coronary heart disease unit of the Cardiology Research Institute.

In 2017, PJSC Gazprom launched a collaboration project with Dmitry Rogachev National Research Centre of Paediatric Haematology, Oncology, and Immunology of the Russian Ministry of Healthcare. The Company financed the upgrade of the Centre's MRI unit and medical equipment purchases.

#### Support for Vulnerable Groups

In 2017, the Group financed expensive treatment courses for people with disabilities and severely ill children. Charitable support included acquisition of specialised medical equipment and tools, including exercise machines, prostheses, wheelchairs, and power patient lifts.

In December 2017 Gazprom held its annual New Year event for socially vulnerable groups. The theatrical show was attended by more than 1,000 children from foster, low-income, and large families, and children from care institutions, including children with disabilities. At the end of the show, every kid was presented with a New Year gift.

#### Support to Indigenous Minorities of the North

PJSC Gazprom's subsidiaries annually provide charitable support to indigenous minorities of the North under cooperation agreements with municipalities of the Republic of Sakha (Yakutia), Yamal-Nenets Autonomous Area, and Khanty-Mansi Autonomous Area.

## Support for Culture and Arts

Over **120** thousand people

**visited the Gothic art masterpieces exhibition co-sponsored by PJSC Gazprom and French ENGIE as partners of the initiative**

In 2017, PJSC Gazprom continued providing financial support for the renovation and restoration of the Church of the Resurrection at the Catherine Palace which makes part of the Tsarskoye Selo palace-and-park ensemble (the Tsarskoye Selo State Museum-Preserve). The project was launched in 2015 and is scheduled for completion in 2018. PJSC Gazprom pays particular attention to the important task of renovating and preserving the Tsarskoye Selo palace-and-park ensemble as a world heritage site of outstanding value, showcasing the architecture and garden art of the 18<sup>th</sup>, 19<sup>th</sup>, and early 20<sup>th</sup> centuries.

In 2017, OOO Gazprom transgaz Saint Petersburg, a PJSC Gazprom subsidiary, continued providing support for a restoration project covering the Lilac Lounge, Minor and Major Chinese Studies, and the halls of the Chinese Palace in Oranienbaum, part of the Peterhof State Museum-Reserve.

OOO Gazprom transgaz Ukhta, a subsidiary of PJSC Gazprom, financed the overhaul of the City Palace of Culture in Ukhta.

In addition to major renovation and restoration projects, Gazprom Group provided support in 2017 for the Alexandrov Ensemble of the Russian Ministry of Defence, the Mariinsky Theatre and its Primorsky Stage in Vladivostok, and for the international contemporary dance festival CONTEXT. Diana Vishneva.

As part of its relations with international partners, PJSC Gazprom and French ENGIE acted as general partners for the Saint Louis and Relics of the Sainte-Chapelle exhibition held in the Moscow Kremlin Museums from 3 March to 4 June 2017. The exhibition showcased selected true masterpieces of French Gothic art from the times of Saint Louis IX. Most of the items were on display in Russia for the first time, including stained glass from the Sainte-Chapelle and unique items from France's largest collections — the Louvre, the National Museum of the Middle Ages (Cluny), a number of provincial French museums, as well as manuscripts and documents from the National Library and the National Archives of France. The State Hermitage also took part in the exhibition, lending some of its own treasures, including magnificent Limoges enamels and ivory pieces dating back to the 13<sup>th</sup> — early 14<sup>th</sup> century. The exhibition was visited by more than 120,000 people.

Gazprom also provided support to Music without Borders. Russia — Italy, a cultural education initiative. Music lovers were treated to classical pieces of Russian and Italian chamber music performed by outstanding Italian and Russian musicians. Concerts and master classes were held in Moscow, St Petersburg, Irkutsk, Toscolano Maderno, San Fermo della Bataglia, Milan, and Rome.

## Support for Education

**In the reporting year, the Company began providing support for the Sirius Educational Centre in Sochi.**

In 2017, PJSC Gazprom provided support for the St Petersburg State University of Culture to fit out its theatre studios and rehearsal rooms.

In the reporting year, the Group began providing its support for the Sirius Educational Centre in Sochi, which seeks out, develops, and provides further support to gifted children with talent for arts, sports, natural sciences, engineering, or literature. PJSC Gazprom financed its school research project programme, the Project Shift of the Sirius Educational Centre — 2017, focussing on engineering topics.

Gazprom Group companies provide financial support for local educational institutions in the regions in which they operate, with a particular focus on schools, including to carry out renovation projects, provide equipment, and set up specialised classrooms. Among other things, OOO Gazprom transgaz Moscow financed the renovation of the Children's Music School in the village of Putyatino (Ryazan Region).

## Support for Revival of Cultural and Spiritual Values

**15** Russian regions

**launched history theme parks supported by PJSC Gazprom as part of the Russia — My History initiative**

In all its regions of operation, Gazprom Group finances initiatives and events aimed at revival and support of spiritual and traditional values of family, faith, and faithfulness to national traditions, including through joint efforts with followers of different traditional religions. The Group companies support the construction and renovation of churches, mosques, monasteries and convents, and other religious sites.

Major projects that support revival of spiritual and traditional values and received funding from Gazprom Group companies in 2017 include:

- renovation and restoration of the Cenobium of the Saint Alexander Nevsky Monastery (St Petersburg)
- support for the fitting out of a Russian Orthodox full secondary school based at the Religious and Cultural History Centre in the village of Vyatsky Posad (Orel Region). The school admits children from across Russia, including children without parental care. The students live on the Centre's premises on full board terms
- construction of a church complex in the town of Svobodny (Amur Region)
- renovation of the building of the Patriarchy of Moscow and all Russia Mission in Minsk, Belarus
- construction of the St Andrew's Church Complex in Astrakhan
- construction of the Russian Orthodox School at the Church of the Advent in Kazan.



Gazprom has been supporting the cultural education programmes of the Russian Orthodox Church for a number of years. In July 2017, Gazprom sponsored a religious music performance by the Grand Choir “Masters of Choral Singing”, held as part of a music festival in Ravello, Italy.

PJSC Gazprom also provides financial support for the Russia — My History nationwide project initiated by the Patriarchal Council for Culture of the Russian Orthodox Church. Financial support for the project is provided under co-financing arrangements between PJSC Gazprom and Russian regions. In 2017, 15 Russian regions opened history theme parks as part of the project to show the history of Russia and individual Russian regions using advanced multimedia technologies. Two more history theme park projects, financially supported by PJSC Gazprom, are planned to be opened in 2018.

#### Financial Support for Other Socially Important Initiatives and Projects

In the reporting year, PJSC Gazprom continued providing charitable support for various socially important projects. This included charitable aid to such not-for-profit organisations as the Amur Tiger Centre and Centre for the Preservation of the Far Eastern Leopard in the Russian Far East, which focus on protection and population growth of rare species included in the Red Data Book of the Russian Federation. The Group also provided support for international educational activities of the International Association of Teachers of Russian Language and Literature (MAPRYAL), and financial aid to war veterans through the Russian Veterans Union.

In 2017, PJSC Gazprom, jointly with the Russian Olympic Committee, held the seventh nationwide contest among sports journalists, Energy of Victories. The contest was first held by PJSC Gazprom in 2011, as part of the Programme for Construction of Energy, Infrastructure, and Sports Facilities by Gazprom Group for the 22<sup>nd</sup> Winter Olympics in Sochi. Since then, over 2,000 journalists from across Russia and 20 other countries have taken part in the competition.

#### Sponsorship Support

PJSC Gazprom and its subsidiaries provide sponsorship support to sports organisations and initiatives, cultural organisations and events, and also sponsor major business forums held in Russia.

#### Sponsorship Support for Sports

In 2017, PJSC Gazprom continued providing sponsorship support for the Russian Olympic Committee in preparing for the Olympics and making arrangements for the participation of Russian Olympic teams in the Games. Joint projects with the Russian Olympic Committee will continue through to the end of 2018.

In the reporting year, the Company also maintained positive relations with sports federations and clubs.

#### Sponsorship support for sports federations and sports clubs

Sport	Sponsorship recipient
Football	Clubs: Zenit, Tom, Orenburg, Volgar
Ice hockey	Clubs: SKA, Avangard, Vityaz
Volleyball	Volleyball Federation of Russia
	Clubs: Zenit-Kazan, Zenit-Saint Petersburg, Gazprom-Yugra
Rhythmic Gymnastics	Rhythmic Gymnastics Federation of Russia
Swimming	Russian Swimming Federation
Biathlon	Russian Biathlon Union
Kayaking and canoeing	Russian Canoe Federation
Acrobatic rock'n'roll	All-Russian Federation of Dancesport and Acrobatic Rock'n'Roll
Table tennis	Fakel-Gazprom club

In 2017, Gazprom continued its successful partnership with the UEFA Champions League.

#### The benefits Gazprom Group gets from its status as a UEFA Champions League sponsor and FIFA partner

Sponsorship of one of Europe's most popular and high-profile sports tournaments helps Gazprom to run ambitious social, advertising and promotion projects, raise brand awareness and boost its profile in key international markets. According to regular opinion polls organised by Gazprom jointly with independent pollsters, for 51% of European respondents the Gazprom brand is associated with a reliable Russian energy supplier, and the brand awareness is higher among football lovers (64%).

During the FIFA Confederations Cup 2017 in Russia, PJSC Gazprom as a FIFA partner put advertising and entertainment stands in dedicated areas near the stadiums that hosted the tournament games. The stands showcased the Company's activities in support of social and sports initiatives, and the development of PJSC Gazprom's NGV fuel business.

Gazprom Group continued to support Football for Friendship, an international children's social programme. In 2017, the project events were for the first time held as part of the FIFA tournament. The Fifth International Children's Football for Friendship Forum took place in Saint Petersburg in 2017 just before the FIFA Confederations Cup final. The forum's events were covered by the International Children's Press Centre staffed with young journalists from the participating countries. About 10 thousand publications on the Football for Friendship programme appeared in the world's leading media in 2017.

# 64

countries

**joined the Football for Friendship international social responsibility project for children in 2017**

**Football for Friendship International Children's Social Programme**

Mission	Develop children's football and promote universal human values, including the principles of equality, tolerance and healthy lifestyles.
Participants	Over the period of the programme's existence, over 4,000 children and teenagers speaking 43 various languages benefited from participation in the Football for Friendship initiative. The number of participating countries grew from eight in 2013 to 64 in 2017, and over 400 sports events and city festivals were held in different parts of the globe.
Project sponsors	<ul style="list-style-type: none"> <li>— Fédération Internationale de Football Association (FIFA)</li> <li>— Union of European Football Associations (UEFA)</li> <li>— Russian Olympic Committee</li> <li>— National football federations in a number of countries</li> <li>— International children's charitable foundations</li> <li>— World's top football clubs</li> </ul>
International recognition	In the reporting year, the international children's social programme run by Gazprom won high-profile awards in the USA and UK. All in all, Football for Friendship has won 14 awards for communications, social, and sports initiatives. The project has won global recognition, and plays an important role in Russia's international social policy.

In 2017, PJSC Gazprom acted for the fifth time as Principal Sponsor of the Championship of South East Handball Association (SEHA GAZPROM LEAGUE). This time, the traditional Final Four was held in Brest, Belarus. SEHA GAZPROM LEAGUE supports a number of social projects that seek to promote both professional and amateur sports, including promotion of handball among children and teenagers.

In 2017, PJSC Gazprom acted for the sixth time as Principal Sponsor of the International Balloon Meet in Velikiye Luki, the Pskov Region. The town hosted the 21<sup>st</sup> Russian balloon championship in June 2017, which was contested by almost 40 teams.

2017 also saw an important motor racing event, the Silk Road International Rally 2017 across Russia, Kazakhstan, and China. The crews started from the Red Square in Moscow on 7 July 2017, and crossed the finish line on 22 July 2017 in Xi'an, China. PJSC Gazprom, jointly with Chinese CNPC, acted as Principal Sponsor of this major international project, which was extensively covered by local and international media.

Over the past years, the Company has financially supported Russia's major equestrian competition, Russian Federation President's Cup horse race, and a number of projects to develop and promote the sailing sports in Russia, with the annual Nord Stream Race regatta being the largest among them.

A number of major international tennis tournaments rely on the Group companies for sponsorship support, including St Petersburg Ladies Trophy and ATP Federation's St Petersburg Open, a men's tennis tournament, contested by leading athletes from among the world's top twenty tennis players.

**Sponsorship Support for Business Events**

Over a number of years, PJSC Gazprom has traditionally been a sponsor of the St Petersburg International Economic Forum and the Sochi International Investment Forum. In 2017, PJSC Gazprom and its subsidiaries also supported the Eastern Economic Forum in Vladivostok, attended by the country's leadership, as well as the Gaidar Forum "Russia and the World: Values and Virtues", and the 7<sup>th</sup> Saint Petersburg International Gas Forum, which evolved into a major venue for discussion of the industry's pressing issues.

**Support for Culture and Arts**

In 2017, the Company continued to provide sponsorship support to Children's Radio, Russia's only radio station broadcasting exclusively children's content. Children's Radio is on air round the clock, broadcasting children's songs, plays, infotainment programmes, as well as awareness raising programmes for parents.

From 28 August to 3 September 2017, PJSC Gazprom sponsored the 10<sup>th</sup> International Military Music Festival "Spasskaya Tower" in Moscow. The festival's scale, content, audience, and impact deservedly make it one of Russia's major international cultural events. Over 500 thousand people visited the Red Square during the days of the festival.

# 5

## Corporate Governance



**Letter to Shareholders by the Chairman  
of PJSC Gazprom's Board of Directors → 184**

**PJSC Gazprom's Corporate Governance Compliance  
Report, including statement of compliance  
with the corporate governance principles set out  
in the Russian Corporate Governance Code → 185**

**PJSC Gazprom's Corporate Governance Model → 188**

**Remuneration of Members of Management  
and Supervisory Bodies → 194**

**Liability Insurance of Directors, Officers,  
and the Company → 199**

**Shareholdings of Members of the Board of Directors  
and Management Committee and Transactions  
with PJSC Gazprom Shares → 200**

**Internal Control and Audit → 202**

**Risk Management → 205**

**Procurement Performance → 210**

**Ensuring Compliance of Operations  
with the Laws on Anti-Corruption Practices,  
Countering the Unlawful Use of Insider Information  
and Market Manipulation → 213**

**Share Capital and Securities Market → 217**

# Letter to Shareholders by the Chairman of PJSC Gazprom's Board of Directors

Dear Shareholders,

Gazprom is a leader in the global energy industry. Our success is based on our vast production potential, healthy financial position, effective management, and focus on continuous development.

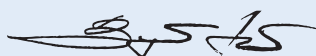
Within its operations, Gazprom strictly complies with generally accepted basic principles of corporate governance. The Company is committed to safeguarding the rights and legitimate interests of its shareholders while ensuring transparency and maintaining a constructive dialogue with investors.

PJSC Gazprom's corporate governance system is compliant with regulatory requirements and stock exchange rules while being continuously improved. Key documents regulating the activities of the Company's management bodies were updated in 2017, with new versions of the Corporate Governance Code and Regulations on the Information Disclosure approved.

In its operations, the Company focuses on aligning its operations with Russian and international best practices, a regular independent audit of corporate governance being one of them. The 2017 integrated audit report prepared by external experts emphasised the positive transformations that have taken place within the Company over the past few years. The experts rigorously reviewed the performance of the Company's Board of Directors and noted the Board's strong involvement in business process development.

We have continued to improve our corporate governance standards in 2018, with a suitable action plan already in place. The plan incorporates the auditors' recommendations and provides further enhancement to the Company's corporate ethics standards and improved transparency in its operations, among other benefits.

Dear Shareholders, each member of our Board of Directors is committed to making a difference. Our shared goal is to ensure the Company's sustainable development over the longer term.



**Viktor Zubkov**

Chairman of PJSC Gazprom's Board of Directors

# PJSC Gazprom's Corporate Governance Compliance Report, Including Statement of Compliance with the Corporate Governance Principles Set Out in the Russian Corporate Governance Code

PJSC Gazprom continues to improve its corporate governance taking into account generally accepted international standards.

The Company's Board of Directors and its committees were highly praised by independent experts, AO KPMG and OOO Horizon CF.

## Key documents of PJSC Gazprom ensuring protection of shareholder rights

- Articles of Association of Public Joint Stock Company Gazprom
- Corporate Governance Code of PJSC Gazprom
- Corporate Code of Ethics of PJSC Gazprom
- Regulations on the General Shareholders Meeting of PJSC Gazprom
- Regulations on the Board of Directors of PJSC Gazprom
- Regulations on the Board of Directors' Audit Committee of JSC Gazprom
- Regulations on the Board of Directors' Nomination and Remuneration Committee of PJSC Gazprom
- Regulations on the Management Committee of PJSC Gazprom
- Regulations on the Chairman of the Management Committee of PJSC Gazprom
- Regulations on the Audit Commission of JSC Gazprom, new version
- Regulations on the Internal Control System of PJSC Gazprom
- External Audit Policy for PJSC Gazprom, its subsidiaries and entities
- Procedures for Documenting of Proposals and Requests of Shareholders Related to the Convocation of the General Shareholders Meeting of PJSC Gazprom
- Dividend Policy of Joint Stock Company Gazprom
- Regulations on the Information Disclosure of PJSC Gazprom
- Procedure for Providing Information about PJSC Gazprom to Shareholders
- Regulations of PJSC Gazprom on Control of Compliance with the Laws on Countering the Unlawful Use of Insider Information and Market Manipulation
- Anti-Corruption Policy of PJSC Gazprom
- Regulations on the Hotline for Fighting Fraud, Corruption, and Embezzlement at Gazprom Group

These documents are available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



The Board of Directors of PJSC Gazprom has a traditional focus on enhancing its corporate governance system to match the highest global standards.

The Board of Directors believes that compliance with the principles and recommendations set out in the Corporate Governance Code (the "Russian Corporate Governance Code" or "Code"), which is recommended as a guidance by the Bank of Russia, is key to the Company's long-term growth and stronger investment case.

The corporate governance practice pursued by PJSC Gazprom relies on compliance with the requirements of Russian laws, the requirements applicable to issuers, and on balancing the interests of the state, shareholders, and all stakeholders.

For the Company, the principles set forth in the Russian Corporate Governance Code are an important source used to develop its internal regulations and a benchmark for building the best corporate governance practice.

PJSC Gazprom assessed compliance of current corporate governance practices with the corporate governance principles recommended by the Russian Corporate Governance Code.

The methods used in such assessment specifically focused on the key provisions of the Russian Corporate Governance Code. Key provisions of the Code include principles and recommendations that correspond to the mandatory requirements of Russian stock exchanges (PAO Moscow Exchange and PAO Saint Petersburg Exchange) applicable to issuers' corporate governance for the purposes of inclusion of their shares in the first (top) level quotation list (mandatory for PJSC Gazprom to maintain its top listing on the these exchanges).



