





# **PJSC Gazprom Financial Report 2017**

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# Independent Auditor's Report (Translation from Russian original)

To the Shareholders of PJSC Gazprom

## Opinion

We have audited the accompanying financial statements of PJSC Gazprom, which comprise the balance sheet as at 31 December 2017, statement of financial results, supplements to the balance sheet and the statement of financial results, including the statement of changes in equity and cash flow statement for the year then ended, and explanatory notes to the balance sheet and the statement of financial results.

In our opinion, the financial statements present fairly, in all material respects, the financial position of PJSC Gazprom as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with Russian accounting standards.

## Basis for Opinion

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

## Key Audit Matters

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

### Revenue recognition — Note 14 to the financial statements

We focused on revenue recognition in our audit because there were various revenue streams with significantly different terms underlying revenue recognition, including the procedure for price determination, price change, and transfer of ownership, risks and rewards.

We assessed the consistency in the application of the revenue recognition accounting policy against various types of revenue and geographic segments. Our audit procedures with respect to the risk of material misstatement included, specifically, evaluation of the design of controls, assessment of the risk of fraud or error and performance of substantive procedures with respect to the sales transactions. Based on the results of our audit procedures, we found the position of the management of PJSC Gazprom on the revenue recognition to be appropriate.

### Revaluation of fixed assets — Note 5 to the financial statements

We consider this area to be one of the most significant audit areas in view of the significant balances of fixed assets. PJSC Gazprom performs regular revaluation of fixed assets to ensure that the value of fixed assets at which they are recognised in accounting records and financial statements does not significantly differ from their current (replacement) cost. No revaluation of fixed assets was performed as at 31 December 2017 because of insignificant change in the current (replacement) cost identified during testing of the need for revaluation of fixed assets.

We engaged our valuation experts to make a conclusion on the assumptions and methodology applied to test the need for revaluation of fixed assets. Our audit procedures with respect to the testing of the need for revaluation of fixed assets included assessment of competency, qualification, experience and objectivity of the management's experts, sample testing of the accuracy of the models and methods used for the testing.



Based on the results of the audit procedures we believe that the significant assumptions and methodology applied to test the need for revaluation of fixed assets are acceptable for the purposes of the preparation of the financial statements.

#### Measurement of doubtful receivables — Note 8 to the financial statements

One of high-risk audit areas is the evaluation of sufficiency of doubtful debt provision. We assessed the assumptions and professional judgment applied by the management of PJSC Gazprom, including critical assessment of the information used by PJSC Gazprom to make projections of the ability of its customers to repay their debts. We also performed procedures to test controls over the recognition and repayment of the receivables. We also checked whether disclosures made by PJSC Gazprom about the use of judgment for calculation of the doubtful debt provision were sufficient.

Based on the results of the procedures performed, we found the criteria and assumptions applied by the management to accrue doubtful debt provision to be appropriate.

#### Evaluation, recognition and disclosure of information about litigations — Notes 19 and 20 to the financial statements

Evaluation, recognition and disclosure of information about liabilities in respect of litigations require significant professional judgments. We consider this area to be one of most significance in our audit due to the material amounts subject to contestation and essential difficulties associated with the assessment issue. PJSC Gazprom is a party to a number of significant litigations, including litigations with NJSC Naftogaz of Ukraine. Procedures we performed included analysis of the rulings delivered by the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, and the rulings of the courts of various jurisdictions of Ukraine, discussions of significant matters with the staff of PJSC Gazprom, including staff responsible for providing judicial and legal support to PJSC Gazprom in its activities, evaluation and testing of terms underlying the recognition of liabilities and their disclosure. Based on the results of the procedures performed, we found the criteria and estimates applied by the management, as well as the recognitions and disclosures to be consistent and appropriate.

#### Other Information

Management is responsible for the other information. The other information comprises the information included in the Quarterly issuer's reports for the first, second, third and fourth quarters of 2017 (but does not include the financial statements and our auditor's report thereon), which were made available to us prior the date of this auditor's report, and in the Company's Annual report for 2017, the Quarterly issuer's report for the first quarter of 2018, which are expected to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in regard to the Quarterly issuer's reports for the first, second, third and fourth quarters of 2017.

When we read the Annual report of the Company for 2017 and the Quarterly issuer's report for the first quarter of 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Russian accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

President of FBK, LLC

Engagement partner

Date of the Independent Auditor's Report:  
30 March 2018



S.M. Shapiguzov  
Acting by virtue of the Articles of Organisation,  
Auditor Qualification Certificate  
01-001230, ORNZ 21606043397

M.A. Kolembet  
Auditor Qualification Certificate  
01-001271, ORNZ 21606041788

### **Audited entity**

**Name:**

PJSC Gazprom

**Place of business:**

16 Nametkina St., Moscow, 117997, Russian Federation.

**Official registration:**

State registration certificate No. 022.726, issued by Moscow Registration Chamber on 25 February 1993. The registration entry was made in the Unified State Register of Legal Entities on 2 August 2002 under principal state registration number 1027700070518.

### **Auditor**

**Name:**

FBK, LLC

**Place of business:**

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

**Official registration:**

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

**Membership in self-regulatory organisation of auditors:**

Self-regulatory organization of auditors Association "Sodruzhestvo".

**Number in the register of audit organisations registered with the self-regulatory audit organisation:**

Certificate of membership in the Self-regulatory organization of auditors Association "Sodruzhestvo" No. 7198, principal number of registration entry (ORNZ) — 11506030481.

# Balance Sheet as at 31 December 2017

Company PJSC GAZPROM  
Taxpayer identification number  
Field of activity wholesale  
Legal form/property form  
Public Joint Stock Company  
Measurement unit: thousand of RUB  
Address 16 Nametkina St., Moscow, GSP-7, 117997

	Codes
Form on OKUD	0710001
Date (day, month, year)	31/12/2017
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22. 47/41
OKEI	384

Notes	Narrative	Line code	As at 31.12.2017	As at 31.12.2016	As at 31.12.2015
<b>Assets</b>					
<b>I. Non-current assets</b>					
1	Intangible assets, including:	1110	20,095,198	14,943,622	11,928,912
	intellectual property rights	1111	14,527,878	10,380,086	11,384,863
	other	1119	5,567,320	4,563,536	544,049
1	Results of research and development	1120	1,906,673	2,592,483	3,485,123
9	Intangible exploration assets	1130	118,272,580	118,447,844	111,637,226
9	Tangible exploration assets	1140	52,878,487	51,031,638	41,453,750
2	Fixed assets, including:	1150	7,824,129,524	7,882,970,562	6,853,878,774
	Fixed assets items, including:	1151	6,645,376,672	7,074,753,340	6,365,470,264
	land plots and natural resources	1152	1,911,750	1,636,604	1,216,137
	buildings, facilities, machinery and equipment	1153	6,536,456,484	6,964,137,222	6,288,764,815
	Capital investments in progress	1154	1,178,752,852	808,217,222	488,408,510
3	Financial investments, including:	1170	2,883,050,458	2,627,861,799	2,190,246,138
	investments in subsidiaries	1171	2,463,639,099	2,213,259,543	1,821,054,810
	investments in associates	1172	75,738,675	79,335,522	83,717,503
	investments in other entities	1173	168,710	245,711	261,708
	loans provided to companies for a period over 12 months	1174	156,305,980	105,566,573	145,516,964
	Deferred tax assets	1180	153,066,132	76,713,188	66,975,644
	Other non-current assets	1190	31,736,499	28,019,533	11,701,269
<b>Total Section I</b>		1100	11,085,135,551	10,802,580,669	9,291,306,836

Form on OKUD 0710001 p.2

Notes	Narrative	Line code	As at 31.12.2017	As at 31.12.2016	As at 31.12.2015
<b>Assets</b>					
<b>II. Current assets</b>					
4	Inventories, including:	1210	542,457,497	488,887,199	539,864,750
	raw materials and other inventories	1211	5,336,117	4,986,831	4,607,980
	work in progress	1213	319,052,716	303,450,137	332,284,836
	finished goods and goods for resale	1214	213,316,883	176,336,296	199,359,939
	goods dispatched	1215	4,751,688	4,113,842	3,611,902
	Value-added tax on goods purchased	1220	48,044,300	70,158,352	67,036,633
5	Accounts receivable, including:	1230	1,744,988,031	1,760,887,954	2,515,375,547
	Accounts receivable (payments expected beyond 12 months after the reporting date), including:	1231	430,378,092	376,478,314	479,999,297
	buyers and customers	1232	7,473,909	13,181,622	2,061,484
	advances issued	1233	57,947	54,183	54,183
	other debtors	1234	422,846,236	363,242,509	477,883,630
	Accounts receivable (payments expected within 12 months after the reporting date), including:	1235	1,314,609,939	1,384,409,640	2,035,376,250
	buyers and customers	1236	619,979,457	686,122,308	827,675,095
	advances issued	1238	177,178,617	93,276,639	50,890,997
	other debtors	1239	517,451,865	605,010,693	1,156,810,158
3	Financial investments (except for cash equivalents), including:	1240	500,869,175	275,335,693	58,053,162
	loans provided to companies for a period less than 12 months	1241	211,844,503	175,249,890	57,884,402
	Cash and cash equivalents, including:	1250	461,670,121	451,992,484	506,973,421
	cash on hand	1251	20,358	25,184	27,062
	settlement accounts	1252	142,896,201	214,232,806	278,070,685
	foreign currency accounts	1253	148,827,627	235,975,248	227,226,726
	other cash and cash equivalents	1259	169,925,935	1,759,246	1,648,948
	Other current assets	1260	2,004,678	3,103,408	2,637,608
	<b>Total Section II</b>	1200	3,300,033,802	3,050,365,090	3,689,941,121
	<b>Balance</b>	1600	14,385,169,353	13,852,945,759	12,981,247,957

Form on OKUD 0710001 p.3

Notes	Narrative	Line code	As at 31.12.2017	As at 31.12.2016	As at 31.12.2015
<b>Equity and liabilities</b>					
<b>III. Equity and reserves</b>					
	Charter capital (joint capital, charter fund, contributions of partners)	1310	118,367,564	118,367,564	118,367,564
	Own shares buy-back	1320	–	–	–
	Revaluation of non-current assets	1340	5,880,965,685	5,885,950,326	5,022,862,838
	Additional paid-in capital (without revaluation)	1350	–	–	–
	Reserve capital	1360	8,636,001	8,636,001	8,636,001
	Retained earnings (loss)	1370	4,316,239,120	4,401,046,356	4,172,472,437
	Social government fund	1380	–	–	–
	<b>Total Section III</b>	1300	10,324,208,370	10,414,000,247	9,322,338,840
<b>IV. Non-current liabilities</b>					
	Borrowings and bank loans, including:	1410	1,500,004,197	1,443,879,533	1,698,237,066
	bank loans due for repayment beyond 12 months	1411	384,081,643	245,528,212	193,196,529
	other borrowings due for repayment beyond 12 months	1412	1,115,922,554	1,198,351,321	1,505,040,537
	Deferred tax liabilities	1420	523,021,587	476,146,936	386,301,729
7	Estimated liabilities	1430	9,180,437	7,829,183	–
5	Other liabilities	1450	2,328,046	2,411,398	2,494,107
	<b>Total Section IV</b>	1400	2,034,534,267	1,930,267,050	2,087,032,902

Form on OKUD 0710001 p.3

Notes	Narrative	Line code	As at 31.12.2017	As at 31.12.2016	As at 31.12.2015
<b>V. Current liabilities</b>					
	Borrowings and bank loans, including:	1510	929,199,235	662,360,662	793,301,130
	bank loans due for repayment within 12 months	1511	–	–	–
	other borrowings due for repayment within 12 months	1512	282,987,532	80,308,249	38,906,644
	current portion of long-term borrowings and bank loans	1513	646,211,703	582,052,413	754,394,486
5	Accounts payable, including:	1520	964,792,138	755,889,069	672,170,249
	suppliers and contractors	1521	650,097,013	588,032,679	540,330,045
	salaries payable	1522	646,597	373,397	334,264
	insurance contributions payable	1523	294,094	202,493	151,780
	taxes payable	1524	79,847,791	76,234,645	24,314,332
	other creditors, including:	1525	232,977,732	90,144,808	106,103,114
	advances from customers	1527	47,326,860	57,782,735	67,734,771
	other settlements	1528	185,650,872	32,362,073	38,368,343
	dividends payable to participants (shareholders)	1529	928,911	901,047	936,714
	Future periods income	1530	–	–	–
7	Estimated liabilities	1540	132,435,343	90,428,731	106,404,836
	Other liabilities	1550	–	–	–
	<b>Total Section V</b>	1500	2,026,426,716	1,508,678,462	1,571,876,215
	<b>Balance</b>	1700	14,385,169,353	13,852,945,759	12,981,247,957

Chief Executive Officer \_\_\_\_\_ A.B. Miller


  
(signature)

Chief Accountant \_\_\_\_\_ E.A. Vasilieva


  
(signature)

30 March 2018



# Statement of Financial Results for 2017

Company PJSC GAZPROM  
Taxpayer identification number  
Field of activity wholesale  
Legal form/property form  
Public Joint Stock Company  
Measurement unit: thousand of RUB

	Codes
Form on OKUD	0710002
Date (day, month, year)	31/12/2017
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22. 47/41
OKEI	384

Notes	Narrative	Line code	For 2017	For 2016
	<b>Sales (less VAT, excise tax and similar mandatory payments)</b>	2110	4,313,031,616	3,934,488,441
	including:			
	gas	2111	2,871,912,237	2,659,749,091
	leased assets	2112	826,028,567	730,571,086
	gas transportation services	2113	268,080,347	238,779,014
	oil and gas refinery products	2114	235,591,232	210,129,340
	gas condensate	2115	81,213,631	71,457,134
	other goods, products, works and services	2116	28,537,396	20,866,275
	gas storage services	2117	1,668,206	2,936,501
6	<b>Cost of sales</b>	2120	(2,546,878,828)	(2,230,262,682)
	including:			
	gas	2121	(1,165,772,115)	(982,142,299)
	leased assets	2122	(825,081,512)	(726,367,167)
	gas transportation services	2123	(279,909,493)	(250,709,084)
	oil and gas refinery products	2124	(167,154,567)	(172,322,696)
	gas condensate	2125	(71,154,490)	(68,559,323)
	other goods, products, works and services	2126	(36,933,058)	(28,894,376)
	gas storage services	2127	(873,593)	(1,267,737)
	<b>Gross profit (loss)</b>	2100	1,766,152,788	1,704,225,759
6	Selling expenses	2210	(1,294,388,315)	(1,277,777,675)
6	Administrative expenses	2220	(96,253,074)	(93,774,165)
	<b>Profit (loss) from sales</b>	2200	375,511,399	332,673,919
	Income from participation in other entities	2310	346,670,956	139,211,136
	Interest receivable	2320	70,088,367	67,912,187
	Interest payable	2330	(98,052,019)	(119,740,422)

Form on OKUD 0710002 p.2

Notes	Narrative	Line code	For 2017	For 2016
	Other income	2340	742,816,367	1,427,644,000
	Other expenses	2350	(1,238,638,969)	(1,216,272,082)
	<b>Profit (loss) before taxation</b>	2300	198,396,101	631,428,738
	<b>Income tax, including:</b>	2405	(131,083,893)	(142,476,890)
	current income tax	2410	(133,067,081)	(142,454,223)
	prior year income tax	2411	1,983,188	(22,667)
	including permanent tax liabilities (assets) from line 2405	2421	129,690,013	126,002,972
	Changes in deferred tax liabilities	2430	(46,958,694)	(87,845,118)
	Changes in deferred tax assets	2450	76,358,231	4,963,281
	Other	2460	(1,226,322)	1,978,606
	Reallocation of income tax within the CGT	2465	4,812,554	3,375,980
	<b>Net profit (loss)</b>	2400	100,297,977	411,424,597

Form on OKUD 0710002 p.3

Notes	Narrative	Line code	For 2017	For 2016
	Result of revaluation of non-current assets not included to the net profit (loss) for the period	2510	–	866,958,142
	Results of other transactions not included to the net profit (loss) for the period	2520	238,088	62,685
	Cumulative financial result for the period	2500	100,536,065	1,278,445,424
	Reference:			
	Basic earnings (loss) per share (RUB)	2900	4.24	17.38
	Diluted earnings (loss) per share	2910	–	–

Chief Executive Officer \_\_\_\_\_ A.B. Miller

(signature)

Chief Accountant \_\_\_\_\_ E.A. Vasilieva

(signature)

30 March 2018

# Statement of Changes in Equity for 2017

Company PJSC GAZPROM  
Taxpayer identification number  
Field of activity wholesale  
Legal form/property form  
Public Joint Stock Company  
Measurement unit: thousand of RUB

	Codes
Form on OKUD	0710003
Date (day, month, year)	31/12/2017
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22. 47/41
OKEI	384

## 1. Changes in equity

Narrative	Line code	Charter capital	Own shares buy-back	Additional capital	Reserve capital	Retained earnings (loss)	Social government fund	Total
<b>Equity as at 31 December 2015</b>	3100	118,367,564	–	5,022,862,838	8,636,001	4,172,472,437	–	9,322,338,840
<b>For 2016</b>								
<b>Increase in equity – total, including:</b>	3210	–	–	870,845,670	–	411,487,282	–	1,282,332,952
net profit	3211	X	X	X	X	411,424,597	X	411,424,597
revaluation of assets	3212	X	X	870,845,670	X	–	–	870,845,670
income directly attributable to equity	3213	X	X	–	X	62,685	X	62,685
additional shares issue	3214	–	X	–	X	X	X	–
increase in share par value	3215	–	X	–	X		X	–
reorganisation of legal entity	3216	–	–	–	–	–	–	–
placement of buy-backed shares	3217	X	–	X	X	X	X	–
other	3219	–	–	–	–	–	X	–
<b>Decrease in equity – total, including:</b>	3220	–	–	(3,887,528)	–	(186,784,017)	–	(190,671,545)
loss	3221	X	X	X	X	–	X	–
revaluation of assets	3222	X	X	(3,887,528)	X	–	–	(3,887,528)
expenses directly attributable to equity	3223	X	X	X	X	–	–	–
decrease in share par value	3224	–	X	X	X	–	X	–
decrease in number of shares	3225	–	–	X	X	X	X	–
reorganisation of legal entity	3226	–	–	–	–	–	–	–
dividends	3227	X	X	X	X	(186,784,017)	X	(186,784,017)
other	3229	–	–	–	–	–	X	–

Form on OKUD 0710003 p.2

Narrative	Line code	Charter capital	Own shares buy-back	Additional capital	Reserve capital	Retained earnings (loss)	Social government fund	Total
Additional capital change	3230	X	X	(3,870,654)	X	3,870,654	X	–
Reserve capital change	3240	X	X	X	–	–	X	–
<b>Equity as at 31 December 2016</b>	3200	118,367,564	–	5,885,950,326	8,636,001	4,401,046,356	–	10,414,000,247
<b>For 2017</b>								
<b>Increase in equity — total, including:</b>	3310	–	–	–	–	100,536,065	–	100,536,065
net profit	3311	X	X	X	X	100,297,977	X	100,297,977
revaluation of assets	3312	X	X	–	X	X	–	–
income directly attributable to equity	3313	X	X	–	X	238,088	X	238,088
additional shares issue	3314	–	X	–	X	X	X	–
increase in share par value	3315	–	X	–	X	–	X	–
reorganisation of legal entity	3316	–	–	–	–	–	–	–
placement of buy-backed shares	3317	X	–	X	X	X	X	–
other	3319	–	–	–	–	–	X	–
<b>Decrease in equity — total, including:</b>	3320	–	–	–	–	(190,327,942)	–	(190,327,942)
loss	3321	X	X	X	X	–	X	–
revaluation of assets	3322	X	X	–	X	X	–	–
expenses directly attributable to equity	3323	X	X	X	X	–	–	–
decrease in share par value	3324	–	X	X	X	–	X	–
decrease in number of shares	3325	–	–	X	X	X	X	–
reorganisation of legal entity	3326	–	–	–	–	–	–	–
dividends	3327	X	X	X	X	(190,327,942)	X	(190,327,942)
other	3329	–	–	–	–	–	X	–
Additional capital change	3330	X	X	(4,984,641)	X	4,984,641	X	–
Reserve capital change	3340	X	X	X	–	–	X	–
<b>Equity as at 31 December 2017</b>	3300	118,367,564	–	5,880,965,685	8,636,001	4,316,239,120	–	10,324,208,370

## 2. Restatements due to changes in accounting policies and correction of errors

Narrative	Line code	As at 31 December 2015	Change in equity for 2016		As at 31 December 2016
			From net profit (loss)	Due to other factors	
<b>Equity — total before restatement</b>	3400	9,322,338,840	411,424,597	680,236,810	10,414,000,247
restatement due to:					
changes in accounting policies	3410	—	—	—	—
correction of accounting errors	3420	—	—	—	—
after restatement	3500	9,322,338,840	411,424,597	680,236,810	10,414,000,247
including:					
<b>Retained earnings (loss) before restatement</b>	3401	4,172,472,437	411,424,597	(182,850,678)	4,401,046,356
restatement due to:					
changes in accounting policies	3411	—	—	—	—
correction of accounting errors	3421	—	—	—	—
after restatement	3501	4,172,472,437	411,424,597	(182,850,678)	4,401,046,356
<b>Additional capital before restatement</b>	3402	5,022,862,838	—	863,087,488	5,885,950,326
restatement due to:					
changes in accounting policies	3412	—	—	—	—
correction of accounting errors	3422	—	—	—	—
after restatement	3502	5,022,862,838	—	863,087,488	5,885,950,326
<b>Reserve capital before restatement</b>	3403	8,636,001	—	—	8,636,001
restatement due to:					
changes in accounting policies	3413	—	—	—	—
correction of accounting errors	3423	—	—	—	—
after restatement	3503	8,636,001	—	—	8,636,001
<b>Own shares buy-back before restatement</b>	3404	—	—	—	—
restatement due to:					
changes in accounting policies	3414	—	—	—	—
correction of accounting errors	3424	—	—	—	—
after restatement	3504	—	—	—	—
<b>Social government fund before restatement</b>	3405	—	—	—	—
restatement due to:					
changes in accounting policies	3415	—	—	—	—
correction of accounting errors	3425	—	—	—	—
after restatement	3505	—	—	—	—

**3. Net assets**

Narrative	Line code	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Net assets	3600	10,324,208,370	10,414,000,247	9,322,338,840

Chief Executive Officer \_\_\_\_\_ A.B. Miller



(signature)

Chief Accountant \_\_\_\_\_ E.A. Vasilieva



(signature)

30 March 2018

# Cash Flow Statement for 2017

Company PJSC GAZPROM  
Taxpayer identification number  
Field of activity wholesale  
Legal form/property form  
Public Joint Stock Company  
Measurement unit: thousand of RUB

	Codes
Form on OKUD	0710004
Date (day, month, year)	31/12/2017
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22. 47/41
OKEI	384

Narrative	Line code	For reporting period	For the same period of the prior year
<b>Cash flows from operating activities</b>			
<b>Receipts — total, including:</b>	4110	5,378,154,237	5,188,167,787
sales of products, goods, work and services	4111	4,875,429,260	4,706,944,240
rent payments, license payments, royalties, commissions and other payments	4112	—	—
resale of financial investments	4113	—	—
other receipts	4119	502,724,977	481,223,547
<b>Payments — total, including:</b>	4120	(4,509,610,218)	(4,183,927,855)
to suppliers for raw materials, works, services	4121	(3,030,415,380)	(2,782,542,330)
wages and salaries	4122	(42,608,602)	(40,124,474)
interests on borrowings	4123	(99,506,161)	(113,223,285)
income tax	4124	(163,369,691)	(56,588,662)
other payments	4129	(1,173,710,384)	(1,191,449,104)
<b>Net cash flows from operating activities</b>	4100	868,544,019	1,004,239,932

Form on OKUD 0710004 p.2

Narrative	Line code	For reporting period	For the same period of the prior year
<b>Cash flows from investing activities</b>			
<b>Receipts — total, including:</b>	4210	706,885,856	307,407,138
from sales of non-current assets (except for financial investments)	4211	5,951,466	943,715
from sales of shares of other entities (ownership interest)	4212	—	44,925,071
from return of loans issued, sales of debt securities (rights of claiming cash from third parties)	4213	369,403,661	63,309,482
dividends, interest from long-term financial investments and receipts from participation in other entities	4214	331,314,197	193,321,323
from sales of exploration assets	4215	—	—
other receipts	4219	216,532	4,907,547
<b>Payments — total, including:</b>	4220	(1,677,224,818)	(1,132,734,763)
acquisition, construction, modernisation, reconstruction and preparation for the use of non-current assets	4221	(44,580,504)	(63,458,573)
acquisition of other entities shares (ownership interest)	4222	(215,961,839)	(29,872,861)
acquisition of debt securities (rights of claiming cash from third parties), issue of loans to third parties	4223	(606,337,879)	(344,000,603)
borrowing costs included in the cost of the investment asset	4224	—	—
construction/acquisition of exploration assets	4225	(27,731,204)	(51,884,160)
other payments	4229	(782,613,392)	(643,518,566)
<b>Net cash flows from investing activities</b>	4200	(970,338,962)	(825,327,625)
<b>Cash flows from financing activities</b>			
<b>Receipts — total, including:</b>	4310	749,666,618	370,856,555
borrowings and bank loans	4311	749,623,470	370,814,825
contributions of owners (participants)	4312	—	—
issue of shares, increase in ownership interest	4313	—	—
issue of bonds, promissory notes and other debt securities, etc.	4314	—	—
other receipts	4319	43,148	41,730



Narrative	Line code	For reporting period	For the same period of the prior year
<b>Payments — total, including:</b>	4320	(634,473,740)	(516,691,526)
to owners (participants) due to the fact of share buy-back or cessation of membership	4321	—	—
dividend payments or other distribution of profit to owners (participants)	4322	(186,827,990)	(183,250,569)
redemption (buy-back) of promissory notes and other debt securities, loan repayment	4323	(447,645,750)	(333,440,957)
other payments	4329	—	—
<b>Net cash flows from financing activities</b>	4300	115,192,878	(145,834,971)
<b>Net cash flows for the reporting period</b>	4400	13,397,935	33,077,336
<b>Cash and cash equivalents at the beginning of the reporting period</b>	4450	451,992,484	506,973,421
<b>Cash and cash equivalents at the end of the reporting period</b>	4500	461,670,121	451,992,484
<b>Effect of changes in the Russian rouble exchange rate</b>	4490	(3,720,298)	(88,058,273)

Chief Executive Officer \_\_\_\_\_ A.B. Miller  
  
 (signature)

Chief Accountant \_\_\_\_\_ E.A. Vasilieva  
  
 (signature)

30 March 2018

# Explanatory Notes to the Balance Sheet and the Statement of Financial Results

Form on OKUD 0710005 p. 1

## 1. Intangible assets and expenditure on research and development (R&D)

### 1.1 The presence and movement of intangible assets

Narrative	Line code	Period	At the beginning of the year		Changes for the period					At the end of the period	
			Initial cost	Accumulated amortisation and impairment losses	Additions	Disposals	Amortisation charge	Impairment loss	Revaluation	Initial cost	Accumulated amortisation and impairment losses
Intangible assets — total	5100	for 2017	14,234,344	(3,854,258)	5,627,522	—	—	—	—	19,861,866	(5,333,986)
	5110	for 2016	13,799,978	(2,415,115)	436,253	(1,887)	(1,441,030)	—	—	14,234,344	(3,854,258)
Including:											
Intellectual property (exclusive rights to intellectual property)	5101	for 2017	14,234,344	(3,854,258)	5,627,522	—	—	—	—	19,861,866	(5,333,986)
	5111	for 2016	13,799,978	(2,415,115)	436,253	(1,887)	(1,441,030)	—	—	14,234,344	(3,854,258)
Goodwill	5102	for 2017	—	—	—	—	—	—	—	—	—
	5112	for 2016	—	—	—	—	—	—	—	—	—
Other	5104	for 2017	—	—	—	—	—	—	—	—	—
	5114	for 2016	—	—	—	—	—	—	—	—	—

### 1.2 The initial cost of intangible assets developed by the company

Narrative	Line code	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Total	5120	19,846,765	14,221,235	13,785,604
Including:				
Intellectual property (exclusive rights to intellectual property)	5121	19,846,765	14,221,235	13,785,604
Other	5129	—	—	—

Form on OKUD 0710005 p.2

### 1.3 Intangible assets fully amortised

Narrative	Line code	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Total	5190	1,942,235	1,658,213	1,435,409
including:				
intellectual property (exclusive rights to intellectual property)	5131	1,942,235	1,658,213	1,435,409
goodwill	5138	–	–	–
other	5139	–	–	–

### 1.4 The presence and movement of the results of research and development

Narrative	Line code	Period	At the beginning of the year		Changes for the period			At the end of the period	
			Initial cost	Part of the cost recognised in expenses	Additions	Disposals	Part of the cost recognised in expenses	Initial cost	Part of the cost recognised in expenses
Research and Development —	5140	for 2017	30,501,493	(27,913,180)	2,896,486	(372,440)	372,440	33,025,539	(31,118,866)
total	5150	for 2016	31,989,482	(28,523,049)	3,736,232	(5,224,221)	5,224,221	30,501,493	(27,913,180)

Form on OKUD 0710005 p.3

### 1.5 Costs of research and development works and intangible assets acquisition in progress

Narrative	Line code	Period	At the beginning of the year		Costs for the period		Changes for the period		At the end of the period
			Initial cost	Part of the cost recognised in expenses	for the period	Written off to expenses (without positive results)	Recognised as intangible assets or R&D	Part of the cost recognised in expenses	
Costs of R&D in progress —	5160	for 2017	4,170	3,032,069	3,032,069	(139,753)	(2,896,486)	–	–
total	5170	for 2016	18,690	3,729,641	3,729,641	(7,929)	(3,736,232)	4,170	4,170
Acquisitions of intangible assets in progress —	5180	for 2017	4,563,536	4,262,039	4,262,039	–	(3,258,255)	5,567,320	5,567,320
total	5190	for 2016	544,049	4,455,740	4,455,740	–	(436,253)	4,563,536	4,563,536

## 2.1 The presence and movement of fixed assets

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## 2.2 Capital investments in progress

Narrative	Line code	Period	At the beginning of the year	Changes for the period			At the end of the period
				Costs for the period	Written off	Recognised as fixed assets or increased costs	
Construction and activity in progress on acquisition, modernisation etc. of fixed assets — total	5240	for 2017	808,217,222	732,812,142	(10,255,699)	(293,080,273)	1,178,752,852
	5250	for 2016	488,408,510	868,284,068	(37,813,802)	(483,668,959)	808,217,222
including:							
construction in progress	5241	for 2017	628,872,279	660,439,120	(10,237,121)	(293,080,273)	980,089,435
	5251	for 2016	387,122,669	763,382,036	(37,796,400)	(483,668,959)	628,872,279
equipment for installation	5242	for 2017	179,344,943	72,373,022	(18,578)	—	198,663,417
	5252	for 2016	101,285,841	104,902,032	(17,402)	—	179,344,943

## 2.3 Change of the fixed assets cost as a result of completion, equipping, reconstruction or partial liquidation

Narrative	Line code	For 2017	For 2016
Increase in the cost of fixed assets as a result of completion, equipping, reconstruction — total	5260	4,951,929	3,623,169
including:			
trunk pipelines	5261	957,349	125,761
wells	5262	1,443,357	2,094,917
machinery and equipment	5263	257,118	741,854
buildings and roads	5264	1,328,209	69,909
other fixed assets	5265	965,896	590,728
Reducing the cost of fixed assets as a result of partial liquidation — total	5270	(543,442)	(464,737)
including:			
trunk pipelines	5271	(437,181)	(268,974)
wells	5272	(43,417)	(25,678)
machinery and equipment	5273	(452)	(9,092)
buildings and roads	5274	(27,858)	(96,726)
other fixed assets	5275	(34,534)	(64,267)

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## 2.4 Other use of fixed assets

Narrative	Line code	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Leased-out on-balance fixed assets	5280	6,019,018,061	6,491,403,451	5,996,300,393
Leased-out off-balance fixed assets	5281	–	–	–
On-balance fixed assets received in lease	5282	–	–	–
Off-balance fixed assets received in lease	5283	120,205,278	105,230,226	84,616,777
Real estate actually used and in the process of state registration	5284	1,401,483,939	1,606,000,043	1,619,166,988
Fixed assets transferred to conservation	5285	138,930,009	106,660,439	102,030,028
Other use of fixed assets (pledged and others)	5286	–	–	–
including:				
pledged fixed assets	5287	–	–	–

Form on OKUD 0710005 p.7

## 3. Financial investments

### 3.1 The presence and movement of financial investments

Narrative	Line code	Period	At the beginning of the year		Changes for the period			At the end of the period	
			Initial cost	Accrued adjustment	Additions	Disposals	Other	The current market value (impairment loss)	Accrued adjustment
Long-term financial investments — total									
5301 for 2017			2,379,705,607	374,466,634	290,774,727	(222,968,214)	–	132,901,176	507,367,810
5311 for 2016			2,152,826,567	91,089,721	520,805,946	(274,461,454)	350,508	283,026,405	374,466,634
5302 for 2017			1,912,489,714	380,351,062	118,202,234	(4,114,762)	–	132,618,236	512,969,298
5312 for 2016			1,807,891,130	97,142,891	330,074,346	(225,475,762)	–	282,857,663	380,351,062
53021 for 2017			1,827,059,297	386,200,246	117,177,963	(5)	–	133,201,598	519,401,844
53121 for 2016			1,718,017,017	103,037,793	328,045,860	(219,003,680)	–	283,162,453	386,200,246
53022 for 2017			85,184,553	(5,849,031)	1,024,271	(4,037,757)	–	(583,361)	(6,432,392)
53122 for 2016			89,612,244	(5,894,741)	2,028,486	(6,456,177)	–	(304,790)	(5,849,031)
53023 for 2017			245,864	(153)	–	(77,000)	–	(1)	(154)
53123 for 2016			261,869	(161)	–	(16,005)	8	–	(153)

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### 3.1 The presence and movement of financial investments (continued)

Narrative	Line code	Period	At the beginning of the year		Changes for the period			At the end of the period	
			Initial cost	Accrued adjustment	Additions	Disposals	Accrued adjustment	Initial cost	Accrued adjustment
other long-term financial investments, including:	5303	for 2017	467,215,893	(5,884,428)	172,572,493	(218,853,452)	-	418,704,889	(5,601,488)
	5313	for 2016	344,935,437	(6,053,170)	190,731,600	(48,985,692)	-	467,215,893	(5,884,428)
loans provided to companies for a period over 12 months	53031	for 2017	137,190,459	(5,376,752)	172,086,164	(117,974,334)	-	190,122,089	(5,376,752)
	53131	for 2016	204,417,601	(5,376,752)	960,094	(48,963,884)	-	137,190,459	(5,376,752)
joint activity	53032	for 2017	38,265,119	(507,676)	506,329	(445,684)	-	38,325,764	(224,736)
	53132	for 2016	32,580,393	(676,418)	5,721,442	(36,716)	-	38,265,119	(507,676)
third party promissory notes	53033	for 2017	-	-	-	-	-	-	-
	53133	for 2016	-	-	-	-	-	-	-
long-term deposits	53034	for 2017	142,230,915	-	-	(100,000,000)	-	41,161,070	-
	53134	for 2016	83,957	-	142,374,150	(85,092)	-	142,230,915	-
bonds	53035	for 2017	-	-	-	-	-	-	-
	53135	for 2016	-	-	-	-	-	-	-
other	53036	for 2017	149,529,400	-	-	(433,434)	-	149,095,966	-
	53136	for 2016	107,853,486	-	41,675,914	-	-	149,529,400	-
Short-term financial investments — total, including:	5305	for 2017	149,025,251	-	460,921,995	(176,964,065)	-	431,269,748	-
	for 2016	4,383,012	-	163,113,251	(18,471,012)	-	-	149,025,251	-
loans provided to companies for a period less than 12 months	5306	for 2017	149,002,756	-	83,821,988	(49,419,598)	-	183,405,146	-
	5316	for 2016	4,360,517	-	160,497,296	(15,855,057)	-	149,002,756	-
other short-term financial investments, including:	5307	for 2017	22,495	-	377,100,007	(127,544,467)	-	247,864,602	-
	5317	for 2016	22,495	-	2,615,955	(2,615,955)	-	22,495	-
short-term deposits	53071	for 2017	-	-	374,346,733	(124,791,193)	-	247,842,107	-
	53171	for 2016	-	-	-	-	-	-	-
third party promissory notes	53072	for 2017	-	-	-	-	-	-	-
	53172	for 2016	-	-	-	-	-	-	-
bonds	53073	for 2017	-	-	-	-	-	-	-
	53173	for 2016	-	-	-	-	-	-	-
other	53074	for 2017	22,495	-	2,753,274	(2,753,274)	-	22,495	-
	53174	for 2016	22,495	-	2,615,955	(2,615,955)	-	22,495	-
Financial investments — total	5300	for 2017	2,528,730,858	374,466,634	751,696,722	(399,932,279)	-	2,876,551,823	507,367,810
	5310	for 2016	2,157,209,579	91,089,721	683,919,197	(292,932,466)	350,508	2,528,730,858	374,466,634

### 3.1.1 Current portion of long-term financial investments

Narrative	Line code	Period	At the beginning of the year			At the end of the period		
			Initial cost	Including current portion	Accrued adjustment	Including current portion	Accrued adjustment	Including current portion
Long-term financial investments — total	5301	for 2017	2,379,705,607	131,687,194	374,466,634	(5,376,752)	2,445,282,075	74,976,179
	5311	for 2016	2,152,826,567	59,046,902	91,089,721	(5,376,752)	2,379,705,607	131,687,194
Investments, including:	5302	for 2017	1,912,489,714	—	380,351,062	—	2,026,577,186	—
	5312	for 2016	1,807,891,130	—	97,142,891	—	1,912,489,714	—
investments in subsidiaries	53021	for 2017	1,827,059,297	—	366,200,246	—	1,944,237,255	—
	53121	for 2016	1,718,017,017	—	103,037,793	—	1,827,059,297	—
investments in associates	53022	for 2017	85,184,553	—	(5,849,031)	—	82,171,067	—
	53122	for 2016	89,612,244	—	(5,894,741)	—	85,184,553	—
investments in other entities	53023	for 2017	245,864	—	(153)	—	168,864	—
	53123	for 2016	261,869	—	(161)	—	245,864	—
Other long-term financial investments, including:	5303	for 2017	467,215,893	131,687,194	(5,884,428)	(5,376,752)	418,704,889	74,976,179
	5313	for 2016	344,935,437	59,046,902	(6,053,170)	(5,376,752)	467,215,893	131,687,194
loans provided to companies for a period over 12 months	53031	for 2017	137,190,459	31,623,886	(5,376,752)	(5,376,752)	190,122,089	33,816,109
	53131	for 2016	204,417,601	58,900,637	(5,376,752)	(5,376,752)	137,190,459	31,623,886
joint activity	53032	for 2017	38,265,119	—	(507,676)	—	38,325,764	—
	53132	for 2016	32,580,393	—	(676,418)	—	38,265,119	—
third party promissory notes	53033	for 2017	—	—	—	—	—	—
	53133	for 2016	—	—	—	—	—	—
long-term deposits	53034	for 2017	142,230,915	100,000,000	—	—	41,161,070	41,160,070
	53134	for 2016	83,957	82,957	—	—	142,230,915	100,000,000
bonds	53035	for 2017	—	—	—	—	—	—
	53135	for 2016	—	—	—	—	—	—
other	53036	for 2017	149,529,400	63,308	—	—	149,095,966	—
	53136	for 2016	107,853,486	63,308	—	—	149,529,400	63,308



Form on OKUD 0710005 p.9

### 3.2 Other use of financial investments

Narrative	Line code	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Long-term financial investments pledged — total	5320	89,697,597	-	15,274,472
including:				
investments	5321	89,697,597	-	15,274,472
investments in subsidiaries	53211	89,697,597	-	15,274,472
investments in associates	53212	-	-	-
investments in other entities	53213	-	-	-
other long-term financial investments	5322	-	-	-
third party promissory notes	53221	-	-	-
bonds	53222	-	-	-
other	53223	-	-	-
Long-term financial investments transferred to third parties (except sales) — total	5325	10,000	10,000	-
including:				
investments	5326	10,000	10,000	-
investments in subsidiaries	53261	10,000	10,000	-
investments in associates	53262	-	-	-
investments in other entities	53263	-	-	-
other long-term financial investments	5327	-	-	-
third party promissory notes	53271	-	-	-
bonds	53272	-	-	-
other	53273	-	-	-
Short-term financial investments pledged — total	5328	-	-	-
including:				
third party promissory notes	53281	-	-	-
bonds	53282	-	-	-
other	53283	-	-	-
Short-term financial investments transferred to third parties (except sales) — total	5329	-	-	-
including:				
third party promissory notes	53291	-	-	-
bonds	53292	-	-	-
other	53293	-	-	-

## 4. Inventory

### 4.1 The presence and movement of inventory

Narrative	Line code	Period	At the beginning of the year			Changes for the period			At the end of the period				
			Cost	Provision for impairment in value of inventory	Book value	Additions and expenses	Disposals	Impairment loss	Inventory turnover between groups (types)	Cost	Provision for impairment in value of inventory	Book value	
inventory — total	5400	for 2017	488,887,199	–	488,887,199	2,940,080,152	(2,886,509,854)	–	–	–	542,457,497	–	542,457,497
	5420	for 2016	539,864,750	–	539,864,750	2,621,533,461	(2,672,511,012)	–	–	–	488,887,199	–	488,887,199
including:													
raw materials and other inventories	5401	for 2017	4,986,831	–	4,986,831	181,188,965	(180,701,159)	–	–	(138,520)	5,336,117	–	5,336,117
	5421	for 2016	4,607,980	–	4,607,980	182,093,724	(181,881,007)	–	–	166,134	4,986,831	–	4,986,831
livestock	5402	for 2017	93	–	93	–	–	–	–	–	93	–	93
	5422	for 2016	93	–	93	–	–	–	–	–	93	–	93
work in progress	5403	for 2017	303,450,137	–	303,450,137	1,310,775,542	(496,079,419)	–	–	(799,093,544)	319,052,716	–	319,052,716
	5423	for 2016	332,284,836	–	332,284,836	1,249,397,215	(459,484,399)	–	–	(818,747,515)	303,450,137	–	303,450,137
finished goods and goods for resale	5404	for 2017	176,336,296	–	176,336,296	1,446,213,393	(611,385,482)	–	–	(797,847,324)	213,316,883	–	213,316,883
	5424	for 2016	199,359,939	–	199,359,939	1,190,017,764	(506,516,564)	–	–	(706,524,843)	176,336,296	–	176,336,296
goods dispatched	5405	for 2017	4,113,842	–	4,113,842	1,902,252	(1,598,343,794)	–	–	1,597,079,388	4,751,688	–	4,751,688
	5425	for 2016	3,611,902	–	3,611,902	24,758	(1,524,629,042)	–	–	1,525,106,224	4,113,842	–	4,113,842

## 5. Accounts receivable and accounts payable

### 5.1 The presence and movement of accounts receivable

Narrative	Line code	Period	Changes for the period										At the end of the period		
			At the beginning of the year		Additions				Disposals		Transfer from long-term to short-term (and vice versa)		Recognised under the terms of the contract	Provision for doubtful debt	
			Recognised under the terms of the contract	Provision for doubtful debt	As a result of transactions	Interest, penalties and other charges due	Provision for doubtful debt	Settlement	Write off to financial result	Recovery of the provision for doubtful debt	Writing off against provision	Recognised under the terms of the contract			Provision for doubtful debt
Long-term accounts receivable — total	5501	for 2017	377,684,316	(1,206,002)	108,133,468	145,151	—	(225,789)	—	60,775	—	(54,213,827)	—	431,523,319	(1,145,227)
	5521	for 2016	481,448,376	(1,449,079)	(1,044,303)	8,918,944	—	(741,334)	—	243,077	—	(110,897,367)	—	377,684,316	(1,206,002)
including:															
buyers and customers	5502	for 2017	14,387,624	(1,206,002)	(98,026)	—	—	—	—	60,775	—	(5,670,462)	—	8,619,136	(1,145,227)
	5522	for 2016	3,510,563	(1,449,079)	(243,077)	—	—	—	—	243,077	—	11,120,138	—	14,387,624	(1,206,002)
advances issued	5503	for 2017	54,183	—	5,684	—	—	—	—	—	—	(1,920)	—	57,947	—
	5523	for 2016	54,183	—	—	—	—	—	—	—	—	—	—	54,183	—
other debtors	5504	for 2017	363,242,509	—	108,225,810	145,151	—	(225,789)	—	—	—	(48,541,445)	—	422,846,236	—
	5524	for 2016	477,883,630	—	(801,226)	8,918,944	—	(741,334)	—	—	—	(122,017,505)	—	363,242,509	—
Short-term accounts receivable — total	5510	for 2017	1,902,660,277	(518,250,637)	9,789,309,842	461,298,287	(45,893,329)	(10,485,910,615)	(3,081)	157,185,368	(1,825)	54,213,827	—	1,721,566,712	(406,956,773)
	5530	for 2016	2,600,940,874	(585,564,624)	8,825,879,207	200,002,208	(59,640,219)	(9,834,860,429)	(83,858)	106,839,114	(115,092)	110,897,367	—	1,902,660,277	(518,250,637)
including:															
buyers and customers	5511	for 2017	1,201,121,033	(514,998,725)	5,307,846,524	—	(45,685,714)	(5,491,155,638)	—	157,181,515	(1,760)	5,670,462	—	1,023,480,621	(403,501,164)
	5531	for 2016	1,389,950,854	(562,275,759)	4,837,569,782	—	(59,638,009)	(5,015,178,513)	(7,926)	106,822,017	(93,026)	(11,120,138)	—	1,201,121,033	(514,998,725)
advances issued	5512	for 2017	93,435,352	(158,713)	271,281,593	—	(3,949)	(187,377,154)	(482)	50	(65)	1,920	—	177,341,164	(162,547)
	5532	for 2016	51,073,261	(182,264)	161,782,144	—	(360)	(119,398,163)	(2)	2,023	(21,888)	—	—	93,435,352	(158,713)
outstanding participants' (shareholders') contributions to charter capital	5513	for 2017	—	—	—	—	—	—	—	—	—	—	—	—	—
	5533	for 2016	—	—	—	—	—	—	—	—	—	—	—	—	—
other debtors	5514	for 2017	608,103,892	(3,093,199)	4,210,181,725	461,298,287	(203,666)	(4,807,377,823)	(2,599)	3,803	—	48,541,445	—	520,744,927	(3,293,062)
	5534	for 2016	1,159,916,759	(3,106,601)	3,826,527,281	200,002,208	(1,850)	(4,700,283,753)	(75,930)	15,074	(178)	122,017,505	—	608,103,892	(3,093,199)
Accounts receivable — total	5500	for 2017	2,280,344,593	(519,456,639)	9,897,443,310	461,443,438	(45,893,329)	(10,486,136,404)	(3,081)	157,246,143	(1,825)	—	—	2,153,090,031	(408,102,000)
	5520	for 2016	3,082,389,250	(567,013,703)	8,824,834,904	208,921,152	(59,640,219)	(9,835,601,763)	(83,858)	107,082,191	(115,092)	—	—	2,280,344,593	(519,456,639)

## 5.2 Overdue accounts receivable

Narrative	Line code	As at 31 December 2017		As at 31 December 2016		As at 31 December 2015	
		Under a contract	Book value	Under a contract	Book value	Under a contract	Book value
Overdue receivables — total	5540	572,812,236	166,086,580	706,374,235	188,235,705	806,690,284	244,361,668
including:							
buyers and customers	5541	547,226,659	143,952,701	684,481,657	169,595,039	766,474,830	204,419,146
advances issued	5542	1,289,227	1,126,680	1,491,854	1,333,141	2,753,750	2,571,486
other debtors	5543	24,296,350	21,007,199	20,400,724	17,307,525	37,461,704	37,371,036

## 5.3 The presence and movement of accounts payable

Narrative	Line code	Period	At the beginning of the year	Changes for the period			Transfer from long-term to short-term (and vice versa)	At the end of the period
				Additions	Interest, penalties and other charges due	Disposals		
				As a result of transactions		Settlement		Write off to financial result
Long-term accounts payable — total	5551	for 2017	2,411,398	40,561	—	—	(123,913)	2,328,046
	5571	for 2016	2,494,107	41,204	—	—	(123,913)	2,411,398
including:								
suppliers and contractors	5552	for 2017	—	—	—	—	—	—
	5572	for 2016	—	—	—	—	—	—
promissory notes payable	5553	for 2017	—	—	—	—	—	—
	5573	for 2016	—	—	—	—	—	—
restructured debt to budget and state non-budgetary funds	5554	for 2017	—	—	—	—	—	—
	5574	for 2016	—	—	—	—	—	—
advances from customers	5555	for 2017	—	—	—	—	—	—
	5575	for 2016	—	—	—	—	—	—
other creditors	5556	for 2017	2,411,398	40,561	—	—	(123,913)	2,328,046
	5576	for 2016	2,494,107	41,204	—	—	(123,913)	2,411,398

### 5.3 The presence and movement of accounts payable (continued)

Narrative	Line code	Period	At the beginning of the year	Changes for the period			Transfer from long-term to short-term (and vice versa)	At the end of the period
				Additions	Interest, penalties and other charges due	Disposals		
				As a result of transactions	Settlement	Write off to financial result		
Short-term accounts payable — total	5560	for 2017	755,889,069	6,646,130,493	460,355,931	(6,897,674,557)	123,913	964,792,138
	5580	for 2016	672,170,249	5,879,268,022	187,920,375	(5,983,589,636)	123,913	755,889,069
including:								
suppliers and contractors	5561	for 2017	588,032,679	4,170,534,132	412,357	(4,108,850,353)	—	650,097,013
	5581	for 2016	540,330,045	3,573,818,021	745,977	(3,526,859,191)	—	588,032,679
promissory notes payable	5562	for 2017	—	—	—	—	—	—
	5582	for 2016	—	—	—	—	—	—
salaries payable	5563	for 2017	373,397	54,328,275	—	(54,055,075)	—	646,597
	5583	for 2016	334,264	49,149,646	—	(49,110,353)	—	373,397
payable to state non-budget funds	5564	for 2017	202,493	11,219,311	65	(11,127,775)	—	294,094
	5584	for 2016	151,780	10,285,959	1	(10,235,247)	—	202,493
payable to budget	5565	for 2017	76,234,645	889,067,179	222,049	(885,676,082)	—	79,847,791
	5585	for 2016	24,314,332	717,232,913	41,698	(665,354,298)	—	76,234,645
advances from customers	5566	for 2017	57,782,735	933,604,437	—	(944,059,870)	—	47,326,860
	5586	for 2016	67,734,771	811,792,163	—	(821,743,504)	—	57,782,735
dividends payable to participants (shareholders)	5567	for 2017	901,047	—	190,327,942	(190,300,078)	—	928,911
	5587	for 2016	936,714	—	186,784,017	(186,819,684)	—	901,047
other creditors	5568	for 2017	32,362,073	587,377,159	269,393,518	(703,605,324)	123,913	185,650,872
	5588	for 2016	38,368,343	716,989,320	348,682	(723,467,359)	123,913	32,362,073
Accounts payable — total	5550	for 2017	758,300,467	6,646,171,054	460,355,931	(6,897,674,557)	—	967,120,184
	5570	for 2016	674,664,356	5,879,309,226	187,920,375	(5,983,589,636)	—	758,300,467

#### 5.4 Overdue accounts payable

Narrative	Line code	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Overdue payables — total	5590	140,989,236	128,969,191	143,364,213
including:				
suppliers and contractors	5591	138,280,321	124,525,194	141,445,270
promissory notes payable	5592	—	—	—
advances from customers	5593	—	—	—
dividends payable to participants (shareholders)	5594	—	—	—
other creditors	5599	2,708,915	4,443,997	1,918,943

#### 6. Cost of production

Narrative	Line code	For 2017	For 2016
Material costs	5610	1,855,451,786	1,779,497,978
Payroll expenses	5620	48,447,801	43,474,231
Social contributions	5630	10,438,900	9,501,406
Depreciation	5640	709,683,827	628,985,396
Other expenses	5650	199,559,802	178,911,008
Total by cost element	5660	2,823,582,116	2,640,370,019
Change in the balances			
Increase [-];	5670		
finished goods	5671	(250,933,969)	(251,437,030)
other (except intrafirm turnover costs)	5672	(824,594,359)	(845,039,293)
Decrease [+];	5680		
sale of finished products	5681	35,132,845	32,406,841
sale of goods for resale	5682	573,787,596	472,149,886
sale of goods dispatched	5683	1,596,148,567	1,524,529,400
Change in the balance of work in progress (increase [-]/decrease [+])	5690	(15,602,579)	28,834,699
Total expenses attributable to ordinary activities	5600	3,937,520,217	3,601,814,522

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## 7. Estimated liabilities

Narrative	Line code	At the beginning of the year	Accrued	Used	Reversed	At the end of the period
Estimated liabilities — total	5700	98,257,914	93,069,718	(34,696,854)	(15,014,998)	141,615,780
onerous contracts	5702	—	—	—	—	—
liabilities related to the future restructuring	5703	—	—	—	—	—
given guarantee commitment	5704	—	—	—	—	—
legal proceedings	5705	—	913,966	—	—	913,966
other estimated liabilities, including:	5706	90,191,240	81,742,166	(25,174,862)	(14,947,861)	131,810,683
adjustments to gas prices		81,437,436	75,808,137	(24,491,458)	(14,298,571)	118,455,544
estimated asset retirement liability and liability to restore environment disturbed by mineral extraction		7,829,183	1,891,399	—	(540,145)	9,180,437
liabilities of paying remuneration based on performance results	5707	4,371,726	4,695,374	(4,318,278)	(55,289)	4,693,533
liabilities of vacation payment	5708	3,694,948	5,718,212	(5,203,714)	(11,848)	4,197,598
including repayment period up to 1 year		90,428,731	—	—	—	132,435,343

## 8. Security

Narrative	Line code	As at 31 December 2017	As at 31 December 2016	As at 31 December 2015
Received — total	5800	59,244,674	7,533,251	6,885,954
including:				
promissory notes	5801	—	—	—
assets under pledge	5802	—	—	—
including:				
fixed assets	5803	—	—	—
securities and other financial investments	5804	—	—	—
other	5805	—	—	—
Issued — total	5810	313,618,085	233,899,844	393,714,494
including:				
promissory notes	5811	—	—	—
assets under pledge	5812	89,697,597	—	16,967,763
including:				
fixed assets	5813	—	—	—
securities and other financial investments	5814	89,697,597	—	16,967,763
other	5815	—	—	—

## 9. Exploration assets

### 9.1 The presence and movement of exploration assets

Narrative	Line code	Period	At the beginning of the year			Changes for the period					At the end of the period		
			Initial cost	Accumulated depreciation	Impairment loss	Additions	Disposals	Depreciation	Revaluation	Impairment loss	Initial cost	Accumulated depreciation	Impairment loss
							Initial cost	Accumulated depreciation	Initial cost	Accumulated depreciation			
Intangible exploration assets	6010	for 2017	118,241,917	-	-	4,307	(151,815)	-	-	-	118,094,409	(106)	-
	6020	for 2016	111,433,570	-	-	23,340,076	(16,531,729)	-	-	-	118,241,917	-	-
including:													
licenses	6011	for 2017	118,241,917	-	-	4,307	(151,815)	-	-	-	118,094,409	(106)	-
	6021	for 2016	111,433,570	-	-	23,340,076	(16,531,729)	-	-	-	118,241,917	-	-
other	6019	for 2017	-	-	-	-	-	-	-	-	-	-	-
	6029	for 2016	-	-	-	-	-	-	-	-	-	-	-
Tangible exploration assets	6030	for 2017	2,072,214	-	-	38,822	-	-	-	-	2,111,036	-	-
	6040	for 2016	1,502,708	-	-	569,506	-	-	-	-	2,072,214	-	-
including:													
buildings and roads	6031	for 2017	-	-	-	-	-	-	-	-	-	-	-
	6041	for 2016	-	-	-	-	-	-	-	-	-	-	-
wells	6032	for 2017	2,072,214	-	-	38,822	-	-	-	-	2,111,036	-	-
	6042	for 2016	1,502,708	-	-	569,506	-	-	-	-	2,072,214	-	-
machinery and equipment	6033	for 2017	-	-	-	-	-	-	-	-	-	-	-
	6043	for 2016	-	-	-	-	-	-	-	-	-	-	-
other fixed assets	6039	for 2017	-	-	-	-	-	-	-	-	-	-	-
	6049	for 2016	-	-	-	-	-	-	-	-	-	-	-



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## 9.2 Exploration expenses recognised as non-current assets

Narrative	Line code	Period	At the beginning of the year	Expenses for the period	Changes for the period		At the end of the period
					Written off	Recognised as tangible exploration assets or intangible exploration assets	
Exploration expenses recognised as intangible exploration assets	6050	for 2017	205 927	19 646	(42 989)	(4 307)	178 277
	6060	for 2016	203 656	23 342 347	–	(23 340 076)	205 927
Exploration expenses recognised as tangible exploration assets	6070	for 2017	48 959 424	22 727 305	(20 664 110)	(38 822)	50 767 451
	6080	for 2016	39 951 042	11 390 861	(788 618)	(569 506)	48 959 424

Chief Executive Officer \_\_\_\_\_ A.B. Miller  
(signature)

Chief Accountant \_\_\_\_\_ E.A. Vasilieva  
(signature)

30 March 2018

# Explanatory Notes to the Balance Sheet and the Statement of Financial Results in the Statutory Financial Statements for 2017 (in thousand Russian Roubles, unless otherwise stated)

## 1. General information

The principal activity of PJSC Gazprom (the “Company”) is the sale of natural gas. The Company is also involved in other types of activities, which include leasing of assets, gas transportation and storage services, sales of gas condensate and oil and gas refinery products.

The Company's registered address is: 16 Nametkina St., Moscow, 117997, Russian Federation and it has branches and representative offices engaged in business activities in the following cities: Algiers, Astana, Ashkhabad, Brussels, Dokha, Ekaterinburg, Kiev, Kishinev, Krasnodar, Moscow, Novy Urengoy, Beijing, Riga, Rio de Janeiro, Samara, St. Petersburg, Teheran, Tomsk, Khabarovsk and the Moscow Region.

As at 31 December 2017, 2016 and 2015 the Company employed 26,178, 25,550 and 24,840 people, respectively.

As at 31 December 2017 members of the Board of Directors of PJSC Gazprom included:

Zubkov, Viktor Alekseevich — Chairman of the Board of Directors

Akimov, Andrey Igorevich	Mau, Vladimir Alexandrovich
Kulibaev, Timur Askarovich	Miller, Alexey Borisovich
Manturov, Denis Valentinovich	Novak, Alexander Valentinovich
Markelov, Vitaly Anatolievich	Sereda, Mikhail Leonidovich
Martynov, Viktor Georgievich	Patrushev, Dmitry Nikolayevich

As at 31 December 2017 members of the Management Committee of PJSC Gazprom included:

Miller, Alexey Borisovich — Chairman of the Management Committee

Aksyutin, Oleg Evgenyevich	Mikhailova, Elena Vladimirovna
Vasilieva, Elena Alexandrovna	Mikhalev, Vyacheslav Alexandrovich
Golubev, Valery Alexandrovich	Prozorov, Sergey Frolovich
Kruglov, Andrey Vyacheslavovich	Seleznev, Kirill Gennadyevich
Markelov, Vitaly Anatolievich	Fedorov, Igor Yuryevich
Markov, Vladimir Konstantinovich	Khomyakov, Sergey Fyodorovich
Medvedev, Alexander Ivanovich	Cherepanov, Vsevolod Vladimirovich

As at 31 December 2017 members of the Audit Commission of PJSC Gazprom included:

Mironova, Margarita Ivanovna — Chairman of the Audit Commission

Bikulov, Vadim Kasymovich	Platonov, Sergey Revazovich
Gladkov, Alexander Alexeyevich	Petrova, Alexandra Andreevna
Nosov, Yury Stanislavovich	Tarasenko, Oksana Valeryevna
Oganyan, Karen Iosifovich	Fisenko, Tatiana Vladimirovna

## 2. Significant accounting policies and basis of presentation

### Basis of presentation

The financial statements have been prepared in accordance with the accounting and reporting rules applicable in the Russian Federation, specifically with Federal Law "On Accounting" dated 6 December 2011 No. 402-FZ, and the Regulations on Accounting and Reporting in the Russian Federation, approved by Order of the Ministry of Finance of the Russian Federation dated 29 July 1998 No. 34n, as well as the Accounting Policy Regulation approved by order of PJSC Gazprom of 30 December 2016 No. 893.

Assets and liabilities are measured at actual purchase costs, except for regularly revalued fixed assets at the current (replacement) value, intangible and tangible exploration assets, investments for which current market price is determinable, estimated liabilities carried based on current valuation of the amount that will result in decrease of economic benefits and assets for which impairment provisions have been formed in accordance with the generally accepted procedure.

### Assets, liabilities and transactions denominated in foreign currency

Business transactions in foreign currencies have been recorded using the official exchange rate of Russian Rouble as at the date of the relevant transaction. Cash on currency and deposit accounts with banks, cash in hand, securities (except for shares), accounts receivable and payable, including loans issued and raised but without advances received and issued, prepayments and down payments denominated in foreign currency have been recorded using the official exchange rate of Russian Rouble as at the reporting date.

As at 31 December 2017 the official exchange rates of Russian Rouble to US dollar and euro were: RUB 57.6002 to USD 1 (31 December 2016 — RUB 60.6569, 31 December 2015 — RUB 72.8827) and RUB 68.8668 to EUR 1 (31 December 2016 — RUB 63.8111, 31 December 2015 — RUB 79.6972).