In accordance with the requirements of paragraph 70.4. of the Regulations on Disclosing Information by the Issuers of Issue-Grade Securities No. 454-P approved by the Bank of Russia on 30 December 2014, key principles and recommendations of the Russian Corporate Governance Code not fully or not complied with at PJSC Gazprom are listed below, along with the description of corporate governance mechanisms and tools used by PJSC Gazprom instead of those recommended by the Russian Corporate Governance Code.

**1 The Code recommends that independent directors constitute at least one third of the elected members of the board of directors**  
(paragraph 2.4.3 of the Code).

In 2017, the Company did not comply with this principle of the Code.

The Board of Directors of PJSC Gazprom (11 members) was elected by the Annual General Shareholders Meeting on 30 June 2017 from among the nominees proposed by shareholders. The Board of Directors included three independent directors, two of which, Viktor Martynov and Vladimir Mau, members of the Board of Directors of PJSC Gazprom, were determined to be independent by Resolution of the Board of Directors of PJSC Gazprom No. 2978 dated 28 June 2017, as part of the procedures set forth in the rules of Russian stock exchanges and the Russian Corporate Governance Code.

**2 To preview matters of supervision over the company's financial and business performance, the Code recommends to set up an audit committee comprised of independent directors**  
(paragraph 2.8.1, Recommendation 173 of the Code).

In 2017, the Company partially complied with this principle due in part to objective reasons (insufficient number of independent directors on the Board of Directors).

PJSC Gazprom has in place an Audit Committee of the Board of Directors comprising three members, two of which (including Viktor Martynov, Chairman of the Committee) are independent directors, in compliance with the independence criteria set by the rules of Russian exchanges and the Code.

**3 To preview matters of adopting an effective and transparent remuneration scheme, the Code recommends to set up a remuneration committee comprised of independent directors and headed by an independent director who is not the chairman of the board of directors**  
(paragraph 2.8.2, Recommendation 179 of the Code).

**To preview matters of talent management (succession planning), professional composition and efficiency of the board of directors, the Code recommends to set up a nomination (appointments and HR) committee, predominantly comprised of independent directors**  
(paragraph 2.8.3 of the Code).

**Where setting up a separate nomination committee is not practicable, its functions may be assigned to any other committee of the board of directors, i.e. a corporate governance committee or a remuneration committee**  
(Recommendation 185 of the Code).

In 2017, the Company partially complied with this principle due in part to objective reasons (insufficient number of independent directors on the Board of Directors).

The Board of Directors of PJSC Gazprom set up a Nomination and Remuneration Committee of the Board of Directors of PJSC Gazprom (Resolution of the Board of Directors No. 2983 dated 30 June 2017). Most members of the Nomination and Remuneration Committee of the Board of Directors of PJSC Gazprom are independent directors.

PAO Moscow Exchange and PAO Saint Petersburg Exchange confirm the compliance of PJSC Gazprom's corporate governance with the rules of stock exchanges, required to maintain the Company's shares on the first (top) level quotation list.

PJSC Gazprom has a strong focus on the continuous development of corporate governance, with due regard to opinions of the expert and investment communities.

In 2017, PJSC Gazprom continued to improve its standards.

In particular, the resolution of PJSC Gazprom's Annual General Shareholders Meeting dated 30 June 2017 (Minutes No. 1) updated a number of key documents: the Articles of Association, Regulations on the Board of Directors of PJSC Gazprom, Regulations on the Management Committee of PJSC Gazprom, and Regulations on the Chairman of the Management Committee of PJSC Gazprom were amended and a new version of PJSC Gazprom's Corporate Governance Code was approved.

PJSC Gazprom developed the new version of its Corporate Governance Code in line with recommendations of the Russian Corporate Governance Code, applicable Russian laws, Articles of Association of PJSC Gazprom, Regulations on the Board of Directors of PJSC Gazprom, and other internal documents of the Company.

In addition, the Board of Directors of PJSC Gazprom approved a new version of the Regulations on the Information Disclosure of PJSC Gazprom by Resolution No. 2921 dated 29 March 2017 and incorporating, inter alia, recommendations of the Russian Corporate Governance Code.

In 2017, PJSC Gazprom conducted a scheduled independent audit of its corporate governance practice, involving an independent assessment of the performance of PJSC Gazprom's Board of Directors, the Audit Committee of PJSC Gazprom's Board of Directors, and the Nomination and Remuneration Committee of PJSC Gazprom's Board of Directors.

Auditors' approaches to the corporate governance practice and, accordingly, the performance of the Board of Directors and its committees are based on Russian and international best practices and meet, inter alia, recommendations of the Russian Corporate Governance Code, rules of Russian stock exchanges, guidelines of Russian federal executive authorities (the Ministry of Economic Development and Federal Agency for State Property Management), and national risk management and social responsibility standards.

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**Results of full-scale independent corporate governance audit conducted in 2017**

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- The performance of the Board of Directors and its committees was highly praised.

In particular, the auditors noted that the number and profile of members of the Board of Directors were fully in line with the scale and specifics of PJSC Gazprom's operations. The number of meetings held during the year is sufficient for a comprehensive discussion of all the matters and objectives of the Board of Directors. Materials required for such meetings are provided in a timely manner. The most important matters are discussed during meetings held in person. Members of the Board of Directors actively participate in its activities and maintain close contact with PJSC Gazprom's executive bodies and management. Auditors noted the highly efficient organisation of the committees' activities. The number and profile of their members also fully meet all the requirements to ensure effective and efficient operation of the committees.
- Auditors noted positive changes in the Company's approach to protecting shareholder rights the performance of its governance and control bodies, corporate social responsibility activities, and information disclosure.
- New potential areas of further development of corporate standards were proposed.

PJSC Gazprom's Board of Directors reviewed the independent audit results in November 2017. The Management Committee was instructed to continue improving PJSC Gazprom's corporate governance.

# PJSC Gazprom's Corporate Governance Model

The corporate governance model in place at PJSC Gazprom relies on Russian laws, the requirements of Russian stock exchanges applicable to issuers whose shares have been included in the first (top) level quotation list. Key principles underlying PJSC Gazprom's corporate governance are set forth in the Corporate Governance Code of PJSC Gazprom, the new version of which was approved by the General Shareholders Meeting of PJSC Gazprom on 30 June 2017.

PJSC Gazprom's corporate governance pillars include management and supervisory bodies: General Shareholders Meeting, Board of Directors, Management Committee, Chairman of the Management Committee, and Audit Commission. The Department of the Management Committee Administration responsible for internal audit performs fair assessment of the internal control performance and develops recommendations for improvement. The Company's financial and business performance is independently reviewed by an external auditor.

To preview most important matters of PJSC Gazprom's business reserved to the Board of Directors, the Board set up the Audit Committee and the Nomination and Remuneration Committee of the Board of Directors of PJSC Gazprom.

The Board of Directors established the Commission on Strengthening Financial Discipline for Domestic Gas Supplies in 2017.

PJSC Gazprom has in place the role of the Corporate Secretary whose responsibilities are distributed, to the extent recommended by the Russian Corporate Governance Code, among the following business units of PJSC Gazprom, in line with the regulations governing their functions:

- Department of the Management Committee Administration (Yury Nosov)
- Secretariat of the Management Committee Administration (Nikolai Kruglikov)
- Department Directorate (Alexey Finikov)
- Department Directorate Division (Maksim Babich)

For more details on the Corporate Secretary's responsibilities assigned to business units see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)

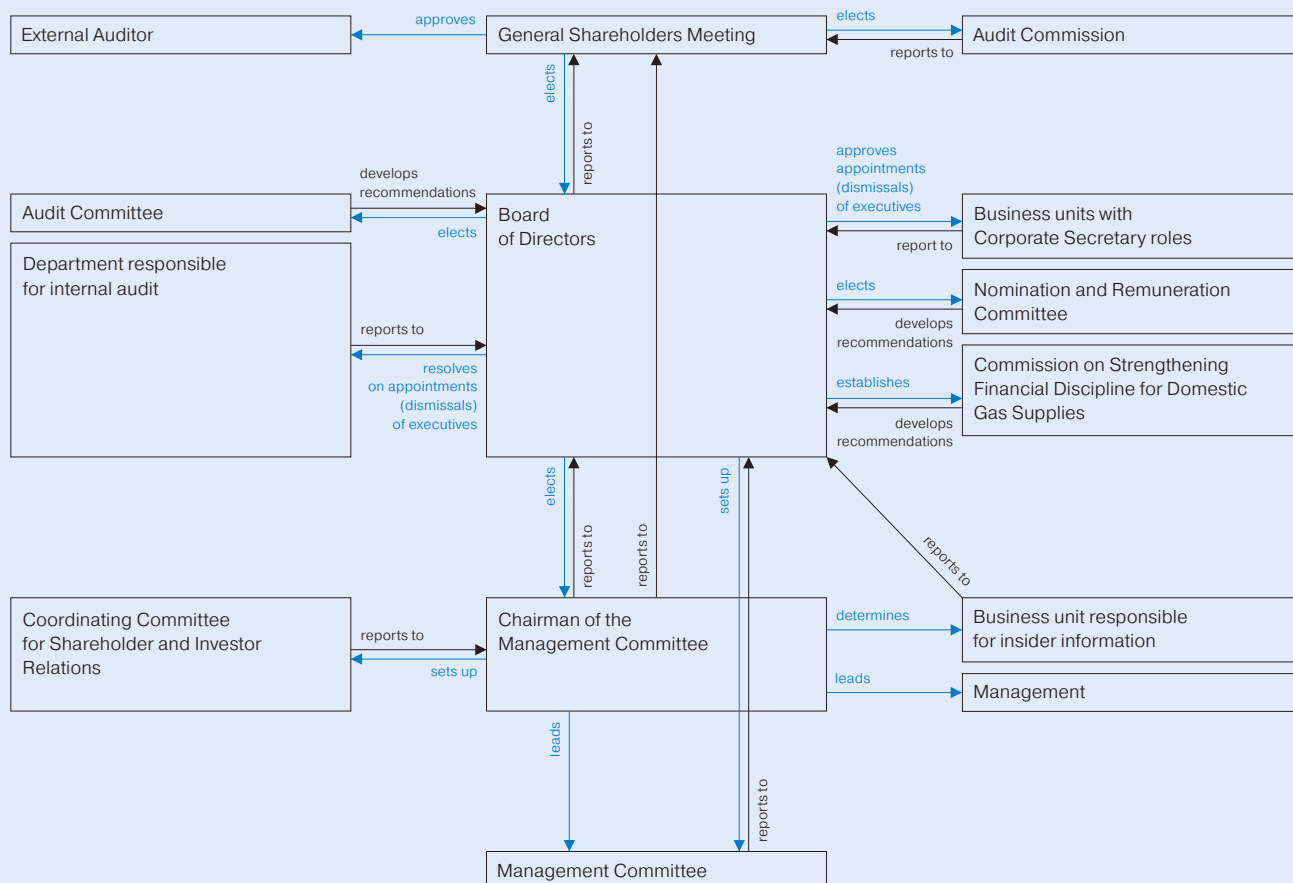


## Significant aspects of the Company's corporate governance model and practices

Priority of shareholder rights and interests	Informational transparency		
Strategic decisions at PJSC Gazprom are made with due consideration of their impact on all shareholders	The Company consistently keeps its investors and shareholders informed of all key events and intentions. PJSC Gazprom fosters an ongoing dialogue with shareholders, diverse investor groups, and analysts		
Strategic governance of the Company by the Board of Directors	Effective supervision over the executive bodies by the Board of Directors; accountability of management bodies to shareholders	Balanced and efficient internal audit and risk management	Division of roles and responsibilities in Company management



## PJSC Gazprom's Corporate Governance Structure



## General Shareholders Meeting

General Shareholders Meeting is the supreme management body of PJSC Gazprom and is held on an annual basis. Any General Shareholders Meeting other than the AGM shall be deemed extraordinary.

The voting power at General Shareholders Meetings is attributed to holders of the Company's ordinary shares. Any shareholder may participate in a General Shareholders Meeting in person or by proxy. A General Shareholders Meeting is duly constituted if attended by the shareholders holding in aggregate more than a half of voting shares.

The responsibilities of the General Shareholders Meeting include, inter alia, amending the Articles of Association of PJSC Gazprom, approving annual reports and the Company's auditor, distributing profit, electing members to the Board of Directors and the Audit Commission, making decisions on reorganisation or liquidation of PJSC Gazprom and on increase or decrease of the Company's charter capital.

In the reporting year, PJSC Gazprom held its annual General Shareholders Meeting on 30 June 2017.

PJSC Gazprom held no extraordinary General Shareholders Meetings in 2017.

**Annual General Shareholders Meeting held on 30 June 2017**

- Venue: 16 Nametkina str., Conference Hall, bld. 2, Moscow, Russian Federation.
- The quorum required to pass resolutions on all the agenda items was present.
- Resolutions were passed on the following agenda items.

The Meeting approved PJSC Gazprom Annual Report for 2016, the Company's annual accounting (financial) statements for 2016, dividend amount (RUB 8.0397 per share), the dividend record date — 20 July 2017, deadline to receive dividends for the nominee shareholders and trustees who are professional security traders recorded in the Register of Shareholders — 3 August 2017, and for the rest of the registered shareholders — 24 August 2017. Limited Liability Company Financial and Accounting Consultants was approved as PJSC Gazprom's auditor engaged to audit PJSC Gazprom's statements for 2017. In addition, amendments to the Articles of Association, Regulations on the Board of Directors of PJSC Gazprom, Regulations on the Management Committee of PJSC Gazprom, and Regulations on the Chairman of the Management Committee of PJSC Gazprom were approved, as well as a new version of PJSC Gazprom's Corporate Governance Code were approved.

The Meeting resolved to distribute PJSC Gazprom's profit for 2016; pay remuneration to members of PJSC Gazprom's Board of Directors and Audit Commission holding no public or civil office in the Russian Federation as recommended by the Board of Directors.

The Meeting approved PJSC Gazprom's participation in the Global Gas Centre, a non-profit association having among its members such gas companies as ENGIE, Fluxys, NIGC, OMV, Statoil, Swissgas, as well as the World Energy Council.

The Meeting elected a new Board of Directors and Audit Commission of PJSC Gazprom.

**Board of Directors**

The Board of Directors is responsible for the general management of PJSC Gazprom's operations, excluding matters reserved to the General Shareholders Meeting. The Company's Board of Directors is elected by the General Shareholders Meeting until the next Annual General Shareholders Meeting.

The Board of Directors determines the Company's business priorities, approves the annual budget and investment programmes, makes decisions on convening General Shareholders Meetings and setting up executive bodies of PJSC Gazprom, develops recommendations on share dividend amounts, and resolves other matters reserved to the Board of Directors by the Articles of Association of PJSC Gazprom.

The Board of Directors of PJSC Gazprom has a well-balanced composition to ensure the performance of their tasks for the benefit of all shareholders and the Company as a whole. Independent directors play a key role in PJSC Gazprom's corporate governance system.

**Independent directors serving on the Board of Directors of PJSC Gazprom**

Independent directors are fully involved in the activities of the Company's Board of Directors and initiate reviews of PJSC Gazprom's core business lines to be conducted by the Board. In the reporting year, the Board of Directors reviewed the following matters as proposed by its independent directors:

- PJSC Gazprom's development strategy (including implementation of major investment projects, energy efficiency improvement and reduction of GHG emissions, dividend policy, and anti-corruption efforts)
- improvement of management performance (including disposal of non-core assets, implementation of the action plan (roadmap) to adopt the Corporate Governance Code, performance assessment of the Board of Directors and its committees).

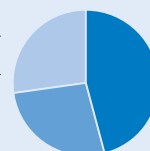
Independent directors comprise the majority of the Audit Committee and the Nomination and Remuneration Committee of the Board of Directors.

In the reporting year, outside the Board meetings, independent directors Vladimir Mau, Viktor Martynov, and Timur Kulibaev held multiple meetings with Viktor Zubkov, Chairman of the Board of Directors, Alexey Miller, Chairman of the Management Committee, and other members of the Board of Directors and executives of the Company.

During the meetings, they shared opinions on the reviewed matters, proposed matters for review by the Board of Directors, and discussed methods and efforts for the executive bodies of PJSC Gazprom to implement the Board of Directors' resolutions and prepare relevant reports.

**Composition of the Board of Directors by status, %**

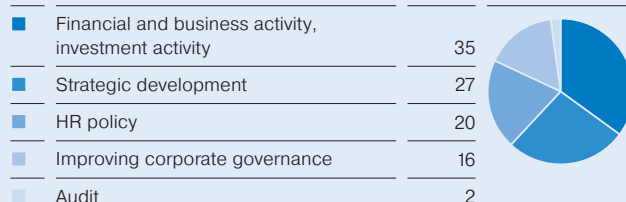
■ Non-Executive Director	46
■ Executive Director	27
■ Independent Director	27



The activities of PJSC Gazprom's Board of Directors were governed by the duly approved six-month plans of activities. In 2017, the Board of Directors held a total of 59 meetings, including 12 meetings held in person and 47 meetings held in absentia. At these meetings, the Board of Directors passed 180 resolutions, including 49 resolutions in person and 131 resolutions in absentia.

For the full list of matters reviewed by PJSC Gazprom's Board of Directors in 2017 see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



**Matters reviewed by PJSC Gazprom's Board of Directors in 2017, by line of business, %**

**Board of Directors' report on PJSC Gazprom's development in priority business areas**

As part of its activities in the reporting year, PJSC Gazprom's Board of Directors was consistently committed to its key role of determining priority business areas for PJSC Gazprom, and its development strategy.

The main strategic documents and development programmes in key areas of PJSC Gazprom's business were adopted by the Company's Board of Directors in previous reporting periods. Therefore, in 2017, PJSC Gazprom's Board of Directors focused on the implementation and adjustment of the strategies and programmes adopted earlier.

**Innovative development**

The Board of Directors reviewed the progress of the Innovative Development Programme until 2025 and efficient use of funds allocated for research and development (R&D).

At its meeting the Board of Directors noted that successful Programme implementation helps the Company continuously strengthen its technological leadership, improve its production processes through optimising the use of diverse resources.

Innovative research aims to develop and implement high-tech equipment and materials, along with sophisticated engineering complexes unrivalled in the world.

One of Gazprom Group's priorities is the project to develop a methane-hydrogen mixture production technology. Such mixtures improve the energy efficiency of gas pumping units, and reduce pollutant and GHG emissions from gas turbine units.

In collaboration with the Russian Academy of Sciences, the Company is developing space-saving and durable sorbent-based gas storage systems.

One of the key areas of innovation in the oil business is the improvement of horizontal drilling technologies and multi-stage hydraulic fracturing, including for the purpose of cost-effective development of hard-to-recover oil reserves.