Exchange differences arising in the reporting year as a result of transactions involving assets and liabilities denominated in foreign currency as well as revaluation of such assets and liabilities as of the reporting date have been recorded within other income and expenses.

### Current and non-current assets and liabilities

Accounts receivable and accounts payable, including loans and borrowings, are treated in the balance sheet as current assets and liabilities if the term of their circulation (maturity) does not exceed 12 months after the reporting date or is not specified. Accounts receivable and accounts payable, including loans and borrowings, are treated as non-current if the term of their circulation (maturity) exceeds 12 months after the reporting date. Investments are classified as long-term or short-term based on the anticipated period of their use (circulation, ownership or maturity) after the reporting date.

### Research and development results

The balance sheet line "Results of Research and Development" includes expenses for completed research and development (R&D) works, which are not subject to legal protection in accordance with the effective legislation and whose results are used for the company's production or management needs. These expenses are written-off against costs of production (works, services) during the year starting from the date of their actual use for production of products (works, services) on a straight-line basis by decreasing their initial cost. In addition, the above amount includes cost of purchase and creation of incomplete R&D accounted for within investments in non-current assets.

## **2. Significant accounting policies and basis of presentation (continued)**

### **Intangible and tangible exploration assets**

Exploration expenses recognised within tangible exploration assets relate to the following:

- expenses for drilling and development of prospecting and appraisal, exploratory and pre-drilled development wells (drilled at exploration stage until production's commercial viability is confirmed) with breakdown by fields (areas);
- expenses for purchasing and assembling buildings, installations, equipment and facilities, acquisition of vehicles used for prospecting, assessment of fields and exploration of mineral reserves.

Accounting items for tangible exploration assets include wells, buildings, machinery, equipment, installations, facilities, vehicles, metal structures, dedicated tooling and other tools.

Exploration expenses recognised within intangible exploration assets include expenses for acquisition of subsoil use rights.

Accounting items for intangible exploration assets include licences for geological survey, licences for geological survey and production; a standalone delivery (report) that summarises results of performed surveys.

Initial cost of the licence which grants the right to geological survey of a subsoil field or prospecting and exploration of mineral resources is depreciated on a straight-line basis during the licence period.

Initial cost of the combined licence which in addition to the right to geological survey, evaluation of mineral resources and (or) their exploration grants the right to production of mineral resources is not subject to depreciation until production's commercial viability is confirmed.

Tangible exploration assets (machinery and equipment, installations, facilities, vehicles) are depreciated on a straight-line basis during the whole period of their useful lives. Depreciation charges are included in expenses incurred in exploration by respective areas. The Company determines useful lives of exploration assets under the procedure similar to determining useful lives of fixed assets.

When mineral production's commercial viability on subsoil area (field) is confirmed, exploration assets are tested for impairment and transferred to fixed assets, intangible assets or other non-current assets which are intended for development and production of mineral reserves.

The Company assesses whether there is any indication that exploration assets may be impaired as at 31 December of the reporting year and when production's commercial viability on subsoil site (field) is confirmed. The amounts of exploration assets' impairment were charged to other expenses of the reporting year.

Data about availability and movement of exploration assets and exploration expenses related to acquisition (creation) of exploration assets are presented in table form 9.1 "The Presence and Movement of Exploration Assets" and table form 9.2 "Exploration Expenses Recognised as Non-Current Assets" of the Explanatory Notes to the Balance Sheet and the Statement of Financial Results.

### **Fixed assets**

Fixed assets include assets which conform to the requirements of the Russian Accounting Regulation "Accounting for Fixed Assets" (RAR 6/01) approved by order of the Russian Ministry of Finance dated 30 March 2001, No. 26n, and which are recognised as appropriate.

Real property assets which have been constructed, put into operation and are actually used but the title to which was not registered under the procedure established by the effective legislation are accounted for within fixed assets in a separate line.

In the balance sheet fixed assets acquired before 1 January 2017 are shown at replacement cost measured as of 31 December 2016, less depreciation. Fixed assets added starting from 1 January 2017 are shown at initial cost, less depreciation accumulated during the period of their use.

Fixed assets acquired and completed before 1 January 2002 are depreciated at uniform depreciation rates approved by Decree of the USSR Council of Ministers dated 22 October 1990, No. 1072 "On Uniform Depreciation Rates of Fixed Assets of the USSR National Economy". Fixed assets acquired after 1 January 2002 are depreciated at rates determined based on their estimated useful lives. Classification of fixed assets by depreciation groups approved by Resolution of the Russian Government dated 1 January 2002 No. 1 ("the Classification"), is used as

## 2. Significant accounting policies and basis of presentation (continued)

one of the sources of information about useful lives of fixed assets. Useful lives adopted by the Company for major groups of fixed assets are presented as follows:

	Useful lives of assets carried on the balance sheet (number of years)	
	before 1 January 2002	after 1 January 2002
Trunk pipelines	33	25
Wells	12–15	10–25
Machinery and equipment	10–18	3–18
Buildings	20–50	7–100

Fixed assets are depreciated on a straight-line basis.

The following assets are not depreciated:

- land plots;
- suspended assets (above 3 months);
- assets which liquidation takes more than a month;
- housing assets commissioned prior to 1 January 2006 (similar assets acquired after 1 January 2006 are depreciated in accordance with the generally accepted procedure);
- fully depreciated assets that are still on the balance sheet.

Assets that comply with the criteria of their recognising as fixed assets and with value below RUB 40,000 (inclusively) per unit are recorded within inventory including assets (tools and other inventory) and special clothing, which are not fully consumed after their transfer to production and their useful life exceeds 12 months. Prior to 1 January 2011 assets with the cost below RUB 20,000 per unit were accounted for within inventory. To ensure safety of the assets with the value below RUB 20,000 and RUB 40,000 recorded within inventory when they are transferred in production or operation, the Company implemented the control over their movement. Fixed assets with the value between RUB 20,000 and RUB 40,000 which were recorded prior to 1 January 2011 are accounted for within fixed assets and depreciated under the generally accepted procedure.

### Capital investments in progress

Capital investments in progress are represented by real estate assets under construction, which have not been put into operation, equipment subject to assemblage, equipment not subject to assemblage but stored in warehouses and intended for assets under construction and recorded within investments in non-current assets in a separate line, inventories intended for assets under construction, estimated liabilities on liquidation of the wells transferred for conservation upon construction completion, other capital investments not included within fixed assets.

### Financial investments

Investments are recorded at their initial cost, being their actual cost of acquisition, except for investments for which the market value is determinable.

Investments for which the market value is determinable are recognised for accounting and reporting purposes as at the end of the reporting period by their types at current market value. This value is determined at their average daily price (quote) for the transactions effected during the selling day at Moscow Exchange and calculated under the procedure specified by the institutor of trading on the securities market. The current market value can be determined based on data of other institutors of trading including foreign ones having the respective licence issued by the national authorised body. The difference between the value of these investments as at the current reporting date and their prior value is recorded within other income and expenses.

Investments for which the fair market value cannot be reliably measured and significant and constant impairment indicators exist at the reporting date are presented in the year-end balance sheet at their carrying (book) value net of the impairment provision. The investment impairment provision is determined annually based on the stock taking results as at 31 December of the reporting year. For the purposes of determining the provision amount the Company estimated the cost of investments, for which significant and constant impairment indicators exist, on the

## **2. Significant accounting policies and basis of presentation (continued)**

basis of the available information and created the investment impairment provision in the amount by which the carrying (book) value of investments exceeded their estimated value. Changes in the above provision resulting from the year-end stock-take are posted to other expenses and income.

Securities which do not have market value (except for those individually identifiable, including promissory notes and certificates of deposit) are recorded upon their disposal (by types) under the FIFO method. Other investments (including individually identifiable securities (such as promissory notes and certificates of deposit) with an undeterminable market value are recorded upon disposal at the initial cost of each unit.

Income and expenses attributable to transactions with investments are recorded within other income and expenses.

### **Inventory**

The main type of inventory is natural gas pumped into pipelines and underground storage. On the balance sheet gas inventory is measured at the weighted average cost.

### **Work in progress**

The balance sheet line "Work in Progress" includes gas transportation and storage costs attributable to outstanding gas balances.

### **Selling and administrative expenses**

Selling expenses, except for the cost of natural gas transportation and storage, are written off in full on a monthly basis to expenses incurred in ordinary activities. Costs of natural gas transportation and storage are allocated in proportion to the volumes of gas sold and to the volumes of gas pumped into pipelines and underground storage within the reporting period.

Administrative expenses are expensed in full on a monthly basis to expenses incurred in ordinary activities.

### **Accounts receivable and accounts payable**

Trade accounts receivable are recorded based on prices contracted between the Company and buyers (customers) taking into account all discounts and mark-ups provided by the Company. Bad debts are written-off when recognised as such based on the stock taking results.

Doubtful receivables that are very likely to become uncollectible are stated net of provisions for doubtful receivables. Accrued provisions for doubtful receivables are recorded within other expenses. A corresponding amount of provision for doubtful receivables is released and posted to other income when the respective receivables are repaid.

In table form 5.1 "The Presence and Movement of Accounts Receivable" of the Explanatory Notes to the Balance Sheet and the Statement of Financial Results the accounts receivable which arise and are repaid (written off) in the same reporting period are disclosed on a gross-up basis. Accounts payable are disclosed in a similar manner.

### **Cash equivalents and presentation of cash flows in the cash flow statement**

Cash equivalents comprise highly liquid investments which are readily convertible into a predictable amount of cash and are only exposed to an insignificant risk of changes in value.

The Company recognises within cash equivalents its short-term bank deposits with a maturity of up to 3 months and includes them in the balance sheet line "Cash and Cash Equivalents".

The Company's cash flows which cannot be clearly attributed to cash flows from operating, investing or financing activities are included in the cash flows from operating activities in the cash flow statement.

Data about availability and movement of cash flows denominated in foreign currency for the purposes of presentation in the cash flow statement are translated into roubles at the official foreign currency exchange rate set by the Central Bank of Russia as of the date of payment or receipt thereof.

## 2. Significant accounting policies and basis of presentation (continued)

Any difference arising on translation of foreign currency-denominated cash flows, cash balances and cash equivalents at the exchange rates as at the date of transaction and reporting dates, is included in the line "Effect of Changes in the Russian Rouble Exchange Rate" in the cash flow statement.

The following items are presented on a net basis in the cash flow statement:

- receipts and payments arising from foreign exchange transactions;
- commissioner's (agent's) cash flows due to rendering agency services (except for the fees for services rendered);
- cash flows characterised by prompt turnover, large volume and short repayment periods;
- indirect taxes within receipts from customers and buyers and payments made to suppliers and contractors;
- other settlements that relate to the operations of company's counterparties rather than its own operations.

### Loans and borrowings received

Interest on loans and borrowings received and additional costs related to the receipt of loans and borrowings are included in other expenses in the reporting period in which they are incurred.

Loans and (or) borrowings payable by the Company are recognised in the amount of actually received cash.

Loans and borrowings raised by the Company are mainly intended for corporate purposes. Under the contracts for the implementation of investment projects the Company provides its subsidiaries that act as property developers in these projects with loans. The Company does not calculate a share of interest on loans and borrowings which are not directly associated with financing the investing activities, to be included in the investment asset. This accounting treatment is based on the rationality requirement.

As at 31 December 2017 the Russian Federation Central Bank's refinance rate is 7.75%. During 2017, the Russian Federation Central Bank's refinance rate decreased from 10.00% to 7.75%.

### Estimated liabilities

The Company recognises the following estimated liabilities:

- remuneration based on annual performance results;
- payment of vacations;
- compensation payable to employees upon their retirement;
- other estimated liabilities.

Liabilities related to payments of the annual remuneration based on annual performance results are determined on the basis of stock take results and the adopted procedure for calculating remuneration based on annual performance results.

Liabilities related to vacation payments are determined based on the number of basic and additional vacation days earned but not used by all employees during their service at the Company as of the reporting date and their average daily salary.

Liabilities related to payments of one-time allowance upon retirement are made as at the date of the Company's employee reaching pension age and ceased upon expiration of six months from the reporting date.

The above estimated liabilities are recognised as at the reporting date.

In addition, the Company records estimated liabilities with regard to adjustments to gas prices arising out of requirements made by buyers under the contractual terms, and to other products. The effect of adjustments to gas prices including the respective impact on income tax is recognised in the financial statements when the probability that the liabilities arise is high and the liabilities can be reliably estimated.

Estimated liabilities are recognised within expenses incurred in ordinary activities and other expenses.

The Company records estimated asset retirement liabilities, including retirement of wells suspended upon construction completion, within investments to non-current assets. These estimated liabilities are valued based on the costs which the Company is expected to incur in fulfilling its estimated liabilities as a result of restoring the environment disturbed through its business activities. Estimated asset retirement liabilities, including retirement of wells suspended



## **2. Significant accounting policies and basis of presentation (continued)**

upon construction completion, are recorded within the cost of the assets upon completion of construction supported by proper valuation evidence.

The Company records estimated liabilities related to remediation of field soils. Expenses for this liability are accounted for within expenses incurred in ordinary activities if infrastructure facilities are accounted for within fixed assets and within non-current assets if infrastructure facilities are accounted for within construction in progress. Estimated liabilities related to soil remediation are recognised supported by proper valuation evidence.

Estimated liabilities are recognised in balance sheet lines 1430 and 1540 "Estimated Liabilities".

### **Taxation**

The Company has been a responsible member of the consolidated group of taxpayers (CGT) since 1 January 2012.

The Company independently prepares information about income tax in accordance with RAR 18/02. Temporary and permanent differences are determined by the Company based on its income and expenses in accordance with the Russian Tax Code. Current income tax is determined based on the accounting data and recognised in the statement of financial results in line 2410 "Current Income Tax". Difference between current income tax calculated by the Company for inclusion in the consolidated tax base of CGT and cash payable by the Company under the CGT agreement is recognised in line 2465 "Reallocation of Income Tax within the CGT" of the statement of financial results and taken into account to calculate the Company's net profit (loss) but not considered for calculating the Company's profit (loss) before tax.

Income tax payable related to CGT as a whole and to be paid by the Company as a responsible member of CGT is recognised in balance sheet line 1524 "Taxes Payable".

Income tax overpayments related to CGT are recorded in balance sheet line 1239 "Other Debtors".

Balances on settlements with CGT members related to CGT income tax payable (interim payment) are recognised in the balance sheet within current assets in line 1239 "Other Debtors" and current liabilities in line 1528 "Other Settlements" on a gross basis.

### **Revenue recognition**

Revenue from sales of products and delivery of services is recognised as the products/services are delivered/provided and relevant settlement documents are presented. Revenue is stated net of value-added tax, excise, customs duty and similar mandatory charges.

### **Segment information**

The Company, its subsidiaries and associated companies (Gazprom Group) operate as a vertically-integrated business. The principal activities of Gazprom Group are exploration, production, gas transportation and storage, sales of gas in the Russian Federation and abroad, oil and gas condensate production, sale of oil and gas condensate, oil, gas condensate and other hydrocarbons refining and sales of refined products, sales of electricity and heat. Management information which results are analysed on a regular basis by the Company's chief operating decision-makers responsible for distribution of resources within the Company and assessment of these results is prepared with regard to Gazprom Group operations. Considering the fact that the Company's activities as a legal entity and its managing the Group's operations are tightly connected, the management decisions and distribution of resources are made by persons with respective powers at the Group level; separate management accounts that relate to the Company's operations exclusively and do not cover the whole Group, are not prepared with a breakdown by directions. Therefore, segment information is disclosed in Gazprom Group consolidated financial statements.



### 3. Changes in accounting policies

No significant changes have been made to the Company's accounting policies for 2017 and 2018.

### 4. Adjustments to prior reporting period data

Certain data of the statement of financial results for 2016 were adjusted due to the following events:

1. Income and expenses from foreign exchange transactions are presented on a net basis in lines 2340 "Other Income" and 2350 "Other Expenses" as transaction gains and losses (adjustment 1).  
Adjustments to the 2016 data in the annual financial statements for 2017:

2340	Other income	4,495,250,616	1	(3,067,606,616)	1,427,644,000
2350	Other expenses	(4,283,878,698)	1	3,067,606,616	(1,216,272,082)

### 5. Fixed assets

	Trunk pipelines	Wells	Machinery and equipment	Buildings	Other	Total
<b>As at 31 December 2015</b>						
Initial (replacement) cost	11,581,231,656	1,473,147,174	2,748,045,071	816,943,762	2,361,783,541	18,981,151,204
Accumulated depreciation	(8,249,917,641)	(1,165,141,438)	(1,957,965,100)	(365,079,887)	(877,576,874)	(12,615,680,940)
<b>Net book value</b>	<b>3,331,314,015</b>	<b>308,005,736</b>	<b>790,079,971</b>	<b>451,863,875</b>	<b>1,484,206,667</b>	<b>6,365,470,264</b>
<b>As at 31 December 2016</b>						
Initial (replacement) cost	13,406,596,368	1,674,784,254	3,352,675,034	950,396,395	2,914,368,468	22,298,820,519
Accumulated depreciation	(9,798,648,525)	(1,349,933,869)	(2,477,185,902)	(437,495,512)	(1,160,803,371)	(15,224,067,179)
<b>Net book value</b>	<b>3,607,947,843</b>	<b>324,850,385</b>	<b>875,489,132</b>	<b>512,900,883</b>	<b>1,753,565,097</b>	<b>7,074,753,340</b>
<b>As at 31 December 2017</b>						
Initial (replacement) cost	13,490,922,427	1,681,600,257	3,426,084,992	963,565,126	2,996,039,934	22,558,212,736
Accumulated depreciation	(10,131,049,404)	(1,388,875,237)	(2,634,573,106)	(461,763,086)	(1,296,575,231)	(15,912,836,064)
<b>Net book value</b>	<b>3,359,873,023</b>	<b>292,725,020</b>	<b>791,511,886</b>	<b>501,802,040</b>	<b>1,699,464,703</b>	<b>6,645,376,672</b>

Net book value of fixed assets leased out to subsidiaries amounted to RUB 5,932,637,112 thousand, RUB 6,341,297,875 thousand and RUB 5,852,628,672 thousand as at 31 December 2017, 2016 and 2015, respectively. As at 31 December 2017, 2016 and 2015 fixed assets included also property items that had been constructed and put into operation but were still to be registered, amounted to RUB 1,401,483,939 thousand, RUB 1,606,000,043 thousand and RUB 1,619,166,988 thousand, respectively (net of accumulated depreciation in the amount of RUB 202,848,306 thousand, RUB 198,620,571 thousand and RUB 163,312,757 thousand, respectively). As at 31 December 2017 the following production infrastructure facilities represent the most significant real property assets, the title to which is undergoing registration: gas trunk pipeline Bovanenkovo — Ukhta 186.7 km — 526.7 km (1st line); gas trunk pipeline Bovanenkovo — Ukhta 860.5 km — 1074.0 km (1st line); South European gas pipeline. Pisarevka — Anapa 570 km — 768.5 km; gas trunk pipeline Bovanenkovo — Ukhta (2nd line), an underwater crossing through Baydaratskaya Bay (3rd line); gas trunk pipeline Bovanenkovo — Ukhta (2nd line), an underwater crossing through Baydaratskaya Bay (4th line).

## 5. Fixed assets (continued)

### Revaluation of fixed assets

The Company revalued its fixed assets as at 31 December 2016.

	Trunk pipelines	Wells	Machinery and equipment	Buildings	Other	Total
Revaluation surplus posted to additional capital	471,501,676	31,221,031	94,954,332	53,079,026	220,089,605	870,845,670
Revaluation surplus (in the part related to the revaluation write-down posted earlier to other income)	16,348	10,139	410,233	379,730	450,283	1,266,733
Revaluation write-down posted to other expenses	(62,846)	(175,790)	(2,140,030)	(39,205)	(2,920,233)	(5,338,104)
Revaluation write-down (in the part related to revaluation surplus posted earlier to additional capital)	(2,928,578)	(82,409)	(417,354)	(324,584)	(134,603)	(3,887,528)
<b>Total revaluation of fixed assets at their current (replacement) cost</b>	<b>468,526,600</b>	<b>30,972,971</b>	<b>92,807,181</b>	<b>53,094,967</b>	<b>217,485,052</b>	<b>862,886,771</b>

The conducted analysis of current (replacement) cost has revealed that the current (replacement) cost of fixed assets as at 31 December 2017 does not significantly differ from their current (replacement) cost as at 31 December 2016; therefore, revaluation as at 31 December 2017 was recognised unreasonable.

## 6. Financial investments

### Long-term financial investments

#### Investments in subsidiaries and associates

Information on investments in subsidiaries and associates is provided in Note 18.

"Investments in Subsidiaries" (balance sheet line 1171) are presented net of impairment provision of RUB 25,049,936 thousand, RUB 26,468,215 thousand and RUB 26,557,377 thousand as at 31 December 2017, 2016 and 2015, respectively.

"Investments in Associates" (balance sheet line 1172) are presented net of impairment provision of RUB 6,998,676 thousand, RUB 5,910,493 thousand and RUB 6,260,993 thousand as at 31 December 2017, 2016 and 2015, respectively.

#### Investments in other entities

"Investments in Other Entities" (balance sheet line 1173) are presented net of impairment provision of RUB 154 thousand as at 31 December 2017, RUB 153 thousand as at 31 December 2016 and RUB 161 thousand as at 31 December 2015.

#### Loans provided to companies for a period over 12 months

"Loans Provided to Companies for a Period over 12 Months" (balance sheet line 1174) include long-term loans of RUB 156,305,980 thousand, RUB 105,566,573 thousand and RUB 145,516,964 thousand as at 31 December 2017, 2016 and 2015, respectively.

#### Other long-term investments

Other long-term investments included within "Financial Investments" (balance sheet line 1170) are presented net of impairment provision of RUB 224,736 thousand, RUB 507,676 thousand, RUB 676,418 thousand as at 31 December 2017, 2016 and 2015, respectively. The provision relates to investments in joint activities.

## 6. Financial investments (continued)

	31 December		
	2017	2016	2015
Joint activities	38,101,028	37,757,443	31,903,975
including:			
development of oil and gas fields on continental shelf of the Socialist Republic of Vietnam (operator — JSC Gazprom zarubezhneftegaz)	33,928,183	33,421,854	27,793,137
development of a satellite communication system (operator — JSC Gazprom Space Systems)	3,345,047	3,345,047	3,252,323
Long-term deposits	—	42,229,915	—
Other	149,096,966	149,467,092	107,791,178
including:			
Investment in additional capital of South Stream Transport B.V.	149,095,966	149,095,966	107,420,052
South Pars (oil and gas field located in Iran)	—	370,126	370,126
<b>Total</b>	<b>187,197,994</b>	<b>229,454,450</b>	<b>139,695,153</b>

Long-term investments include securities of other entities, mainly investments in the shares of subsidiaries and associates and other entities, and investments in cooperatives of RUB 1,805,497,254 thousand, RUB 1,584,188,023 thousand and RUB 1,304,930,580 thousand as at 31 December 2017, 2016 and 2015, respectively, including foreign entities of RUB 629,041,998 thousand, RUB 538,454,079 thousand and RUB 536,966,340 thousand as at 31 December 2017, 2016 and 2015, respectively.

Additional information is provided in table forms 3.1 “The Presence and Movement of Financial Investments”, 3.1.1 “Current Portion of Long-Term Financial Investments” and 3.2 “Other Use of Financial Investments” of the Explanatory Notes to the Balance Sheet and the Statement of Financial Results. In table form 3.1 “The Presence and Movement of Financial Investments” data are presented with regard to the current part of long-term investments.

## 7. Other non-current assets

As at 31 December 2017, 2016 and 2015 other non-current assets included long-term advances paid under the capital construction agreement in the amount of RUB 11,288,169 thousand, RUB 5,496,314 thousand and RUB 3,572,836 thousand, respectively, expenses of future periods under capital construction agreements in the amount of RUB 1,257,739 thousand, RUB 1,586,232 thousand and RUB 0 thousand as at 31 December 2017, 2016 and 2015, as well as the subsoil use licences of RUB 17,089,380 thousand, RUB 18,224,801 thousand, RUB 3,624,551 thousand as at 31 December 2017, 2016 and 2015, respectively.

## 8. Accounts receivable

### Trade receivables

	31 December		
	2017	2016	2015
Accounts receivable for gas sold:	482,052,954	498,204,513	595,804,778
in Russia	248,478,966	278,559,637	316,375,927
outside Russia (net of doubtful debt provision of RUB 403,150,696 thousand, RUB 514,812,256 thousand and RUB 562,468,928 thousand as at 31 December 2017, 2016 and 2015, respectively), including:	233,573,988	219,644,876	279,428,851
to far abroad countries (net of doubtful debt provision of RUB 8,786,564 thousand, RUB 9,252,846 thousand and RUB 13,114,650 thousand as at 31 December 2017, 2016 and 2015, respectively)	207,344,131	186,646,663	232,399,369
Accounts receivable for property lease services (net of doubtful debt provision of RUB 1,417,996 thousand, RUB 1,292,767 thousand and RUB 1,156,229 thousand as at 31 December 2017, 2016 and 2015, respectively)	106,261,024	151,780,680	167,345,639
Accounts receivable for services related to arrangement of gas transportation (net of doubtful debt provision of RUB 0 thousand, RUB 0 thousand and RUB 93,026 thousand as at 31 December 2017, 2016 and 2015, respectively)	5,209,613	8,041,518	7,827,370
Accounts receivable for gas condensate and oil and gas refinery products sold (net of doubtful debt provision of RUB 65 thousand, RUB 65 thousand, RUB 65 thousand as at 31 December 2017, 2016 and 2015, respectively)	30,206,062	37,473,392	37,328,540
Other trade receivables (net of doubtful debt provision of RUB 77,634 thousand, RUB 99,639 thousand, and RUB 6,590 thousand as at 31 December 2017, 2016 and 2015, respectively)	3,723,713	3,803,827	21,430,252
<b>Total</b>	<b>627,453,366</b>	<b>699,303,930</b>	<b>829,736,579</b>

The accounts receivable recorded in the balance sheet line "Accounts Receivable from Buyers and Customers (payments expected within 12 months after the reporting date)" (line 1236) are presented net of a doubtful debt provision of RUB 403,501,164 thousand, RUB 514,998,725 thousand and RUB 562,275,759 thousand as at 31 December 2017, 2016 and 2015, respectively. The doubtful debt provisions were calculated net of a deferred excise in the amount of RUB 88,593 thousand, RUB 88,593 thousand and RUB 88,593 thousand as at 31 December 2017, 2016 and 2015, respectively. Deferred excise reduces the balance sheet line "Other Settlements" (line 1528).

The balance sheet line "Accounts Receivable from Buyers and Customers (payments expected beyond 12 months after the reporting date)" (line 1232) includes a non-current portion of the receivable due from LLC Gazprom gazenergoset that was restructured in 2016 in accordance with the debt restructuring agreement dated 12 February 2016 in the amount of RUB 6,771,963 thousand, RUB 11,411,683 thousand as at 31 December 2017 and 2016, respectively.

### Advances receivable

The balance sheet line "Advances Issued" (line 1238) within accounts receivable payments for which are expected beyond 12 months after the reporting date, includes advances paid under the agency contracts on the implementation of investment projects in the amount of RUB 168,771,331 thousand as at 31 December 2017, RUB 81,526,645 thousand as at 31 December 2016, and RUB 34,157,997 thousand as at 31 December 2015.

## 8. Accounts receivable (continued)

### Other receivables

"Accounts Receivable from Other Debtors (payments expected beyond 12 months after the reporting date)" (balance sheet line 1234) include accounts receivable from LLC Gazprom neft shelf related to the payment of reimbursement under the agreement dated 31 October 2014 which provides for the withdrawal of PJSC Gazprom from the joint activities agreement in the amount of RUB 82,078,064 thousand, as at 31 December 2017, 2016 and 2015, respectively.

The Company concludes investment agreements with developers and agents (mainly its subsidiaries) for construction and commissioning of fixed assets. The Company is the owner of all assets constructed under such investment and agency agreements. Subsidiaries have no right to sell, pledge or otherwise dispose of such assets.

A long-term portion of accounts receivable from subsidiaries relates to amounts received for investment project financing and is presented in the balance sheet line "Accounts Receivable from Other Debtors (payments expected beyond 12 months after the reporting date)" (line 1234) in the amount of RUB 194,748,267 thousand, RUB 232,546,318 thousand and RUB 358,945,776 thousand as at 31 December 2017, 2016 and 2015, respectively.

A current portion of accounts receivable from subsidiaries relates to amounts received for investment project financing and is presented in the balance sheet line "Accounts Receivable from Other Debtors (payments expected within 12 months after the reporting date)" (line 1239) in the amount of RUB 152,686,519 thousand, RUB 204,618,225 thousand and RUB 414,960,617 thousand as at 31 December 2017, 2016 and 2015, respectively.

Additional information is provided in table forms 5.1 "The Presence and Movement of Accounts Receivable" and 5.2 "Overdue Accounts Receivable" of the Explanatory Notes to the Balance Sheet and the Statement of Financial Results.

## 9. Cash and cash equivalents

### The structure of cash and cash equivalents

	31 December		
	2017	2016	2015
Cash on hand	20,358	25,184	27,062
Cash on settlement accounts	142,896,201	214,232,806	278,070,685
Cash on foreign currency accounts	148,827,627	235,975,248	227,226,726
Cash on special bank accounts	169,909,980	1,738,436	1,643,847
Cash in transit	15,955	20,810	5,101
<b>Total cash</b>	<b>461,670,121</b>	<b>451,992,484</b>	<b>506,973,421</b>

Cash flows from operating activities recognised in line "Other Receipts" (line 4119) of the cash flow statement include on a net basis cash received from members of the consolidated group of taxpayers (CGT) (established in 2012) for the purpose of CGT income tax settlements in the amount of RUB 44,982,027 thousand and RUB 30,553,979 thousand in 2017 and 2016, respectively; advances received from buyers (customers) in the amount of RUB 16,274,087 thousand and RUB 20,031,591 thousand for 2017 and 2016, respectively; proceeds on a net basis from the payment of interest-free loans issued to subsidiaries in the amount of RUB 237,259,664 thousand and RUB 155,258,628 thousand for 2017 and 2016, respectively; net based indirect taxes related to operating activities that are presented within payments to suppliers and contractors and proceeds from buyers and customers in the amount of RUB 179,305,552 thousand and RUB 180,926,567 thousand for 2017 and 2016, respectively.

The line "Income Tax" (line 4124) includes a net based amount of the income tax attributable to the CGT in the amount of RUB 163,369,691 thousand and RUB 56,588,662 thousand for 2017 and 2016, respectively.

Cash flows from operating activities recognised in line "Other Payments" (line 4129) of the cash flow statement include contributions to subsidiaries' property in the amount of RUB 237,166,220 thousand and RUB 252,253,565 thousand for 2017 and 2016, respectively;

## 9. Cash and cash equivalents (continued)

interest-free loans issued to subsidiaries in the amount of RUB 126,933,339 thousand and RUB 230,482,441 thousand for 2017 and 2016, respectively; cash presented on a net basis used to pay customs duties in the amount of RUB 581,373,408 thousand and RUB 534,187,032 thousand for 2017 and 2016, respectively; advances made to suppliers (contractors) in the amount of RUB 4,135,432 thousand and RUB 3,997,124 thousand for 2017 and 2016, respectively; cash refunds to gas buyers due to adjusted gas prices in the amount of RUB 28,403,206 thousand in 2017 and RUB 8,242,666 thousand in 2016.

Cash flows from investing activities recognised in line "Other Payments" (line 4229) of the cash flow statement include on a net basis cash used to finance investment (agency) agreements in the amount of RUB 767,919,145 thousand and RUB 624,855,312 thousand for 2017 and 2016, respectively; net based indirect taxes related to investing activities that are presented within payments to suppliers and contractors and proceeds from buyers and customers amounted to RUB 11,816,986 thousand and RUB 9,960,668 thousand for 2017 and 2016, respectively.

## 10. Equity and reserves

### Charter capital

The Company's charter capital amounts to RUB 118,367,564 thousand (23,673,513 thousand fully paid common shares with a nominal value of RUB 5 each) and it did not change in 2017.

In accordance with the decision of the general shareholders' meeting, final dividends on the Company's 2016 results were accrued in the amount of RUB 8.0397 per one common share. Dividends paid amounted to RUB 189,948,536 thousand. Final dividends on the Company's 2015 results were accrued in the amount of RUB 7.89 per one common share. Dividends paid amounted to RUB 186,488,617 thousand. Final dividends on the Company's 2014 results were accrued in the amount of RUB 7.20 per one common share. Dividends paid amounted to RUB 170,195,188 thousand (including taxes).

### Reserve capital

In 2017, 2016 and 2015 the Company did not make any contributions to the reserve fund from its net profit as the target limit of the fund was reached (7.3% of the charter capital).

## 11. Borrowings and loans

### Bank loans

Lenders	Currency	Maturity	31 December		
			2017	2016	2015
Bank of China Limited <sup>1</sup>	Euro	2016–2021	138,992,332	128,788,525	–
China Construction Bank Corporation <sup>1</sup>	US dollars	2015–2020	75,698,833	92,626,940	111,077,214
JP Morgan Europe Limited <sup>1</sup>	Euro	2017–2022	68,912,807	–	–
JP Morgan Europe Limited <sup>1</sup>	Euro	2017–2020	55,141,188	–	–
Crédit Agricole CIB	Euro	2017–2022	48,595,092	–	–
UniCredit S.P.A.	Euro	2017–2022	27,573,578	–	–
VTB Bank (Europe) SE	Euro	2017–2027	19,644,135	–	–
BNP Paribas SA <sup>1</sup>	Euro	2015–2022	14,068,551	15,643,537	22,801,834
Deutsche Bank Luxembourg S.A.	Euro	2017–2022	13,817,775	–	–
UniCredit S.P.A.	Euro	2015–2019	9,547,800	14,744,782	23,940,242
Citibank N.A. <sup>1</sup>	US dollars	2015–2021	7,420,405	10,042,189	14,734,060
Intesa Sanpaolo S.P.A.	Euro	2015–2019	4,433,349	6,847,842	11,956,971
JP Morgan Europe Limited <sup>1</sup>	US dollars	2015–2018	3,601,496	18,961,990	36,694,342
Commerzbank AG	US dollars	2015–2035	2,482,937	2,401,484	2,650,475

## 11. Borrowings and loans (continued)

Lenders	Currency	Maturity	31 December		
			2017	2016	2015
Intesa Sanpaolo S.P.A.	Euro	2015–2016	–	–	28,028,260
Bank of Tokyo-Mitsubishi UFJ Ltd. <sup>1</sup>	1US dollars	2015–2016	–	–	13,753,690
<b>Total, including</b>			<b>489,930,278</b>	<b>290,057,289</b>	<b>265,637,088</b>
Due within one year, including current portion of long-term loans			105,848,635	44,529,077	72,440,559

<sup>1</sup> Loans received from bank syndicates, named lender is the bank agent.

Total loans received in 2017 amounted to RUB 259,149,340 thousand, total loans and interest repaid in 2017 amounted to RUB 88,270,964 thousand (in 2016 total loans received amounted to RUB 152,558,600 thousand, total loans repaid amounted to RUB 74,573,747 thousand and in 2015 total loans received amounted to RUB 177,603,070 thousand, total loans repaid amounted to RUB 47,569,122 thousand).

In 2015–2017, the Company used the credit facility of RUB 60,000,000 thousand that was opened by Gazprombank (Joint Stock Company) in 2012 and is to be repaid in 2017. In 2017 this credit facility was extended to 2020. In 2017 under this credit facility the Company raised and repaid a short-term loan in the amount of RUB 34,000,000 thousand at 8.5%. In 2015 and 2016 loans were not raised under this credit facility.

In 2015–2017, credit facilities of RUB 60,000,000 thousand and RUB 30,000,000 thousand were opened for the Company by PJSC Sberbank of Russia and PJSC Bank VTB in 2013, respectively, to be repaid in 2018.

In August 2015, the Company borrowed a loan from China Construction Bank Corporation in the amount of RUB 95,759,850 thousand with the interest rate determined for each interest period at LIBOR +3.50%, to be repaid in 2020.

In April 2015, the Company received a loan of RUB 26,986,400 thousand from JP Morgan Europe Limited with the interest rate determined for each interest period at LIBOR +3.25% to be repaid in 2018.

In July 2015, the Company received a loan of RUB 18,496,680 thousand from UniCredit Bank Austria AG with the interest rate determined for each interest period at EURIBOR +3.60% to be repaid in 2019. In 2016, upon completion of reorganisation of the business activities of the UniCredit Group in the Eastern Europe region, the loan counterparty's authorities were transferred to UniCredit S.P.A.

In June 2015, the Company borrowed a loan from Intesa Sanpaolo S.P.A. in the amount of RUB 9,210,990 thousand with the interest rate determined for each interest period at EURIBOR +3.60% to be repaid in 2019.

In March 2016, the Company received a loan from Bank of China Limited in the amount of RUB 152,558,600 thousand with the interest rate determined for each interest period at EURIBOR + 3.50% to be repaid in 2021.

In February 2017, the Company received a loan of RUB 51,428,000 thousand from JP Morgan Europe Limited with the interest rate determined for each interest period at EURIBOR + 2.60% to be repaid in 2020.

In March 2017, the Company received a loan from Crédit Agricole CIB in the amount of RUB 43,989,960 thousand with the interest rate determined for each interest period at EURIBOR + 2.50% to be repaid in 2022.

In May 2017, the Company received a loan from VTB Bank (Austria) SE in the amount of RUB 19,010,520 thousand with the interest rate determined for each interest period at EURIBOR + 0.98% to be repaid in 2027. In December 2017, due to the restructuring of the European sub-holding of VTB Group the loan counterparty's authorities were transferred to VTB Bank (Europe) SE.

In July 2017, the Company received a loan of RUB 13,840,140 thousand from Deutsche Bank Luxembourg S.A. with the interest rate determined for each interest period at EURIBOR + 2.47 % to be repaid in 2022.

In December 2017, the Company received a loan from UniCredit S.P.A. in the amount of RUB 27,786,120 thousand with the interest rate determined for each interest period at EURIBOR + 1.95 % to be repaid in 2022.



## 11. Borrowings and loans (continued)

In December 2017, the Company received a loan of RUB 69,094,600 thousand from JP Morgan Europe Limited with the interest rate determined for each interest period at EURIBOR + 1.85 % to be repaid in 2022.

A fixed interest rate on long-term foreign currency loans was 8.868 % in 2017, 2016 and 2015. In addition, LIBOR and EURIBOR rates were also used in 2015–2017.

The Company did not raise any short-term foreign currency loans in 2016 and 2017. In 2015, a rate varying from 2.75% to 2.832% was used for such loans.

In 2015–2017, no long-term loans denominated in Russian Roubles were received.

In 2015–2016, no short-term loans denominated in Russian Roubles were received.

### Loans

Lenders	Currency	Maturity	31 December		
			2017	2016	2015
Gaz Capital S.A.	Euro	2018	219,979,610	203,830,305	254,574,904
Gazprom Sakhalin Holdings B.V.	US dollars	2018	176,317,264	265,703,391	392,542,314
Gaz Capital S.A.	US dollars	2022	135,307,162	142,487,577	171,206,892
Gaz Capital S.A.	US dollars	2019	131,864,858	138,862,599	166,851,276
Gaz Capital S.A.	Euro	2024	119,810,113	–	–
Gaz Capital S.A.	Euro	2020	112,352,465	104,104,364	130,021,678
Gaz Capital S.A.	Euro	2021	85,413,544	79,143,103	61,594,581
Gaz Capital S.A.	US dollars	2037	73,968,017	77,893,316	93,593,230
Gaz Capital S.A.	US dollars	2034	70,162,939	73,886,312	88,778,588
Gaz Capital S.A.	Euro	2023	69,132,126	64,056,948	–
Gaz Capital S.A.	US dollars	2018	64,507,181	67,930,417	81,622,243
Gaz Capital S.A.	US dollars	2028	52,873,744	55,679,622	66,902,219
Gaz Capital S.A.	US dollars	2020	46,794,722	49,278,003	59,210,310
Gaz Capital S.A.	US dollars	2027	43,782,272	–	–
Gaz Capital S.A.	Euro	2025	35,610,837	32,996,548	41,211,208
Gaz Capital S.A.	US dollars	2021	35,470,203	37,352,519	44,881,167
Gaz Capital S.A.	Euro	2022	31,606,265	–	–
LLC Gazprom capital	Russian Roubles	2024	31,032,164	–	–
Gaz Capital S.A.	Swiss francs	2019	29,641,220	29,862,772	36,956,997
Gaz Capital S.A.	Swiss francs	2018	29,572,847	29,793,888	–
Rosingaz Ltd.	Russian Roubles	2018	25,822,953	27,101,521	24,468,299
BO-19 series Russian bonds	Russian Roubles	2043	15,059,250	15,110,850	15,245,550
BO-20 series Russian bonds	Russian Roubles	2043	15,059,250	15,110,850	15,245,550
LLC Gazprom capital	Russian Roubles	2018	5,144,616	5,143,569	5,141,473
Gaz Capital S.A.	Euro	2017	–	157,395,103	196,579,419
Rosingaz Ltd.	Russian Roubles	2017	–	50,789,779	53,663,933
Gazprom Germania GmbH	Euro	2017	–	27,440,377	–
LLC Gazprom capital	Russian Roubles	2017	–	10,287,137	10,282,945
Gaz Capital S.A.	US dollars	2016	–	–	172,317,300
LLC Gazprom capital	Russian Roubles	2016	–	–	15,421,644
LLC Gazprom export	Russian Roubles	on demand	–	–	3,500,000
LLC Gazprom komplektatsiya	Russian Roubles	2016	–	–	352,834
Loans as part of centralised management of Gazprom Group's cash flows	Russian Roubles	2018	251,307,449	31,391,426	23,734,554
Loans as part of centralised management of Gazprom Group's cash flows	Euro	2018	30,525,123	21,018,455	–



## 11. Borrowings and loans (continued)

Lenders	Currency	Maturity	31 December		
			2017	2016	2015
Loans as part of centralised management of Gazprom Group's cash flows	US dollars	2018	1,114,914	2,532,155	–
Loans as part of centralised management of Gazprom Group's cash flows	British Pound	2018	40,046	–	–
<b>Total, including</b>			<b>1,939,273,154</b>	<b>1,816,182,906</b>	<b>2,225,901,108</b>
due within one year, including current portion of long-term loans			823,350,600	617,831,585	720,860,571

Total loans received in 2017 amounted to RUB 1,580,848,374 thousand, total loans and interest repaid in 2017 amounted to RUB 1,549,255,191 thousand (total loans received in 2016 amounted to RUB 675,482,570 thousand, total loans repaid amounted to RUB 829,316,840 thousand and total loans received in 2015 amounted to RUB 296,467,462 thousand, total loans repaid amounted to RUB 634,900,917 thousand).

In June 2014, the Company raised two loans from Rosingaz Ltd. in the amount of RUB 20,200,000 thousand and RUB 21,400,000 thousand at 8.46% and due to in 2015. In 2015, these loans were extended to 2016 at 11.51%. In 2016, the loans were extended to 2017 at a lower rate of 10.01%. In 2017, the loan in the amount of RUB 20,200,000 thousand was repaid and the loan in the amount of RUB 21,400,000 thousand was extended to 2018 at a lower rate of 8.3%.

In 2015, the Company raised a loan from Gazprom Sakhalin Holdings B.V. totalling RUB 36,357,049 thousand and repaid the principal amount and interest in the amount of RUB 113,052,975 thousand. In 2016, this loan was extended to 2017 and increased by RUB 3,347,229 thousand, the principal amount and interest on the loan in the amount of RUB 84,703,521 thousand were repaid. In 2017, this loan was extended to 2018 and increased by RUB 78,058,047 thousand, the principal amount and interest on the loan in the amount of RUB 158,669,403 thousand were repaid. In 2017, the interest rate ranged from 1.69% to 2.07%, in 2016 the interest rate ranged from 1.71% to 3.60% and in 2015 it ranged from 2.15% to 3.60%.

In October 2015, the Company raised a loan from Gaz Capital S.A. related to the issue of loan participation notes of RUB 72,050,600 thousand maturing in 2018 at 4.625%.

In March 2016, the Company raised a loan from Gaz Capital S.A. related to the issue of loan participation notes of RUB 35,233,650 thousand maturing in 2018 at 3.375%.

In November 2016, the Company raised two loans from Gaz Capital S.A. related to the issue of loan participation notes of RUB 69,238,800 thousand maturing in 2023 at 3.125% and RUB 32,104,280 thousand maturing in 2021 at 2.65%.

In December 2016, the Company raised a long-term loan in the form of a revolving credit facility from Gazprom Germania GmbH maturing in December 2018. The first instalment in the amount of RUB 27,299,797 thousand was received in December 2016 with the interest rate determined for each interest period at EURIBOR + 1.07% to be repaid in 2017. In 2017 the instalment was fully repaid.

In March 2017, the Company raised a loan from Gaz Capital S.A. related to the issue of loan participation notes of RUB 43,227,000 thousand maturing in 2027 at 4.95%.

In April 2017, the Company raised a loan from Gaz Capital S.A. related to the issue of loan participation notes of RUB 58,508,963 thousand maturing in 2024 at 3.35%.

In July 2017, the Company raised a loan from Gaz Capital S.A. related to the issue of loan participation notes of RUB 31,091,583 thousand maturing in 2022 at 2.15%.

In November 2017, the Company raised a loan from Gaz Capital S.A. related to the issue of loan participation notes of RUB 52,363,800 thousand maturing in 2024 at 2.25%.

In February 2017 the Company raised two loans from LLC Gazprom capital in the amount of RUB 30,000,000 thousand maturing in 2024 at 9.10%.

In 2017, in order to centralise the management of Gazprom Group's cash flows, the Company raised Russian Rouble loans at the interest rate ranging from 0.00% to 10.65% maturing in 2018. Total loans received amounted to RUB 1,230,916,065 thousand, total loans and interest repaid amounted to RUB 1,012,409,789 thousand.

In 2017, in order to centralise the management of Gazprom Group's cash flows, the Company raised foreign currency loans at the interest rate ranging from 0.00% to 3.508% maturing

## **11. Borrowings and loans (continued)**

in 2018. Total loans received amounted to RUB 54,282,916 thousand, total loans and interest repaid amounted to RUB 48,923,259 thousand.

Interest rate on other Russian Rouble short-term loans was 10.01% in 2017. In 2016 the interest rates ranged from 10.01% to 11.51%. In 2015 the interest rates ranged from 8.17% to 11.51%.

Interest rates on other Russian Rouble long-term loans ranged from 7.65% to 10.01% in 2017, from 1.50% to 11.51% in 2016 and 2015.

Interest rates on foreign currency long-term loans received from Gaz Capital S.A. related to the issue of loan participation notes ranged from 2.15% to 9.25% in 2017, from 2.65% to 9.25% in 2016 and from 2.85% to 9.25% in 2015.

Interest rates on other foreign currency long-term loans ranged from 1.07% to 2.07% in 2017, from 1.07% to 3.60% in 2016, and from 2.15% to 3.60% in 2015.

In 2015, no short-term foreign currency loans were raised by the Company.

The loans (borrowings) not disbursed by the Company due to the lack of need amounted to RUB 76,498,135 thousand, RUB 70,580,402 thousand and RUB 71,167,080 thousand as at 31 December 2017, 2016 and 2015, respectively.

## **12. Taxation**

### **Income tax**

Income tax determined based on accounting profit (loss) and statutory rates (20%, 13%, 9%, 0%) amounted to minus RUB 28,005,657 thousand (provisional income tax benefit) and RUB 99,355,755 thousand (provisional income tax expense) in 2017 and 2016, respectively. According to the Company's data, the current income tax was RUB 133,067,081 thousand and RUB 142,454,223 thousand in 2017 and 2016, respectively.

According to the amended tax returns submitted in 2017 for the period of 2014, the income tax decreased by RUB 1,198,193 thousand. According to the amended tax returns submitted in 2017 for the period of 2015, the income tax decreased by RUB 784,995 thousand. According to the amended tax returns submitted in 2016 for the period of 2014, the income tax increased by RUB 22,667 thousand.

Permanent differences, which increase the taxable profit of the reporting year, amounted to RUB 697,843,382 thousand and RUB 696,883,041 thousand in 2017 and 2016, respectively. Permanent differences, which decrease the taxable profit, amounted to RUB 52,687,852 thousand and RUB 68,998,565 thousand in 2017 and 2016, respectively. In 2017, permanent differences increasing the taxable profit exceeded permanent differences decreasing the taxable profit by RUB 645,155,530 thousand. This resulted in the income tax amount calculated based on the taxable profit exceeding the provisional income tax expense by RUB 129,690,013 thousand. In 2016, permanent differences increasing the taxable profit exceeded permanent differences decreasing the taxable profit by RUB 627,884,476 thousand. This resulted in the income tax amount calculated based on the taxable profit exceeding the provisional income tax expense by RUB 126,002,972 thousand.

Deductible temporary differences amounted to RUB 533,713,371 thousand and RUB 240,886,143 thousand in 2017 and 2016, respectively; deductible temporary differences settled amounted to RUB 151,922,216 thousand and RUB 216,069,736 thousand in 2017 and 2016, respectively. In 2017, newly originated deductible temporary differences exceeded deductible temporary differences settled by RUB 381,791,155 thousand, which resulted in the increase of the deferred tax asset by RUB 76,358,231 thousand. In 2016, newly originated deductible temporary differences exceeded deductible temporary differences settled by RUB 24,816,407 thousand, which resulted in the increase of the deferred tax asset by RUB 4,963,281 thousand. In 2017, deductible temporary differences arose mainly due to the changes in the doubtful debt provision, which resulted in the increase in deductible temporary differences in the amount of RUB 63,011,901 thousand and the increase in deferred tax assets by RUB 12,602,380 thousand. In 2016, deductible temporary differences at the expense of the doubtful debt provision amounted to RUB 27,838,933 thousand and deferred tax assets amounted to RUB 5,567,787 thousand.

In 2017, deferred tax assets attributed to the decrease in the net profit and recorded in line "Other" (line 2460) of the statement of financial results amounted to RUB 5,287 thousand. In 2016, deferred tax assets attributed to the increase in the net profit amounted to RUB 4,774,263 thousand.

## 12. Taxation (continued)

Taxable temporary differences amounted to RUB 340,026,703 thousand in 2017 and RUB 561,756,393 thousand in 2016. Taxable temporary differences settled amounted to RUB 105,216,525 thousand and RUB 122,275,671 thousand in 2017 and 2016, respectively. In 2017, newly originated taxable temporary differences exceeded taxable temporary differences settled by RUB 234,810,178 thousand, which resulted in the increase in the deferred tax liability by RUB 46,958,694 thousand. In 2016, newly originated taxable temporary differences exceeded taxable temporary differences settled by RUB 439,480,722 thousand, which resulted in the increase in the deferred tax liability by RUB 87,845,118 thousand.

Taxable temporary differences have arisen mainly due to the revaluation of securities, which resulted in the increase in the deferred tax liability by RUB 26,356,663 thousand in 2017 (in 2016 by RUB 56,614,659 thousand).

In 2017, deferred tax liabilities attributed to the increase in the net profit and recorded in line "Other" (line 2460) of the statement of financial results amounted to RUB 84,043 thousand. In 2016, deferred tax liabilities attributed to the decrease in the net profit amounted to RUB 2,000,089 thousand.

The CGT was established in Gazprom Group from 1 January 2012. PJSC Gazprom is the responsible member of the CGT. The contract on creation of Gazprom Group CGT consisting of 56 members was registered with the Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2 on 20 April 2012. In December 2012 an amendment to the contract on creation of Gazprom Group CGT was registered with the Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2. In accordance with the amendment the number of CGT members was increased to 65 from 1 January 2013. In 2013 Supplement No. 2 of 26 November 2013 to the contract on creation of Gazprom Group CGT was registered with the Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2. In accordance with the Supplement the number of CGT members was increased to 69 from 1 January 2014. In 2014 Supplement No. 3 of 26 November 2014 to the contract on creation of Gazprom Group CGT was registered with the Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2. In accordance with the Supplement the number of CGT members was decreased to 65 from 1 January 2015. In 2015 Supplement No. 4 of 26 November 2015 to the contract on creation of Gazprom Group CGT was registered with the Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2. In accordance with the Supplement the number of CGT members was increased to 67 from 1 January 2016.

The income tax of CGT for 2017 and 2016 amounted to RUB 164,756,179 thousand and RUB 170,581,363 thousand, respectively.

### Other taxes

VAT accrued upon dispatch (transfer) of goods (works, services, property rights) including VAT accrued upon receipt of payment, partial payment against forthcoming supplies of goods (works, services, property rights) and reversed amounts of previously accepted VAT with respect to payment, partial payment issued against forthcoming supplies of goods (works, services, property rights) totalled RUB 541,619,154 thousand and RUB 494,097,049 thousand for 2017 and 2016, respectively.

## 13. Accounts payable

As at 31 December 2017, 2016 and 2015 the balance sheet line "Advances from Customers" (line 1527) within accounts payable (payment expected within 12 months of the reporting date) includes advances of RUB 34,979,993 thousand, RUB 42,849,859 thousand and RUB 50,016,017 thousand, respectively, received by the Company from gas buyers under commission agreements between PJSC Gazprom and LLC Gazprom export in accordance with the terms and conditions of gas supply contracts.

Trade payables mainly include payables to related parties (Note 18).

Additional information is provided in table forms 5.3 "The Presence and Movement of Accounts Payable" and 5.4 "Overdue Accounts Payable" of the Explanatory Notes to the Balance Sheet and the Statement of Financial Results.

#### 14. Sales

	2017	2016
Revenue from gas sales:		
in Russia	1,012,456,303	963,136,214
outside Russia, including:	1,859,455,934	1,696,612,877
to far abroad countries	<u>1,593,880,506</u>	<u>1,426,424,202</u>
	2,871,912,237	2,659,749,091
Revenue from leasing out assets	826,028,567	730,571,086
Revenue from sale of gas condensate and oil and gas refinery products	316,804,863	281,586,474
Revenue from sale of gas transportation services	268,080,347	238,779,014
Other	<u>30,205,602</u>	<u>23,802,776</u>
<b>Total</b>	<b>4,313,031,616</b>	<b>3,934,488,441</b>

Revenues from gas sales outside Russia include revenue from export gas sales through an agent as well. Revenues from sales of gas outside Russia in 2017 are reported on the basis of a downward adjustment in the amount of RUB 3,674,930 thousand with respect to gas supplies made in 2017, prices of which were revised in 2017. Revenues from sales of gas outside Russia in 2016 are reported on the basis of an upward adjustment in the amount of RUB 8,551,931 thousand with respect to gas supplies made in 2016, prices of which were revised in 2016.

The Company's customers, each contributing material percentage of the total revenue from gas sales, are presented below:

	2017	2016
LLC Gazprom mezhregiongaz	830,441,973	821,038,004
OJSC Gazprom transgas Belarus	160,932,530	169,760,728

#### 15. Cost of sales and selling expenses (lines 2120 and 2210 in the statement of financial results)

	2017	2016
Purchase cost of gas, including gas sold		
in Russia	585,110,921	476,125,494
outside Russia, including:	580,661,194	506,016,805
to far abroad countries	<u>506,970,014</u>	<u>448,330,502</u>
	1,165,772,115	982,142,299
Gas transportation costs, including gas sold		
in Russia	432,692,747	397,787,541
outside Russia, including:	846,713,636	865,590,872
to far abroad countries	<u>768,138,047</u>	<u>787,148,259</u>
	1,279,406,383	1,263,378,413
Cost of assets leasing out	825,081,512	726,367,167
Cost of purchased gas condensate, oil products and their refinery and transportation	252,805,720	254,923,807
Cost of gas transportation services	279,909,493	250,709,084
Cost of other sales	<u>38,291,920</u>	<u>30,519,587</u>
<b>Total</b>	<b>3,841,267,143</b>	<b>3,508,040,357</b>

## 16. Other income and expenses

	2017		2016	
	Income	Expenses	Income	Expenses
Exchange differences on foreign currency transactions	346,890,864	406,788,829	920,181,938	720,311,034
Doubtful debt provision accrual/release	157,246,143	45,893,329	107,082,191	59,640,219
Market value revaluation of investments	132,288,141	–	283,073,291	304,790
Fines, penalties and forfeitures for breach of contract	44,770,881	272,943,017	675,919	306,696
Prior year profit (loss)	30,269,192	58,057,223	49,027,300	19,214,770
Recognition/release of estimated liabilities related to gas price adjustments (Note 19)	14,298,571	75,808,137	26,334,180	16,312,336
Movement of investments	3,878,575	3,878,582	31,184,307	9,986,146
Sale of foreign currency	3,389,061	3,516,848	4,338,247	3,264,336
Investments impairment provision accrual/release	1,701,219	1,088,184	652,107	43,695
Contributions to subsidiaries' property	–	237,166,220	–	252,253,565
Costs of mineral resources development	–	29,881,543	–	37,740,648
Charity expenses	–	27,296,706	–	25,162,295
<b>Other</b>	<b>8,083,720</b>	<b>76,320,351</b>	<b>5,094,520</b>	<b>71,731,552</b>
<b>Total:</b>	<b>742,816,367</b>	<b>1,238,638,969</b>	<b>1,427,644,000</b>	<b>1,216,272,082</b>

Income (expenses) from sale of foreign currency is presented in the Company's financial statements as gains (losses) from such transactions.

In 2017, due to an increase in the share quotation of investees, the Company recognised a gain of RUB 132,288,141 thousand from revaluation of investments at current market value as at 31 December 2017, including shares of PJSC Gazprom neft in the amount of RUB 131,783,319 thousand and JSC Latvijas Gaze in the amount of RUB 504,822 thousand. In 2016, due to an increase in the share quotation of PJSC Gazprom neft, the Company recognised a gain of RUB 283,073,291 thousand from revaluation of investments at current market value as at 31 December 2016. In 2016, due to a decrease in the share quotation of JSC Latvijas Gaze, the Company recognised a loss in the amount of RUB 304,790 thousand from revaluation of investments at current market value as at 31 December 2016.

The Company's investments in its subsidiary and associates are of a long-term nature and are not intended to derive profit from movements of share quotations in the Russian stock exchanges.

In 2017, the line "Prior Year Profit (Loss)" demonstrated a negative effect of gas price adjustment amounting to RUB 49,327,982 thousand. In 2016, the line "Prior Year Profit (Loss)" demonstrated a positive effect of gas price adjustment amounting to RUB 34,733,174 thousand. These adjustments relate to gas supplies of prior years for which price adjustments were agreed in 2017 and 2016, respectively.

The line "Contributions to Subsidiaries' Property" includes contributions paid into the property of subsidiaries under decisions adopted by the participant (the Company) in 2004–2017. As at 31 December 2017, 2016 and 2015, contributions in the subsidiaries' property that were to be made according to the taken decisions amounted to RUB 34,392,342 thousand, RUB 138,229,534 thousand and RUB 152,118,825 thousand, respectively.

Income and expenses from accrual and release of doubtful debt provision are reported by the Company on a gross basis. Income and expenses resulted from adjusted doubtful debt provision after recalculation of doubtful debt in foreign currency into Russian Roubles are reported by the Company on a net basis.

The line "Other Expenses" includes pension contributions of RUB 1,967,665 thousand and RUB 1,599,822 thousand transferred to PJSC Gazprom's joint account in NPF Gazfond in 2017 and 2016, respectively. Non-state pensions shall be paid to employees of the Company when corresponding conditions are met.

## 17. Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the year by the weighted average number of common shares outstanding during the year. The weighted average number of shares outstanding during the year totalled 23,673,513 thousand for the years ended 31 December 2017, 2016 and 2015, respectively.

As of the beginning and the end of the reporting period the Company did not have any potentially dilutive securities and therefore the diluted profit per share was not calculated.

## 18. Related parties

Major 100% subsidiaries of PJSC Gazprom:

LLC Aviapredpriyatiye Gazprom avia	LLC Gazprom telecom
LLC Gaz-Oil	LLC Gazpromtrans
JSC Gazprom Armenia	OJSC Gazprom transgas Belarus
LLC Gazprom VNIIGAZ	LLC Gazprom transgaz Volgograd
LLC Gazprom gaznadzor	LLC Gazprom transgaz Ekaterinburg
LLC Gazprom gazobezопасnost	LLC Gazprom transgaz Kazan
LLC Gazprom geologorazvedka	LLC Gazprom transgaz Krasnodar
LLC Gazprom georesource	LLC Gazprom transgaz Makhachkala
LLC Gazprom dobycha Irkutsk	LLC Gazprom transgaz Moscow
LLC Gazprom dobycha Krasnodar	LLC Gazprom transgaz Nizhny Novgorod
LLC Gazprom dobycha Kuznetsk	LLC Gazprom transgaz Samara
LLC Gazprom dobycha Nadym	LLC Gazprom transgaz Saint-Petersburg
LLC Gazprom dobycha Noyabrsk	LLC Gazprom transgaz Saratov
LLC Gazprom dobycha Urengoy	LLC Gazprom transgaz Stavropol
LLC Gazprom dobycha shelf	LLC Gazprom transgaz Surgut
Yuzhno-Sakhalinsk	LLC Gazprom transgaz Tomsk
LLC Gazprom dobycha Yamburg	LLC Gazprom transgaz Ufa
LLC Gazprom invest	LLC Gazprom transgaz Ukhta
LLC Gazprom investproject	LLC Gazprom transgaz Tchaikovsky
LLC Gazprom investholding	LLC Gazprom transgaz Yugorsk
LLC Gazprom inform	LLC Gazprom flot
LLC Gazprom capital	LLC Gazprom tsentremont
LLC Gazprom komplektatsiya	LLC Gazprom export
LLC Gazprom Kyrgyzstan	LLC Gazprom energo
LLC Gazprom mezhregiongaz	LLC Gazprom energoholding
LLC Gazprom pererabotka	Gazprom (U.K.) Limited
LLC Gazprom proektirovaniye	LLC Novourengoy GSC
LLC Gazprom PHG	Nord Stream 2 AG
LLC Gazprom Russkaya	South Stream Transport B.V.
LLC Gazprom svyaz	JSC Chechengazprom
LLC Gazprom sotsinvest	CJSC Yamalgazinvest
LLC Gazprom SPG Vladivostok	

In January 2017, LLC Gazprom investproject was reorganised by spin-off of LLC ATES which was conducted simultaneously with the reorganisation of LLC ATES by merger with LLC Gazprom energoholding. As a result, the Company's participation in LLC Gazprom investproject decreased, while participation in LLC Gazprom energoholding increased by RUB 8,483,575 thousand. At the same time, the Company's interest in subsidiaries remained 100%.