The Board of Directors' attention was also drawn to the fact that PJSC Gazprom is a leading Russian investor in innovations.

In addition, the Company improves its innovation management system, promotes joint R&D initiatives with foreign partners, and expands collaboration with Russian educational institutions. In particular, the number of anchor universities of PJSC Gazprom increased from 9 to 12.

**Import substitution**

The progress of the Company's import substitution projects in 2016–2017 was reviewed and approved.

Following the meeting, PJSC Gazprom's Management Committee was instructed to carry on these efforts, in particular, to promote collaboration with domestic suppliers in the oil and gas industry to enhance production, promote technological and economic advancement, and make Russian products more competitive.

**Board of Directors' report on PJSC Gazprom's development in priority business areas (continued)**
**Implementation of major investment projects**

Another focus area was the implementation of PJSC Gazprom's major investment projects.

At one of the Board meetings where this matter was discussed, it was noted that the Company's projects are strategically important for Russia's energy security, improve reliability of gas supply to domestic and foreign consumers, and set the stage for the Company to gain a stronger foothold in the global energy market. All priority projects of PJSC Gazprom are being implemented as scheduled.

The Company conducts extensive operations in eastern Russia as part of the Eastern Gas Programme. Specifically, PJSC Gazprom continues the construction of the Power of Siberia trunk pipeline to transport gas from Yakutia and Irkutsk gas production hubs to consumers in the Far East and China. Construction and installation is in progress along the whole length of the pipeline route from the Chayandinskoye field in Yakutia to the Chinese border. The Company continues developing the Chayandinskoye field, the core field of the Yakutia hub. The construction of the Amur GPP, Russia's largest gas processing facility, which is to separate valuable gas chemical components from the gas supplied from Yakutia and the Irkutsk Region, is fully on track.

The Company's core resource base is shifting further and further to the north. PJSC Gazprom applies a comprehensive approach to gas production hub development in the Yamal Peninsula and expansion of the Northern Gas Transmission Corridor that reshapes the geography of gas flows for both domestic supplies to European Russia and exports.

The Company builds up its production capacities at the Bovanenkovskoye field, the largest field in the peninsula.

The modern and highly efficient gas pipelines of the Northern Corridor form part of a new route for Russian gas exports to the European market, namely the Nord Stream 2 gas pipeline. The route from Yamal to North-Western Europe across the Baltic Sea is the shortest, most reliable and efficient export channel. The Nord Stream 2 project proceeds as planned, with both strings expected to be commissioned in Q4 2019.

Active efforts are taken to implement another project aimed at ensuring reliable exports of Russian gas to Turkey and Europe without transit through third countries, the TurkStream gas pipeline across the Black Sea.

PJSC Gazprom places particular emphasis on securing reliable gas supplies during the winter peak-demand season. The Company therefore consistently increases the deliverability of underground gas storage facilities (UGSF) in Russia.

PJSC Gazprom pays special attention to gas supplies to consumers in the Kaliningrad Region. The Company works to expand the Kaliningradskoye UGSF and constructs an LNG regasification terminal.

The Company's Management Committee was instructed to continue implementing the Company's major investment projects.



## Committees of the Board of Directors

The Committees' priorities are to conduct holistic previews of selected matters reserved to the Board of Directors of PJSC Gazprom and develop recommendations on resolutions for the Company's Board of Directors.

### Audit Committee of the Board of Directors

In 2017, the Audit Committee of PJSC Gazprom's Board of Directors continued its work. The Committee reports to PJSC Gazprom's Board of Directors and operates as set forth in the Regulations on the Board of Directors' Audit Committee of JSC Gazprom approved by Resolution of the Board of Directors of JSC Gazprom No. 2314 dated 25 February 2014.

#### Composition of the Board of Directors' Audit Committee in 2017

- Committee Chairman:  
Viktor Martynov (Independent Director)
- Committee Members:  
Mikhail Sereda, Vladimir Mau (Independent Director)

The Audit Committee of PJSC Gazprom's Board of Directors addressed the specific planned activities, meeting at least on a quarterly basis. In 2017, the Committee held eight meetings, including three meetings held in person. The most important matters discussed by the Committee in 2017 included OOO FBK's information on critical audit issues at PJSC Gazprom and its subsidiaries, along with the external auditor's reports on ensuring independence and on the effectiveness of external audit.

For the full list of matters reviewed by the Audit Committee of PJSC Gazprom's Board of Directors in 2017 see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



The Audit Committee maintained close contact with the external auditor OOO FBK, the Audit Commission, and PJSC Gazprom's Department responsible for internal audit.

### Nomination and Remuneration Committee of the Board of Directors

The Nomination and Remuneration Committee of PJSC Gazprom's Board of Directors started to operate under its activities plan in January 2017.

#### Composition of the Board of Directors' Nomination and Remuneration Committee in 2017

- Committee Chairman:  
Mikhail Sereda
- Committee Members:  
Vladimir Mau (Independent Director),  
Viktor Martynov (Independent Director)

In 2017, the Committee held 10 meetings, including one meeting held in person. The Committee reviewed the following matters: election of members of PJSC Gazprom's Management Committee; approval of the Company's actual 2016 KPI values for the purposes of the annual bonus scheme for the management of PJSC Gazprom as well as target (planned), threshold, and maximum KPI values for 2017; remuneration of members of PJSC Gazprom's Board of Directors and Audit Commission; assessment of Directors' performance, etc.

For the full list of matters reviewed by the Nomination and Remuneration Committee of PJSC Gazprom's Board of Directors in 2017 see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



### Commission on Strengthening Financial Discipline for Domestic Gas Supplies

For additional coordination of efforts undertaken by PJSC Gazprom to improve the situation with regard to payments for gas deliveries, the Commission on Strengthening Financial Discipline for Domestic Gas Supplies was established at PJSC Gazprom's Board of Directors in July 2017 (Resolution of PJSC Gazprom's Board of Directors No. 2984 dated 14 July 2017). The Commission monitors the debt owed by consumers in Russian regions and develops proposals and measures to reduce this debt.

#### Composition of the Board of Directors' Commission on Strengthening Financial Discipline for Domestic Gas Supplies of PJSC Gazprom

- Commission Chairman:  
Viktor Zubkov, Chairman of the Board of Directors of PJSC Gazprom
- Deputy Commission Chairman:  
Alexander Babakov, member of the Federation Council of the Federal Assembly of the Russian Federation
- Commission Members:  
Valery Golubev, Deputy Chairman of PJSC Gazprom's Management Committee  
Nikolai Dubik, First Deputy Director General of Gazprom export  
Nikolai Kruglikov, Head of the Secretariat of the Management Committee Administration (Commission Secretary)

The Commission operates on a permanent basis.

The Commission held its first meeting in Moscow in September 2017 to discuss essential matters of strengthening financial discipline for gas supplies in the domestic market and certain Russian regions, as well as the outstanding debt owed by Russian regions for natural gas delivered by PJSC Gazprom. In addition, the Commission held five offsite meetings in regions of the North Caucasian Federal District from September 2017 to February 2018.

The Commission's performance will be subject to regular reviews at meetings of PJSC Gazprom's Board of Directors, in particular in 2018.

## Executive Bodies

Day-to-day operations of PJSC Gazprom are managed by the Chairman of the Management Committee (sole executive body) and the Management Committee (collegial executive body). They are responsible for implementing resolutions passed by the General Shareholders Meeting and the Board of Directors and are accountable to them.

The Chairman and members of the Management Committee are elected by the Board of Directors for a five-year term. The matters reserved by PJSC Gazprom's Articles of Association to the Management Committee include drafting of the annual budget, investment programmes, future and current action plans, preparing reports, gas flow management, and monitoring Russia's Unified Gas Supply System.

In 2017, the Management Committee held a total of 22 meetings (11 meetings held in person and 11 meetings held in absentia). At these meetings, the Management Committee passed 48 resolutions, including 37 resolutions passed in person and 11 resolutions passed in absentia.

**Matters reviewed by PJSC Gazprom's Management Committee in 2017, by line of business, %**



## Audit Commission

The Audit Commission's authority is set forth in the Federal Law On Joint-Stock Companies and PJSC Gazprom's Articles of Association. The Audit Commission operates under the Regulations on the Audit Commission of JSC Gazprom approved by the Resolution of JSC Gazprom's Annual General Shareholders Meeting (Minutes No. 1 dated 28 June 2013).

Key roles of the Audit Commission:

- monitor the fair presentation of PJSC Gazprom's financial and accounting statements and other information on the Company's financial and business operations and condition of its assets
- supervise statutory compliance of PJSC Gazprom's accounting practices and of submission of its financial statements and information to relevant authorities and shareholders
- prepare proposals on enhancing the Company's asset management and other financial and business operations of PJSC Gazprom, mitigate financial and operating risks, and improve internal controls.

The Audit Commission is accountable to the General Shareholders Meeting and coordinates its activities with the Audit Committee of the Board of Directors.

Following an audit of PJSC Gazprom's financial and business operations, the Audit Commission presented its opinion confirming the fairness of data in the Company's statements and other financial documents.

The Audit Commission of nine members is elected by the General Shareholders Meeting.

**Members of the Audit Commission elected by the General Shareholders Meeting on 30 June 2017**

Name	Year of birth	Position as at 31 December 2017
Vadim Bikulov	1957	Deputy Department Head — Directorate Head, Secretary of the Audit Commission, PJSC Gazprom
Alexander Gladkov	1969	Department Director, Ministry of Energy of the Russian Federation
Margarita Mironova	1964	First Deputy Head of the Management Committee Administration — Head of Department of the Management Commission Administration, Head of the Audit Commission, PJSC Gazprom
Yury Nosov	1963	Deputy Head of the Management Committee Administration — Department Head, Executive Secretary of the Management Committee, PJSC Gazprom
Karen Oganyan	1974	Department Head, PJSC Gazprom
Alexandra Petrova	1990	Deputy Head of Division at the Directorate, Federal Agency for State Property Management
Sergey Platonov	1966	Deputy Department Director, Ministry of Finance of Russia
Oksana Tarasenko	1983	Department Director, Ministry of Economic Development of the Russian Federation
Tatiana Fisenko	1961	Department Director, Ministry of Energy of the Russian Federation

# Remuneration of Members of Management and Supervisory Bodies

## Documents defining remuneration of members of PJSC Gazprom's management and supervisory bodies

- Regulations on the Guidelines on Remuneration of the Board of Directors of JSC Gazprom (approved by Resolution of the Board of Directors No. 2523 dated 15 April 2015)
- Regulations on Remuneration of the Audit Commission of PJSC Gazprom (approved by Resolution of the Board of Directors No. 2641 dated 9 December 2015, as amended)
- Regulations on the Annual Bonus Scheme for the Management of PJSC Gazprom (approved by Resolution of JSC Gazprom's Board of Directors No. 927 dated 19 December 2006, as amended)
- Regulations on the Employee Equity Sharing Plan for the Management of PJSC Gazprom (approved by Resolution of JSC Gazprom's Board of Directors No. 2105 dated 26 December 2012, as amended)
- Regulations on PJSC Gazprom's Key Performance Indicators (approved by Resolution of JSC Gazprom's Board of Directors No. 2435 dated 21 October 2014, as amended)

## Remuneration Scheme for Members of Executive Bodies and Other Key Employees of PJSC Gazprom

Remuneration of members of PJSC Gazprom's executive bodies (Chairman and members of the Management Committee) and other executives of PJSC Gazprom is determined by their employment agreements.

Remuneration paid by PJSC Gazprom to its key executives creates sufficient incentives for them to work efficiently while enabling the Company to engage and retain competent and qualified specialists. Key components of the system of remuneration of PJSC Gazprom's executives, including members of the Management Committee, are the Annual Bonus Scheme for the Management of PJSC Gazprom and the Employee Equity Sharing Plan for the Management of PJSC Gazprom.

The Annual Bonus Scheme covers the key executives of PJSC Gazprom and its key gas production, transportation, underground storage, processing, and sales subsidiaries.

Executives' annual bonus is linked to PJSC Gazprom's performance (achievement of corporate key performance indicators (KPIs)) and personal contribution of executives (achievement of individual targets).



Corporate KPIs for 2017		
KPI	Description	Weight in the reporting period bonus
Financial and economic KPIs		70%
Per unit costs in Production	Total costs of gas producing subsidiaries divided by total volume of gas, unstable gas condensate, and oil production	15%
Per unit costs in Transportation	Total costs of gas transportation subsidiaries divided by total transportation volume	15%
Reduction of operating costs (expenses)	Reduction of operating costs (expenses) in the reporting year	5%
Total shareholder return, TSR	Estimated shareholder's income for the reporting year from share price growth and dividend received	10%
ROE	Ratio of net income to average annual shareholders' equity	20%
Labour productivity	Total revenue from sales of products, proceeds from work done and services provided, revenue from sales of goods purchased for resale less expenses on purchase of such goods, divided by total man-hours worked by full-time employees and external part-time employees	5%
Industry-specific KPIs		30%
Gas sales by volume	PJSC Gazprom's gas sales by volume, including both its own gas and purchased gas	10%
Commissioning of priority production facilities	Completion of activities related to commissioning of priority production facilities (as per the approved list)	10%
Integrated innovation key performance indicator	Sum of scores reflecting the achievement of KPI targets, with application of weights allocated to each of the KPIs: <ul style="list-style-type: none"> <li>— patents and licences obtained in the reporting year and during two preceding years</li> <li>— technologies introduced based on R&amp;D results under the Innovative Development Programme in the reporting year</li> <li>— reduction of relative rates of GHG emissions expressed as CO<sub>2</sub> equivalent</li> <li>— assessment of the quality of design / annual implementation of the Innovative Development Programme.</li> </ul>	10%

The Employee Equity Sharing Plan for the Management aims to provide an extra financial incentive for PJSC Gazprom's management to support PJSC Gazprom share performance. The Programme is aimed to better align the interests of the Company's shareholders and management by linking the Programme participants' extra income to PJSC Gazprom share price growth.

PJSC Gazprom's executives holding positions of department heads or higher, and the management of subsidiaries engaged in core operations are eligible to participate in the Programme. In 2017, 70 executives were eligible to participate in the Programme.

#### Terms of the Employee Equity Sharing Plan for the Management of PJSC Gazprom

- Executives hold Company shares.
- Executives can acquire shares at their own cost or with loans granted by AO Gazprombank as part of the Programme.
- AO Gazprombank also provides depositary and broker services under the Programme.

## Remuneration of Members of the Board of Directors

The General Shareholders Meeting has the authority to resolve on payment, and determine amounts of, remuneration to members of the Board of Directors during their time in office.

Approaches to determining the amount of remuneration to members of the Board of Directors are set forth by the Regulations on the Guidelines on Remuneration of the Board of Directors of JSC Gazprom (approved by Resolution of JSC Gazprom's Board of Directors No. 2523 dated 15 April 2015).

### Remuneration of members of PJSC Gazprom's Board of Directors

- Fixed base remuneration for service on the Board of Directors
- Additional remuneration for additional responsibilities such as acting as Chairman of the Board of Directors, Deputy Chairman of the Board of Directors, or serving on committees of the Board of Directors
- Bonus component for achieving corporate key performance indicators (KPIs)

The Regulations also stipulate that the Board of Directors may recommend the General Shareholders Meeting not to pay remuneration to members of the Board of Directors or pay a lower remuneration calculated under the Regulations.

Members of the Board of Directors holding public or civil office receive no remuneration from PJSC Gazprom.

## Remuneration of Members of the Board of Directors, Members of the Management Committee, and Chairman of the Management Committee

Short-term remuneration paid by PJSC Gazprom in 2017 to members of the Board of Directors, Management Committee, and the Chairman of the Management Committee (including salaries, bonuses and remunerations for their service on PJSC Gazprom's management bodies) amounted to RUB 3,268,992 thousand. The amount is inclusive of personal income tax and insurance premiums.

In addition, PJSC Gazprom provides voluntary medical insurance to the Chairman of the Management Committee, members of the Management Committee, and members of the Board of Directors employed by PJSC Gazprom. In 2017, voluntary medical insurance premiums were RUB 12,781 thousand.

### Remuneration of members of PJSC Gazprom's Board of Directors paid by PJSC Gazprom in 2017

Type of remuneration	Amount, RUB thousand
Remuneration for service on a management body	245 486
Salary	64 775
Bonuses	49 594
Reimbursement for expenses incurred by a member of a management body in connection with his/her duties	—
Other remuneration	10 484
Total	370 339

**Note.** The amounts are inclusive of personal income tax.

Remuneration of members of the Board of Directors for service on a management body paid in 2017			
Name	Position	Holding public or civil office	Amount, RUB
Viktor Zubkov	Chairman of the Board of Directors	Holds no such office	31,090,260
Alexey Miller	Deputy Chairman of the Board of Directors	Holds no such office	30,162,510
Andrey Akimov	Member of the Board of Directors	Holds no such office	25,523,760
Timur Kulibaev	Member of the Board of Directors	Holds no such office	25,523,760
Vitaly Markelov	Member of the Board of Directors	Holds no such office	25,523,760
Viktor Martynov	Member of the Board of Directors, Chairman of the Board of Directors' Audit Committee, member of the Board of Directors' Nomination and Remuneration Committee	Holds no such office	27,688,510
Vladimir Mau	Member of the Board of Directors, member of the Board of Directors' Nomination and Remuneration Committee, member of the Board of Directors' Audit Committee	Holds no such office	26,683,448
Alexander Novak	Member of the Board of Directors	Holds an office	–
Dmitry Patrushev	Member of the Board of Directors, member of the Board of Directors' Audit Committee of the	Holds no such office	25,601,073
Mikhail Sereda	Member of the Board of Directors, Chairman of the Board of Directors' Nomination and Remuneration Committee, member of the Board of Directors' Audit Committee	Holds no such office	27,688,510
Total			245,485,591

**Note.** The amounts are inclusive of personal income tax.

Remuneration of members of PJSC Gazprom's Management Committee paid by PJSC Gazprom in 2017	
Type of remuneration	Amount, RUB thousand
Remuneration for service on a management body	–
Salary	861,443
Bonuses	1,532,323
Reimbursement for expenses incurred by a member of a management body in connection with his/her duties	–
Other remuneration	51,890
Total	2,445,656

**Notes.**

- The amounts are inclusive of personal income tax.
- Income received by members of PJSC Gazprom's Board of Directors who are also members of PJSC Gazprom's Management Committee and full-time employees of the Company for service on the Board of Directors was accounted for in the income received by members of the Board of Directors. Other types of remuneration paid to such members of the Board of Directors and/or reimbursement for their expenses are included in the total remuneration and/or reimbursement for expenses of PJSC Gazprom's Management Committee.

## Remuneration of Members of the Audit Commission

Regulations on Remuneration of the Audit Commission of PJSC Gazprom stipulating the guidelines for calculating the remuneration of members of PJSC Gazprom's Audit Commission were approved by Resolution of the Board of Directors No. 2641 dated 9 December 2015 (as amended by Resolution of the Board of Directors No. 2873 dated 22 December 2016).