In February 2017, the Company's interest in Nord Stream 2 AG increased from 50% to 100% due to the acquisition of 30,000 shares from Gazprom Gerosgaz Holding B.V. for RUB 1,941,921 thousand. As a result, the company was removed from the list of major associates and included in the list of major 100% subsidiaries.



## 18. Related parties (continued)

Other major subsidiaries of PJSC Gazprom:

Company name	Share in the charter capital, %	Type of business	Location
JV OJSC Brestgazoapparat	51.0%	Manufacturing of household gas equipment	Belarus
OJSC Vostokgazprom	99.98%	Production, processing and sale of gas and gas condensate	Russia
PJSC VNIPIgazdobycha	56.67%	Site investigation	Russia
JSC Gazprom Household Systems	99.99%	Manufacturing of household fuel utilisation equipment	Russia
LLC Gazpromviet	51.0%	Exploration, oil and gas transportation and processing	Russia
Gazprom EP International B.V.	0.02104%	Investment activities	Netherlands
PJSC Gazprom neft	95.68%	Oil production, processing and sale	Russia
Gazprom Sakhalin Holdings B.V.	0.0000000266%	Financing and investing activities	Netherlands
LLC Gazprom torgservice	99.0%	Trading	Russia
OJSC Gazpromtrubinvest	99.87%	Manufacturing and sale of pipes	Russia
Gazprom Finance B.V.	0.0056%	Financing and investing activities	Netherlands
Gazprom Holding Cooperatie U.A.	99.99981%	Financing and investing activities	Netherlands
JSC Gazprom YRGM Development	75.0%	Sale of hydrocarbons	Russia
CJSC Gazprom YRGM Trading	75.0%	Gas production and sale, storage and transportation	Russia
JSC Daltransgaz	87.99%	Gas transportation	Russia
OJSC Kamchatgazprom	92.25%	Production, processing and sale of gas and gas condensate	Russia
LLC Lazurnaya	99.69%	Hotel business	Russia
South Stream Serbia AG	51.0%	Design, construction and operation of the South Stream pipeline section	Serbia
OJSC Severnftgazprom	40.0005%	Production, processing and sale of gas and gas condensate	Russia
JSC Tsentrgez	99.99%	Construction	Russia

Major associates of PJSC Gazprom:

Company name	Share in the charter capital, %	Type of business	Location
OJSC Belgazprombank	49.66%	Banking	Belarus
Gazprombank (Joint Stock Company)	29.76% <sup>1</sup>	Banking	Russia
JSC Gaztransit	40.22%	Construction, management and operation of industrial gas facilities	Ukraine
Blue Stream Pipeline Company B.V. (formerly Blue Stream B.V.)	50.0%	Gas transportation	Netherlands
JSC EuRoPol Gaz	48.0%	Gas transportation and sale	Poland
KazRosGas LLP	50.0%	Gas transportation and sale	Kazakhstan
JSC Latvijas Gaze	34.0%	Gas transportation and sale	Latvia
CJSC Leader	25.714%	Trust management of NPF pension reserves, management of insurance companies and mutual funds	Russia
JSC Moldovagaz	50.0%	Gas transportation and sale	Moldova
Nord Stream AG	51.0%	Design, construction and operation of the North Stream pipeline section	Switzerland
CJSC Rosshelf	39.505%	Gas production	Russia
South Stream Austria GmbH	50.0%	Design, construction and operation of the South Stream pipeline section	Austria
South Stream Bulgaria A.D.	50.0%	Design, construction and operation of the South Stream pipeline section	Bulgaria

## 18. Related parties (continued)

Company name	Share in the charter capital, %	Type of business	Location
South Stream Hungary Ltd	50.0%	Design, construction and operation of the South Stream pipeline section	Hungary
South Stream Greece S.A.	50.0%	Design, construction and operation of the South Stream pipeline section	Greece
South Stream Slovenia LLC	50.0%	Design, construction and operation of the South Stream pipeline section	Slovenia
LLC TsentrKaspXneftegaz	50.0%	Exploration of oil and gas fields	Russia
JSC YugoRosGaz	50.0%	Gas transportation and sale	Serbia

<sup>1</sup> The share of voting stock is indicated.

### Other major related parties

Bosphorus Gas Corporation A.S.	LLC Gazprom podzemremont Urengoy
WIBG GmbH	LLC Gazprom neftekhim Salavat
WIEH GmbH (formerly Wintershall Erdgas Handelshaus GmbH & Co. KG)	Gazprom Switzerland AG (formerly Gazprom (Switzerland) AG)
WIEE AG	LLC Gazprom нефт shelf
Wingas GmbH	GASCADE Gastransport GmbH
Gazprom Austria GmbH	NPF Gazfond
JSC Gazprom gazoraspredelenie	OPAL Gastransport GmbH and Co. KG
JSC Gazprom gazenergoset	JSC Overgas Inc. (formerly JSC Overgas Inc)
Gazprom Germania GmbH	PJSC OGK-2
LLC Gazprom dobycha Astrakhan	CJSC Panrusgaz
CJSC Gazprom zarubezhneftegaz	PremiumGas S.P.A.
LLC Gazprom dobycha Orenburg	Gazprom Italia S.P.A.
LLC Gazprom invest Vostok	(formerly JSC Promgaz S.P.A.)
CJSC Gazprom invest Yug	CJSC Purgaz
LLC Engineering	Rosingaz Ltd.
LLC Gazprom Resource Nortgaz	Sakhalin Energy Investment Company Ltd.
LLC Gazprom szhizhenny gaz	JSC SOGAZ
LLC Gazprom sera	PJSC TGC-1 (formerly OJSC TGC-1)
Gazprom Marketing and Trading Ltd.	LLC TyumenNllgiprogas
LLC Gazprom podzemremont Orenburg	

The Company owns directly or through its subsidiaries the blocks of shares or has ownership interest in the above companies. In addition, the Company has its representatives in the Boards of Directors thus influencing their business significantly. The above companies (except for LLC Gazprom neftekhim Salavat, LLC Gazprom podzemremont Orenburg, LLC Gazprom podzemremont Urengoy, LLC Gazprom Resource Nortgas, PJSC OGK-2, PJSC TGC-1, LLC Engineering, Rosingaz Ltd., CJSC Gazprom invest Yug, LLC Gazprom нефт shelf, LLC Gazprom sera, LLC Gazprom invest Vostok, JSC SOGAZ, CJSC Gazprom zarubezhneftegaz, WIBG GmbH and NPF Gazfond) are involved in gas transportation and sale.

In September 2017, LLC TyumenNllgiprogas was reorganised by merger with LLC Gazprom proektirovaniye. As a result of this transaction LLC TyumenNllgiprogas was removed from the list of major 100% subsidiaries and included in the list of other major related parties.

### Related-party transactions

Figures for 2015 and 2016 are adjusted so as to follow the comparability principle of current and prior period accounting information concerning transactions with related parties.



## 18. Related parties (continued)

### PJSC Gazprom's transactions with major wholly owned subsidiaries

	2017	2016
Sale (net of VAT, excise, customs duties and similar payments):		
gas	1,148,165,807	1,126,868,798
leased assets	801,419,635	706,218,542
gas transportation services	3,315,837	8,943,004
gas condensate and oil and gas refinery products	5,050,499	5,133,497
Acquisition:		
gas transportation and storage services	1,173,825,732	1,062,771,197
gas	764,771,759	555,042,531
liquid hydrocarbons	87,298,779	88,564,912
liquid hydrocarbons refinery services	26,482,571	27,876,491

Prices for gas, gas transportation and storage services purchased from the major wholly owned subsidiaries of PJSC Gazprom (except for OJSC Gazprom transgaz Belarus) were set in accordance with the Price List named Internal Settlement (Wholesale) Prices of Gas and Internal Settlement Tariffs for Gas Transportation and Storage Services for PJSC Gazprom Entities as approved by PJSC Gazprom. Gas and gas transportation services were provided to the major wholly owned subsidiaries (except for OJSC Gazprom transgaz Belarus) based on the above Price List. Prices for liquid hydrocarbons and liquid hydrocarbons processing services purchased from the major wholly owned subsidiaries were set in accordance with the Price List named Internal Settlement Prices of Hydrocarbons and Hydrocarbon Processing Services for Making Contracts between PJSC Gazprom and its Subsidiaries, as approved by PJSC Gazprom. Prices for OJSC Gazprom transgaz Belarus were set in accordance with the contract.

Accounts receivable from and accounts payable to major wholly owned subsidiaries of PJSC Gazprom were as follows:

	31 December		
	2017	2016	2015
Accounts receivable	997,262,950	1,155,584,170	1,673,704,425
Accounts payable	439,341,567	377,333,233	374,918,558

Accounts receivable include outstanding interest-free loans given to the major wholly owned subsidiaries in the amount of RUB 131,620,261 thousand, RUB 241,967,475 thousand and RUB 166,747,737 thousand as at 31 December 2017, 2016 and 2015, respectively.

Interest-bearing loans due from the major wholly owned subsidiaries of PJSC Gazprom were as follows:

	31 December		
	2017	2016	2015
Loans due beyond 12 months of the reporting date	117,248,607	2,294,290	1,862,500
Loans due within 12 months of the reporting date	167,218,711	102,689,664	961,000

Interest on loans that the Company granted to its major wholly owned subsidiaries was RUB 15,122,266 thousand, RUB 7,638,517 thousand and RUB 3,274,438 thousand in 2017, 2016 and 2015, respectively. The Company issued loans to its major wholly owned subsidiaries at the interest rates ranging from 1.13% to 16.16%, from 8.27% to 16.16% and from 7.82% to 16.16% in 2017, 2016 and 2015, respectively.

## 18. Related parties (continued)

Debt of the Company on loans it received from its major wholly owned subsidiaries was as follows:

	31 December		
	2017	2016	2015
Loans due beyond 12 months of the reporting date	30,000,000	5,000,000	15,000,000
Loans due within 12 months of the reporting date	181,489,604	59,603,411	42,900,749

As at 31 December 2017, the debt on loans received from LLC Gazprom capital due beyond 12 months of the reporting date amounted to RUB 30,000,000 thousand, and as at 31 December 2016 and 31 December 2015 the debt on these loans amounted to RUB 5,000,000 thousand and RUB 15,000,000 thousand, respectively.

Interest on loans that the Company received from its major wholly owned subsidiaries was RUB 3,117,260 thousand, RUB 1,633,703 thousand and RUB 2,346,654 thousand in 2017, 2016 and 2015, respectively.

The Company received loans from its major wholly owned subsidiaries at the interest rates ranging from 0.00% to 10.63% in 2017, from 0.00% to 12.78% in 2016, and from 0.00% to 12.61% in 2015.

In 2017, the Company allocated cash of RUB 213,033,349 thousand for the increase of the charter capitals of its major wholly owned subsidiaries (2016: RUB 26,115,760 thousand, 2015: RUB 164,336,037 thousand). These amounts included RUB 112,132,869 thousand to increase the charter capital of LLC Gazprom pererabotka (2016: RUB 14,598,000 thousand, 2015: RUB 15,000,000 thousand), RUB 85,727,190 thousand to increase the charter capital of Nord Stream 2 AG (2016: RUB 0 thousand, 2015: RUB 0 thousand), RUB 7,425,237 thousand to increase the charter capital of LLC Gazprom Kyrgyzstan (2016: RUB 4,635,942 thousand, 2015: RUB 2,923,893 thousand), RUB 4,381,000 thousand to increase the charter capital of LLC Gaz-Oil (2016: RUB 4,175,000 thousand, 2015: RUB 2,175,000 thousand), and RUB 2,233,889 thousand to increase the charter capital of CJSC Gazprom Armenia (2016: RUB 0 thousand, 2015: RUB 1,464,923 thousand).

In 2017, the Company made additional contributions to the charter capitals of its major wholly owned subsidiaries by way of non-monetary assets in the amount of RUB 92,518 thousand (2016: RUB 1,722,410 thousand, 2015: RUB 12,268,445 thousand).

Guarantees issued by the Company on behalf of its other major wholly owned subsidiaries totalled RUB 209,264,821 thousand, RUB 168,039,156 thousand and RUB 289,534,098 thousand as at 31 December 2017, 2016 and 2015, respectively.

### Transactions with other major subsidiaries

	2017	2016
Sale (net of VAT, excise, customs duties and similar payments):		
gas transportation services	53,304,256	29,333,415
Acquisition:		
gas	113,635,728	82,803,398
gas condensate, oil and oil and gas refinery products	36,653,845	28,615,963

Prices of gas sold to other major subsidiaries were set up based on the contracts made between the parties.

## 18. Related parties (continued)

Accounts receivable and accounts payable of other major subsidiaries of the Company were as follows:

	31 December		
	2017	2016	2015
Accounts receivable	46,906,925	11,324,105	48,968,603
Accounts payable	23,269,934	21,339,307	21,125,267

The debt of other major subsidiaries of the Company on interest-bearing loans due to the Company was as follows:

	31 December		
	2017	2016	2015
Loans due beyond 12 months of the reporting date	–	93,714,910	117,997,091
Loans due within 12 months of the reporting date	2,803,559	8,525,206	20,950,129

As at 31 December 2016 and 2015, loans due beyond 12 months are represented by the debt of the Company's subsidiary Gazprom EP International B.V. amounted to RUB 93,714,910 thousand and RUB 117,997,091 thousand, respectively. As at 31 December 2017, 2016 and 2015, loans due within 12 months are represented mainly by the debt of its subsidiary JSC Daltransgaz amounted to RUB 1,896,905 thousand, RUB 3,129,941 thousand and RUB 3,849,809 thousand, respectively; and by the debt of Gazprom EP International B.V. in the amount of RUB 4,488,611 thousand and RUB 15,524,015 thousand as at 31 December 2016 and 2015, respectively.

Interest on loans that the Company granted to its other major subsidiaries was RUB 738,242 thousand, RUB 3,809,501 thousand and RUB 4,010,388 thousand in 2017, 2016 and 2015, respectively.

The Company granted loans to its other major subsidiaries at the interest rates ranging from 3.19% to 8.48% in 2017, 2016 and 2015.

The Company's accounts payable related to loans received from its other major subsidiaries were as follows:

	31 December		
	2017	2016	2015
Loans due within 12 months of the reporting date	181,171,176	265,703,391	392,542,314

As at 31 December 2017, 2016 and 2015, loans due within 12 months are represented basically by the loan payable to the subsidiary Gazprom Sakhalin Holdings B.V. in the amount of RUB 176,317,264 thousand, RUB 265,703,391 thousand and RUB 392,542,314 thousand, respectively.

Interest on loans that the Company received from its other major subsidiaries was RUB 4,042,593 thousand, RUB 8,967,880 thousand and RUB 11,412,875 thousand in 2017, 2016 and 2015, respectively, including interest on the loan received from Gazprom Sakhalin Holdings B.V. amounting to RUB 3,366,105 thousand, RUB 8,967,880 thousand and RUB 11,412,875 thousand in 2017, 2016 and 2015, respectively.

The Company received loans from its other major subsidiaries at interest rates ranging from 1.69% to 9.80% in 2017, from 1.71% to 3.60% in 2016, and from 2.15% to 3.60% in 2015.

Guarantees issued by the Company on behalf of its other major subsidiaries totalled RUB 0 thousand, RUB 0 thousand and RUB 16,967,763 thousand as at 31 December 2017, 2016 and 2015, respectively.

## 18. Related parties (continued)

### Transactions with major associates

	2017	2016
Sale (net of VAT, excise, customs duties and similar payments):		
gas	61,657,179	62,300,224
Acquisition:		
gas transportation and storage services, including	91,508,378	105,906,011
through LLC Gazprom export acting as the commissioner	87,094,374	99,614,679

Prices of gas sold outside Russia to the major associates and prices of gas transportation and storage services purchased from the major associates were set based on the contracts.

Accounts receivable and accounts payable of the Company's major associates were as follows:

	31 December		
	2017	2016	2015
Accounts receivable	351,375,281	349,886,237	417,287,662
Accounts payable	9,030,201	8,260,585	12,475,373

As at 31 December 2017, 2016 and 2015 the doubtful debt provisions of RUB 318,531,962 thousand, RUB 321,711,205 thousand and RUB 361,887,737 thousand, respectively, were formed in respect to receivables from major associates.

The interest-bearing loans receivable from the Company's major associates were as follows:

	31 December		
	2017	2016	2015
Loans due beyond 12 months of the reporting date	4,957,373	4,957,373	4,957,373
Loans due within 12 months of the reporting date	3,945,203	3,890,869	3,862,565

As at 31 December 2017, 2016 and 2015, loans due beyond 12 months of the reporting date are presented by the loan of RUB 4,957,373 thousand given to Belgazprombank, a joint Belarusian-Russian open joint-stock company. As at 31 December 2017, 2016 and 2015, loans due within 12 months of the reporting date are presented by the loans of RUB 3,945,203 thousand, RUB 3,890,869 thousand and RUB 3,862,565 thousand, respectively, given to LLC Tsentr-Kasneftegaz.

Interest on loans given by the Company to its major associates was RUB 859,582 thousand, RUB 776,935 thousand and RUB 717,576 thousand in 2017, 2016 and 2015, respectively.

In 2017, the Company granted loans to its major associates at the interest rates ranging from 8.25% to 11.50% (2016: from 8.25% to 11.50%, 2015: from 8.25% to 8.50%).

Deposits placed with Gazprombank (Joint Stock Company) totalled RUB 289,002,177 thousand, RUB 142,229,915 thousand and RUB 82,957 thousand as at 31 December 2017, 2016 and 2015, respectively.

	31 December		
	2017	2016	2015
Deposits due beyond 12 months of the reporting date	–	42,229,915	–
Deposits due within 12 months of the reporting date	289,002,177	100,000,000	82,957

No loans were raised from the major associates in 2017, 2016 and 2015.

No borrowings were raised from the major associates in 2016 and 2015.

Interest on borrowings received by the Company from its major associates in 2017 amounted to RUB 50,534 thousand.

## 18. Related parties (continued)

Guarantees issued by the Company on behalf of its major associates amounted to RUB 0 thousand, RUB 0 thousand and RUB 26,975 thousand as at 31 December 2017, 2016 and 2015, respectively.

### Information on cash flows related to transactions with major subsidiaries and associates of PJSC Gazprom

Line code	Narrative	For reporting period	including, major subsidiaries and associates	For the same period of the prior year	including, major subsidiaries and associates
<b>Cash flows from operating activities</b>					
<b>4110</b>	<b>Receipts — total, including:</b>	<b>5,378,154,237</b>	<b>2,443,755,117</b>	<b>5,188,167,787</b>	<b>2,233,455,561</b>
4111	sales of products, goods, work and services	4,875,429,260	2,152,214,724	4,706,944,240	1,984,000,762
4112	rent payments, license payments, royalties, commissions and other payments	—	—	—	—
4113	resale of financial investments	—	—	—	—
4119	other receipts	502,724,977	291,540,393	481,223,547	249,454,799
<b>4120</b>	<b>Payments — total, including:</b>	<b>(4,509,610,218)</b>	<b>(2,687,044,345)</b>	<b>(4,183,927,855)</b>	<b>(2,560,535,898)</b>
4121	to suppliers for raw materials, works, services	(3,030,415,380)	(2,313,792,825)	(2,782,542,330)	(2,062,836,520)
4122	wages and salaries	(42,608,602)	—	(40,124,474)	—
4123	interests on borrowings	(99,506,161)	(5,607,447)	(113,223,285)	(11,213,840)
4124	income tax	(163,369,691)	—	(56,588,662)	—
4129	other payments	(1,173,710,384)	(367,644,073)	(1,191,449,104)	(486,485,538)
<b>4100</b>	<b>Net cash flows from operating activities</b>	<b>868,544,019</b>	<b>(243,289,228)</b>	<b>1,004,239,932</b>	<b>(327,080,337)</b>
<b>Cash flows from investing activities</b>					
<b>4210</b>	<b>Receipts — total, including:</b>	<b>706,885,856</b>	<b>645,966,275</b>	<b>307,407,138</b>	<b>215,585,403</b>
4211	from sales of non-current assets (except for financial investments)	5,951,466	426,710	943,715	1,995
4212	from sales of non-current assets (except for financial investments)	—	—	44,925,071	—
4213	from return of loans issued, sales of debt securities (rights of claiming cash from third parties)	369,403,661	320,961,862	63,309,482	28,068,844
4214	dividends, interest from long-term financial investments and receipts from participation in other entities	331,314,197	324,446,008	193,321,323	187,345,541
4219	other receipts	216,532	131,695	4,907,547	169,023
<b>4220</b>	<b>Payments — total, including:</b>	<b>(1,677,224,818)</b>	<b>(1,578,162,657)</b>	<b>(1,132,734,763)</b>	<b>(1,008,316,554)</b>
4221	acquisition, construction, modernisation, reconstruction and preparation for the use of non-current assets	(44,580,504)	(22,840,081)	(63,458,573)	(52,441,680)
4222	acquisition of other entities shares (ownership interest)	(215,961,839)	(213,033,350)	(29,872,861)	(26,155,949)
4223	acquisition of debt securities (rights of claiming cash from third parties), issue of loans to third parties	(606,337,879)	(551,692,444)	(344,000,603)	(296,838,822)
4224	borrowing costs included in the cost of the investment asset	—	—	—	—
4225	construction/acquisition of exploration assets	(27,731,204)	(27,694,554)	(51,884,160)	(28,234,338)
4229	other payments	(782,613,392)	(762,902,228)	(643,518,566)	(604,645,765)
<b>4200</b>	<b>Net cash flows from investing activities</b>	<b>(970,338,962)</b>	<b>(932,196,382)</b>	<b>(825,327,625)</b>	<b>(792,731,151)</b>

## 18. Related parties (continued)

Line code	Narrative	For reporting period	including, major subsidiaries and associates	For the same period of the prior year	including, major subsidiaries and associates
<b>Cash flows from financing activities</b>					
<b>4310</b>	<b>Receipts — total, including:</b>	<b>749,666,618</b>	<b>239,188,083</b>	<b>370,856,555</b>	<b>48,551,765</b>
4311	borrowings and bank loans	749,623,470	239,188,083	370,814,825	48,551,765
4312	contributions of owners (participants)	—	—	—	—
4313	issue of shares, increase in ownership interest	—	—	—	—
4314	issue of bonds, promissory notes and other debt securities, etc.	—	—	—	—
4319	other receipts	43,148	—	41,730	—
<b>4320</b>	<b>Payments — total, including:</b>	<b>(634,473,740)</b>	<b>(168,888,995)</b>	<b>(516,691,526)</b>	<b>(106,425,368)</b>
4321	to owners (participants) due to the fact of share buy-back or cessation of membership	—	—	—	—
4322	dividend payments or other distribution of profit to owners (participants)	(186,827,990)	—	(183,250,569)	—
4323	redemption (buy-back) of promissory notes and other debt securities, loan repayment	(447,645,750)	(168,888,995)	(333,440,957)	(106,425,368)
4329	other payments	—	—	—	—
<b>4300</b>	<b>Net cash flows from financing activities</b>	<b>115,192,878</b>	<b>70,299,088</b>	<b>(145,834,971)</b>	<b>(57,873,603)</b>
<b>4400</b>	<b>Net cash flows for the reporting period</b>	<b>13,397,935</b>	<b>(1,105,186,522)</b>	<b>33,077,336</b>	<b>(1,177,685,091)</b>

## Transactions with other major related parties

	2017	2016
Sale (net of VAT, excise, customs duties and similar payments):		
gas	516,449,463	452,698,476
gas condensate, oil and oil and gas refinery products	259,271,008	225,658,268
gas transportation services	24,436,267	28,129,719
leased assets	20,933,276	20,762,383
Acquisition:		
gas	226,840,728	215,942,769
gas transportation and storage services, including through LLC Gazprom export acting as the commissioner	23,815,642	21,994,272
liquid hydrocarbons	23,795,766	21,980,826
oil products refinery services	53,779,689	53,866,988
	15,606,962	19,575,461

Prices of gas sold outside Russia to other major related parties and prices of gas transportation and storage services purchased from other major related parties were set based on the contracts.

Accounts receivable and accounts payable of the Company's other major related parties were as follows:

	31 December		
	2017	2016	2015
Accounts receivable	201,497,444	263,855,805	321,413,381
Accounts payable	46,170,570	57,283,354	63,606,709

## 18. Related parties (continued)

As at 31 December 2017, doubtful debt provision was formed for accounts receivable from other major related parties in the amount of RUB 6,058,459 thousand. As at 31 December 2016, doubtful debt provision was formed for accounts receivable from other major related parties in the amount of RUB 6,379,967 thousand.

The debt of other major related parties on interest-bearing loans received from the Company was as follows:

	31 December		
	2017	2016	2015
Loans due beyond 12 months of the reporting date	29,500,000	–	16,100,000
Loans due within 12 months of the reporting date	–	39,639,890	31,850,000

As at 31 December 2017, loans due beyond 12 months are represented by the debt of PJSC OGK-2 in the amount of RUB 24,600,000 thousand and by the debt of PJSC TGC-1 in the amount of RUB 4,900,000 thousand. As at 31 December 2015, loans due beyond 12 months were represented by the debt of PJSC OGK-2 in the amount of RUB 16,100,000 thousand. As at 31 December 2016 and 2015, loans due within 12 months are represented primarily by the debt of PJSC OGK-2 amounted to RUB 32,100,000 thousand and RUB 21,600,000 thousand, respectively; and by the debt of PJSC TGC-1 in the amount of RUB 7,500,000 thousand and RUB 10,000,000 thousand as at 31 December 2016 and 2015, respectively.

Interest on loans that the Company granted to its other major related parties in 2017 amounted to RUB 3,244,569 thousand (2016: RUB 3,951,666 thousand, 2015: RUB 4,258,438 thousand).

In 2017 the Company granted loans to its other major related parties at interest rates ranging from 7.92% to 13.72% (2016: from 8.00% to 14.71%, 2015: from 7.91% to 14.71%).

The Company's accounts payable related to loans received from other major related parties were as follows:

	31 December		
	2017	2016	2015
Loans due within 12 months of the reporting date	118,248,496	109,570,560	78,664,932

Interest on loans that the Company received from other major related parties was RUB 3,693,377 thousand, RUB 8,260,673 thousand and RUB 7,962,754 thousand in 2017, 2016 and 2015, respectively.

Interest on loans that the Company received from its other major related parties varied from 0.00% to 10.01% in 2017 and from 0.00% to 11.51% in 2016 and 2015.

Guarantees issued by the Company on behalf of its other major related parties totalled RUB 9,748,740 thousand, RUB 10,787,980 thousand and RUB 13,589,460 thousand as at 31 December 2017, 2016 and 2015, respectively.

### Information on cash flows related to transactions with other major related parties:

	2017	2016
Cash inflow, including:	1,212,613,143	1,103,852,352
from operating activities	1,069,061,692	1,002,698,324
from financing activities	91,138,196	37,036,261
from investing activities	52,413,255	64,117,767
Cash outflow, including:	487,360,444	414,979,464
from operating activities	360,122,266	345,263,708
from financing activities	83,398,518	14,530,283
from investing activities	43,839,660	55,185,473

## 18. Related parties (continued)

The line “Cash Inflow from Operating Activities” primarily includes proceeds from sale of goods, products, works and services.

The line “Cash Outflow from Operating Activities” primarily includes payments to the suppliers (contractors) for raw materials, works and services.

### Remuneration to key management personnel

Short-term compensation of key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom), including salary, bonuses and remuneration for membership in the management bodies of the Company, amounted to RUB 3,268,992 thousand, RUB 3,196,598 thousand and RUB 3,500,341 thousand for the years ended 31 December 2017, 2016 and 2015, respectively. Such amounts include personal income tax and insurance contributions. Government employees, who are members of the Board of Directors, do not receive any remuneration from the Company. Remuneration of members of the Board of Directors shall be approved by the annual meeting of shareholders. Compensation of key management personnel (other than remuneration of the Board of Directors) is determined by the terms of employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to the Russian legislation, the Company makes contributions for compulsory pension coverage, compulsory social insurance against temporary disability and maternity, compulsory medical insurance, insurance against accidents at work and occupational diseases calculated on the basis of salaries and other payments to employees, including the key management personnel.

The Company also provided medical insurance for its key management personnel. Voluntary medical insurance contributions amounted to RUB 12,781 thousand, RUB 6,914 thousand and RUB 7,057 thousand in 2017, 2016 and 2015, respectively.

## 19. Estimated and contingent liabilities

### Estimated liabilities

Information on estimated liabilities is disclosed in Section 7 of the table enclosed in the Explanatory Notes to the Balance Sheet and the Statement of Financial Results.

### Estimated asset retirement liability and liability to restore environment disturbed by mineral extraction

According to p. 8 Art. 22 of Federal Law No. 2395-I of 21 February 1992 “On Subsoil” and subsoil use licence agreements, the user of mineral resources is obliged to bring the land plots and other natural sites disturbed by subsoil use to the condition appropriate for further use as well as to liquidate mine workings and wells that are not subject to further use.

The Company holds licence agreements at the Kirinskoye gas and condensate field, the Chayandinskoye oil, gas and condensate field, the Kirinskoye prospective area and the Chikanskoye gas and condensate field and, consequently, is the user of mineral resources and the owner of the fixed assets items.

The fixed assets items were transferred to the users of mineral resources under a commercial field development and use agreement with respect to the Kirinskoye gas and condensate field and under a pilot field development agreement with respect to the Chayandinskoye oil, gas and condensate field, and, consequently, the Company bears responsibility for bringing the land plots and other natural sites disturbed by subsoil use to the condition appropriate for further use as well as liquidating mine workings and wells that are not subject to further use.

The Company recognises estimated liabilities with respect to the removal of the infrastructure facilities and soil remediation of the Kirinskoye gas and condensate field, the Chayandinskoye oil, gas and condensate field, the Chikanskoye gas and condensate field, as well as estimated liabilities with respect to removal of the infrastructure facilities of the Kirinskoye prospective area. The amount of estimated liabilities was recalculated using the discount rate as at the end of each reporting period during 2017.

The Company does not accrue estimated liabilities on the removal of fixed assets with respect to the items leased out to its subsidiaries (users of mineral resources), which is explained by the specific aspects of the subsoil use process applied by the Company and its subsidiaries,



## 19. Estimated and contingent liabilities (continued)

specifically, the majority of the fixed assets items involved in the process are owned by the Company but leased out to its subsidiaries (users of mineral resources) and used by the latter in accordance with licence agreements to which they are a party. Consequently, the Company who owns fixed assets that have been leased out to the user of mineral resources does not have any liabilities of dismantling fixed assets that are not subject for further use or restoring the environment disturbed by the subsoil use.

### Pension liabilities

The Company operates a defined benefit plan. As the current legislation provides no guidance for recording pension liability accruals on accounts, the calculations of both pension liabilities and pension assets are only possible at the level of Gazprom Group and they are disclosed in the Notes to Gazprom Group's consolidated financial statements prepared in accordance with the International Financial Reporting Standards ([www.gazprom.ru](http://www.gazprom.ru)).

### Estimated liabilities related to gas and other products price adjustments

The Company has recognised estimated liabilities related to price adjustments with regard to delivered gas supplies caused by foreign customer claims based on contract conditions, and other products.

The estimated liabilities related to gas price adjustments of RUB 118,455,544 thousand, RUB 81,437,436 thousand and RUB 97,154,243 thousand as at 31 December 2017, 2016 and 2015, respectively, do not include any potential adjustment of customs duties accrued earlier.

### Contingencies

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

	31 December		
	2017	2016	2015
Guarantees issued on behalf of the following entities:			
LLC Novourengovsky GCC	109,650,620	151,940,736	270,205,669
Nord Stream 2 AG	89,697,597	–	–
JSC Gazprom Space Systems	51,004,886	48,166,909	59,670,485
LLC Stroygazconsulting	41,500,000	–	–
LLC Gazprom export	9,916,604	9,188,599	11,476,148
LLC Gazprom neft shelf	9,748,740	10,787,980	13,589,460
Blackrock Capital Investments Ltd.	1,572,216	4,967,513	9,946,006
OJSC Severneftegazprom	–	–	16,967,763
LLC Gazprom investproject	–	6,909,821	7,852,281
PJSC Gazprom avtomatizatsiya	–	1,930,000	2,450,000
JSC Achimgaz	–	–	1,476,393
JSC Gaztransit	–	–	26,975
Other	527,422	8,286	53,314
<b>Total</b>	<b>313,618,085</b>	<b>233,899,844</b>	<b>393,714,494</b>

In January 2007, the Company issued guarantees for the liabilities of LLC Gazprom neft shelf to Blueward Shipping Company Ltd. and Nostalgic Moon Shipping Company Ltd. under shipping agreements. The guarantees will be valid for 25 years after the vessels are transferred to LLC Gazprom neft shelf. As at 31 December 2017, 2016 and 2015 the guarantees totalled RUB 9,748,740 thousand, RUB 10,787,980 thousand and RUB 13,589,460 thousand, respectively.

In 2006, the Company issued guarantees to Asset Repackaging Trust Five B.V. registered in the Netherlands, for Blackrock Capital Investments Limited registered in Ireland in respect

## **19. Estimated and contingent liabilities (continued)**

to the issued bonds maturing in June 2018. The bonds were issued to raise financing for construction of a transit gas pipeline in the territory of Poland to be carried out by JSC EuroPol Gaz. Consequently, as at 31 December 2017, 2016 and 2015 the guarantees totalled RUB 1,572,216 thousand, RUB 4,967,513 thousand and RUB 9,946,006 thousand, respectively.

In May 2010, the Company issued a guarantee valid till October 2023 to Bank BNP Paribas SA as a security of the loan granted to JSC Gazprom Space Systems. As at 31 December 2017, 2016 and 2015, the guarantee amounted to RUB 8,100,845 thousand, RUB 8,410,609 thousand and RUB 12,461,834 thousand, respectively.

In December 2011, the Company issued a guarantee valid till December 2018 to LLC Regionalnaya Finansovaya Compania as a security of the loan granted to LLC Novourengovsky GCC. In December 2014 LLC Regionalnaya Finansovaya Compania assigned its claim rights under the loan agreement and guarantee agreement to Gazprombank (Joint Stock Company) with the same terms and conditions as they were at the date of assignment. As at 31 December 2017, the guarantee amounted to RUB 10,000,000 thousand, as at 31 December 2016 the guarantee amounted to RUB 11,604,795 thousand and as at 31 December 2015 the guarantee amounted to RUB 10,000,000 thousand.

In October 2012, the Company issued a guarantee valid till July 2017 to LLC Regionalnaya Finansovaya Compania as a security of the loan granted to LLC Novourengovsky GCC. In December 2014 LLC Regionalnaya Finansovaya Compania assigned its claim rights under the loan agreement and guarantee agreement to Gazprombank (Joint Stock Company) with the same terms and conditions as they were at the date of assignment. As at 31 December 2016, the guarantee amounted to RUB 11,604,795 thousand, as at 31 December 2015 — RUB 10,000,000 thousand. In April 2017, LLC Novourengovsky GCC repaid the loan, and the guarantee agreement was, therefore, terminated.

In November 2012, the Company issued a guarantee valid till October 2017 to Bank of America Securities Ltd. as a security of the loan granted to LLC Novourengovsky GCC. As at 2016 and 2015, the guarantee amounted to RUB 11,681,132 thousand and RUB 14,603,683 thousand, respectively. In October 2017, LLC Novourengovsky GCC repaid the loan, and the guarantee agreement was, therefore, terminated.

In September 2013, the Company issued a guarantee valid till September 2018 to Bank of America Securities Ltd. as a security of the loan granted to JSC Gazprom Space Systems. As at 31 December 2017, 2016 and 2015, the guarantee amounted to RUB 8,801,191 thousand, RUB 9,362,026 thousand and RUB 22,157,829 thousand, respectively.

In October 2013, the Company issued a guarantee valid till October 2018 to Bank of America Securities Ltd. as a security of the loan granted to LLC Novourengovsky GCC. As at 31 December 2017, 2016 and 2015, the guarantee amounted to RUB 17,695,639 thousand, RUB 18,586,920 thousand and RUB 22,274,253 thousand, respectively.

In October 2013, the Company issued a guarantee valid till August 2017 to PJSC Sberbank of Russia as a security of the loan granted to LLC Novourengovsky GCC. As at 31 December 2016 and 2015, the guarantee amounted to RUB 14,443,025 thousand and RUB 18,047,305 thousand, respectively. In August 2017, LLC Novourengovsky GCC repaid the loan, and the guarantee agreement was, therefore, terminated.

In December 2013, the Company issued a guarantee valid till December 2018 to UniCredit Bank Austria AG as a security of the loan granted to LLC Novourengovsky GCC.

As at 31 December 2017, 2016 and 2015, the guarantee amounted to RUB 11,773,797 thousand, RUB 12,366,748 thousand and RUB 14,825,963 thousand, respectively.

In January 2014, the Company issued a guarantee valid till December 2018 to PJSC Sberbank of Russia as a security of the loan granted to LLC Novourengovsky GCC. As at 31 December 2017, 2016 and 2015, the guarantee amounted to RUB 8,830,347 thousand, RUB 9,275,061 thousand and RUB 11,119,472 thousand, respectively.

In September 2014, the Company issued a guarantee valid till September 2019 to UniCredit Bank Austria AG as a security of the loan granted to JSC Gazprom Space Systems. As at 31 December 2017, 2016 and 2015, the guarantee amounted to RUB 4,316,605 thousand, RUB 3,999,911 thousand and RUB 5,000,406 thousand, respectively.

In September 2015, the Company issued a guarantee valid till July 2021 to PJSC Sberbank of Russia as a security of the loan granted to LLC Novourengovsky GCC. As at 31 December 2017, 2016 and 2015, the guarantee amounted to RUB 44,614,104 thousand, RUB 46,869,838 thousand and RUB 56,235,662 thousand, respectively.

## 19. Estimated and contingent liabilities (continued)

In September 2015, the Company issued a guarantee valid till September 2023 to PJSC Sberbank of Russia as a security of the loan granted to LLC Novourengoy GSC. As at 31 December 2017, 2016 and 2015, the guarantee amounted to RUB 16,736,733 thousand, RUB 15,508,422 thousand and RUB 19,380,977 thousand, respectively.

In October 2015, the Company issued a guarantee valid till October 2020 to PJSC Bank VTB as a security of the loan granted to JSC Gazprom Space Systems. As at 31 December 2017, 2016 and 2015, the guarantee amounted to RUB 5,484,012 thousand, RUB 6,771,413 thousand and RUB 8,461,211 thousand, respectively.

In June 2016, the Company issued a guarantee valid till June 2021 to UniCredit Bank Austria AG to secure the loan issued to JSC Gazprom Space Systems. As at 31 December 2017 and 2016, the guarantee amounted to RUB 24,302,233 thousand and RUB 19,622,950 thousand, respectively.

In August 2017, the Company pledged the shares of Nord Stream 2 AG to GLAS Trustees Limited for the period until December 2038 to secure the obligations of Nord Stream 2 AG under the project financing agreement. As at 31 December 2017, the security amounted to RUB 89,697,597 thousand.

In December 2017, the Company issued a guarantee valid till June 2028 to Gazprombank (Joint Stock Company) to secure the loan provided to LLC Stroygazconsulting. As at 31 December 2017, the guarantee amounted to RUB 41,500,000 thousand.

Based on the Company's estimates, there are no third party liability secured by PJSC Gazprom's guarantee with any significant risk of default as at 31 December 2017, 2016 and 2015. The Company, therefore, did not record estimated liabilities for the issued guarantees as of 31 December 2017, 2016 and 2015.

## Legal proceedings

On 25 January 2016, the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of UAH 85,966 million (about USD 3,370 million) for violation of economic competition. On 12 April 2016, PJSC Gazprom filed an appeal with the Kiev Commercial Court challenging the decision by the Antimonopoly Committee of Ukraine. In April 2017 the Antimonopoly Committee of Ukraine filed a demand with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of UAH 171,932 million (about USD 6.4 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based representative office an Order of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover the amount of UAH 189,125 million (at the exchange rate as of 31 December 2017 — RUB 387,621 million), including an execution fee of UAH 17,193 million (at the exchange rate as of 31 December 2017 — RUB 35,238 million), the seizure of the accounts of the Kiev-based representative office of PJSC Gazprom, dividends due to PJSC Gazprom from the participation in JSC Gaztransit, the shares of JSC Gaztransit owned by PJSC Gazprom, the shares of PJSC YUZHNIIGIPROGAZ Institute, a participation stake in LLC Gazprom sbyt Ukraine and LLC International Consortium for the Ukrainian Gas Transmission System Management and Development. PJSC Gazprom is currently challenging the actions under the enforcement proceedings in the Ukrainian courts. PJSC Gazprom is also considering other legal mechanisms to restore its violated rights.

The Company is also a party to certain legal proceedings arising in the ordinary course of business. There are no current legal proceedings or other claims outstanding which could have a material adverse effect on the results of operations or financial position of the Company.

## Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and frequent change. As of 31 December 2017, the management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained.

The Russian transfer pricing law grants taxpayers the right to justify their compliance with the arm's length principle at prices used in controlled transactions by preparing the tax control documentation.

## **19. Estimated and contingent liabilities (continued)**

The Company's management believes that the prices applied by the Company are at the market level and the Company has implemented internal control procedures to ensure compliance with transfer pricing law.

Since currently there is no practice for application of the new rules, therefore, the outcome of any disputes with tax authorities over applied prices cannot be estimated reliably but may have a material effect on the Company's financial results and operations.

## **20. Subsequent events**

On 28 February 2018 the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, rejected a request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the European Union to the Contract. The Arbitration Institute rejected a request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under Contract No. TKGU to PJSC Ukrtransgaz or to another TSO. The Arbitration Institute satisfied the demand of NJSC Naftogaz of Ukraine to oblige Gazprom to pay USD 4,673 million for having provided less gas for transit to European consumers than stipulated in the Contract. With consideration for the amount awarded to PJSC Gazprom under the supply contract, the Arbitration Institute set off counterclaims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million to NJSC Naftogaz of Ukraine. In March 2018 following the arbitration proceeding PJSC Gazprom sent a notice to NJSC Naftogaz of Ukraine about an imbalance in the rights and obligations under the Contract and elimination of injustice. In case of the failure to come to an agreement PJSC Gazprom has the right to apply to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, for final dispute resolution.

## **21. Business risks**

The Company manages its risks in the framework of its integrated corporate system. Risk management is a permanent cyclic process of making and executing management decisions that includes identification, assessment and measurement of risks, responding to risks, efficiency control and planning of risk management and monitoring. This process is integrated in the general management process aimed at optimising the size of risks in line with the Company interests and covers all areas of its practical activities.

On its official website the Company should place information about the Company's position in the industry, including development trends in the corresponding market segment, the Company's level of adaptation to market conditions, main priority areas of the Company's activity, including its development prospects, as well as key information on risk factors associated with the Company's operation.

## 22. Information on production innovations and upgrade

Information on intangible assets that the Company developed or acquired, on movement of property, machinery and equipment as well as expenses incurred by the Company in the production innovation and upgrade process, if material, is disclosed in the relevant paragraphs of these Explanatory Notes to the Balance Sheet and the Statement of Financial Results of the Company.

Chief Executive Officer \_\_\_\_\_



(signature)

A.B. Miller

Chief Accountant \_\_\_\_\_



(signature)

E.A. Vasilieva

30 March 2018

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# Independent Auditor's Report

To the Shareholders of PJSC Gazprom

## Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Gazprom ("PJSC Gazprom") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

## Basis for Opinion

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

## Key Audit Matters

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

### Revenue recognition

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

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

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

Information about the approaches to revenue recognition is disclosed in Note 5 "Summary of significant accounting policies" to the consolidated financial statements, information about sales, including information by geographic segments, is disclosed in Note 26 "Sales" to the consolidated financial statements.



### Impairment of property, plant and equipment

Due to high significance of property, plant and equipment, high level of subjectivity of the underlying assumptions, judgments and estimates made by the management to conduct the impairment analysis, we consider this area to be one of the most significant audit areas. Furthermore, a significant decrease in prices for energy resources and the change in demand may result in the impairment of the Group's assets.

We assessed significant assumptions underlying the impairment test procedures in respect of various cash-generating units. The significant assumptions, in particular, included determining discount rates, forecasting prices for energy resources and exchange rates, as well as estimating volumes of production and sales. This analysis revealed that the significant assumptions applied by the Group's management in calculating the recoverable amount of the assets as at the end of the reporting period were within the acceptable range and corresponded to the current economic environment.

We paid special attention to testing impairment of the assets deployed under the projects the completion of which could not be assessed with a reasonable degree of reliability. Professional judgment about future cash flows which might be generated by such projects was one of the areas of increased attention of the auditor. In view of existing uncertainty associated with the implementation of the projects, we agree with the view of the management on the recognition and impairment of assets which do not have alternative use.

We also paid special attention to the assessment of the assets under construction. We conducted a detailed analysis of the objects where no active works had been done for long time. The management of the Group decided to recognise impairment allowance in respect of such assets. In our opinion, this decision corresponds to the current expectations related to possible future economic benefits from these assets.

Information about the non-current assets and the conducted impairment test is disclosed in Note 13 "Property, plant and equipment" to the consolidated financial statements.

### Impairment of accounts receivable

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

Based on the results of the procedures performed, we considered the criteria and assumptions applied by the management to accrue impairment allowance for accounts receivable to be appropriate.

Information about the accounts receivable and the impairment allowance for accounts receivable is disclosed in Note 10 "Accounts receivable and prepayments" and Note 16 "Long-term accounts receivable and prepayments" to the consolidated financial statements.

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

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

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

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

Information about liabilities accrued in respect of litigations is disclosed in Note 18 "Accounts payable and provisions for liabilities and chargers" to the consolidated financial statements, information about contingent liabilities in respect of litigations is disclosed in Note 36 "Operating risks" to the consolidated financial statements.

### Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of PJSC Gazprom for 2017 and the Quarterly issuer's report for the second quarter of 2018 but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report of PJSC Gazprom for 2017 and the Quarterly issuer's report are expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report of PJSC Gazprom for 2017 and the Quarterly issuer's report for the second quarter of 2018, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Group's management;

- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

President of FBK, LLC



Engagement partner



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

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

Date of the Independent Auditor's Report:  
24 April 2018

### Audited entity

**Name:**

Public Joint Stock Company Gazprom  
(PJSC Gazprom).

**Address of the legal entity within its location:**

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

**Official registration:**

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

### Auditor

**Name:**

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

**Address of the legal entity within its location:**

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

**Official registration:**

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

**Membership in self-regulatory organization of auditors:**

Self-regulatory organization of auditors Association "Sodruzhestvo".

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

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

# Consolidated Balance Sheet as of 31 December 2017 (in millions of Russian Rubles)

Notes		31 December	
		2017	2016
Assets			
Current assets			
8	Cash and cash equivalents	869,007	896,728
	Restricted cash	2,943	3,471
9	Short-term financial assets	31,057	11,48
10	Accounts receivable and prepayments	1,122,724	1,084,967
11	Inventories	772,314	711,199
	VAT recoverable	119,881	195,033
12	Other current assets	551,340	331,467
		3,469,266	3,234,346
Non-current assets			
13	Property, plant and equipment	12,545,079	11,502,747
14	Goodwill	105,469	105,330
15	Investments in associates and joint ventures	867,445	730,149
16	Long-term accounts receivable and prepayments	669,286	710,747
17	Available-for-sale long-term financial assets	268,432	294,345
12	Other non-current assets	313,793	341,274
		14,769,504	13,684,592
	Total assets	18,238,770	16,918,938
Liabilities and equity			
Current liabilities			
18	Accounts payable and provisions for liabilities and charges	1,378,182	1,197,005
	Current profit tax payable	59,922	62,479
19	Taxes and fees payable	276,607	215,244
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	874,805	447,080
		2,589,516	1,921,808
Non-current liabilities			
21	Long-term borrowings, promissory notes	2,391,713	2,382,543
24	Provisions for liabilities and charges	469,453	406,234
22	Deferred tax liabilities	699,413	688,503
	Other non-current liabilities	73,194	78,011
		3,633,773	3,555,291
	Total liabilities	6,223,289	5,477,099

**Consolidated Balance Sheet**  
**as of 31 December 2017**  
(in millions of Russian Rubles)

Notes		31 December	
		2017	2016
	<b>Equity</b>		
25	Share capital	325,194	325,194
25	Treasury shares	(235,919)	(235,919)
25	Retained earnings and other reserves	11,539,811	11,005,256
		<b>11,629,086</b>	<b>11,094,531</b>
33	Non-controlling interest	386,395	347,308
	<b>Total equity</b>	<b>12,015,481</b>	<b>11,441,839</b>
	<b>Total liabilities and equity</b>	<b>18,238,770</b>	<b>16,918,938</b>



A.B. Miller  
Chairman of the Management Committee

24 April 2018



E.A. Vasilieva  
Chief Accountant

24 April 2018

# Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2017 (in millions of Russian Rubles)

Notes	Year ended 31 December	
	2017	2016
26 Sales	6,546,143	6,111,051
Net (loss) gain from trading activity	(16,352)	3,382
27 Operating expenses	(5,714,090)	(5,244,983)
27 Change in impairment and other provisions	54,922	(143,870)
<b>Operating profit</b>	<b>870,623</b>	<b>725,580</b>
28 Finance income	426,705	1,018,997
28 Finance expense	(407,044)	(543,370)
15 Share of net income of associates and joint ventures	126,940	82,872
Gain on disposal of available-for-sale financial assets	782	1,059
<b>Profit before profit tax</b>	<b>1,018,006</b>	<b>1,285,138</b>
Current profit tax expense	(241,817)	(218,113)
Deferred profit tax expense	(9,310)	(69,921)
22 Profit tax	(251,127)	(288,034)
<b>Profit for the year</b>	<b>766,879</b>	<b>997,104</b>
<b>Other comprehensive income (loss):</b>		
Items that will not be reclassified to profit or loss:		
24 Remeasurements of post-employment benefit obligations	(5,064)	33,118
<b>Total items that will not be reclassified to profit or loss</b>	<b>(5,064)</b>	<b>33,118</b>
Items that may be reclassified subsequently to profit or loss:		
17 (Loss) gain arising from change in fair value of available-for-sale financial assets, net of tax	(30,404)	62,133
15 Share of other comprehensive income (loss) of associates and joint ventures	2,967	(6,397)
Translation differences	23,290	(297,703)
Gain from cash flow hedges, net of tax	13,601	49,196
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>9,454</b>	<b>(192,771)</b>
<b>Other comprehensive income (loss) for the year, net of tax</b>	<b>4,390</b>	<b>(159,653)</b>
<b>Total comprehensive income for the year</b>	<b>771,269</b>	<b>837,451</b>

Notes	Year ended 31 December	
	2017	2016
<b>Profit for the year attributable to:</b>		
Owners of PJSC Gazprom	714,302	951,637
33 Non-controlling interest	52,577	45,467
	<b>766,879</b>	<b>997,104</b>
<b>Total comprehensive income for the year attributable to:</b>		
Owners of PJSC Gazprom	710,840	806,903
Non-controlling interest	60,429	30,548
	<b>771,269</b>	<b>837,451</b>
30 <b>Basic and diluted earnings per share for profit attributable to the owners of PJSC Gazprom (in Russian Rubles)</b>	<b>32.32</b>	<b>42.19</b>



A.B. Miller  
Chairman of the Management Committee

24 April 2018



E.A. Vasilieva  
Chief Accountant

24 April 2018




# Consolidated Statement of Cash Flows for the Year Ended 31 December 2017 (in millions of Russian Rubles)

Notes		Year ended 31 December	
		2017	2016
	<b>Cash flows from operating activities</b>		
31	<b>Net cash from operating activities</b>	<b>1,187,022</b>	<b>1,571,323</b>
	<b>Cash flows from investing activities</b>		
	Capital expenditures	(1,405,780)	(1,369,052)
	Interest paid and capitalised	(127,159)	(132,477)
	Net change in loans issued	18,788	(9,627)
	Acquisition of subsidiaries, net of cash acquired	(16)	(1,113)
	Investments in associates and joint ventures	(97,238)	(3,359)
	Interest received	75,547	119,460
	Change in available-for-sale long-term financial assets	(13,673)	13,451
	Proceeds from associates and joint ventures	87,197	62,461
	Proceeds from the sale of associates	559	22,801
	Placement of long-term bank deposits	(2,586)	(142,374)
	Repayment of long-term bank deposits	100,000	85
	Other	(3,770)	(6,221)
	<b>Net cash used in investing activities</b>	<b>(1,368,131)</b>	<b>(1,445,965)</b>
	<b>Cash flows from financing activities</b>		
37	Proceeds from long-term borrowings	933,987	548,623
37	Repayment of long-term borrowings (including current portion of long-term borrowings)	(592,056)	(653,092)
37	Proceeds from short-term borrowings	74,576	124,783
37	Repayment of short-term borrowings	(40,035)	(110,291)
37	Dividends paid	(191,875)	(186,337)
37	Interest paid	(34,296)	(50,835)
25	Acquisition of treasury shares	–	(132,000)
	Acquisition of non-controlling interest in subsidiaries	(885)	(124)
	Issue of shares acquired by non-controlling interests	–	450
	Change in restricted cash	528	(1,656)
	<b>Net cash from (used in) financing activities</b>	<b>149,944</b>	<b>(460,479)</b>
	Effect of foreign exchange rate changes on cash and cash equivalents	3,444	(127,246)
	<b>Decrease in cash and cash equivalents</b>	<b>(27,721)</b>	<b>(462,367)</b>
8	Cash and cash equivalents at the beginning of the reporting year	896,728	1,359,095
8	<b>Cash and cash equivalents at the end of the reporting year</b>	<b>869,007</b>	<b>896,728</b>

  
A.B. Miller  
Chairman of the Management Committee

24 April 2018

  
E.A. Vasilieva  
Chief Accountant


24 April 2018

# Consolidated Statement of Changes in Equity for the Year Ended 31 December 2017 (in millions of Russian Rubles)

Notes		Number of shares out-standing (billions)	Attributable to the owners of PJSC Gazprom				Non- controlling interest	Total equity
			Share capital	Treasury shares	Retained earnings and other reserves	Total		
	Balance as of 31 December 2015	23.0	325,194	(103,919)	10,368,311	10,589,586	325,036	10,914,622
33	Profit for the year	–	–	–	951,637	951,637	45,467	997,104
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	–	–	–	33,110	33,110	8	33,118
33	Gain arising from changes in fair value of available-for-sale financial assets, net of tax	–	–	–	62,132	62,132	1	62,133
	Share of other comprehensive loss of associates and joint ventures	–	–	–	(6,397)	(6,397)	–	(6,397)
25, 33	Translation differences	–	–	–	(281,414)	(281,414)	(16,289)	(297,703)
33	Gain from cash flow hedges, net of tax	–	–	–	47,835	47,835	1,361	49,196
	Total comprehensive income for the year ended 31 December 2016	–	–	–	806,903	806,903	30,548	837,451
33	Change in non-controlling interest in subsidiaries	–	–	–	4,437	4,437	3,451	7,888
25	Return of social assets to governmental authorities	–	–	–	(23)	(23)	–	(23)
25, 34	Treasury shares	(0.9)	–	(132,000)	–	(132,000)	–	(132,000)
25, 33	Dividends declared	–	–	–	(174,372)	(174,372)	(11,727)	(186,099)
	Balance as of 31 December 2016	22.1	325,194	(235,919)	11,005,256	11,094,531	347,308	11,441,839
33	Profit for the year	–	–	–	714,302	714,302	52,577	766,879
	Other comprehensive income (loss):							
24, 33	Remeasurements of post-employment benefit obligations	–	–	–	(4,982)	(4,982)	(82)	(5,064)
33	Loss arising from changes in fair value of available-for-sale financial assets, net of tax	–	–	–	(30,397)	(30,397)	(7)	(30,404)
	Share of other comprehensive income of associates and joint ventures	–	–	–	2,967	2,967	–	2,967
25, 33	Translation differences	–	–	–	16,145	16,145	7,145	23,290
33	Gain from cash flow hedges, net of tax	–	–	–	12,805	12,805	796	13,601
	Total comprehensive income for the year ended 31 December 2017	–	–	–	710,840	710,840	60,429	771,269


**Consolidated Statement of Changes in Equity  
for the Year Ended 31 December 2017  
(in millions of Russian Rubles)**

Notes	Number of shares out-standing (billions)	Attributable to the owners of PJSC Gazprom				Non-controlling interest	Total equity
		Share capital	Treasury shares	Retained earnings and other reserves	Total		
33	Change in non-controlling interest in subsidiaries	–	–	1,413	1,413	(2,963)	(1,550)
25	Return of social assets to governmental authorities	–	–	(18)	(18)	–	(18)
25, 33	Dividends declared	–	–	(177,680)	(177,680)	(18,379)	(196,059)
<b>Balance as of 31 December 2017</b>		<b>22.1</b>	<b>325,194</b>	<b>(235,919)</b>	<b>11,539,811</b>	<b>11,629,086</b>	<b>386,395 12,015,481</b>



A.B. Miller  
Chairman of the Management Committee

24 April 2018



E.A. Vasilieva  
Chief Accountant

24 April 2018

# Notes to the IFRS Consolidated Financial Statements

## 31 December 2017

### (in millions of Russian Rubles)

#### 1. Nature of operations

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

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

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

The weighted average number of employees during 2017 and 2016 was 463 thousand and 456 thousand, respectively.

#### 2. Economic environment in the Russian Federation

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

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

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

- as of 31 December 2017 — 57.6002;
- as of 31 December 2016 — 60.6569 (as of 31 December 2015 — 72.8827).

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

- as of 31 December 2017 — 68.8668;
- as of 31 December 2016 — 63.8111 (as of 31 December 2015 — 79.6972).

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

#### 3. Basis of presentation

These consolidated financial statements are prepared in accordance with, and comply with, International Financial Reporting Standards ("IFRS"), including International Accounting Standards and Interpretations issued by the International Accounting Standards Board and effective in the reporting period.

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial instruments as described in Note 5. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### 4. Scope of consolidation

As described in Note 5, the consolidated financial statements include consolidated subsidiaries, associates, joint ventures and operation of the Group. There were no significant changes in the Group's structure in 2017 and 2016.

#### 5. Summary of significant accounting policies

The principal accounting policies followed by the Group are set out below.

##### 5.1 Group accounting

###### Subsidiaries

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee.

Subsidiaries are consolidated from the date on which control is transferred to the Group (the acquisition date) and are deconsolidated from the date on which control ceases.

All inter-company transactions, balances and unrealized gains and losses on transactions between companies of the Group have been eliminated. Separate disclosure is made for non-controlling interests.

The acquisition method of accounting is used to account for the acquisition of subsidiaries, including those entities and businesses that are under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

An acquirer should recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability which relate to measurement period adjustments are adjusted against goodwill. Changes which arise due to events occurring after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill.

###### Goodwill and non-controlling interest

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated statement of comprehensive income. Goodwill is tested annually for impairment as well as when there are indications of impairment. For the purpose of impairment testing goodwill is allocated to the cash-generating units or groups of cash-generating units, as appropriate.

Non-controlling interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. The Group treats transactions with non-controlling interest as transactions with equity owners of the Group. In accordance with IFRS 3 Business Combinations, the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any non-controlling

## 5. Summary of significant accounting policies (continued)

interest in the acquiree is stated at the non-controlling interest proportion of the net fair value of those items.

### Joint arrangements

Joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligation for the liabilities, relating to the arrangement. Where the Group acts as a joint operator, the Group recognises in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. With regards to joint arrangements, where the Group acts as a joint venture, the Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method.

### Associates

Associates are entities over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint arrangement. Significant influence occurs when the Group has the power to participate in the financial and operating policy decisions of an entity but has no control or joint control over those policies. Associates are accounted for using the equity method. The group's share of its associates' post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised gains are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interest in each associate is carried in the consolidated balance sheet at the amount that reflects cost, including the goodwill at the acquisition date, the Group's share of profit and losses and its share of post-acquisition movements in reserves recognised in equity. Allowances are recorded for any impairment in value.

Recognition of losses under equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

## 5.2 Financial instruments

Financial instruments carried on the consolidated balance sheet include financial assets, in particular cash and cash equivalents, accounts receivable and other financial assets, as well as financial liabilities, in particular accounts payable, borrowings, promissory notes. The particular recognition and measurement methods adopted are disclosed in the individual policy statements associated with each item.

### Accounting for financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantee contracts are initially recognised at the fair value and are subsequently measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

### Fair value disclosure

The fair value of accounts receivable for disclosure purposes is measured by discounting the value of expected cash flows at the market rate of interest for similar borrower at the reporting date.

## 5. Summary of significant accounting policies (continued)

The fair value of financial liabilities and other financial instruments (except if publicly quoted) for disclosure purposes is measured by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The fair value of publicly quoted financial instruments for disclosure purposes are measured based on current market value at the last trading price on the reporting date.

### 5.3 Derivative financial instruments

The Group uses a variety of derivative financial instruments, including forward and foreign currency option contracts, commodities and securities. The Group's accounting policy provides for the recognition of derivative financial instruments in the consolidated financial statements at fair value. Gains (losses) from change in the fair value of the derivative financial instrument are recognised in profit and loss of the consolidated statement of comprehensive income. The fair value of the derivative financial instrument is determined using market information and valuation techniques based on prevailing market interest rates for similar instruments.