The remuneration calculation uses, inter alia, a personal contribution factor which reflects the member's attendance at the meetings of the Audit Commission and additional responsibilities as Chairman of the Audit Commission.

Members of the Audit Commission holding public or civil office receive no remuneration.



Remuneration of members of PJSC Gazprom's Audit Commission for service on a financial and operating performance control body paid in 2017			
Name	Position	Holding public or civil office	Remuneration paid, RUB
Margarita Mironova	Chairman of the Commission	Holds no such office	4,889,045
Alexey Afonyashin	Member of the Commission	Holds no such office	3,760,804
Alexander Gladkov	Member of the Commission	Holds an office	–
Yury Nosov	Member of the Commission	Holds no such office	3,760,804
Karen Oganyan	Member of the Commission	Holds no such office	3,760,804
Sergey Platonov	Member of the Commission	Holds an office	–
Viktoria Semerikova	Member of the Commission	Holds no such office	3,760,804
Tatiana Fisenko	Member of the Commission	Holds an office	–
Vadim Bikulov	Member of the Commission (Secretary)	Holds no such office	3,760,804
Total			23,693,065

# Liability Insurance of Directors, Officers, and the Company

PJSC Gazprom insures the liability of its directors (excluding directors holding public office), officers, and the Company.

The insurance coverage under the current liability insurance policy is in line with PJSC Gazprom's needs and Russian and international insurance standards in terms of risk coverage and indemnity limits.

## Liability insurance programme for directors, officers, and the Company in 2017

Insurance coverage	USD 100 mm No change y-o-y
Insurance premium	USD 900 thousand Reduced y-o-y due to the positive history of the programme.
Persons insured	Members of the Company's Board of Directors (excluding directors who hold public office) and Management Committee, as well as heads of PJSC Gazprom's Departments who are not members of the Company's Management Committee. Heads of PJSC Gazprom's Departments who are not members of the Company's Management Committee joined the Insurance Programme in 2017.
Risks insured	<ul style="list-style-type: none"><li>— Risk of third-party claims against the insured for losses arising from unintentional errors made by the insured in their management roles.</li><li>— Risk of third-party claims against PJSC Gazprom for losses arising from unintentional errors made by the insured in their management roles: claims related to PJSC Gazprom's securities; claims initially made against the insured.</li></ul>

# Shareholdings of Members of the Board of Directors and Management Committee and Transactions with PJSC Gazprom Shares

As at 31 December 2017, members of the Board of Directors, Management Committee, and the Chairman of the Management Committee had a shareholding of 0.012454% in PJSC Gazprom's equity.

## Shareholdings of members of PJSC Gazprom's Board of Directors and Management Committee in PJSC Gazprom's equity as at 31 December 2017

Name	Position	Shareholding, %
Members of the Board of Directors		
Viktor Zubkov	Chairman of the Board of Directors	0.000761
Alexey Miller	Deputy Chairman of the Board of Directors, Chairman of the Management Committee	0.000958
Andrey Akimov	Member of the Board of Directors	–
Timur Kulibaev	Member of the Board of Directors	–
Denis Manturov	Member of the Board of Directors	–
Vitaly Markelov	Member of the Board of Directors, member of the Management Committee	0.006203
Viktor Martynov	Member of the Board of Directors, Chairman of the Board of Directors' Audit Committee, member of the Board of Directors' Nomination and Remuneration Committee	–
Vladimir Mau	Member of the Board of Directors, member of the Board of Directors' Audit Committee, member of the Board of Directors' Nomination and Remuneration Committee	–
Alexander Novak	Member of the Board of Directors	–
Dmitry Patrushev	Member of the Board of Directors	0.001013
Mikhail Sereda	Member of the Board of Directors, Chairman of the Board of Directors' Nomination and Remuneration Committee, member of the Board of Directors' Audit Committee	0.000232



**Shareholdings of members of PJSC Gazprom's Board of Directors and Management Committee in PJSC Gazprom's equity  
as at 31 December 2017 (continued)**

Name	Position	Shareholding, %
Members of the Management Committee*		
Elena Vasilieva	Deputy Chairwoman of the Management Committee — Chief Accountant	0.000281
Valery Golubev	Deputy Chairman of the Management Committee	0.000232
Andrey Kruglov	Deputy Chairman of the Management Committee	0.000735
Alexander Medvedev	Deputy Chairman of the Management Committee	0.000232
Sergey Khomyakov	Deputy Chairman of the Management Committee	0.000232
Oleg Aksyutin	Member of the Management Committee, Head of Department	0.000218
Vladimir Markov	Member of the Management Committee, Head of Department	0.000148
Elena Mikhailova	Member of the Management Committee, Head of Department	0.000187
Vyacheslav Mikhalevko	Member of the Management Committee, Head of Department	0.000424
Sergey Prozorov	Member of the Management Committee, Head of Department	0.000148
Kirill Seleznev	Member of the Management Committee, Head of Department	0.000148
Igor Fyodorov	Member of the Management Committee, Head of Department	0.000154
Vsevolod Cherepanov	Member of the Management Committee, Head of Department	0.000148

\* For shareholdings of executive directors see the Members of the Board of Directors section of this table.

**Transactions with PJSC Gazprom shares by members of PJSC Gazprom's Board of Directors and Management Committee in 2017**

Name	Transaction date	Transaction type	Number of ordinary registered shares of PJSC Gazprom involved in the transaction
Viktor Zubkov	8 June 2017	Purchase	118,600
	9 June 2017	Purchase	61,580
Elena Mikhailova	4 July 2017	Purchase	9,260
Dmitry Patrushev	24 April 2017	Purchase	16,100
	18 July 2017	Purchase	175,270
Igor Fyodorov	25 July 2017	Purchase	4,220

# Internal Control and Audit

## Internal Control System

PJSC Gazprom's internal controls is a system of internal control bodies and methods, rules of conduct and actions of employees aimed at achieving PJSC Gazprom's goals.

Goals, objectives, internal controls, their operation, and PJSC Gazprom's management bodies and persons responsible for internal control are set forth in the Regulations on the Internal Control System of PJSC Gazprom (approved by Resolution of the Board of Directors No. 2315 dated 25 February 2014, as amended by Resolution of the Board of Directors No. 2848 dated 15 November 2016).

The internal control system is designed to provide reasonable assurance that PJSC Gazprom:

- performs efficiently
- ensures the completeness, timeliness, and fairness of all types of accounting and reporting at PJSC Gazprom
- complies with applicable laws
- prevents and counters corruption
- protects its assets (including data assets).

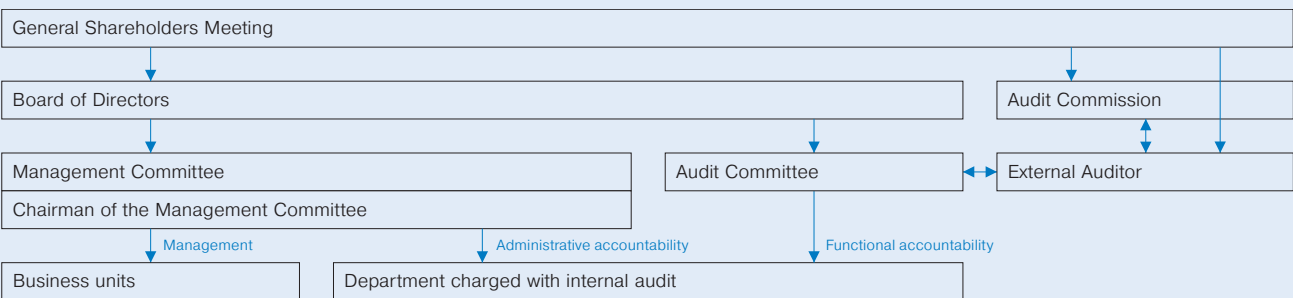
**PJSC Gazprom's internal control system is crucial for protection of shareholder and investor interests.**

### Internal control pillars

- |    |                      |
|----|----------------------|
| 1  | Interaction          |
| 2  | Continuous operation |
| 3  | Prompt response      |
| 4  | Accountability       |
| 5  | Development          |
| 6  | Separation of duties |
| 7  | Compliance           |
| 8  | Relevance            |
| 9  | Functionality        |
| 10 | Cost efficiency      |

Internal control is exercised by PJSC Gazprom's Board of Directors, Audit Committee of PJSC Gazprom's Board of Directors, PJSC Gazprom's Audit Commission, executive bodies (the Management Committee and Chairman of the Management Committee), heads of business units, and other employees of the Company.

### Internal control system



**Powers and responsibilities of bodies exercising internal control**

- The Board of Directors and the Board's Audit Committee are responsible for establishing an in-house internal control policy.
- The Audit Commission operates within the scope determined by PJSC Gazprom's Articles of Association.
- The Chairman of the Management Committee is responsible for the development and efficient operation of the internal control and risk management system by approving in-house regulations on internal controls and their implementation process at the Company's business units within relevant business segments.
- The management and employees of business units within PJSC Gazprom's relevant business segments are responsible for developing, formalising, introducing, implementing, monitoring, and improving the internal controls.
- The Department of PJSC Gazprom charged with internal audit carries out independent and objective assessments of the internal control performance using a risk-based approach and recommends improvements.

PJSC Gazprom's internal controls are broadly in line with the corporate governance principles set forth in the Russian Corporate Governance Code (Recommendations 251–262) and global approaches.

The Department charged with internal audit carries out independent and objective assessments of the internal controls.

**Internal Audit**

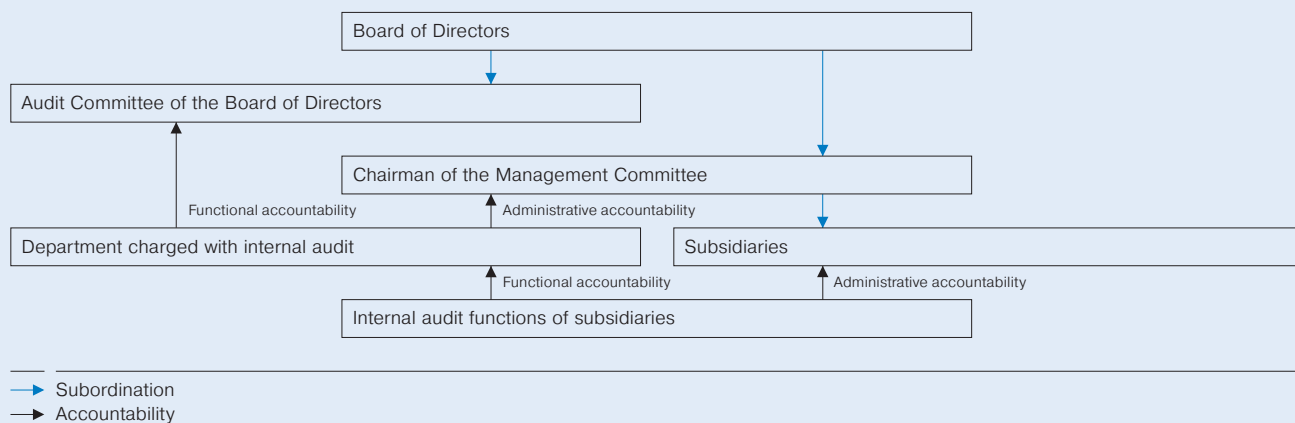
Internal audit assists in achieving PJSC Gazprom's goals through applying a holistic consistent approach to assessment and improvement of risk management, control, and corporate governance processes.

To improve the internal audit function and in accordance with Directive of the Russian Government for persons representing interests of the Russian Federation No. 3984p-P13 dated 24 June 2015, the Company developed and approved the Regulations on Internal Audit of PJSC Gazprom in 2015 (Resolution of the Board of Directors No. 2621 dated 6 November 2015).

These Regulations determine the goals, objectives, status, powers, and liability of the Department responsible for internal audits at PJSC Gazprom, as well as the scope of internal audit.

Pursuant to the Regulations, the internal audit in the Company is organised by the relevant Department, a business unit of PJSC Gazprom, and by internal audit units — in PJSC Gazprom's subsidiaries.

The key priority of the Department is to provide the Board of Directors (through the Audit Committee of the Board of Directors) and management of PJSC Gazprom with independent and unbiased assurances and advice as to the improvement of the Company's operations.

**Internal audit system**

The Department is administratively accountable to the Chairman of PJSC Gazprom's Management Committee within the Management Committee Administration and functionally accountable to the Board of Directors (through the Board of Directors' Audit Committee). Head of the Department is appointed and removed from office by the Chairman of the Company's Management Committee upon recommendation of the Deputy Chairman of the Management Committee — Head of the Administration of PJSC Gazprom's Management Committee, as approved by the Board of Directors (through the Board of Directors' Audit Committee).

The Department's organisation is coordinated with the Audit Committee and approved by the Chairman of the Management Committee. The Department consists of three Directorates.



Activities of the Department are governed by PJSC Gazprom's Regulations on Internal Audit, the Internal Auditors' Code of Ethics (approved by Resolution of the Board of Directors No. 1956 dated 14 March 2012), JSC Gazprom's Internal Audit Development Concept (approved by the Board of Directors' Audit Committee on 25 June 2015), Regulations on the Department (approved by the Board of Directors' Audit Committee and PJSC Gazprom's Order No. 419 dated 23 June 2016, as amended by Order of PJSC Gazprom No. 163 dated 22 March 2017), International Standards for the Professional Practice of Internal Auditing, and internal auditing guidelines of the Federal Agency for State Property Management.

The Department arranges and conducts internal audits of PJSC Gazprom's business units and subsidiaries in accordance with the established procedure and Russian and international best practices for internal audit. The Department conducted its 2017 audits to identify risks and assess the performance for the Company's significant business segments and processes by:

- achievement by the auditees of their objectives
- efficiency and effectiveness of operations
- protection of assets
- compliance of operations with the terms and conditions of contracts, legal requirements, and in-house regulations.

The Department's 2018 Internal Audit Plan was approved by the order of PJSC Gazprom.

Results of internal audits conducted by the Department are used to develop and submit proposals to PJSC Gazprom's management on elimination of violations, irregularities, and root causes. Based on the proposals made by the Department, the Chairman of the Management Committee gives instructions to PJSC Gazprom's business units and subsidiaries, aimed at improving PJSC Gazprom's performance. The Department monitors the execution of such instructions.

PJSC Gazprom's internal audit meets the corporate governance principles set out in the Russian Corporate Governance Code (recommendations 263–273).

In December 2015, an external assessment was carried out and the opinion was issued on the compliance of PJSC Gazprom's internal audit function with the Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing. In 2016, the Department used the assessment materials to develop and approve an Action Plan to Improve the Internal Audit at PJSC Gazprom. The Department successfully completed all activities scheduled for 2017.

The Department also has in place and implements an internal audit quality programme covering all aspects of internal audit. The internal audit function conducts annual performance assessments (self-assessments) with results reported to the Audit Committee of the Board of Directors.

## External Auditor

PJSC Gazprom selects its auditor annually by a public tender in accordance with the applicable Russian laws.

A public tender for the service contract to audit PJSC Gazprom's accounting (financial) statements, Gazprom Group's consolidated accounting statements, and Gazprom Group's consolidated IFRS financial statements for 2017 was announced on 20 February 2017.

### Bid assessment criteria for the statutory annual audit of PJSC Gazprom

- Contract price
- Quality profile of the service to be procured
- Bidder qualification assessment, including the track record of the auditor and its employees in auditing entities engaged in business similar to that of PJSC Gazprom

OOO FBK won the public tender among audit firms to conduct statutory annual audit of PJSC Gazprom and was approved as auditor by the Annual General Shareholders Meeting of PJSC Gazprom on 30 June 2017. The contract price offered by the winner was RUB 208,000,000 (exclusive of VAT) and was approved by Resolution of the Board of Directors No. 2951 dated 19 May 2017).

In 2017, OOO FBK provided other audit-related services to PJSC Gazprom outside the audit contract. In 2017, a fee of RUB 20,917,045.11 (inclusive of VAT) was paid for other audit-related services.

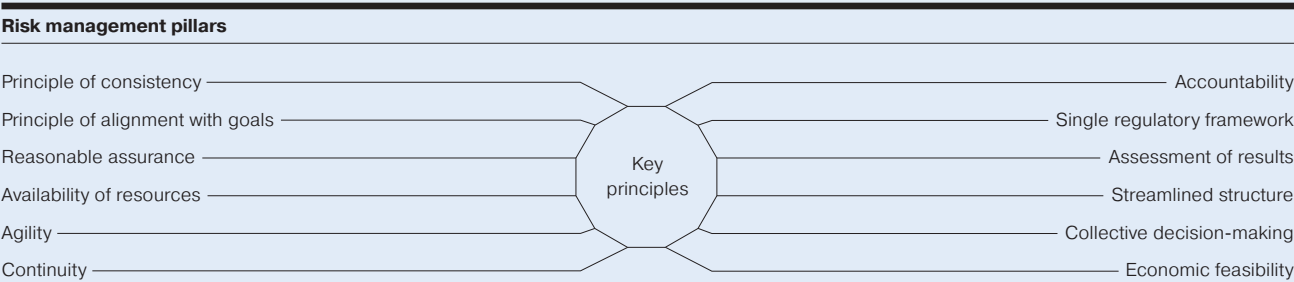
Risk Management System

Gazprom operates an effective risk management and internal control system which was also successfully launched in the Group companies in 2017.

- Key documents of PJSC Gazprom regulating risk management**
- PJSC Gazprom's Risk Management Policy (approved by Resolution of PJSC Gazprom's Board of Directors No. 2619 dated 30 October 2015)
  - Regulations on Gazprom Group's Risk Management System (approved by Resolution of PJSC Gazprom's Board of Directors No. 2628 dated 26 November 2015)

The Company acknowledges that its operations are exposed to uncertainties such as risks and implements risk management measures to provide adequate assurance that the goals set for PJSC Gazprom by its management bodies will be achieved.

The risk management system is primarily focused on consistency, alignment with goals, reasonable assurance, agility, availability of resources, continuity, collective decision-making, accountability, assessment of results, streamlined structure, single regulatory framework, economic feasibility.



PJSC Gazprom's risk management system is defined as an aggregate of the organisational structure, internal regulations, corporate culture standards, guidelines, and procedures aimed at providing adequate assurance that PJSC Gazprom's goals will be achieved, and supporting the management and employees of PJSC Gazprom's business units and subsidiaries in decision making in an uncertain environment. As an integral part of PJSC Gazprom's corporate governance system, it covers all management levels and business segments across the Company.

PJSC Gazprom's risk management complies with the framework set forth in the Russian Code of Corporate Governance.

- Key tasks of PJSC Gazprom's risk management function**
- Developing a single risk management policy
  - Coordinating risk management activities
  - Guiding the risk management process

PJSC Gazprom's business units and subsidiaries are charged with risk identification and assessment, development and implementation of risk management activities, monitoring of risks and activities.

### Risk management process



1	Creating the internal environment implies building a single risk management infrastructure, ensuring continuity of the risk management process, and developing a corporate risk management culture.	4	Each identified risk is assessed. The risk assessment may use qualitative, interval, and quantitative assessment methods.	7	Monitoring includes assessment of the current risk, risk management progress, and residual risk levels.
2	Goal-setting within the risk management system provides for determining maximum risk tolerance levels.	5	Risk response options such as aversion (avoidance), acceptance, reduction (mitigation), and redistribution (transfer) are determined to effectively manage the risk.	8	Risk management performance assessment is based on internal, external, and self-assessments.
3	Risk identification serves to reveal and report threats and risks as both internal and external events affecting the achievement of goals and completion of tasks.	6	Risk management initiatives are developed so as to obtain reasonable assurance that the residual risk does not exceed the maximum risk tolerance.	9	Risk reporting and information sharing across all management levels follow a standard procedure and approved timelines.

Development of the corporate risk management system was continued in 2017, including legal and regulatory reforms and changes in risk reporting: a unified risk classification system was approved for PJSC Gazprom and its subsidiaries and entities, owners and co-owners were appointed for main risk groups, necessary pro-forma statistical reports were developed for regular corporate reporting.

PJSC Gazprom's risk management status and focus areas were discussed in 2017 at a Board of Directors meeting which instructed PJSC Gazprom's Management Committee to further enhance the risk management system.



## Key Risk Factors

Strategic and country risks		
Risk	Description	Risk management / mitigation
Risks related to the global economy	An unfavourable economic environment can lead to a slowdown in energy demand and drive the cost of borrowed capital.	To ensure growth of revenue from energy sales PJSC Gazprom diversifies its markets and sales channels and expands the uses of natural gas. To maintain its financial stability, PJSC Gazprom optimises leverage.
European gas market risks	The EU pursues a policy of diversifying its gas supply sources and increasing the share of natural gas exchange trade, which affects PJSC Gazprom as one of the main suppliers of natural gas to the EU countries.	PJSC Gazprom ensures reliable and flexible gas supplies through long-term contracts. Additionally, to minimise the risk of lower supply levels a set of initiatives continues to be implemented to both build new infrastructure and bolster demand for natural gas, as well as strengthen PJSC Gazprom's position in the sectors with a potential for extra supplies.
Political risk	Starting from 2014, Russia is under sanctions imposed by the EU, the United States, and other countries.	PJSC Gazprom pursues a policy of ensuring technological independence and import substitution to reduce the impact the economic restrictions imposed/reintroduced against Russia have on the Company.
Natural gas transit risks	Gas transmission via third countries is associated with the risk of the counterparties defaulting on their transit obligations, which exposes Gazprom Group to the risk of improper performance of its obligations under gas supply contracts.	A number of measures are taken to reduce the reliance on transit countries, including diversification of export routes, expanding access to UGSFs abroad, and development of LNG trade.
Russian regulatory risks for the gas industry	PJSC Gazprom's operations as a natural monopoly are regulated by Federal Law No. 147-FZ On Natural Monopolies dated 17 August 1995. The Government holds an interest of over 50% in the equity of PJSC Gazprom.	PJSC Gazprom is consistently engaged in intensive dialogue with government authorities to improve the pricing policy and taxation of companies in the gas industry; objective supporting cases are prepared to inform decision making by PJSC Gazprom's Board of Directors.
Unconventional gas development risks	Unconventional gas production has been growing since mid-2000's, primarily from shale deposits in the US. Shale gas appeals mostly to countries with limited conventional gas reserves and resources; however, the risk that these countries will reduce gas imports in the mid-term is still assessed as insignificant.	PJSC Gazprom continuously monitors the evolution of the shale gas industry and developments in other unconventional hydrocarbons industries around the world. The monitoring results, including the economics of unconventional gas production and its potential as a competition to PJSC Gazprom in its existing or prospective markets, are reviewed by PJSC Gazprom's management bodies on a regular basis, which enables PJSC Gazprom to build an effective region-specific marketing policy.
Renewable energy risks	Renewable energy output can be expected to grow in some countries, which may squeeze gas consumption in these markets.	The use of natural gas, inter alia, for power generation offers consumers economic, technological, and environmental benefits, which, PJSC Gazprom believes, will support natural gas as the most common energy source. In most cases, renewable power generation supplements power generation from other sources and may entail certain risks for the natural gas market if aggressive policies of subsidising renewable energy are maintained at national and/or supranational levels.

<b>Customs, currency, and tax regulation risks</b>		
<b>Risk</b>	<b>Description</b>	<b>Risk management / mitigation</b>
Risk of changes in the Russian currency regulation and tax legislation	Currency regulation and tax legislation risks persist, along with the risk of a heavier tax burden on companies operating in the fuel and energy sector. Changes in the Russian currency regulation and tax legislation, as well as tax legislation changes in the countries in which Gazprom Group has a presence may affect the operations of PJSC Gazprom and Gazprom Group's entities.	Changes in currency and tax laws are consistently monitored, and relevant requirements are strictly complied with. PJSC Gazprom liaises with government authorities to ensure timely adjustment of its operations in line with changes in Russian and international laws.
Risks related to changes in Russian rules on customs control and duties	Customs authorities may introduce additional customs requirements if the rules of customs control and export duty payment are amended.	PJSC Gazprom complies with the requirements of customs laws, tracking proposed amendments to regulations at the earlier drafting stages, and submits its proposals while communicating with government authorities.
<b>Financial risks</b>		
<b>Risk</b>	<b>Description</b>	<b>Risk management / mitigation</b>
Foreign exchange and interest rate risks	High exchange rate volatility coupled with income and expenses denominated in different currencies affect PJSC Gazprom's performance.	To minimise losses from exchange rate volatility, the Company hedges its foreign exchange and interest rate risks. In addition, the Company complies with the Bank of Russia's instructions on the ratio assets and liabilities denominated in foreign currency and accounts for the foreign exchange risk using earnings at risk (EaR) assessment.
Credit and liquidity risks	Delayed or incomplete discharge of contractual obligations by some counterparties entails risks for PJSC Gazprom's operations.	Relations with credit institutions are subject to credit risk limits revised on a regular basis and reflecting, inter alia, the credit rating calculated by PJSC Gazprom and its subsidiaries. Performance of contractual obligations is monitored.
<b>Market risks</b>		
<b>Risk</b>	<b>Description</b>	<b>Risk management / mitigation</b>
Market risks	If oil prices and gas exchange quotations drop, resulting risks may lead to a decline in revenues. There are also volume risks associated with a certain flexibility that buyers have in terms of gas offtake.	These risks are managed by adjusting contract terms and conditions, determining approved types of transactions and financial instruments and counterparties to enter into such transactions.

PJSC Gazprom's operating risks		
Risk	Description	Risk management / mitigation
Risks of early termination and suspension of subsoil licences	Non-compliance with the licence agreements exposes PJSC Gazprom to risks of early termination or suspension of subsoil licences for the survey, exploration, and production of hydrocarbons.	Regular monitoring, control of compliance with licence requirements, and timely amendment of licence agreements minimise the likelihood of licence revocation and suspension.
Risks related to occupational health and industrial safety	PJSC Gazprom's sustainability and performance depend on the efficiency of its occupational health and industrial safety practices.	The Company has in place a Unified Occupational Health and Safety Management System integrated into PJSC Gazprom's management system.
Cost risks	Increased prices for equipment, technical devices, spare parts, as well as works and services, which form the actual cost of capital construction projects, constitute one of the most significant investment risks.	<p>Competitive procurement, whereby the suppliers offering goods of adequate quality and submitting the lowest price bids are selected, helps cut the costs of procurement and sourcing of feedstock, materials, spare parts, works, and services.</p> <p>To control the cost of procurement from a sole supplier (contractor, service provider), Gazprom Group's Central Procurement Office and PJSC Gazprom's Budget Committee review the pricing procedure and fairness of prices of contracts (with changes and amendments) to be signed by Gazprom Group based on customer estimates, optimise such prices, establish price limits (additional agreements), and match the prices of the signed contracts (additional agreements) against the set prices.</p>
Facilities risks	The key operations, including hydrocarbon production, transportation, processing/refining, and storage, carry process and engineering, natural and climatic risks, as well as risks of adverse actions by personnel or third parties.	The Unified Gas Supply System (UGSS) ensures reliable gas supplies. Stable operation of the system is achieved by implementing advanced and innovative diagnostic methods, carrying out timely overhaul and maintenance, revamping and upgrading existing facilities. Insurance coverage is provided to protect subsidiaries' property interests, which includes property insurance (including offshore facilities), business interruption insurance for GPPs, and liability insurance for construction, repair, and operation of production facilities.
Hydrocarbon reserve estimation risks	PJSC Gazprom's strategic and financial goals depend on hydrocarbon reserves and the accuracy of reserve estimates.	Independent reserve estimation procedures have been developed and are implemented in accordance with the Petroleum Resources Management System (PRMS) standards. The Company's reserves estimated under Russian reserves classification standards are recorded in its books only after the annual review and approval by the State Reserves Commission of the Russian Ministry of Natural Resources.
Environmental risks	The key operations, including hydrocarbon production, transportation, refining/processing, and storage, carry environmental risks (risks of environmental pollution, non-compliance with environmental regulations) that may lead to legal, financial, and reputational implications.	<p>PJSC Gazprom implements a unified Environmental Policy, programmes, and initiatives to reduce its environmental footprint, takes out voluntary environmental liability insurance, introduces best available innovative technology for mitigating the environmental impact.</p> <p>PJSC Gazprom has developed and operates an efficient environmental management system combining environmental controls of both the Company and its subsidiaries. PJSC Gazprom's EMS successfully passed a recertification audit in December 2017 for ISO 14001:2015.</p> <p>Efforts taken by PJSC Gazprom help maintain high levels of environmental risk manageability.</p>



## Documents regulating procurement procedures at PJSC Gazprom and its subsidiaries

- Federal Law No. 223-FZ On Procurement of Goods, Works, and Services by Certain Types of Legal Entities dated 18 July 2011
- Regulations on the Procurement of Goods, Works, and Services by PJSC Gazprom and Gazprom Group Companies approved by Resolution of JSC Gazprom's Board of Directors No. 1969 dated 19 April 2012 (with further amendments)

PJSC Gazprom and its subsidiaries run an effective vertically integrated procurement system which relies on open information, transparency, equal rights, promotion of fair competition, and wider and simpler contractor access to procurement to maximise value for-money, timely and full supply of goods, works or services with the price, quality, and reliability required for safe operation of hazardous facilities.

The system is a part of PJSC Gazprom's in-house tool providing for end-to-end (from drafting capex programmes and budgets to monitoring contract execution) cost management within a single separate centre (business unit).

## PJSC Gazprom's cost-cutting tools

- Detailed breakdown, cost benchmarking (breakdown and benchmarking by type of cost, comparing by year and region, determining unit costs)
- Process optimisation (expenditure proposal and prioritisation within budget limits)
- Improving the process efficiency (standard costing based on historical benchmarks, assessing the fairness of prices offered during the procurement process vs unit costs)

**The share of online procurement in the total value of competitive procurement by PJSC Gazprom and its subsidiaries exceeded 98.7% in 2017.**

The procurement procedures are public, transparent, standardised, and straightforward to the maximum possible extent. Procurement rules (the Regulations on Procurement) are available in the Unified Information System (UIS) of public procurement of goods, works, and services for state and municipal needs ([www.zakupki.gov.ru](http://www.zakupki.gov.ru)) (Unified Information System) and on PJSC Gazprom's website ([www.gazprom.ru](http://www.gazprom.ru)). Information on procurement, including procurement plans, notices, minutes, details of the number and total price of contracts signed as a result of procurement procedures, including procurement from small and medium-sized enterprises (SMEs), information on signed contracts and their execution are published in the UIS and made available to the general public.

In its procurement procedures, PJSC Gazprom uses the proprietary Automated Electronic Procurement System (AEPS) covering the entire procurement cycle from planning to signing a contract. Gazprom Group's competitive procurement is arranged online (with some exceptions) through the Electronic Trading Platform of Gazprombank (ETP-GPB) (Gazprom Group Procurement section) integrated with the UIS and the AEPS.

In 2017, PJSC Gazprom and its subsidiaries awarded over 15,000 contracts worth RUB 427.9 bn through a competitive procurement process. The consequent savings (the difference between the initial (maximum) and final contract prices including the cost of the preliminary cost analysis and procurement process) made up RUB 20.3 bn.

## Initial price optimisation tools

### Before RFP

- Standard costing
- Actual contract prices
- Consolidated unit costs
- Market situation review

### Bidding

- Extending the proposal submission period to involve more bidders
- Bargaining on price bids

For non-competitive procurement, Gazprom Group's Central Procurement Office (PJSC Gazprom's Department) and PJSC Gazprom's Budget Committee analyse the pricing procedure and price rationale of contracts (as amended and supplemented) to be signed by the Company, its subsidiaries, and other Gazprom Group entities, based on contract prices (cost of goods, works, or services) estimated by owners, including for compliance with the terms and conditions of the contracts to be signed. The analysis reveals the potential to reduce prices by an average of 10%–15%. In 2017, PJSC Gazprom's Budget Committee identified the potential to reduce prices for 1,390 draft contracts (with aggregate initial price of RUB 541 bn) by a total of RUB 80.6 bn (14.9% of the aggregate initial price).

Open pre-qualification is made part of PJSC Gazprom's procurement to compile a Register of Gazprom Group's potential bidders. As at 1 February 2018, PJSC Gazprom announced 72 different pre-qualifications on its website, applied for by 2,056 entities, including 488 SMEs (23.7% of the total number). As part of the pre-qualification process, Gazprom Group's Central Procurement Office (PJSC Gazprom's Corporate Cost Management Department) monitors these entities on a quarterly basis to assess:

- current projects (volumes)
- availability of capacity to freely operate (utilisation rate)
- instances of deadline violation, change of price, lower quality of work, negative references
- bidding at and winning Gazprom Group's tenders.

Pre-qualified entities are included in the Register of Gazprom Group's potential bidders. As at 1 February 2018, the Register included 451 entities duly qualified to perform certain operations, including 179 SMEs (39.7%).

#### Activities of SMEs included in the Register of Gazprom Group's potential bidders

Activity	Number of SMEs
Maintenance and repair of motor vehicles and road construction machines	38
Cadastral surveys and land use planning	29
Road transport services	20
Physical examination services	19
Onshore engineering surveys	16
Other	57
Total	179

#### Enhancing access for small and medium-sized enterprises (SMEs) to PJSC Gazprom's procurement opportunities

Pursuant to resolutions issued by the Russian Government, PJSC Gazprom implements a number of activities to enhance SMEs' access to the procurement process of PJSC Gazprom.

- 1 PJSC Gazprom involves innovative SMEs under its Innovative Development Programme until 2025.
  - PJSC Gazprom runs the Pilot SME Partnership Programme as part of which it has developed an SME Partner Register updated on PJSC Gazprom's official website
  - The Company operates a One-Stop System to roll out innovative SME products ([www.oknogazprom.ru](http://www.oknogazprom.ru)), managing the whole process of submitting innovative proposals to be used in PJSC Gazprom's operations, from submission to the final decision
  - Workshops are held on PJSC Gazprom's relations with innovative SME providers
- 2 The procurement process streamlining is maximised.
  - The procurement procedures went online via the Electronic Trading Platform of Gazprombank (ETP-GPB) and PJSC Gazprom's Automated Electronic Procurement System
  - The process is using a request for proposals (RFP) form which contains the minimum required list of documents to simplify the involvement of SMEs
  - No bid bond is required for SMEs under procurement items to which they are eligible
- 3 A List of Goods, Works, and Services to be procured by PJSC Gazprom from SMEs was developed, approved, and published in the UIS.
- 4 PJSC Gazprom's Procurement Plan designates procurement opportunities accessible exclusively to SMEs.
- 5 Draft plans for procurement by PJSC Gazprom and individual Gazprom Group's companies, of goods, works, and services (including innovative and hi-tech products) set forth by Russian Government Decree No. 2258-r dated 6 November 2015 are duly agreed with Russian Small and Medium Business Corporation to ensure compliance with the applicable Russian laws providing for involvement of SMEs in procurement, including allocation of the SME quota in the procurement plan.

### Enhancing access for small and medium-sized enterprises (SMEs) to PJSC Gazprom's procurement opportunities (continued)

In 2017, PJSC Gazprom's procurements from SMEs determined pursuant to Resolution of the Russian Government No. 1352 dated 11 December 2014 On Specifics of Participation of Small and Medium-Sized Enterprises in the Procurement of Goods, Works, and Services by Certain Types of Legal Entities (including the amounts paid) accounted for 20% of the aggregate annual contract values, including 12.2% from procurements accessible exclusively to SMEs.

PJSC Gazprom fully complied with the requirements for 2017 SME procurement targets set forth by the Russian Government's Resolution No. 1352 (not less than 18% of the aggregate annual value of contracts concluded by customers as a result of the procurement process, including the amounts paid), and the aggregate annual value of contracts concluded by customers with SMEs as a result of the procurement process performed in accordance with sub-paragraph b, paragraph 4 of the Regulations approved by the Russian Government's Resolution No. 1352 (not less than 10% of the aggregate annual value of contracts concluded by customers as a result of the procurement process, including the amounts paid).

SMEs accounted for over a half (12,672, or 59%) of the total number of Gazprom Group's suppliers of goods, works, and services contracted in 2017.

Gazprom's Pilot SME Partnership Programme is available on PJSC Gazprom's official website (information is available in Russian only)

→ [www.gazprom.ru](http://www.gazprom.ru)



PJSC Gazprom's 2017 annual report on procurement of goods, works, and services by certain types of legal entities from SMEs is available in the UIS

and on PJSC Gazprom's official website (information is available in Russian only)

→ [www.gazprom.ru](http://www.gazprom.ru)



Since the procurement aims at ensuring the continuous operation of Gazprom Group, the ultimate metric and high performance indicator for the current procurement system is PJSC Gazprom's performance in terms of gas supply reliability, capacity additions in Russia and abroad, and success of investment projects and programmes, i.e. contribution to national energy security.



# Ensuring Compliance of Operations with the Laws on Anti-Corruption Practices, Countering the Unlawful Use of Insider Information and Market Manipulation

PJSC Gazprom's internal control is charged with monitoring legal compliance.

The Company has a special focus on compliance with anti-corruption regulations and countering the unlawful use of insider information and market manipulation.