As part of its activities, the Group enters into contracts to buy or sell gas, electric power and other commodities at the European liquid trading platforms. This activity provides for a large number of buy/sell transactions completed within short periods, which, coupled with the Group's transportation and storage capacities, aims to generate profit.

Some of these contracts can be settled net in accordance with IAS 39 Financial Instruments: Recognition and Measurement, because a contract to buy or sell a commodity is settled within a short period for the purpose of generating profit from short-term fluctuations in price or dealer's margin. Such contracts are, therefore, settled not in line with the Group's expected purchase, sale or usage requirements. Consequently, such contracts to buy or sell a non-financial item are regulated by IAS 39 "Financial Instruments: Recognition and Measurement" and are recognised as derivative financial instruments at fair value, with changes in fair value recognised in "Derivatives (gain) loss" within operating expenses of the consolidated statement of comprehensive income.

Derivatives embedded into buy/sell contracts are separated from the host contracts and accounted for separately. Derivatives are carried at fair value with gains and losses arising from changes in fair value recognised in profit and loss of the consolidated statement of comprehensive income in the period in which they arise.

### 5.4 Hedge accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument. The Group has designated only cash flow hedges — hedges against the exposure to the variability of cash flow currency exchange rates on highly probable forecast transactions. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. Any ineffective portion is ultimately recognised in profit and loss. Changes in the fair value of certain derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss on any associated hedging instrument that was reported in equity is immediately transferred to profit and loss.

The fair value of the hedge item is determined at the end of each reporting period with reference to the market value, which is typically determined by the credit institutions.

### 5.5 Non-derivative financial assets

The Group classifies its financial assets in the following categories:

- (a) financial assets at fair value through profit or loss;
- (b) available-for-sale financial assets; and
- (c) loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and

## 5. Summary of significant accounting policies (continued)

re-evaluates this designation, which determines the method for measuring financial assets at the subsequent balance sheet date: amortised cost or fair value.

### (a) Financial assets at fair value through profit or loss of the consolidated statement of comprehensive income

This category has two sub-categories: financial assets held for trading and those designated at the fair value through profit or loss the consolidated statement of comprehensive income at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are expected to be realized within 12 months after the balance sheet date. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included within the profit and loss section of the consolidated statement of comprehensive income in the period in which they arise.

There were no material financial assets designated at the fair value through profit or loss at inception as of 31 December 2017 and 31 December 2016.

### (b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the balance sheet date.

Available-for-sale financial assets are measured at the fair value at inception and subsequently. Investments in quoted equity instruments classified as available-for-sale financial assets are measured at quoted market prices as of the reporting date. Investments in equity instruments for which there are no available market quotations are accounted for at the fair value. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with the same instrument or based on a valuation technique whose variables include only data from observable markets. The fair value of unquoted debt instruments classified as available-for-sale financial assets is determined using discounted cash flow valuation techniques based on prevailing market interest rate for similar instruments.

Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income and shown net of income tax in the consolidated statement of comprehensive income. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the consolidated statement of comprehensive income as gains (losses) on disposal of available-for-sale financial assets.

Interest income on available-for-sale debt instruments, calculated using the effective interest method, is recognised within the profit and loss section of the consolidated statement of comprehensive income.

### (c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses are recognised within the profit and loss section of the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets.

### Impairment of financial assets

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from other comprehensive income to profit or loss for the year. The impairment loss is reversed if the reversal can be related objectively



## 5. Summary of significant accounting policies (continued)

to an event occurring after the impairment was recognised. For financial assets measured at amortized cost and available-for-sale financial assets which represent debt instruments, the reversal is recognised in profit or loss. For available-for-sale financial assets which represent equity instruments, the reversal is recognised directly in other comprehensive income. Impairment losses relating to assets recognised at cost cannot be reversed.

The allowance for impairment of accounts receivable is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 12 months overdue) are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the financial asset's original effective interest rate at the date of origination of the receivable. The amount of the allowance is recognised in the consolidated statement of comprehensive income within operating expenses.

### 5.6 Options on purchase or sale of financial assets

Options on purchase or sale of financial assets are presented in the consolidated financial statements at their fair value. These options are accounted for as assets when their fair value is positive (for call options) and as liabilities when the fair value is negative (for put options). Changes in the fair value of these options instruments are included within the profit and loss section of the consolidated statement of comprehensive income.

### 5.7 Cash and cash equivalents and restricted cash

Cash comprises cash on hand and balances with banks. Cash equivalents comprise short-term financial assets which are readily converted to cash and have an original maturity of three months or less. Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings or under banking regulations. Restricted cash balances are excluded from cash and cash equivalents in the consolidated statement of cash flows.

### 5.8 Value added tax

In the Russian Federation the value added tax ("VAT") at a standard rate of 18 % is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. Output VAT is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment by the buyer. Input VAT could be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

Export of goods and rendering certain services related to exported goods are subject to 0 % VAT rate upon the submission of confirmation documents to the tax authorities. Input VAT related to operations that are subject to 0 % VAT is recoverable. A limited list of goods, works and services are not subject to VAT. Input VAT related to non-VATable supply of goods, works and services generally is not recoverable and is included in the value of acquired goods, works and services.

VAT related to purchases (input VAT) and also VAT prepayments are recognised in the consolidated balance sheet within other current assets, while VAT related to sales (output VAT) is disclosed separately as a current liability. VAT presented within other non-current assets relates to assets under construction, which is expected to be recovered more than 12 months after the balance sheet date.

### 5.9 Mineral extraction tax

Mineral extraction tax ("MET") applied to the extraction of hydrocarbons, including natural fuel gas, gas condensate and oil, is accrued in proportion to the volume of extracted minerals.

The amendments to the Russian Tax Code concerning the MET formula for gas condensate

## 5. Summary of significant accounting policies (continued)

and natural fuel gas came into force as of 1 July 2014, having replaced fixed MET rates.

Since 1 January 2015 MET rate for natural fuel gas is defined as the set of indicators:

- 1) the base rate of RUB 35 per thousand cubic meters of natural fuel gas;
- 2) the base value of a unit of fuel equivalent calculated, based on various macroeconomic indicators, including oil and gas prices;
- 3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon deposits;
- 4) the indicator representing the transportation costs of natural fuel gas.

The MET rate for gas condensate is defined as the set of indicators:

- 1) the base rate of RUB 42 per ton for extracted gas condensate;
- 2) the base value of a unit of fuel equivalent, calculated taking into account various macroeconomic indicators including oil and gas prices;
- 3) the coefficient representing the degree of difficulty of extracting natural fuel gas and (or) gas condensate from raw hydrocarbon deposits;
- 4) the adjustment coefficient.

A zero MET rate is applied to natural fuel gas and gas condensate extracted in a number of regions of the Russian Federation subject to the stipulations established by the applicable norms and regulations.

In the Russian Federation MET applied to extracted oil is calculated on a monthly basis by way of multiplying an amount of extracted mineral by a fixed tax rate (RUB 919 per ton from 2017) adjusted for a coefficient that takes into account dynamics of global oil prices, as well as the indicator which reflect specific aspects of oil extraction. A zero rate is also applied to oil extracted in a number of regions of the Russian Federation subject to the stipulations established by the applicable norms and regulations.

MET is also applied to the extraction of common mineral resources (also under a combined license).

MET is included in operating expenses.

### 5.10 Customs duties

The export of hydrocarbons, including natural gas and crude oil, outside of the Customs union, which includes the Russian Federation, Belarus and Kazakhstan, is subject to export customs duties. According to the Decree of the Government of the Russian Federation No.754 dated 30 August 2013 export of natural gas outside the boundaries of the Customs union is subject to a fixed 30 % export customs duty rate levied on the customs value of the exported natural gas.

According to the Federal Law No.239-FZ dated 3 December 2012, starting from 1 April 2013 under the Resolution of the Russian Government No.276 dated 29 March 2013 export customs duty calculation methodology for oil and oil products was established based on which the Ministry of Economic Development of the Russian Federation determines export customs duty rates for the following calendar month.

Revenues are recognised net of the amount of custom duties.

### 5.11 Excise tax

Effective from 1 January 2015 natural gas is subject to a 30 % excise tax, if provided by international treaties of the Russian Federation. Thus, at the present moment excisable oil products include gasoline, motor oil, diesel fuel and natural gas, while oil and gas condensate do not apply to excisable goods.

Within the Group, excise tax is imposed on the transfers of excisable oil products produced at group-owned refineries under a tolling arrangement to the Group company owning the product. The Group considers the excise tax on refining of oil products on a tolling basis as an operating expense. These taxes are not netted with revenue presented in the consolidated statement of comprehensive income.

### 5.12 Inventories

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises

## 5. Summary of significant accounting policies (continued)

raw materials, direct labour, other direct costs and related production overhead but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and completion costs.

### 5.13 Property, plant and equipment

Property, plant and equipment are carried at historical cost of acquisition or construction after deduction of accumulated depreciation and accumulated impairment. Gas and oil exploration and production activities are accounted for in accordance with the successful efforts method. Under the successful efforts method, costs of development and successful exploratory wells are capitalised. Costs of unsuccessful exploratory wells are expensed upon determination that the well does not justify commercial development. Other exploration costs are expensed as incurred. Exploration costs are classified as research and development expenses within operating expenses.

Major renewals and improvements are capitalised. Maintenance, repairs and minor renewals are expensed as incurred. Minor renewals include all expenditures that do not result in a technical enhancement of the asset beyond its original capability. Gains and losses arising from the disposal of property, plant and equipment are included within the profit and loss section of the consolidated statement of comprehensive income as incurred.

Property, plant and equipment include the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Interest costs on borrowings are capitalised as part of the cost of assets under construction during the period of time that is required to construct and prepare the asset for its intended use. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs eligible for capitalisation.

Depletion of acquired production licenses is calculated using the units-of-production method for each field based upon proved reserves. Oil and gas reserves for this purpose are determined in accordance with the guidelines set by Petroleum Resources Management System (PRMS) approved by the Society of Petroleum Engineers, the World Petroleum Congress, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers, and were estimated by independent reservoir engineers.

Depreciation of assets (other than production licenses) is calculated using the straight-line method over their estimated remaining useful lives, as follows:

	Years
Pipelines	25–34
Wells	7–40
Machinery and equipment	10–18
Buildings	30–40
Roads	20–40
Social assets	10–40

Depreciation on wells has been calculated on cost using the straight line method rather than, as is the more generally accepted international industry practice, on the unit-of-production method. The difference between straight line and units-of-production is not material for these consolidated financial statements. Assets under construction are not depreciated until they are placed in service.

The return to a governmental authority of state social assets (such as rest houses, housing, schools and medical facilities) retained by the Group at privatisation is recorded only upon the termination of operating responsibility for the social assets. The Group does not possess

## 5. Summary of significant accounting policies (continued)

ownership rights for the assets, but records them on its consolidated balance sheet up to the return to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. These disposals are considered to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a reduction directly in equity.

### 5.14 Impairment of non-current non-financial assets

At each balance sheet date, management assesses whether there is any indication that the recoverable value of the Group's assets has declined below the carrying value. When such a decline is identified, the carrying amount is reduced to the estimated recoverable amount which is the higher of fair value less costs to sell and value in use. Individual assets are grouped for impairment assessment purposes into the cash-generating units at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets.

Goodwill acquired in a business combination is assessed for the recoverability of its carrying value annually irrespective of whether there is any indication that impairment exists at the balance sheet date. Goodwill acquired through business combinations is allocated to cash-generating units (or groups of cash-generating units) to which goodwill relates. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit (including goodwill) is compared with the recoverable amount of the respective cash-generating unit.

The amount of the reduction of the carrying amount of the cash-generating unit to the recoverable value is recorded within the profit and loss section of the consolidated statement of comprehensive income in the period in which the reduction is identified. Impairments, except those relating to goodwill, are reversed as applicable to the extent that the events or circumstances that triggered the original impairment have changed. Impairment losses recognised for goodwill are not reversed in subsequent reporting periods.

### 5.15 Borrowings

Borrowings are recognised initially at their fair value which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price, net of transaction costs incurred. In subsequent periods, borrowings are recognised at amortised cost, using the effective interest method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

### 5.16 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred income tax is provided on all temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

### 5.17 Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional

## 5. Summary of significant accounting policies (continued)

currency"). The consolidated financial statements are presented in Russian Rubles, which are the presentation currency of the Group's consolidated financial statements.

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the official exchange rates prevailing at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the reporting date are recognised as exchange gains or losses within the profit and loss section of the consolidated statement of comprehensive income.

The balance sheets of foreign subsidiaries, associates and joint arrangements are translated into Rubles at the official exchange rate prevailing at the reporting date. Statements of comprehensive income of foreign entities are translated at average exchange rates for the year. Exchange differences arising on the translation of the net assets of foreign subsidiaries and associates are recognised as translation differences and recorded directly in equity.

Exchange restrictions and currency controls exist relating to converting the RUB into other currencies. The RUB is not freely convertible in most countries outside of the Russian Federation.

### 5.18 Provisions for liabilities and charges

Provisions, including provisions for post-employment benefit obligations and for decommissioning and site restoration costs, are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. As obligations are determined, they are recognised immediately based on the present value of the expected future cash outflows arising from the obligations. Initial estimates (and subsequent revisions to the estimates) of the cost of dismantling and removing the property, plant and equipment are capitalized as property, plant and equipment.

### 5.19 Equity

#### Treasury shares

When the Group companies purchase the equity share capital of PJSC Gazprom, the consideration paid including any attributable transaction costs is deducted from total equity as treasury shares until they are re-sold. When such shares are subsequently sold, any consideration received net of income taxes is included in equity. Treasury shares are recorded at weighted average cost. Gains (losses) arising from treasury shares transactions are recognised directly in the consolidated statement of changes in equity, net of associated costs including taxation.

#### Dividends

Dividends are recognised as a liability and deducted from equity in the period when it recommended by the Board of Directors and approved at the General Meeting of Shareholders.

### 5.20 Revenue recognition

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up.

Sales, including gas, refined products, crude oil and gas condensate and electric and heat energy, are recognised for financial reporting purposes when products are delivered to customers and title passes and are stated net of VAT and other similar compulsory payments. Gas transportation sales are recognised when transportation services have been provided, as evidenced by delivery of gas in accordance with the contract.

Prices for natural gas and tariffs for transportation of gas to final consumers in the Russian Federation are regulated by the Federal Antimonopoly Service ("FAS"). Prices for gas sold to European countries are mainly calculated by a formula based on the number of oil product prices, in accordance with the terms of long-term contracts. Gas prices that are being implemented in countries of the former Soviet Union are defined in various ways, including using formulas similar to those used in contracts with European buyers.

## 5. Summary of significant accounting policies (continued)

### Net gain (loss) from trading activity

Contracts to buy or sell commodities, including gas, electric power and other commodities, entered into at the European liquid trading platforms for the purpose of generating profit from short-term fluctuations in price rather than out of the Group's expected purchase, sale or usage requirements are recognised at fair value. These contracts are considered as derivative financial instruments and regulated by IAS 39 Financial Instruments: Recognition and Measurement for valuation as well as for information disclosure purposes. Income and expenses which arise out of a contract are recognised on a net basis in profit and loss within "Net gain (loss) from trading activity" of the consolidated statement of comprehensive income.

#### 5.21 Interest

Interest income and expense are recognised within the profit and loss section of the consolidated statement of comprehensive income for all interest bearing financial instruments on an accrual basis using the effective yield method. Interest income includes nominal interest and accrued discount and premium. When loans become doubtful of collection, they are written down to their recoverable amounts (using the original effective rate) and interest income is thereafter recognised based on the same effective rate of interest.

#### 5.22 Research and development

Research expenditure is recognised as an expense as incurred. Development expenditure is recognised as intangible assets (within other non-current assets) to the extent that such expenditure is expected to generate future economic benefits. Other development expenditures are recognised as an expense as incurred. However, development costs previously recognised as an expense are not recognised as an asset in a subsequent period, even if the asset recognition criteria are subsequently met.

#### 5.23 Employee benefits

### Pension and other post-retirement benefits

The Group operates post-employment benefits, which are recorded in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Group. Pension costs are recognised using the projected unit credit method. The cost of providing pensions is accrued and charged to staff expenses within operating expenses in the consolidated statement of comprehensive income reflecting the cost of benefits as they are earned over the service lives of employees. The post-employment benefit obligation is measured at the present value of the estimated future cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liability.

Actuarial gains and losses on assets and liabilities arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise (see Note 24).

Past service costs are recognised immediately through profit or loss when they occur, in the period of a plan amendment.

Plan assets are measured at fair value and are subject to certain limitations (see Note 24). Fair value of plan assets is based on market prices. When no market price is available the fair value of plan assets is estimated by different valuation techniques, including discounted expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and maturity or expected disposal date of these assets.

In the normal course of business the Group contributes to the Russian Federation State pension plan on behalf of its employees. Mandatory contributions to the State pension plan, which is a defined contribution plan, are expensed when incurred and are included within staff costs in operating expenses. The cost of providing other discretionary post-retirement obligations (including constructive obligations) is charged to the profit and losses of the consolidated statement of comprehensive income as they are earned over the average remaining service lives of employees.

## 5. Summary of significant accounting policies (continued)

### Social expenses

The Group incurs employee costs related to the provision of benefits such as health and social infrastructure and services. These amounts principally represent an implicit cost of employing production workers and, accordingly, are charged to operating expenses in the consolidated statement of comprehensive income.

### 5.24 Recent accounting pronouncements

#### Application of new IFRSs

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

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

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

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

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

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising from a result of committing or receiving prepayment until the recognition of the related asset, income or expense.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IFRS 2 Share-based Payment (issued in June 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016 and effective for annual periods beginning on or after 1 January 2018). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.

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



## 5. Summary of significant accounting policies (continued)

### Standards that are not yet effective and have not been early adopted by the Group

*IFRS 9 Financial Instruments (issued in November 2009 and effective for annual periods beginning on or after 1 January 2018).*

IFRS 9 Financial Instruments combine the three phases of the financial instruments project: classification and measurement, impairment and hedge accounting. The Group plans to apply the new standard starting from its effective date. The Group has performed detailed assessment of all three parts of IFRS 9 Financial Instruments. This assessment is based on the currently available information and may be modified after receipt of additional valid and justifiable information, which will become available in 2018 when the Group starts application of IFRS 9 Financial Instruments.

#### *a) Classification and measurement of financial assets*

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value with changes recognised in other comprehensive income, and measured at fair value with changes recognised in profit or loss.

Classification of debt instruments depends on the entity's business model applied to manage financial assets and on whether the contractual cash flows are just payments of principal and interest. The Group's accounts receivable and loans granted are mainly held to obtain contractual cash flows and it is expected that they will result in cash flows being payments of principal and interest. The Group has analysed characteristics of contractual cash flows in respect of these instruments and come to a conclusion that they continue to meet the criteria for measurement at amortised cost in accordance with the requirements of IFRS 9 Financial Instruments. Financial assets that do not contain cash flows being payments of principal and interest shall be measured at fair value with changes recognised in profit or loss. Such instruments include the Group's derivative financial instruments and financial instruments held for trading. The Group has analysed characteristics of contractual cash flows in respect of these instruments and come to a conclusion that they continue to meet the criteria for measurement at fair value in accordance with the requirements of IFRS 9 Financial Instruments. According to the Group's assessment, classification and measurement of debt financial assets in accordance with the requirements of IFRS 9 Financial Instruments as at 1 January 2018 will not have a significant effect on the consolidated financial statements.

Investments in equity instruments shall always be measured at fair value. However, management can make an irrevocable decision to recognise changes in fair value in other comprehensive income if the instrument is not held for trading. If an equity instrument is held for trading, changes in fair value are recognised in profit or loss. The Group's management has made a decision to recognise changes in fair value of the majority of equity instruments in other comprehensive income. Other comprehensive income / expense from changes in fair value of such instruments shall not be subsequently reclassified to profit or loss.

#### *b) Impairment of financial assets*

IFRS 9 Financial Instruments sets out a new expected credit loss impairment model, which replaces the existing incurred loss model in IAS 39 Financial Instruments: Recognition and Measurement. Application of the new model requires significant professional judgements from the Group to determine how changes in economic factors affect expected credit losses determined as the probability-weighted estimate of credit losses.

The new impairment model will be applied to financial assets measured at amortised cost or at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

In accordance with IFRS 9 Financial Instruments, expected credit loss allowances will be measured using one of the following methods:

- based on 12-month expected credit losses. These are the expected credit losses that result from default events that are possible within 12 months after the reporting date;
- based on lifetime expected credit losses. These are the expected credit losses that result from all possible default events over the expected life of the financial instrument.

For trade receivables or contract assets that do not contain a significant financing component, measurement at an amount equal to lifetime ECL shall be applied. The Group has



## 5. Summary of significant accounting policies (continued)

selected the same accounting approach for trade receivables and contract assets that contain a significant financing component.

According to the Group's preliminary assessment, application of the impairment requirements of IFRS 9 Financial Instruments as at 1 January 2018 will not result in recognition of significant additional losses.

### *c) Classification of financial liabilities*

IFRS 9 Financial Instruments is consistent with the significant requirements of IAS 9 Financial Instruments: Recognition and Measurement related to classification of financial liabilities. At the same time, in accordance with IAS 9 Financial Instruments: Recognition and Measurement all changes in fair value of financial liabilities classified as measured at fair value through profit or loss are recognised in profit or loss, while in accordance with IFRS 9 Financial Instruments such changes are generally recognised as follows:

- the amount of the change in the financial liability's fair value attributable to changes in the credit risk is recognised in other comprehensive income;
- the remaining amount of change in fair value is recognised in profit or loss.

The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss and it does not currently intend to do so. According to the Group's assessment, classification of financial liabilities as at 1 January 2018 will not have a significant effect on the consolidated financial statements.

### *d) Hedge accounting*

New hedge accounting rules continue to identify three types of hedging relationships set in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 Financial Instruments contains softer rules for the possibility to apply hedge accounting to various transactions, extended list of financial instruments that can be recognised as hedging instrument and extended list of components of non-financial items that can be hedged. In addition, a hedge effectiveness test is replaced with a test of economic relationship. Retrospective effectiveness testing is no longer required. The standard introduces extensive new disclosure requirements for risk management. The Group's management has made a decision to apply the hedge accounting requirements of IFRS 9 Financial Instruments. According to the Group's assessment, hedge accounting in accordance with the new requirements as at 1 January 2018 will not have a significant effect on the consolidated financial statements.

The Group will use an option not to restate prior periods in respect of changes in classification and measurement (including impairment) of financial instruments. Any difference between the previous carrying amount of instruments and their carrying amount in accordance with IFRS 9 Financial Instruments will be generally recognised in retained earnings and other reserves of the Group as at 1 January 2018.

Thus, the Group does not expect significant effects of the new requirements of IFRS 9 Financial Instruments on the consolidated financial statements.

### *IFRS 15 Revenue from Contracts with Customers (IFRS 15) (issued in May 2014 and effective for annual periods beginning on or after 1 January 2018).*

The new standard introduces the core principle that revenue must be recognised when the goods and services are transferred to the customer, at the transaction price. Revenue from sales of any bundled goods and services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be recognised as an asset and amortised over the period when the benefits of the contract are consumed. To assess the impact of IFRS 15 on the consolidated financial statements, the Group reviewed the major contracts with customers. Based on the analysis, the Group does not expect the standard to have a significant impact on its consolidated financial statements.

### *IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).*

The new standard replaces the previous IAS 17 Leases and establishes a general accounting model for all types of lease agreements in financial statements. All leases should be accounted

## 5. Summary of significant accounting policies (continued)

in accordance with applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. Earlier application of the standard is permitted simultaneously with earlier application of IFRS 15 Revenue from Contracts with Customers. The Group is currently assessing the impact of the adoption of the standard on the consolidated financial statements.

## 6. Critical judgements and estimates in applying accounting policies

Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from management estimates, and management estimates can be revised in the future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each estimate.

Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are reported below.

### 6.1 Consolidation of subsidiaries

Management judgement is involved in the assessment of control and the consolidation of subsidiaries in the Group's consolidated financial statements taken into account voting rights and contractual arrangements with other shareholders.

### 6.2 Tax legislation and uncertain tax positions

Russian tax, currency and customs legislation is subject to varying interpretations (see Note 36).

The Group's uncertain tax positions (potential tax gains and losses) are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management based on the interpretation of current tax laws. Liabilities for penalties, interest and taxes other than profit tax are recognised based on management's best estimate of the expenditure required to settle tax obligations at the balance sheet date.

### 6.3 Assumptions to determine amount of provisions

#### **Impairment allowance for accounts receivable**

The impairment allowance for accounts receivable is based on the Group's assessment of the collectability and recoverable amount of specific customer accounts, being the present value of expected cash flows. If there is deterioration in a major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The charges (and releases) for impairment of accounts receivable may be material (see Note 10, 16).

#### **Impairment of Property, plant and equipment and Goodwill**

The estimation of forecasted cash flows for the purposes of impairment testing involves the application of a number of significant judgements and estimates to certain variables including volumes of production and extraction, prices on gas, oil, oil products, electrical power, operating costs, capital investment, hydrocarbon reserves estimates, and macroeconomic factors such as inflation and discount rates.

In addition, judgement is applied in determining the cash-generating units assessed for impairment. For the purposes of the goodwill impairment test, management considers gas production, transportation and distribution activities as part of one Gas cash-generating unit and monitors associated goodwill at this level. The Group's pipelines constitute a unified gas supply system, providing gas supply to customers in the Russian Federation, Former Soviet Union countries and Europe. The interaction of production of gas, transportation and distribution of gas activities provides the basis for capturing the benefits from synergies.

## 6. Critical judgements and estimates in applying accounting policies (continued)

The value in use of assets or cash-generating units related to oil and gas operations are based on their expected production volumes, which include both proved reserves as well as certain volumes of those that are expected to constitute proved and probable reserves in the future. Impairment charges are disclosed in Notes 13, 14 and 27.

### Accounting for provisions

Accounting for impairment includes allowances against capital construction projects, financial assets, other non-current assets and inventory obsolescence. Because of the Group's production cycle, the year end carrying values are assessed in light of forward looking plans finalised on or around year end.

Because of the production cycle of the Group, some important decisions about capital construction projects are taken at the end of the fiscal year. Accordingly, the Group typically has larger impairment charges or releases in the fourth quarter of the fiscal year as compared to other quarters.

### 6.4 Site restoration and environmental costs

Site restoration costs that may be incurred by the Group at the end of the operating life of certain Group's facilities and properties are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through the profit and loss of the consolidated statement of comprehensive income on a straight-line basis over the asset's productive life. Changes in the measurement of an existing site restoration obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRS prescribes the recording of liabilities for these costs. Estimating the amounts and timing of those obligations that should be recorded requires significant judgement. This judgement is based on cost and engineering studies using currently available technology and is based on current environmental regulations. Liabilities for site restoration are subject to change because of change in laws and regulations, and their interpretation.

### 6.5 Useful lives of Property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production and reserve estimates, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Were the estimated useful lives to decrease by 10 % or increase by 10 % from management's estimates, the impact on depreciation for the year ended 31 December 2017 would be an increase by RUB 66,851 million or a decrease by RUB 54,696 million (2016: increase by RUB 63,429 million or a decrease by RUB 51,896 million).

Based on the terms included in the licenses and past experience, management believes hydrocarbon production licenses, which are expected to be productive past their current expiration dates, will be extended at insignificant additional costs. Because of the anticipated license extensions, the assets are depreciated over their useful lives beyond the end of the current license term.

### 6.6 Fair value estimation for financial instruments

The fair values of energy trading contracts, commodity futures and swaps are based on market quotes on measurement date (Level 1 in accordance with the valuation hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair values are based on inputs that are observable either directly or indirectly (Level 2 in accordance with the valuation hierarchy). Contracts that are valued based on non-observable market data belong to Level 3 in accordance with the valuation hierarchy. Management's best estimates based on internally developed models are used for the valuation. Where the valuation

## 6. Critical judgements and estimates in applying accounting policies (continued)

technique employed incorporates significant unobservable input data such as these long-term price assumptions, contracts have been categorised as Level 3 in accordance with the valuation hierarchy (see Note 38).

The assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement of assets and liabilities within the levels of the fair value hierarchy.

### 6.7 Fair value estimation for acquisitions

In accounting for business combinations, the purchase price paid to acquire a business is allocated to its assets and liabilities based on the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired is recorded as goodwill. A significant amount of judgement is involved in estimating the individual fair values of property, plant and equipment and identifiable intangible assets.

The estimates used in determining fair values are based on assumptions believed to be reasonable but which are inherently uncertain. Accordingly, actual results may differ from the projected results used to determine fair value.

### 6.8 Accounting for plan assets and pension liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions (see Note 24). Actual results may differ from the estimates, and the Group's estimates can be revised in the future based on changes in economic and financial conditions. In addition, certain plan assets included in NPF GAZFOND are estimated using the fair value estimation techniques. Management makes judgements with respect to the selection of valuation model applied, the amount and timing of cash flow forecasts or other assumptions such as discount rates. The recognition of plan assets is limited to the estimated present value of future benefits which are available to the Group in relation to this plan. These benefits are determined using actuarial techniques and assumptions. The impact of the change in the limitation of the plan assets in accordance with IAS 19 Employee Benefits is disclosed in Note 24. The value of plan assets and the limit are subject to revision in the future.

### 6.9 Joint Arrangements

Upon adopting of IFRS 11 Joint Arrangements the Group applied judgement when assessing whether its joint arrangements represent a joint operation or a joint venture. The Group determined the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement including the assessment of the structure and legal form of the arrangement, the terms agreed by the parties in the contractual arrangement and, when relevant, other facts and circumstances. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures, except for its investments in Blue Stream Pipeline Company B.V., Moravia Gas Storage a.s., Podzemno skladiste gasa Banatski Dvor d.o.o., Salym Petroleum Development N.V., JSC Tomskneft VNK and its subsidiaries, Erdgasspeicher Peissen GmbH, LLC Yuzhno-Priobskiy GPZ, which were determined to be joint operations.

## 7. Segment information

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

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

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

- Production of gas — exploration and production of gas;
- Transportation — transportation of gas;
- Distribution of gas — sales of gas within the Russian Federation and abroad;

## 7. Segment information (continued)

- Gas storage — storage of extracted and purchased gas in underground gas storages;
- Production of crude oil and gas condensate — exploration and production of oil and gas condensate, sales of crude oil and gas condensate;
- Refining — processing of oil, gas condensate and other hydrocarbons, and sales of refined products;
- Electric and heat energy generation and sales.

Other activities have been included within "All other segments" column.