For details on PJSC Gazprom's internal controls see the Internal Control and Audit section; for details on the risk management see the Risk Management section  
→ Pages 202–204, 205–206

## PJSC Gazprom's key in-house regulations countering bad faith and unlawful conduct

In-house regulation	Description
Regulations on the Procurement of Goods, Works, and Services by PJSC Gazprom and Gazprom Group Companies approved by Resolution of JSC Gazprom's Board of Directors No. 1969 dated 19 April 2012 (as amended)	The Regulations set common rules and procedures for procurement of goods, works, and services, which help achieve the target price, quality, and reliability, transparency sufficient for potential counterparties, the Government, and the public, as well as equality, fairness, non-discrimination, no unreasonable and restrictive business practices towards bidders, targeted and cost-efficient spending on purchasing goods, works, and services
The Regulations of JSC Gazprom on Control of Compliance with the Laws on Countering the Unlawful Use of Insider Information and Market Manipulation approved by Resolution of JSC Gazprom's Board of Directors No. 2118 dated 25 January 2013	The Regulations set the framework for monitoring the compliance of PJSC Gazprom with the laws on countering the unlawful use of insider information and market manipulation
Instruction of the Chairman of the Management Committee Alexey Miller in pursuance of Instruction of the Russian Prime Minister No. VP-P13-9308 dated 28 December 2011 on disclosure by contracted counterparties of their ownership chain, including beneficiaries and ultimate beneficiaries, supported with relevant documentary evidence	In pursuance of the instruction, a range of necessary measures are taken by PJSC Gazprom, its subsidiaries, and branches on a regular basis
JSC Gazprom's Order No. 423 On Approval of the Regulations on the Hotline for Fighting Fraud, Corruption, and Embezzlement at Gazprom Group, dated 4 September 2014	The document provides for the establishment of a hotline, a set of organizational measures and technical means enabling employees and other individuals to report on signs or cases of fraud and corruption, conflicts of interest among employees and contractors, embezzlement and misuse of property or assets, as well as on poor goods, works, and services procurement practices
The new version of the Company's Corporate Code of Ethics approved by Resolution of the Board of Directors No. 2309 dated 25 February 2014 (as amended)	The Code formalises PJSC Gazprom's corporate values, determines the fundamental business conduct rules stemming from such values, which are adopted at PJSC Gazprom and mandatory for its executives, employees, and legal entities controlled by PJSC Gazprom, while being non-binding for individuals working under service contracts with PJSC Gazprom, as well as for contractors and advisers acting as designated agents for, and on behalf of, PJSC Gazprom before third parties.

## Anti-Corruption Efforts

PJSC Gazprom has procedures in place to ensure compliance with anti-corruption laws.

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### External assessment of PJSC Gazprom's anti-corruption prohibitions, restrictions, and requirements (carried out pursuant to paragraph 5 of the National Anti-Corruption Plan for 2016–2017 approved by Presidential Decree No. 147 dated 1 April 2016)

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In 2017, the Company's measures to counter corruption and foster negative sentiment towards corruption among the Company's employees and subsidiaries received a positive opinion from Business Against Corruption Centre for Public Procedures autonomous non-profit organisation, an expert platform under the Presidential Commissioner for Entrepreneurs' Rights. The expert opinion also concluded that PJSC Gazprom had a healthy environment to counter and prevent corruption, as well as foster zero-tolerance sentiment for corrupt practices.

PJSC Gazprom's management is consistently focused on improving its procedures for preventing and revealing corrupt practices in Gazprom Group. PJSC Gazprom's Board of Directors reviews the progress on preventing and countering corruption on an annual basis.

## Compliance with Corporate Ethics

PJSC Gazprom has adopted its Corporate Code of Ethics developed with due account for Russian and international corporate governance best practices. The Company's Corporate Code of Ethics provides for corporate values and determines the fundamental rules of business conduct stemming from such values, which rule out any conflicts of interest or corrupt practices, as well as cases of nepotism, with relatives directly or indirectly reporting to each other. Most of the Company's subsidiaries have developed and adopted similar documents based on the Code.

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### Restrictions imposed by PJSC Gazprom's Corporate Code of Ethics to prevent, eliminate or mitigate the negative effects of conflicts of interest

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- Restrictions related to relatives working together
- Restrictions related to employee engagement with the Company's competitors and serving on government elected bodies
- Restrictions related to acceptance of gifts
- Restrictions related to the personal use of the Company's property, and other restrictions

The Code specifies the procedure to be followed by the Company's employees in the event of a conflict of interest, declares zero tolerance for corrupt conduct, affirms environmental responsibility and non-discriminatory principles, establishes implementation and supervision practices on compliance with corporate ethics standards.

The Code's provisions are mandatory for PJSC Gazprom's employees (including all members of the Management Committee and the Board of Directors who are PJSC Gazprom's employees) and the Company-controlled corporate entities. The Code's provisions are not mandatory for employees of PJSC Gazprom's affiliates which are not under the Company's control, and employees of PJSC Gazprom's counterparties.

PJSC Gazprom's management, including members of the Management Committee and the Board of Directors, who are PJSC Gazprom's employees, signed up to PJSC Gazprom's Corporate Code of Ethics.

The permanent Corporate Ethics Commission of PJSC Gazprom is responsible for supervising compliance with the Code's requirements and provisions.

The Commission reviews reports on an ongoing basis as required by the applicable Russian laws. In some cases, reports so received are forwarded to PJSC Gazprom's subsidiaries to be reviewed on the merits by the respective subsidiary's corporate ethics commission. The results of such reviews are communicated to Commission members. In 2017, the Commission received no reports on any conflict of interest of members of the Board of Directors of PJSC Gazprom, members of the Management Committee of PJSC Gazprom, and/or the Chairman of PJSC Gazprom's Management Committee.

The Commission's performance is reported to the Chairman of PJSC Gazprom's Management Committee on an annual basis.

PJSC Gazprom and its subsidiaries organise awareness days to communicate to their employees the effective rules of business, including anti-corruption corporate ethics. Subsidiaries gather and consolidate information on efforts made to comply with requirements and restrictions established by corporate codes of ethics with respect to entertainment expenses, business gift expenses, charity, and other activities involving corporate risk exposure.

## Preventing and Revealing Corrupt Practices

PJSC Gazprom's Corporate Security Service and corporate security departments of the Company's subsidiaries prevent and reveal corrupt practices as prescribed by Russian laws and regulations of PJSC Gazprom. This work relies on an ongoing cooperation with departments responsible for internal audit, corporate cost management, asset management and corporate relations, and with law enforcement agencies of the Russian Federation.

Since November 2014, PJSC Gazprom has operated a Hotline to report incidents of perceived fraud, corruption, and embezzlement in Gazprom Group. Reports received through the Hotline are thoroughly investigated and analysed. Similar arrangements are in place at several PJSC Gazprom's key subsidiaries.

Hotline contact information is available on PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



Reports can also be sent to the email address specified in PJSC Gazprom's Corporate Code of Ethics and through the feedback form for potential bidders in the Tenders section of PJSC Gazprom's official website.

Feedback form for potential bidders is available in the Tenders section of PJSC Gazprom's website (information is available in Russian only)  
→ [www.gazprom.ru](http://www.gazprom.ru)



The Company has a framework for preventing and avoiding bad procurement practices. Anti-corruption clauses of procurement contracts provide for disclosing counterparties' ultimate beneficiaries.

## Anti-corruption framework for preventing and avoiding bad procurement practices

- Procurement rules, practices, methods, and procedures are set out in the Regulations on Procurement and are mandatory for PJSC Gazprom and Gazprom Group companies
- Procurement details are published in the UIS and made available to the general public
- With limited exceptions, competitive procurement is arranged online, the procurement procedures are transparent, standardised, straightforward, and public to the maximum possible extent
- For procurements from a sole supplier (contractor, service provider), the procurement initiator, the Customer's business unit, states the grounds for such procurement as described in paragraph 16.1 of the Regulations on Procurement, which details cases when the Customer has the right to procure from a sole supplier
- A dedicated collegial body, the Tender Committee, is established to summarise the competitive bidding results. Gazprom Group closely monitors the membership of the Committee to avoid any conflict of interest. Pursuant to the Provisions on Procurement, no individual who has vested interests in the procurement process results may be a member of the Committee, including bidders' employees or management. Such members of the Committee shall withdraw and abstain from voting on the matter. The Committee's decisions are guided by the principles of fair, equal, and objective treatment of the bidders and based on the bid assessment criteria set out in the tender documentation
- In order to protect the rights of bidders to challenge the actions of the customer (organiser) pursuant to Federal Law No. 223-FZ, the Provisions on Procurement provide for a 10-day period during which no contract may be awarded following a tender
- Bidders have the right and opportunity to propose to PJSC Gazprom (including anonymously) improvements to bidding procedures, comments and complaints regarding actions/omission of customers, organisers, and/or their officers, inform about unreasonable requirements to procurement items, suppliers (service providers), deadlines, and terms of delivery of goods (performing work, rendering services) in the tender documentation, as well as about other unreasonable restrictions of competition during the procurement process. The feedback form for potential bidders is available in the Tenders section of PJSC Gazprom's official website

Corporate security departments of the Company's subsidiaries send quarterly reports on corruption prevention progress and revealed cases of possible corrupt practices to PJSC Gazprom's Corporate Security Service and inform the Service of decisions made following the investigation of such cases.



Regular anti-corruption workshops are held at Gazprom Corporate Institute Private Professional Education Institution as part of Gazprom Group's employee career enhancement efforts and are included in the Institute's lecture courses.

The Anti-Corruption Policy of PJSC Gazprom was approved by Resolution of the Board of Directors No. 2816 dated 15 November 2016. The document was developed as part of the risk management and internal control system and seeks to shape rules and procedures to deter corruption. It laid the foundation for further anti-corruption focus areas.

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The Anti-Corruption Policy of PJSC Gazprom is available on PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



To enhance its anti-corruption standards, Gazprom Group set up appropriate procedures in accordance with the applicable Russian laws and PJSC Gazprom's in-house regulations, which:

- inform on the emergence and resolution of a conflict of interest
- report offences with signs of corruption committed by employees, counterparties or third parties, which have become known to an employee, and introduce a procedure for dealing with allegations of corruption
- report cases when an employee is incited to commit offences and introduce a procedure for reviewing such reports
- protect whistle blowers who have reported offences relevant to operations of PJSC Gazprom.

PJSC Gazprom has developed and adheres to the anti-corruption framework, while effective in-house regulations adopted as part of anti-corruption measures help foster negative sentiment towards corrupt conduct, prevent or resolve conflicts of interest, and prevent unlawful behaviour.

## **Countering the Unlawful Use of Insider Information and Market Manipulation**

PJSC Gazprom counters the unlawful use of insider information in compliance with Federal Law No. 224-FZ On Countering the Unlawful Use of Insider Information and Market Manipulation and on Amending Certain Laws of the Russian Federation dated 27 July 2010.

PJSC Gazprom has in place the rules regulating access to its insider information and protection of confidentiality of such information, a business unit responsible for compliance with insider laws and regulations applicable to PJSC Gazprom has been determined. The Regulations of JSC Gazprom on Control of Compliance with the Laws on Countering the Unlawful Use of Insider Information and Market Manipulation were approved by Resolution of the Board of Directors of JSC Gazprom No. 2118 dated 25 January 2013 to determine the framework of monitoring the compliance of PJSC Gazprom with the relevant laws.

As part of its duties, the business unit responsible for compliance with insider laws and regulations applicable to PJSC Gazprom: monitors changes in the legislation on countering the unlawful use of insider information; updates the Company's in-house regulations and the anti-corruption section of the official website; informs insiders, including PJSC Gazprom's employees, of the applicable legal requirements on a regular basis; updates insider lists, and communicates with regulators such as the Bank of Russia and exchanges.

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The List of Insider Information of PJSC Gazprom is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



Gazprom fully meets its commitments to security holders, maintains strong relationships with Russian and foreign investors, and continues to improve its informational transparency.

## Shareholding Structure

PJSC Gazprom's charter capital is RUB 118,367,564,500 divided into 23,673,512,900 ordinary shares with a par value of RUB 5 each. State registration number of the issue is 1-02-00028-A. The state registration date is 30 December 1998. The Company has no preferred shares.

PJSC Gazprom's shareholding structure, %		
	As at 31 December 2016	As at 31 December 2017
The Russian Federation represented by the Federal Agency for State Property Management	38.37	38.37
AO ROSNEFTEGAZ*	10.97	10.97
AO Rosgazifikatsiya*	0.89	0.89
ADR holders**	26.86	25.20
Other registered holders	22.91	24.57

\* As at 31 December 2016 and 31 December 2017, the cumulative share in PJSC Gazprom directly or indirectly controlled by the Russian Federation and calculated by direct addition totals 50.23% and is owned through the full ownership of AO ROSNEFTEGAZ which also holds a 74.55% stake in AO Rosgazifikatsiya.

\*\* The Bank of New York Mellon issued ADRs on PJSC Gazprom shares.

The Memorandum of Intent of the Russian Federation as Major Shareholder of PJSC Gazprom regarding PJSC Gazprom shares is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



As major shareholder of PJSC Gazprom, the Russian Government holds a more than 50% controlling stake (including direct and indirect ownership) in PJSC Gazprom. The Russian Federation does not have a special right to manage PJSC Gazprom's affairs (a "golden share").

## Information on PJSC Gazprom shares owned by PJSC Gazprom and its subsidiaries

As at 31 December 2017, there were no PJSC Gazprom shares the title to which was transferred to the Company. At the same time, as at the said date, PJSC Gazprom's subsidiaries held 1,573 million ordinary shares of the Company, or 6.6% of the total number of ordinary shares of PJSC Gazprom.

As at 31 December 2017, depositary receipts were issued for 5,967 million ordinary shares of PJSC Gazprom, or 25.2% of PJSC Gazprom's equity.

## Stock Market and Capitalisation

PJSC Gazprom shares were included in the first (top) level quotation list of the Moscow Exchange and PAO Saint Petersburg Exchange.

In October 1996, the Company listed depositary receipts on the London Stock Exchange (LSE). The ADRs certifying the rights to PJSC Gazprom ordinary shares under foreign law were issued by The Bank of New York Mellon as depositary bank. An ADR stands for two PJSC Gazprom shares. ADRs on PJSC Gazprom shares are traded on the London, Berlin, and Frankfurt exchanges, the Moscow Exchange, the US OTC market, and on the Singapore OTC market among qualified institutional buyers (QIBs). The LSE accounts for the bulk of trade in PJSC Gazprom ADRs. PJSC Gazprom explores opportunities to expand on Asia Pacific exchanges.

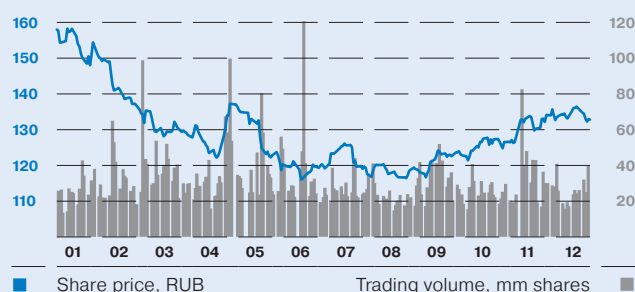
In 2017, PJSC Gazprom's market capitalisation decreased by 15.6% year-on-year in ruble equivalent; as at 31 December 2017, its capitalisation stood at RUB 3.1 tn, the equivalent of USD 53.4 bn. The total shareholder return was -0.102 in 2017, due to a decline in the market value of the Company shares.

PJSC Gazprom shares are on the list of underlying securities for stock indices, including MSCI Russia, MSCI Emerging Markets, FTSE Russia IOB, STOXX All Europe 100, as well as indices of leading Russian stock exchanges.

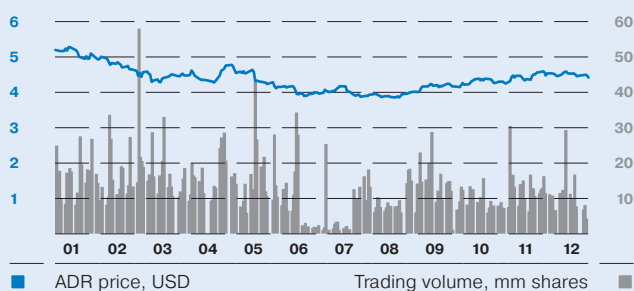
### Main indices of Russian exchanges which include the stock of PJSC Gazprom

Index	PJSC Gazprom's share index weight as at 31 December 2017
MOEX Russia Index	14,69
RTS Index	14,69
MICEX Oil and Gas Index	14,59

### PJSC Gazprom ordinary share price performance and daily trading volumes on the Moscow Exchange in 2017



### PJSC Gazprom ADR price performance and daily trading volumes on the LSE in 2017



### PJSC Gazprom's market capitalisation in 2017, USD bn



**Note.** Market capitalisation is calculated as the daily rouble-denominated closing price on the Moscow Exchange at the US dollar exchange rate of the Central Bank of Russia as at the respective date, multiplied by the total number of PJSC Gazprom shares issued.

## Dividend Policy

In developing its recommendations for PJSC Gazprom's General Shareholders Meeting on profit distribution, including dividend payouts, the Board of Directors seeks to ensure high financial stability of PJSC Gazprom and the implementation of its long-term development strategy, as well as protect the rights of, and increase returns for, shareholders of PJSC Gazprom both through dividend payouts and increased market capitalisation of the Company.

The Company's full dividend history is available on PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)





**PJSC Gazprom's dividend history in 2008–2017**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Dividend per share, RUB	0.36	2.39	3.85	8.97	5.99	7.20	7.20	7.89	8.0397	8.04
Dividend payout ratio, share of PJSC Gazprom's net profit under RAS (parent company), %	5	9	25	24	25	27	90	46	46	190
Dividend payout ratio, share of Gazprom Group's IFRS profit attributable to the owners of PJSC Gazprom, %	1	7	9	16	12	15	107	24	20	27
PJSC Gazprom's dividend yield, %**	0.3	1.3	2.0	5.2	4.2	5.2	5.5	5.8	5.2	6.2

\* Recommended dividend shown for 2017.

\*\* Dividend yield for the relevant period is calculated as a ratio of total dividend paid per share for the relevant year to the share price as at 31 December.

**PJSC Gazprom's dividends paid in 2017 for 2016 as at 31 December 2017**

	Accrued, RUB thousand	Paid, RUB thousand	Unpaid, RUB thousand*	Unpaid to accrued, %
Total	190,327,942	189,948,536	379,406	0.20
including dividends on shares:				
held by the Russian Federation represented by the Federal Agency for State Property Management	73,035,261	73,035,261	–	–
held by individuals and corporate entities whose rights to shares are accounted for in the register	27,108,579	26,910,213	198,366	0.73
held by individuals and corporate entities whose rights to shares are accounted for by the depositary maintaining a nominee holder account in the issuer's register**	90,183,954	90,003,062	180,892	0.20
held by unidentified persons	148	–	148	100.00

\* No dividend payouts were made to individuals or corporate entities who had failed to provide clear payout details as per clauses 8 and 9 of Article 42 of Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995. Dividends accrued on shares held by unidentified persons are paid out as soon as the title to securities is established.

\*\* PJSC Gazprom paid RUB 90,183,954 thousand in dividends to nominee holders on 3 August 2017 in execution of the Annual General Shareholders Meeting resolutions on dividend payouts based on PJSC Gazprom's 2016 results, which was held on 30 June 2017. As at 31 December 2017, the amount of dividends nominee holders failed to transfer as prescribed by the securities laws of the Russian Federation for reasons beyond their control (clause 8 and clause 9, Article 42 of Federal Law No. 208-FZ dated 26 December 1995) totalled RUB 180,892 thousand.

**PJSC Gazprom's dividends paid in 2017 for 2013–2015, RUB thousand**

Shareholder category	Unpaid as at 1 January 2017	Paid in 2017	Reinstated in 2017 as retained earnings upon expiry of the limitation period	Unpaid as at 31 December 2017
Corporate entities*	3,755	–	1,133	2,622
Individuals*	534,908	23,932	166,632	344,344
Nominee holders**	362,081	89,522	70,237	202,322
Holders unidentified as at the time of accrual***	303	–	86	217
Total	901,047	113,454	238,088	549,505

\* No dividend payouts were made to individuals or corporate entities who had failed to provide clear and required payout details as per Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995.

\*\* The nominee holders who failed to transfer dividends as prescribed by the securities laws of the Russian Federation for reasons beyond their control (clause 8 and clause 9, Article 42 of Federal Law No. 208-FZ dated 26 December 1995).

\*\*\* Dividends accrued on shares held by unidentified persons are paid out as soon as the title to securities is established.

PJSC Gazprom will strive to maintain its rouble-denominated dividends at least at the same rate as already achieved. For 2017, PJSC Gazprom's Board of Directors recommended distribute RUB 190.3 bn in dividends, or RUB 8.04 per share. As PJSC Gazprom's net profit of RUB 100.3 bn reported under RAS in 2017 is insufficient for paying out the recommended dividend, the retained earnings of past years will be used as an additional source of dividend payouts.

Therefore, dividends on PJSC Gazprom shares recommended for distribution for 2017 amount to 27% of Gazprom Group's IFRS profit for the year attributable to the owners of PJSC Gazprom.

## Credit Ratings

Credit ratings assigned to PJSC Gazprom by the rating agencies Standard & Poor's and Fitch are comparable with sovereign foreign currency ratings of the Russian Federation, while Moody's rating is one notch above the sovereign rating.

In 2017, there were no changes in the Company's international credit ratings assigned by Standard & Poor's, Moody's, and Fitch. Fitch Ratings revised their outlook for PJSC Gazprom's credit rating upwards, from stable to positive, in September 2017. Standard & Poor's and Moody's upgraded the Company's foreign currency ratings to BBB- and Baa3, respectively, in early 2018.

For more details on PJSC Gazprom's credit ratings see PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



### Credit ratings of PJSC Gazprom

Rating agency	Long-term foreign currency rating	Rating date
Standard & Poor's	BBB- (stable outlook)	27 February 2018
Fitch Ratings	BBB- (positive outlook)	28 September 2017
Moody's	Baa3 (positive outlook)	29 January 2018
Dagong	AAA (stable outlook)	21 April 2016
ACRA	AAA (stable outlook)	2 February 2018

## Bond Issues

To raise funds in international capital markets, PJSC Gazprom places bonds under the EMTN (Euro Medium Term Note) Programme. The Company also places rouble bonds.

The EMTN Programme is a revolving multi-currency credit line for up to USD 40 bn (the maximum outstanding principal amount).

As at 31 December 2017, there were 24 Eurobond issues outstanding for the total amount of USD 11.15 bn, EUR 7.1 bn, CHF 2 bn, and GBP 1.35 bn. The issuer is Gaz Capital S.A., a special-purpose vehicle.

PJSC Gazprom's Eurobonds are historically purchased by a wide range of investors with different country and institutional backgrounds.

As at 31 December 2017 there were five rouble bond issues outstanding for the total amount of RUB 65 bn.

For more details on PJSC Gazprom's bond issues see PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



**PJSC Gazprom's outstanding Eurobond issues placed under the EMTN Programme as at 31 December 2017**

Size	Placement Date	Maturity Date	Coupon, %	ISIN
USD 1.2 bn	28.04.2004	28.04.2034	8.625	XS0191754729
USD 1.3 bn	07.03.2007	07.03.2022	6.51	XS0290580595
USD 1.25 bn	16.08.2007	16.08.2037	7.288	XS0316524130
EUR 1.2 bn	25.10.2007	13.02.2018	6.605	XS0327237136
USD 1.1 bn	11.04.2008	11.04.2018	8.146	XS0357281558
USD 2.25 bn	23.04.2009	23.04.2019	9.25	XS0424860947
USD 0.6 bn	23.11.2011	23.01.2021	5.999	XS0708813810
USD 1.0 bn	19.07.2012	19.07.2022	4.95	XS0805570354
USD 0.8 bn	06.02.2013	06.02.2020	3.85	XS0885733153
USD 0.9 bn	06.02.2013	06.02.2028	4.95	XS0885736925
EUR 1.0 bn	21.03.2013	20.03.2020	3.389	XS0906946008
EUR 0.5 bn	21.03.2013	21.03.2025	4.364	XS0906949523
EUR 0.9 bn	25.07.2013	25.07.2018	3.7	XS0954912514
GBP 0.5 bn	25.09.2013	25.09.2020	5.338	XS0974126186
CHF 0.5 bn	25.10.2013	25.10.2019	2.85	CH0226274261
EUR 0.75 bn	26.02.2014	26.02.2021	3.6	XS1038646078
EUR 1.0 bn	15.10.2015	15.10.2018	4.625	XS1307381928
CHF 0.5 bn	30.03.2016	30.11.2018	3.375	CH0317921671
EUR 1.0 bn	17.11.2016	17.11.2023	3.125	XS1521039054
CHF 0.5 bn	30.11.2016	30.11.2021	2.75	CH0346828400
USD 0.75 bn	23.03.2017	23.03.2027	4.95	XS1585190389
GBP 0.85 bn	06.04.2017	06.04.2024	4.25	XS1592279522
CHF 0.5 bn	19.07.2017	19.07.2022	2.25	CH0374882816
EUR 0.75 bn	22.11.2017	22.11.2024	2.25	XS1721463500

**PJSC Gazprom's rouble bonds outstanding as at 31 December 2017**

Size	Placement Date	Maturity Date	Coupon, %	Registration number	Issuer
RUB 15 bn	27.11.2013	21.10.2043	Calculated by issuer with formula*	4B02-19-00028-A	PJSC Gazprom
RUB 15 bn	27.11.2013	21.10.2043	Calculated by issuer with formula*	4B02-20-00028-A	PJSC Gazprom
RUB 5 bn	21.02.2013	15.02.2018	7.55	4-04-36400-R	OOO Gazprom capital**
RUB 15 bn	15.02.2017	03.02.2027***	8.9	4B02-05-36400-R	OOO Gazprom capital**
RUB 15 bn	15.02.2017	03.02.2027***	8.9	4B02-06-36400-R	OOO Gazprom capital**

\*  $K_i = (CPI - 100\%) + 1\%$ , where:

Ki means the interest rate for the ith coupon period, but not less than 0.01% per annum;

CPI means the consumer price index calculated for the Russian Federation and expressed as percentage year-on-year.

\*\* Special-purpose subsidiary for raising funds in the Russian financial market.

\*\*\* The issuer has the right to decide on early redemption of bonds in February 2024.



## Shareholder and Investor Relations

PJSC Gazprom's securities are among the most liquid financial instruments in the Russian market. The Company's investor base comprises several thousand institutional investors, including major foreign investors such as investment funds, pension funds, banks, and insurance companies, as well as private investors. Investors based in the United States, the UK, and mainland Europe remain the largest minority holders of PJSC Gazprom shares and ADRs.

The Company fosters an ongoing dialogue with the investment community. Investment analysts and investors are engaged regularly through a range of formats. PJSC Gazprom promotes regular direct communication between the Company's management and analysts and investors, including through conference calls, road shows, or site visits to the Group's production facilities. Representatives of PJSC Gazprom and its subsidiaries have regular meetings with investors and are frequent speakers at national and global conferences held by leading investment banks. The Company also runs road shows in the regions with the highest concentrations of existing and potential investors.

### 2017 highlights in shareholder and investor relations

Date	Event
February, March	Investor Day in Singapore (28 February) and Hong Kong (2 March)
27 April	Publication of the 2016 Annual Financial Report under FSA requirements, including the 2016 IFRS Financial Statements
	Conference call with investors on Gazprom Group's 2016 IFRS Financial Statements
31 May	Publication of Q1 2017 IFRS Financial Statements, a conference call with investors on the Financial Statements
May — June	Press briefings of PJSC Gazprom's top management on the 2016 results and key aspects of the Company's development
1 June	Speech by Alexey Miller, Chairman of PJSC Gazprom's Management Committee, at the Saint Petersburg International Economic Forum
5 June (end of business day)	Record date for PJSC Gazprom's Annual General Shareholders Meeting
6 June	Publication of PJSC Gazprom's Annual Report
30 June	PJSC Gazprom's Annual General Shareholders Meeting
5–7 July	Investor visits to Gazprom Group's production facilities
20 July	Record date for PJSC Gazprom's dividend
29 August	Publication of Q2 2017 IFRS Financial Statements, a conference call with investors on the Financial Statements
7 September	Speech by Alexey Miller, Chairman of PJSC Gazprom's Management Committee, at the 2017 Eastern Economic Forum
4 October	Speech by Alexey Miller, Chairman of PJSC Gazprom's Management Committee, at the Saint Petersburg International Gas Forum
29 November	Publication of Q3 2017 IFRS Financial Statements, a conference call with investors on the Financial Statements
25 December	Meeting of the Coordinating Committee for Shareholder and Investor Relations

Gazprom's annual Investor Day has gained good traction with investors. In February and March 2017, the event was held in Singapore and Hong Kong and gathered about 200 portfolio managers and analysts from leading global investment funds and credit institutions. In addition, over 60 investors and analysts attended the event remotely via online broadcast.

Largest Russian and foreign investment banks publish regular analyst reports on PJSC Gazprom shares. As at the end of 2017, most analysts recommended to "buy" ("over-weight") and "hold" ("neutral"). During 2017, five investment banks upgraded their guidance for PJSC Gazprom shares, with six banks confirming their "buy" ("over-weight") guidance. Wood & Company investment bank also started to provide analytical coverage of PJSC Gazprom in 2017.

Guidance for PJSC Gazprom shares in 2017			
Company	Guidance, end of 2016	Guidance, end of 2017	Change
OOO BCS	Sell	Hold	Upgrade
OOO IC Veles Capital	Buy	Buy	Reiteration
AO VTB Capital	Hold	Buy	Upgrade
ATON	Hold	Buy	Upgrade
AO Gazprombank	Over-weight	Over-weight	Reiteration
SOVA Capital Limited (Otkritie Capital)	Buy	Hold	Downgrade
PAO BANK URALSIB	Buy	Buy	Reiteration
Bank of America Corporation	Neutral	Neutral	Reiteration
Citigroup	Buy	Buy	Reiteration
Credit Suisse	Under-weight	Under-weight	Reiteration
Deutsche Bank	Sell	Buy	Upgrade
Goldman Sachs	Hold	Hold	Reiteration
HSBC	Hold	Hold	Reiteration
J.P. Morgan	Over-weight	Over-weight	Reiteration
Morgan Stanley	Sell	Sell	Reiteration
Raiffeisen Bank	Hold	Hold	Reiteration
Renaissance Capital	Over-weight	Over-weight	Reiteration
Sberbank CIB	Hold	Buy	Upgrade
UBS	Hold	Hold	Reiteration
Wood & Company	–	Buy	–

PJSC Gazprom intends to further streamline its relations with existing and potential investors and shareholders to develop a meaningful dialogue with the investment community, increase the Company's capitalisation, and reduce the cost of new borrowings.

Contacts of investment analysts regularly covering PJSC Gazprom are available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



## 6 Appendices



**Major and Interested Party Transactions** → 226

**Disposal of Non-Core Assets  
by PJSC Gazprom and Subsidiaries** → 227

**Implementation of Presidential and Governmental  
Directives and Instructions** → 228

**Energy Consumption by PJSC Gazprom  
and its Actual Cost** → 232

**Additional Information for the Annual Report  
Available on PJSC Gazprom's Corporate Website** → 233

**Glossary** → 234

**Contacts** → 239

# Major and Interested Party Transactions

In 2017, PJSC Gazprom closed no transactions treated as major transactions under the applicable laws of the Russian Federation.

For details of transactions closed by Gazprom in the reporting year and treated as interested party transactions under the applicable laws of the Russian Federation see the Report on PJSC Gazprom's Interested Party Transactions in 2017 approved by Resolution of PJSC Gazprom's Board of Directors No. 3114 dated 16 May 2018 and available on the web pages used by PJSC Gazprom for information disclosure: [www.gazprom.com](http://www.gazprom.com) and [www.e-disclosure.ru](http://www.e-disclosure.ru).

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The Report on PJSC Gazprom's Interested Party Transactions in 2017 is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



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The Report on PJSC Gazprom's Interested Party Transactions in 2017 is available on PJSC Gazprom's page on the website of Interfax – Centre for Corporate Information Disclosure (information is available in Russian only) → [www.e-disclosure.ru](http://www.e-disclosure.ru)



# Disposal of Non-Core Assets by PJSC Gazprom and Subsidiaries

Actual proceeds from non-core asset disposal by PJSC Gazprom and its subsidiaries in 2017 totalled RUB 10.97 bn (excluding intra-group transactions — RUB 3.71 bn), including:

- those owned by PJSC Gazprom — RUB 7.7 bn (excluding intra-group transactions — RUB 0.64 bn)
- those owned by PJSC Gazprom's subsidiaries — RUB 3.27 bn (excluding intra-group transactions — RUB 3.07 bn).



# Implementation of Presidential and Governmental Directives and Instructions

## Disclosure of information on ownership structures, including beneficiaries, by counterparties under existing contracts

(Instruction of Prime Minister of the Russian Federation Vladimir Putin No. VP-P13-9308 dated 28 December 2011 approved and Instruction of Deputy Prime Minister of the Russian Federation Igor Sechin No. IS-P13-80 dated 12 January 2012)

From 1 January 2013 through 31 December 2017, PJSC Gazprom informed the Russian Ministry of Energy, Federal Tax Service and Federal Service for Financial Monitoring (Rosinfomonitoring) of:

- 86,470 existing contracts (with 4,046 contracts signed by PJSC Gazprom and 82,424 contracts signed by subsidiaries or associates directly and/or indirectly controlled by PJSC Gazprom by more than 50%)
- changes in the ownership structure and/or executive bodies of PJSC Gazprom's counterparties
- changes in the ownership structure and/or executive bodies of the counterparties of subsidiaries and associates directly and/or indirectly controlled by PJSC Gazprom by more than 50% in total.

## Amendment to the Company's procurement policy as regards innovative construction materials

(Russian Government Directives No. 6558p-P13 dated 5 September 2016 approved by First Deputy Prime Minister of the Russian Federation Igor Shuvalov)

The Board of Directors of PJSC Gazprom passed Resolution No. 2863 dated 7 December 2016 on amending the company's procurement policy in relation to innovative construction materials, instructing Chairman of PJSC Gazprom's Management Committee Alexey Miller under Directives No. 6558p-P13.

In pursuance of the above resolution of the Board of Directors, resolution of PJSC Gazprom's Board of Directors No. 2909 dated 1 March 2017 on amending the Regulations on the Procurement of Goods, Works and Services by PJSC Gazprom and Gazprom Group Companies approved amendments to the Regulations on the Procurement of Goods, Works and Services by PJSC Gazprom approved by resolution of JSC Gazprom's Board of Directors No. 1969 dated 19 April 2012, stating that:

- in making procurements, the Customer (Procurement Authority) shall assign high priority to procurement of Russian innovative construction materials (paragraph 19.8 of the Regulations on the Procurement)
- the Customer may enter into long-term contracts with Russian producers of innovative construction materials with guaranteed supply volumes in the future, and with producers which have executed, in accordance with the established procedure, special investment contracts based on the manufacture of such products (paragraph 19.23 of the Regulations on the Procurement).

## Placement of orders for the construction of vessels, drilling platforms and civil marine facilities with Russian companies

(Instructions of President of the Russian Federation Vladimir Putin No. Pr-1919 dated 21 September 2015 and No. Pr-1730 dated 1 September 2016, Minutes of the briefing of the Security Council of the Russian Federation No. Pr-237 dated 10 February 2016)

In pursuance of the above instructions:

- Gazprom Group's requirement for marine facilities until 2035 subject to existing licence obligations and production schedules was updated
- the approximate scope of the priority order for vessels and marine facilities design and construction was determined
- proposals on the long-term schedule of orders for the Zvezda Shipbuilding Complex were submitted to the Russian Government
- the long-term schedule of orders for the Zvezda Shipbuilding Complex as regards PJSC Gazprom's orders until 2035 was approved
- general contractor agreements with the Zvezda Shipbuilding Complex for the construction vessels for PJSC Gazprom were signed.

### Gas infrastructure expansion and gas supply to regions

(paragraph 4 of Minutes of the Russian Ministry of Energy No. VK-117pr dated 24 March 2017)

Positive opinions were obtained from Russia's Main Directorate of State Expert Review (GlavgosExpertiza) for the LNG regasification terminal in the Kaliningrad Region project.

(paragraph 3, List of Instructions of the President of the Russian Federation No. Pr-2281 dated 2 November 2015)

In pursuance of the Instructions of President of the Russian Federation Vladimir Putin, upon meeting on the expansion project at the Vostochny Cosmodrome, PJSC Gazprom approved by its resolution the design documents for the Uglegorsk Branch and Gas Distribution Station.

(paragraphs 1, 3, and 7 of Instructions of President of the Russian Federation Vladimir Putin No. Pr-2579 dated 29 December 2016)

In pursuance of the instruction on gas supply to the Eastern Petrochemical Complex, PJSC Gazprom approved the design documents for the Sakhalin — Khabarovsk — Vladivostok trunk pipeline (Phase 1. Construction of the gas pipeline linear section from km 505 to km 874).

(Minutes of meeting No. DKP9151pr dated 8 September 2015, presided by Deputy Prime Minister of the Russian Federation Dmitry Kozak)

In pursuance of the instruction, PJSC Gazprom approved the design documents for gas pipeline branches for gas supplies to power stations under construction in the Kaliningrad Region.

### Pricing in the Russian gas market

(Instruction of Prime Minister of the Russian Federation Dmitry Medvedev No. DM-P9-5016r dated 22 August 2016; instruction of the Government Executive Office of the Russian Federation No. P9-49284 dated 4 October 2016; Minutes of meeting at the office of Deputy Prime Minister of the Russian Federation Arkady Dvorkovich No. AD-P9-102pr dated 27 October 2017)

In pursuance of the instruction on a special-purpose gas pricing mechanism as part of the purchase and sale of gas supplied to export-oriented manufacturers, the adoption of a resolution by the Russian Government was arranged to cancel the price regulation for natural gas produced by PJSC Gazprom and its affiliates for sale to parties producing liquefied natural gas from natural gas in a gaseous state for exports (Resolution of the Russian Government No. 1663 dated 27 December 2017).

(Minutes of meeting at the office of Deputy Prime Minister of the Russian Federation Arkady Dvorkovich No. AD-P9-102pr dated 27 October 2017; instruction of the Government of the Russian Federation No. P9-64800 dated 8 December 2017; instruction of Deputy Prime Minister of the Russian Federation Arkady Dvorkovich No. AD-P9-318 dated 23 January 2018)

In pursuance of the instruction on Russia's domestic gas market transition from wholesale gas prices regulation and setting gas transport tariffs for all gas producers, the draft resolution of the Russian Government was elaborated with respect to amending certain decrees of the Russian Government prolonging the transition period set by the Russian Government. In pursuance of the instruction of the Government of the Russian Federation, upon economic and legal analysis of the applicable laws, PJSC Gazprom defined its position with respect to completing the transition period as soon as possible.

### Improvement of the tax legislation

(paragraph 2 of instruction of Deputy Prime Minister of the Russian Federation Arkady Dvorkovich No. AD-P9-3313 dated 25 May 2017)

Updates were introduced into All-Russian Classifier of Fixed Assets OK 013-2014 (SNS 2008) (approved and adopted by Order of the Federal Agency on Technical Regulating and Metrology No. 2018-st dated 12 December 2014) and the List of Immovable Property of the Power of Siberia project for the purpose of a zero property tax rate (approved by Decree of the Russian Government No. 2595-r dated 22 November 2017), and the Classification of Fixed Assets Included in Depreciation Groups (approved by Decree of the Russian Government No. 1 dated 1 January 2002).

(paragraph 3, List of Instructions of the President of the Russian Federation No. Pr-1629 dated 3 August 2017, instruction of the President of the Russian Federation No. Pr-1908 dated 20 September 2017)

The possibility of registering in 2017 amendments to the contract establishing a consolidated group of taxpayers as a result of new parties' joining such group was enshrined in law subject to certain conditions (Federal Law No. 335-FZ On Introducing Amendments to Parts One and Two of the Russian Tax Code and Certain Laws of the Russian Federation dated 27 November 2017).

**Implementation of programmes to dispose of PJSC Gazprom's non-core assets**  
(subparagraph c, paragraph 2 of Decree of the President of the Russian Federation No. 596 dated 7 May 2012)

In pursuance of subparagraph c, paragraph 2 of Decree of the President of the Russian Federation No. 596 dated 7 May 2012, PJSC Gazprom consistently promotes the optimisation and disposal of non-core assets.

In pursuance of the Russian Government Directives No. 4863p-P13 dated 7 July 2016, to enhance efforts aimed at further optimisation and disposal of non-core assets, PJSC Gazprom's Board of Directors passed Resolution No. 2810 dated 27 September 2016 (Board of Directors' Minutes No. 1098 dated 27 September 2016) approving a programme for the disposal of PJSC Gazprom's non-core assets, which was prepared in accordance with the Guidelines for Identifying and Disposal of Non-Core Instruction Assets approved by of the Government of the Russian Federation No. ISH-P13-4065 dated 7 July 2016.

In 2017, PJSC Gazprom was disposing of non-core assets as part of this Programme, Action Plan for the Disposal of PJSC Gazprom's Non-Core Assets for 2017 (versions approved by resolutions of the Board of Directors No. 2875 dated 22 December 2016 and No. 2996 dated 29 August 2017) as well as the Register of Gazprom's Non-Core Assets (versions approved by resolutions of the Board of Directors No. 2875 dated 22 December 2016, No. 2996 dated 29 August 2017, and No. 3052 dated 19 December 2017).

The Register comprises three sections: Long-Term Financial Investments (stock, shares), Real Property, and Movable Property.

The information on PJSC Gazprom's non-core assets subject to disposal and included in the Register of Gazprom's Non-Core Assets contains, in particular: the asset list, quantity; information on each non-core asset — asset description, type of activity associated with the asset, its book (depreciated) value, initial selling price (equal to its market value as assessed by an independent valuator), method of sale (primarily a public sale process), and encumbrances.

In pursuance of the Russian Government Decree No. 894-r dated 10 May 2017 and the Russian Government Directives No. 6604p-P13 dated 18 September 2017, the following efforts were made:

- Employment agreement with PJSC Gazprom's top executive was amended to include provisions on the personal responsibility for timely information disclosure or liability for disclosing unreliable information on non-core assets disposal on the Interdepartmental State Property Management Portal (resolution of PJSC Gazprom's Board of Directors No. 3041 dated 1 November 2017)
- New version of the Register of PJSC Gazprom's Non-Core Assets and the Action Plan for the Disposal of PJSC Gazprom's Non-Core Assets for 2018 (resolution of PJSC Gazprom's Board of Directors No. 3052 dated 19 December 2017)
- New version of the Action Plan for the Disposal of PJSC Gazprom's Non-Core Assets was approved (resolution of PJSC Gazprom's Board of Directors No. 3066 dated 16 January 2018, PJSC Gazprom's Board of Directors' Minutes No. 1180 dated 16 January 2018)

**Implementation of the Programme, Action Plan, and Register of PJSC Gazprom's Non-Core Assets in 2017**

No.	Asset	Inventory number (if applicable)	Asset Balance sheet item containing the asset as at the reporting date prior to the asset disposal
1	Water sports facility in Irkutsk	51 inventory items	1150
2	Non-residential space at 6 Stroiteley St., Bld. 5, Moscow	284707	1150
3	One-room apartment at 73 Sirenevaya St., Apt. 71, Kostrovo, Istra District, Moscow Region	285598	1150
4	Operator's house at Kurtsevo gas distribution station, not used in operations, at 5 Molodezhnaya St., Kurtsevo, Kotlas District, Arkhangelsk Region	384473	1150
5	Operator's house at Meleuz branch and gas distribution station, not used in operations, at 4 Validi St., Meleuz, Republic of Bashkortostan	3420	1150
6	Operator's house at Meleuz branch and gas distribution station, not used in operations, at 2 Validi St., Meleuz, Republic of Bashkortostan	3421	1150
7	Bakery building at Morozovka Park Hotel, Lyalovo area, Solnechnogorsk District, Moscow Region	249783	1150
8	Motor vehicles and special-purpose machinery	210 inventory items	1150

Total for 2017



The approval of the above Programme, Register, and Plan was disclosed by PJSC Gazprom in the manner prescribed by the law by publishing appropriate open access information on its website. The current Programme and Register are also available on a dedicated website for Gazprom Group's non-core asset disposal [www.gazpromnoncoreassets.ru](http://www.gazpromnoncoreassets.ru), the link to which is available on PJSC Gazprom's website in the Asset Disposal section.

In pursuance of the Russian Government Directives and under the programme for disposal of PJSC Gazprom's non-core assets, the Board of Directors reviewed and took into account quarterly reports on the disposal of the Company's non-core assets (resolutions of PJSC Gazprom's Board of Directors No. 2930 dated 20 April 2017, No. 2956 dated 22 May 2017, No. 2996 dated 29 August 2017, and No. 3043 dated 28 November 2017).

The actual cost of sale of PJSC Gazprom's non-core assets disposed of in 2017 under the said Programme, Action Plan for the Disposal of PJSC Gazprom's Non-Core Assets for 2017, and Register of PJSC Gazprom's Non-Core Assets was RUB 3,424,011.17 thousand inclusive of VAT. Pre-sale preparation and disposal of non-core assets resulted in the actual cost of sale exceeding the book value by RUB 898,089.73 thousand.

Balance sheet item (analytics included), containing asset disposal income and expense (91.1xxx/91.2xxx)	Book value of asset, RUB thousand	Actual cost of sale, RUB thousand	Actual cost of sale vs. book value, RUB thousand	Reason for difference between the actual cost of sale and book value
911110/914101	2,480,516.18	2,795,591.55	315,075.37	Results of pre-sale preparation and disposal of assets
911110/914101	23,506.16	50,818.38	27,312.22	Results of pre-sale preparation and disposal of assets
911110/914101	2,098.07	3,150.00	1,051.93	Results of pre-sale preparation and disposal of assets
911110/914101	708.29	967.00	258.71	Results of pre-sale preparation and disposal of assets
911110/914101	5,710.07	1,308.00	-4,402.07	The asset disposed of to persons residing therein
911110/914101	5,710.07	1,299.00	-4,411.07	The asset disposed of to persons residing therein
911110/914101	0.00	1,062.00	1,062.00	Results of pre-sale preparation and disposal of assets
911110/914101	7,672.60	569,815.24	562,142.64	Results of pre-sale preparation and disposal of assets
	2,525,921.44	3,424,011.17	898,089.73	

# Energy Consumption by PJSC Gazprom and its Actual Cost

Energy resource	2016	2017
Natural gas		
mmcm	5.6	5.8
RUB mm (inclusive of VAT)	35.9	37.4
Electricity		
thousand MWh	61.3	58.8
RUB mm (inclusive of VAT)	292.4	315.0
Heat energy		
thousand Gcal	81.4	78.3
RUB mm (inclusive of VAT)	139.0	143.8
Motor gasoline		
mm litres	1.5	0.9
RUB mm (inclusive of VAT)	52.7	33.9
Diesel fuel		
mm litres	0.8	0.6
RUB mm (inclusive of VAT)	25.8	20.4

**Note.** Since 2017, reported data are for facilities managed by PJSC Gazprom. Power consumption by facilities placed under third parties' management is not taken into consideration. The figures for 2016 have been rebased and thus may differ from those in the Annual Report 2016. PJSC Gazprom consumes no other energy resources in significant quantities.

# Additional Information for the Annual Report Available on PJSC Gazprom's Corporate Website

Meetings  
of PJSC Gazprom's Board of Directors in 2017

Meetings of the Audit Committee  
of PJSC Gazprom's Board of Directors in 2017

Meetings  
of the Nomination and Remuneration Committee  
of PJSC Gazprom's Board of Directors in 2017

Debt recovery litigations pending  
as at 31 December 2017

List of entities  
in which PJSC Gazprom holds shares (interest)  
as at 31 December 2017

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Information on PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)





Name	Definition
A	ADR of PJSC Gazprom
	APG
	Asia Pacific
B	bboe
	bcm
	Brent
C	CCGT
	CDP
	Central Asia
	CEO
	CGTU
	CHPP
	CIS
	CNG
	CPTPP
	CS
	CSA
	CSP
E	EBITDA
	EMS
	EMTN
	EU
	European far abroad countries
F	Far abroad countries
	FAS
	FEED
	FSU countries
	FTS of Russia
G	GHG
	GPU
	GPP
	GRES
	GTS
H	HSE
I	IFRS
	ISO 14001
	ISO 9001
K	KPIs
L	LNG
	LPG
	LSE
N	NB
	NBP
	NGLs
	NGV
	NCG

Name	Definition
O	OGCF
	Oil and gas condensate field
	OHS
	Occupational Health and Safety
	OHSAS 18001:2007
	Occupational Health and Safety Management Systems, the international standard for occupational health and safety management systems
	OMS
	Operations Management System
	OPEC
	Organisation of the Petroleum Exporting Countries
	OTC
	Over-the-counter (market)
P	PBs
	Performance benchmarks
	PDA
	Priority development area
	PRMS
	Petroleum Resources Management System, an international standard for hydrocarbon reserve classification and reporting
Q	QIB
	Qualified institutional buyer
R	R&D
	Research and Development
	RAS
	Russian Accounting Standards
	ROC
	Return on capital
	ROI
	Return on investment
	RUB
	Russian rouble
S	SME
	Small and medium enterprises
	SPIMEX
	Saint Petersburg International Mercantile Exchange
	SPTs
	Strategic Performance Targets
	STO Gazprom 9001
	Gazprom's corporate standard for quality management systems
T	t c.e.
	Tonne of coal equivalent
	The Eastern Gas Programme
	The programme of building an integrated gas production, transportation, and supply system in Eastern Siberia and the Far East, taking into account potential gas exports to China and other Asia-Pacific countries, approved by Order of the Ministry of Economic Development of the Russian Federation No. 340 dated 3 September 2007
	toe
	Tonne of oil equivalent
	TPP
	Thermal power plant
	TSR
	Total Shareholder Return
U	TTF
	Title Transfer Facility
	UEFA
	Union of European Football Associations
	UES
	Unified Energy System
	UGSF
	Underground gas storage facility
	UGSS
	Unified Gas Supply System of Russia
	UIS
	Unified Information System of public procurement of goods, works, and services for state and municipal needs
	UOHSMS
	Unified Occupational Health and Safety Management System
	USD
	United States (US) dollars
V	VAT
	Value-added tax

Units of Measurement and Conversion Table		
Unit	Definition	Conversion ratios
cu m of gas	A cubic metre of natural gas measured at 1 Pa pressure and 20°C, with a calorific value of 8,850 kcal per cu m	1,000 cu m of gas = 6.49 barrels of oil equivalent
BTU	British thermal unit	1 mm BTU = 0.028 mcm of LNG = 0.021 tonnes of LNG
tonne of oil	Tonne of oil	= 7.33 barrels of oil = 7.33 barrels of oil equivalent
tonne of gas condensate	Tonne of gas condensate	= 8.18 barrels of gas condensate = 8.18 barrels of oil equivalent

Conventions	
Sign	Meaning
x	Data not available
–	Not observed
0.0	Value less than 0.05



**List of Foreign Companies Mentioned in the Report**

Full name	Short name	Country
Allseas Group S.A.	Allseas	Switzerland
astora GmbH & Co. KG	–	Germany
Bangladesh Gas Fields Company Ltd.	–	Bangladesh
Bangladesh Petroleum Exploration and Production Ltd.	–	Bangladesh
Bank of America Corporation	–	USA
BASF SE	BASF	Germany
Bloomberg L.P.	Bloomberg	USA
BOTAŞ Petroleum Pipeline Corporation A.S.	Botas	Turkey
BP p.l.c.	BP	Great Britain
Chevron Corporation	Chevron	USA
China National Petroleum Corporation	CNPC	China
China Petrochemical Corporation	Sinopec	China
Citigroup Inc.	Citigroup	USA
CNOOC Limited	CNOOC	China
Comita d.d.	Comita	Slovenia
Credit Suisse Group AG	Credit Suisse	Switzerland
Dagong Global Credit Rating Company Limited	Dagong	China
DeGolyer and MacNaughton	–	USA
Delek Drilling LP	–	Israel
DEPA SA	DEPA	Greece
Deutsche Bank AG	Deutsche Bank	Germany
Edison Spa	Edison	Italy
ENGIE S.A.	ENGIE	France
Eni SpA	Eni	Italy
Exxon Mobil Corporation	Exxon Mobil	USA
Fitch Ratings	–	USA
Fluxys SA	Fluxys	Belgium
Gaz Capital S.A.	–	Luxemburg
GAZPROM Germania GmbH	–	Germany
Gazprom Marketing & Trading Ltd.	Gazprom Marketing and Trading	Great Britain
Gazprom Marketing & Trading Retail Ltd.	Gazprom Marketing and Trading Retail	Great Britain
Gazprom NGV Europe GmbH	Gazprom NGV Europe	Germany
GAZPROM Schweiz AG	GAZPROM Schweiz	Switzerland
HSBC Holdings plc	HSBC	Great Britain
JP Morgan Chase & Co	JP Morgan	USA
JP Srbijagas	Srbijagas	Serbia
JSC National Company KazMunayGas	–	Kazakhstan
Korea Gas Corporation	KOGAS	South Korea
Mitsui & Co. Ltd.	–	Japan
Moody's Investors Service	Moody's	USA
Morgan Stanley International Limited	Morgan Stanley	USA
N.V. Nederlandse Gasunie	Gasunie	Netherlands
Naftna industrija Srbije A.D.	NIS	Serbia
NIGC	–	Iran
Nord Stream 2 AG	–	Switzerland

**List of Foreign Companies Mentioned in the Report (continued)**

Full name	Short name	Country
OAQ Gazprom transgaz Belarus	–	Belarus
OMV Aktiengesellschaft	OMV	Austria
OMV Norge AS	–	Norway
OsOO Gazprom Kyrgyzstan	–	Kyrgyzstan
Otkritie Capital International Limited	Otkritie Capital	Great Britain
S&P Global Platts	Platts	Great Britain
PetroChina Company Limited	PetroChina	China
PVGAZPROM Natural Gas for Vehicles LLC	–	Vietnam
Qatar Petroleum	–	Qatar
Raiffeisen Bank International AG	Raiffeisen Bank	Austria
Royal Dutch Shell plc.	Shell	Great Britain
Sonatrach Group	Sonatrach	Algeria
Schneider Electric Group	Schneider Electric	France
Standard & Poor's	–	USA
Statoil ASA	–	Norway
Swissgas AG	Swissgas	Switzerland
The Bank of New York Mellon	–	USA
The Goldman Sachs Group, Inc.	Goldman Sachs	USA
TOTAL S.A.	Total	France
UBS Group AG	UBS	Switzerland
Uniper Global Commodities SE	–	Germany
Uniper Holding GmbH	–	Germany
Uniper SE	–	Germany
Vietnam Oil and Gas Group	PetroVietnam	Vietnam
VNG-Verbundnetz Gas AG	VNG	Germany
Volkswagen AG	–	Germany
WINGAS GmbH	WINGAS	Germany
Wintershall AG	–	Germany
Wintershall Holding GmbH	Wintershall Holding	Germany
Wintershall Noordzee B.V.	Wintershall Noordzee	The Netherlands
WIROM GAS S.A.	–	Romania
Wood & Company Financial Services, a.s.	Wood & Company	Czech Republic
Yacimientos Petroliferos Fiscales Bolivianos	YPFB	Bolivia
ZAO Gazprom Armenia	–	Armenia

# Contacts

**Full name**

Public Joint Stock Company Gazprom

**Abbreviated name**

PJSC Gazprom

**Location**

Moscow, Russian Federation

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Fax:

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**Website**

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**E-mail:**

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**Certificate of entry into****the Unified State Register of Legal Entities**

by the Moscow Department of the Ministry of Taxation dated 2 August, 2002, OGRN 1027700070518

**Taxpayer Personal Identification Number (INN)**

7736050003

**Contact for shareholders**

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**Auditor**

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OOO FBK is a member of the self-regulated organisation of auditors Auditor Association Sodruzhestvo

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**Registrar**

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