The inter-segment sales mainly consist of:

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

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

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

	Production of gas	Transpor- tation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>Year ended 31 December 2017</b>									
<b>Total segment revenues</b>	<b>989,961</b>	<b>1,163,097</b>	<b>3,585,422</b>	<b>56,250</b>	<b>1,176,672</b>	<b>1,695,205</b>	<b>503,819</b>	<b>372,225</b>	<b>9,542,651</b>
Inter-segment sales	965,839	928,036	268,957	51,997	636,714	8,115	—	—	2,859,658
External sales	24,122	235,061	3,316,465	4,253	539,958	1,687,090	503,819	372,225	6,682,993
<b>Segment result</b>	<b>43,920</b>	<b>55,068</b>	<b>(27,885)</b>	<b>5,565</b>	<b>265,308</b>	<b>76,073</b>	<b>49,925</b>	<b>51,268</b>	<b>519,242</b>
Depreciation	192,460	513,940	18,126	27,104	117,071	48,555	48,435	38,329	1,004,020
Share of net income of associates and joint ventures	6,525	20,120	1,907	180	85,911	2,905	116	9,276	126,940
<b>Year ended 31 December 2016</b>									
<b>Total segment revenues</b>	<b>745,972</b>	<b>1,051,683</b>	<b>3,531,666</b>	<b>53,843</b>	<b>1,005,690</b>	<b>1,506,457</b>	<b>481,716</b>	<b>345,925</b>	<b>8,722,952</b>
Inter-segment sales	723,169	852,712	251,699	48,275	593,732	8,895	—	—	2,478,482
External sales	22,803	198,971	3,279,967	5,568	411,958	1,497,562	481,716	345,925	6,244,470
<b>Segment result</b>	<b>14,909</b>	<b>5,454</b>	<b>125,649</b>	<b>7,247</b>	<b>68,478</b>	<b>85,161</b>	<b>40,762</b>	<b>16,108</b>	<b>363,768</b>
Depreciation	170,794	456,377	19,609	25,226	102,147	50,587	45,826	38,082	908,648
Share of net income (loss) of associates and joint ventures	8,157	26,233	4,577	(2,774)	37,293	5,132	34	4,220	82,872

## 7. Segment information (continued)

A reconciliation of total reportable segments' results to profit before profit tax in the consolidated statement of comprehensive income is provided as follows:

Notes	Year ended 31 December	
	2017	2016
Segment result for reportable segments	467,974	347,660
Other segments' result	51,268	16,108
<b>Segment result</b>	<b>519,242</b>	<b>363,768</b>
Difference in depreciation <sup>1</sup>	390,860	337,084
Expense associated with pension obligations	(8,967)	(12,992)
28 Net finance income	19,661	475,627
Gain on disposal of available-for-sale financial assets	782	1,059
15 Share of net income of associates and joint ventures	126,940	82,872
27 Derivatives gain (loss)	18,344	(9,863)
Other	(48,856)	47,583
<b>Profit before profit tax</b>	<b>1,018,006</b>	<b>1,285,138</b>

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

A reconciliation of reportable segments' external sales to sales in the consolidated statement of comprehensive income is provided as follows:

	Year ended 31 December	
	2017	2016
External sales for reportable segments	6,310,768	5,898,545
External sales for other segments	372,225	345,925
<b>Total external segment sales</b>	<b>6,682,993</b>	<b>6,244,470</b>
Differences in external sales <sup>1</sup>	(136,850)	(133,419)
<b>Total sales per the consolidated statement of comprehensive income</b>	<b>6,546,143</b>	<b>6,111,051</b>

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

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

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
<b>As of 31 December 2017</b>									
Segment assets	2,677,231	6,721,549	1,669,202	347,929	2,516,019	1,715,485	868,933	1,131,509	17,647,857
Investments in associates and joint ventures	25,706	155,054	19,198	2	465,544	21,534	1,422	178,985	867,445
Capital additions	216,450	498,550	51,675	37,694	330,424	225,240	58,110	86,457	1,504,600
<b>As of 31 December 2016</b>									
Segment assets	2,636,296	6,596,937	1,557,089	393,482	2,310,960	1,361,161	990,120	937,460	16,783,505
Investments in associates and joint ventures	28,007	131,006	29,701	155	427,432	22,353	1,258	90,237	730,149
Capital additions	235,161	406,828	41,785	35,542	326,366	193,243	63,485	54,926	1,357,336

## 7. Segment information (continued)

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

Notes	31 December	
	2017	2016
Segment assets for reportable segments	16,516,348	15,846,045
Other segments' assets	1,131,509	937,460
<b>Total segment assets</b>	<b>17,647,857</b>	<b>16,783,505</b>
Differences in property, plant and equipment, net <sup>1</sup>	(1,967,878)	(2,361,075)
13 Borrowing interest capitalised	714,392	623,101
8 Cash and cash equivalents	869,007	896,728
Restricted cash	2,943	3,471
9 Short-term financial assets	31,057	11,481
VAT recoverable	119,881	195,033
Other current assets	551,340	331,467
17 Available-for-sale long-term financial assets	268,432	294,345
14 Goodwill	105,469	105,330
Other non-current assets	313,793	341,274
Inter-segment assets	(742,369)	(597,369)
Other	324,846	291,647
<b>Total assets per the consolidated balance sheet</b>	<b>18,238,770</b>	<b>16,918,938</b>

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

Segment liabilities mainly comprise operating liabilities. Profit tax payable, deferred tax liabilities, long-term provisions for liabilities and charges, short-term and long-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are managed on a central basis.

Segment liabilities are provided in the table below.

	31 December	
	2017	2016
Distribution of gas	841,444	636,223
Refining	335,114	337,711
Production of gas	329,521	279,091
Transportation	306,235	336,235
Production of crude oil and gas condensate	213,298	139,909
Electric and heat energy generation and sales	82,315	86,511
Gas storage	9,154	8,401
Other segments	287,029	131,742
<b>Total segment liabilities</b>	<b>2,404,110</b>	<b>1,955,823</b>

## 7. Segment information (continued)

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

Notes	31 December	
	2017	2016
Segment liabilities for reportable segments	2,117,081	1,824,081
Other segments' liabilities	287,029	131,742
<b>Total segment liabilities</b>	<b>2,404,110</b>	<b>1,955,823</b>
Current profit tax payable	59,922	62,479
20 Short-term borrowings, promissory notes and current portion of long-term borrowings	874,805	447,080
21 Long-term borrowings, promissory notes	2,391,713	2,382,543
Provisions for liabilities and charges	288,903	263,162
22 Deferred tax liabilities	699,413	688,503
Other non-current liabilities	73,194	78,011
Dividends	5,099	3,029
Inter-segment liabilities	(742,369)	(597,369)
Other	168,499	193,838
<b>Total liabilities per the consolidated balance sheet</b>	<b>6,223,289</b>	<b>5,477,099</b>

## 8. Cash and cash equivalents

Balances included within cash and cash equivalents in the consolidated balance sheet represent cash on hand, balances with banks and term deposits with the original maturity of three months or less.

	31 December	
	2017	2016
Cash on hand and bank balances payable on demand	508,585	793,169
Term deposits with original maturity of three months or less	360,422	103,559
<b>Total cash and cash equivalents</b>	<b>869,007</b>	<b>896,728</b>

The table below analyses credit quality of banks by external credit ratings at which the Group holds cash and cash equivalents. The ratings are shown under Standard & Poor's classification.

	31 December	
	2017	2016
Cash on hand	1,015	940
External credit rating of A-3 and above	113,522	190,298
External credit rating of B	579,989	558,278
No external credit rating	174,481	147,212
<b>Total cash and cash equivalents</b>	<b>869,007</b>	<b>896,728</b>

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BB+ as of 31 December 2017 and 31 December 2016, however the outlook has changed from stable to positive.



## 9. Short-term financial assets

	31 December	
	2017	2016
Financial assets held for trading:	<b>30,964</b>	<b>11,363</b>
Bonds	30,758	10,976
Equity securities	206	387
Available-for-sale financial assets:	93	118
Promissory notes	93	118
<b>Total short-term financial assets</b>	<b>31,057</b>	<b>11,481</b>

Information about credit quality of short-term financial assets (excluding equity securities) is presented in the table below with reference to external credit ratings of related counterparties or financial instruments. The ratings are shown under Standard & Poor's classification.

	31 December	
	2017	2016
External credit rating of A-3 and above	–	2,662
External credit rating of B	25,557	6,812
No external credit rating	5,294	1,620
	<b>30,851</b>	<b>11,094</b>

## 10. Accounts receivable and prepayments

	31 December	
	2017	2016
<b>Financial assets</b>		
Trade receivables	758,150	731,566
Short-term loans	149,302	142,068
Other receivables	136,980	134,352
	1,044,432	1,007,986
<b>Non-financial assets</b>		
Advances and prepayments	78,292	76,981
<b>Total accounts receivable and prepayments</b>	<b>1,122,724</b>	<b>1,084,967</b>

The estimated fair value of short-term accounts receivable approximates their carrying value.

Trade receivables are presented net of impairment allowance of RUB 752,629 million and RUB 831,164 million as of 31 December 2017 and 31 December 2016, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million and RUB nil million net of impairment allowance of RUB 80,231 million and RUB 188,307 million as of 31 December 2017 and 31 December 2016, respectively.

Short-term loans are presented net of impairment allowance of RUB 8,534 million and RUB 9,264 million as of 31 December 2017 and 31 December 2016, respectively.

Other receivables are presented net of impairment allowance of RUB 20,815 million and RUB 16,950 million as of 31 December 2017 and 31 December 2016, respectively.

Advances and prepayments are presented net of impairment allowance of RUB 12,542 million and RUB 11,074 million as of 31 December 2017 and 31 December 2016, respectively.

Other receivables are mainly represented by accounts receivable from Russian customers for various types of goods, works, and services.

## 10. Accounts receivable and prepayments (continued)

	31 December	
	2017	2016
Short-term trade receivables neither past due nor impaired	654,381	614,543
Short-term trade receivables past due and impaired	768,010	855,687
Allowance for impairment at the end of the year	(752,629)	(831,164)
Short-term trade receivables past due but not impaired	88,388	92,500
<b>Total short-term trade receivables</b>	<b>758,150</b>	<b>731,566</b>

Management's experience indicates customer payment histories in respect of trade receivables neither past due nor impaired vary by geography. The credit quality of these assets can be analysed as follows:

	31 December	
	2017	2016
Europe and other countries gas, crude oil, gas condensate and refined products receivables	376,543	303,516
Domestic gas, crude oil, gas condensate and refined products receivables	158,288	171,165
Former Soviet Union countries (excluding the Russian Federation) gas, crude oil, gas condensate and refined products receivables	9,346	14,504
Electricity and heat trade receivables	54,671	50,661
Gas transportation services receivables	4,087	5,222
Other trade receivables	51,446	69,475
<b>Total trade receivables neither past due nor impaired</b>	<b>654,381</b>	<b>614,543</b>

As of 31 December 2017 and 31 December 2016 the individually impaired receivables mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the receivables will be ultimately recovered. The ageing analysis of these receivables is as follows:

Ageing from the due date	Gross book value 31 December		Allowance for impairment 31 December		Net book value 31 December	
	2017	2016	2017	2016	2017	2016
Up to 6 months	66,292	68,509	(59,403)	(62,053)	6,889	6,456
From 6 to 12 months	64,832	79,045	(60,384)	(69,938)	4,448	9,107
From 1 to 3 years	193,191	330,717	(189,842)	(322,184)	3,349	8,533
More than 3 years	443,695	377,416	(443,000)	(376,989)	695	427
	<b>768,010</b>	<b>855,687</b>	<b>(752,629)</b>	<b>(831,164)</b>	<b>15,381</b>	<b>24,523</b>

## 10. Accounts receivable and prepayments (continued)

Change in the Group's allowance for impairment of trade and other receivables are as follows:

	Trade receivables Year ended 31 December		Other receivables Year ended 31 December	
	2017	2016	2017	2016
<b>Allowance for impairment at the beginning of the year</b>	<b>831,164</b>	<b>839,123</b>	<b>16,950</b>	<b>24,118</b>
Allowance for impairment accrued <sup>1</sup>	106,714	130,084	13,307	7,064
Write-off of receivables during the year <sup>2</sup>	(5,192)	(10,099)	(1,444)	(3,948)
Release of previously created allowance <sup>1</sup>	(150,683)	(24,369)	(7,983)	(8,315)
Reclassification to other lines	(5,649)	–	–	–
Translation differences	(23,725)	(103,575)	(15)	(1,969)
<b>Allowance for impairment at the end of the year</b>	<b>752,629</b>	<b>831,164</b>	<b>20,815</b>	<b>16,950</b>

<sup>1</sup> The accrual and release of allowance for impaired receivables have been included in the line "Change in impairment and other provisions" in the consolidated statement of comprehensive income.

<sup>2</sup> If there is no probability of cash receipt for the impaired accounts receivable which were previously provided for, the amount of respective accounts receivable is written-off by means of that allowance.

Trade accounts receivable past due but not impaired mainly relate to a number of customers for whom there is no recent history of material default. The ageing analysis of these trade receivables is as follows:

Ageing from the due date	31 December	
	2017	2016
Up to 6 months	63,172	57,727
From 6 to 12 months	9,771	21,915
From 1 to 3 years	7,968	4,504
More than 3 years	7,477	8,354
	<b>88,388</b>	<b>92,500</b>

## 11. Inventories

	31 December	
	2017	2016
Gas in pipelines and storage	475,233	430,720
Materials and supplies (net of allowance for inventory obsolescence of RUB 3,789 million and RUB 3,370 million as of 31 December 2017 and 31 December 2016, respectively)	157,348	169,486
Goods for resale (net of allowance for inventory obsolescence of RUB 1,185 million and RUB 831 million as of 31 December 2017 and 31 December 2016, respectively)	31,280	21,955
Crude oil and refined products	108,453	89,038
<b>Total inventories</b>	<b>772,314</b>	<b>711,199</b>

## 12. Other current and non-current assets

Included within other current assets are prepaid taxes, predominantly VAT in the amount of RUB 150,511 million and RUB 97,869 million and profit tax in the amount of RUB 6,271 million and RUB 12,916 million as of 31 December 2017 and 31 December 2016, respectively. Other current assets include short-term deposits in the amount of RUB 327,969 million and RUB 144,035 million as of 31 December 2017 and 31 December 2016, respectively.

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

- intangible assets in the amount of RUB 52,174 million and RUB 46,126 million;
- VAT recoverable related to assets under construction totalling RUB 36,681 million and RUB 35,702 million;
- net pension assets in the amount of RUB 27,173 million and RUB 20,499 million (see Note 24);
- long-term deposits in the amount of RUB 1,559 million and RUB 42,230 million.

## 13. Property, plant and equipment

Notes	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
<b>As of 31 December 2015</b>								
Cost	3,623,972	1,587,322	4,177,710	3,333,173	597,696	96,323	2,516,619	15,932,815
Accumulated depreciation	(1,334,810)	(576,199)	(1,706,861)	(1,042,050)	(230,793)	(38,221)	—	(4,928,934)
<b>Net book value as of 31 December 2015</b>	<b>2,289,162</b>	<b>1,011,123</b>	<b>2,470,849</b>	<b>2,291,123</b>	<b>366,903</b>	<b>58,102</b>	<b>2,516,619</b>	<b>11,003,881</b>
Depreciation	(88,376)	(64,499)	(282,495)	(119,411)	(13,466)	(2,614)	—	(570,861)
Additions	48	51,071	20,819	10,862	28,259	199	1,348,489	1,459,747
Translation differences	(5,582)	(45,420)	(33,945)	(27,067)	(13,006)	(101)	(52,349)	(177,470)
Transfers	134,715	176,390	449,665	330,898	1,249	1,933	(1,094,850)	—
Disposals	(1,279)	(14,660)	(13,646)	(22,468)	(571)	(3,125)	(77,438)	(133,187)
27 Change in impairment allowance	—	(14,763)	—	—	(1,975)	—	(62,625)	(79,363)
<b>Net book value as of 31 December 2016</b>	<b>2,328,688</b>	<b>1,099,242</b>	<b>2,611,247</b>	<b>2,463,937</b>	<b>367,393</b>	<b>54,394</b>	<b>2,577,846</b>	<b>11,502,747</b>
<b>As of 31 December 2016</b>								
Cost	3,751,874	1,739,940	4,600,603	3,625,398	611,652	95,229	2,577,846	17,002,542
Accumulated depreciation	(1,423,186)	(640,698)	(1,989,356)	(1,161,461)	(244,259)	(40,835)	—	(5,499,795)
<b>Net book value as of 31 December 2016</b>	<b>2,328,688</b>	<b>1,099,242</b>	<b>2,611,247</b>	<b>2,463,937</b>	<b>367,393</b>	<b>54,394</b>	<b>2,577,846</b>	<b>11,502,747</b>
Depreciation	(86,950)	(72,397)	(296,922)	(132,112)	(10,775)	(2,501)	—	(601,657)
Additions	16	58,892	67,759	11,452	8,725	743	1,540,299	1,687,886
Translation differences	(1,250)	(5,115)	5,924	4,986	(3,705)	14	21,539	22,393
Transfers	104,836	132,050	288,560	169,521	23	1,323	(696,313)	—
Disposals	(714)	(3,038)	(24,162)	(10,809)	(6,313)	(518)	(43,428)	(88,982)
27 Change in impairment allowance	—	30,998	5,257	—	1,385	—	(14,948)	22,692
<b>Net book value as of 31 December 2017</b>	<b>2,344,626</b>	<b>1,240,632</b>	<b>2,657,663</b>	<b>2,506,975</b>	<b>356,733</b>	<b>53,455</b>	<b>3,384,995</b>	<b>12,545,079</b>
<b>As of 31 December 2017</b>								
Cost	3,854,762	1,953,727	4,943,941	3,800,548	611,767	96,791	3,384,995	18,646,531
Accumulated depreciation	(1,510,136)	(713,095)	(2,286,278)	(1,293,573)	(255,034)	(43,336)	—	(6,101,452)
<b>Net book value as of 31 December 2017</b>	<b>2,344,626</b>	<b>1,240,632</b>	<b>2,657,663</b>	<b>2,506,975</b>	<b>356,733</b>	<b>53,455</b>	<b>3,384,995</b>	<b>12,545,079</b>

### 13. Property, plant and equipment (continued)

At the each balance sheet date management assess whether there is any indication that the recoverable value has declined below the carrying value of assets.

Operating property, plant and equipment are shown net of allowance for impairment of RUB 157,849 million and RUB 203,476 million as of 31 December 2017 and 31 December 2016, respectively.

As of 31 December 2017 the Group conducted impairment tests of assets assessing where the carrying amount of each cash-generating unit is compared with the recoverable amount of the respective cash-generating unit for possible accrual or release of previously recognised impairment losses.

The Group allocates several cash-generating units in various production areas, including gas production, production of crude oil and gas condensate, refining, electric and heat energy generation and sales. In the gas production, the Group allocates cash-generating units for the assets included in the unified gas transportation system and for the assets of Eastern Siberia and the Far East.

The recoverable amount used in the impairment tests has been determined on the basis of the values in use of such assets. The values in use of cash-generating units have been calculated as the present values of projected future cash flows discounted using the rates derived from the weighted average cost of capital of the Group, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units.

The Group used discount rates ranging from 10.66 % to 12.42 %. Cash flows are projected based on actual operating results, business plans and long-term development program. The cash flow projections cover periods commensurate with expected lives of the respective assets. The Group used estimated growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budgets.

Based on the results of the impairment test the Group recognised an impairment release of RUB 38,909 million for oil production assets, which was primarily due to a decrease in discount rates and stabilisation of oil prices.

As of 31 December 2017 the test did not reveal any impairment of the cash-generating units relating to production of gas, refining and electric and heat energy generation.

However, the Group recognised an impairment loss in respect of certain assets, including oil production assets in Iraq in the amount of RUB 256 million and gas production assets in Europe in the amount of RUB 1,013 million as of 31 December 2017. As of 31 December 2016 the Group recognised an impairment loss of oil production assets in Iraq in the amount of RUB 14,763 million.

Assets under construction are presented net of allowance for impairment of RUB 185,145 million and RUB 167,546 million as of 31 December 2017 and 31 December 2016, respectively. Charges for impairment allowance of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefits.

Due to the suspension of the implementation of the project "South Stream" and the commencement of the implementation of the project "TurkStream" the Group recognised impairment losses in respect of facilities under construction in the amount of RUB 49,617 million and RUB 45,978 million as of 31 December 2017 and 31 December 2016, respectively.

Included in the property, plant and equipment are social assets (such as rest houses, housing, schools and medical facilities) vested to the Group at privatization with a net book value of RUB 148 million and RUB 200 million as of 31 December 2017 and 31 December 2016, respectively.

Included in additions above are capitalized borrowing costs of RUB 152,628 million and RUB 132,477 million for the years ended 31 December 2017 and 31 December 2016, respectively. Capitalization rates of 6.18 % and 5.75 % were used representing the weighted average borrowing cost including exchange losses on foreign currency borrowings for the years ended 31 December 2017 and 31 December 2016, respectively. Capitalization rates excluding exchange losses on foreign currency borrowings were 5.76 % and 5.75 % for the years ended 31 December 2017 and 31 December 2016, respectively.

### 13. Property, plant and equipment (continued)

The information regarding the Group's exploration and evaluation assets (included within production licenses and assets under construction) is presented below:

	Year ended 31 December	
	2017	2016
<b>Exploration and evaluation assets at the beginning of the year</b>	<b>298,488</b>	<b>290,945</b>
Additions	49,008	42,303
Translation differences	(1,006)	(10,165)
Reclassification	(35,632)	(18,163)
Disposals	(29,701)	(6,432)
<b>Exploration and evaluation assets at the end of the year</b>	<b>281,157</b>	<b>298,488</b>

### 14. Goodwill

Change in the Group's goodwill on subsidiaries is as follows:

	Year ended 31 December	
	2017	2016
<b>Goodwill at the beginning of the year</b>	<b>105,330</b>	<b>107,467</b>
Additions	187	–
Translation differences	(46)	(2,132)
Disposals	(2)	(5)
<b>Goodwill at the end of the year</b>	<b>105,469</b>	<b>105,330</b>

Goodwill acquired through business combinations has been allocated to the related cash-generating units and segments within the following operations:

	31 December	
	2017	2016
Gas production, transportation and distribution	44,104	44,103
Production of crude oil and gas condensate	32,852	32,901
Electric and heat energy generation and sales	28,513	28,326
<b>Total goodwill</b>	<b>105,469</b>	<b>105,330</b>

As of 31 December 2017 and 31 December 2016 the Group did not identify any indicators for recognising an impairment loss in relation to goodwill.

## 15. Investments in associates and joint ventures

Notes			Carrying value as of 31 December		Share of the income (loss) of associates and joint ventures for the year ended 31 December	
			2017	2016	2017	2016
34	Sakhalin Energy Investment Company Ltd.	Associate	169,242	185,013	43,846	13,893
34, 35	Gazprombank (Joint-stock Company) and its subsidiaries <sup>1</sup>	Associate	145,603	77,109	9,473	5,311
34	OJSC NGK Slavneft and its subsidiaries	Joint venture	140,548	129,082	7,122	10,509
34	LLC Yamal razvitie and its subsidiaries	Joint venture	105,157	86,600	19,861	14,472
34	Nord Stream AG	Joint venture	79,288	63,319	14,867	17,307
34	WIGA Transport Beteteiligungs-GmbH & Co. KG and its subsidiaries	Associate	45,436	40,510	5,552	8,149
34	JSC Achimgaz	Joint venture	33,509	32,043	8,768	10,221
34, 35	JSC EUROPOL GAZ	Associate	29,588	26,387	(506)	770
34	JSC Messoykhaneftegaz	Joint venture	17,965	353	9,976	(947)
34	Wintershall AG	Associate	15,645	14,233	256	(2,746)
34	CJSC Northgas	Joint venture	12,786	11,735	3,434	3,009
34	KazRosGas LLP	Joint venture	9,435	14,470	1,544	3,601
34	Wintershall Noordzee B.V.	Joint venture	6,532	6,862	207	(1,650)
34	JSC Latvijas Gaze and its subsidiaries <sup>2,3</sup>	Associate	3,439	6,588	580	993
	Other (net of allowance for impairment of RUB 21,795 million and RUB 10,755 million as of 31 December 2017 and 31 December 2016, respectively)		53,272	35,845	1,960	(20)
			<b>867,445</b>	<b>730,149</b>	<b>126,940</b>	<b>82,872</b>

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

<sup>2</sup> The Extraordinary Meeting of Shareholders of JSC Latvijas Gaze, held on 2 September 2016, decided to reorganize the company by separation of natural gas transportation and storage activities via establishing JSC Conexus Baltic Grid (the Group's equity interest is 34 %). JSC Conexus Baltic Grid was registered on 2 January 2017. As of 31 December 2017 investment in JSC Conexus Baltic Grid was reclassified from other investments in associates into available-for-sale long-term financial assets due to loss of control.

<sup>3</sup> To complete the liberalization process of the Latvian gas market shareholders of JSC Latvijas Gaze at the foundation meeting on 22 November 2017 took decision to reorganize the company by separation of JSC Gaso, a 100% subsidiary, to which natural gas distribution business was transferred.

Change in the carrying amount of the Group's investment in associates and joint ventures are as follows:

	Year ended 31 December	
	2017	2016
<b>Balance at the beginning of the year</b>	<b>730,149</b>	<b>808,246</b>
Share of net income of associates and joint ventures	126,940	82,872
Distributions from associates and joint ventures	(88,105)	(64,535)
Share of other comprehensive income (loss) of associates and joint ventures	2,967	(6,397)
Translation differences	4,831	(83,043)
Other acquisitions and disposals	90,663	(6,994)
<b>Balance at the end of the year</b>	<b>867,445</b>	<b>730,149</b>

## 15. Investments in associates and joint ventures (continued)

Other acquisitions and disposals increased by the acquisition of Gazprombank (Joint-stock Company) ordinary shares as a result of additional issue of shares.

The estimated fair values of investments in associates and joint ventures for which there are published price quotations were as follows:

	31 December	
	2017	2016
JSC Latvijas Gaze	9,349	7,594

### Significant associates and joint ventures

	Country of primary operations	Country of incorporation	Nature of operations	Percent of ordinary shares held as of 31 December <sup>1</sup>	
				2017	2016
JSC Achimgaz	Russia	Russia	Exploration and production of gas and gas condensate	50	50
Bosphorus Gaz Corporation A.S. <sup>2</sup>	Turkey	Turkey	Gas distribution	71	71
WIGA Transport Beteiligungs-GmbH & Co. KG	Germany	Germany	Gas transportation	50	50
Wintershall AG	Libya	Germany	Production of oil and gas distribution	49	49
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company)	Russia	Russia	Banking	48	37
JSC EUROPOL GAZ	Poland	Poland	Transportation and gas distribution	48	48
KazRosGas LLP	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
JSC Latvijas Gaze	Latvia	Latvia	Sale and distribution of gas	34	34
JSC Messoaykhaneftegaz	Russia	Russia	Production of oil and petroleum gas	50	50
JSV Moldovagaz	Moldova	Moldova	Transportation and gas distribution	50	50
Nord Stream AG <sup>2</sup>	Russia, Germany	Switzerland	Gas transportation	51	51
CJSC Northgas	Russia	Russia	Exploration and sales of gas and gas condensate	50	50
Panrusgas Gas Trading Plc	Hungary	Hungary	Gas distribution	40	40
Prometheus Gas S.A.	Greece	Greece	Gas distribution, construction	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Oil production, production of LNG	50	50
OJSC NGK Slavneft	Russia	Russia	Production, processing and sales of oil	50	50
LLC Yamal razvitie	Russia	Russia	Investment activities, assets management	50	50

<sup>1</sup> Cumulative share of the Group in charter capital of investees.

<sup>2</sup> Investments in companies continue to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure. 2 Investments in companies continue to be accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

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

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

The financial information may be different venture prepared and presented in accordance with IFRS, due to adjustments required in application of equity method of accounting, such as



## 15. Investments in associates and joint ventures (continued)

fair value adjustments on identifiable assets and liabilities at the date of acquisition and adjustments on differences in accounting policies.

	OJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries <sup>1</sup>	Sakhalin Energy Investment Company Ltd.
<b>As of and for the year ended 31 December 2017</b>			
Cash and cash equivalents	4,153	649,428	38,868
Other current assets (excluding cash and cash equivalents)	54,479	1,295,049	76,715
Other non-current assets	430,466	3,495,187	828,551
<b>Total assets</b>	<b>489,098</b>	<b>5,439,664</b>	<b>944,134</b>
Current financial liabilities (excluding trade payables)	10,359	4,050,693	61,963
Other current liabilities (including trade payables)	53,924	132,921	93,983
Non-current financial liabilities	88,198	748,068	166,083
Other non-current liabilities	58,323	25,561	283,620
<b>Total liabilities</b>	<b>210,804</b>	<b>4,957,243</b>	<b>605,649</b>
<b>Net assets (including non-controlling interest)</b>	<b>278,294</b>	<b>482,421</b>	<b>338,485</b>
Percent of ordinary shares held	50 %	48 %	50 %
<b>Carrying value</b>	<b>140,548</b>	<b>145,603</b>	<b>169,242</b>
Revenue	241,253	244,194	314,932
Depreciation	(44,453)	(42,011)	(114,681)
Interest income	989	365,335	1,682
Interest expense	(6,781)	(233,818)	(11,330)
Profit tax expense	(4,429)	(9,343)	(46,210)
<b>Profit for the year</b>	<b>15,179</b>	<b>35,493</b>	<b>87,692</b>
<b>Other comprehensive income for the year</b>	<b>59</b>	<b>1,757</b>	<b>1,382</b>
<b>Total comprehensive income for the year</b>	<b>15,238</b>	<b>37,250</b>	<b>89,074</b>
<b>Dividends received from associates and joint ventures</b>	<b>–</b>	<b>(3,398)</b>	<b>(51,221)</b>
<b>As of and for the year ended 31 December 2016</b>			
Cash and cash equivalents	4,333	473,460	23,400
Other current assets (excluding cash and cash equivalents)	22,505	1,180,849	63,540
Other non-current assets	404,873	3,103,394	919,405
<b>Total assets</b>	<b>431,711</b>	<b>4,757,703</b>	<b>1,006,345</b>
Current financial liabilities (excluding trade payables)	24,614	3,252,183	47,517
Other current liabilities (including trade payables)	47,481	126,121	74,752
Non-current financial liabilities	42,876	984,595	203,553
Other non-current liabilities	54,975	21,826	310,498
<b>Total liabilities</b>	<b>169,946</b>	<b>4,384,725</b>	<b>636,320</b>

## 15. Investments in associates and joint ventures (continued)

	OJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries <sup>1</sup>	Sakhalin Energy Investment Company Ltd.
<b>Net assets (including non-controlling interest)</b>	<b>261,765</b>	<b>372,978</b>	<b>370,025</b>
Percent of ordinary shares held	50 %	37 %	50 %
<b>Carrying value</b>	<b>129,082</b>	<b>77,109</b>	<b>185,013</b>
Revenue	214,509	213,948	304,810
Depreciation	(40,564)	(45,247)	(146,400)
Interest income	1,652	380,096	1,064
Interest expense	(6,593)	(258,049)	(13,068)
Profit tax expense	(6,224)	(24,403)	(27,502)
<b>Profit for the year</b>	<b>22,269</b>	<b>31,151</b>	<b>57,670</b>
<b>Other comprehensive (loss) income for the year</b>	<b>(403)</b>	<b>(18,585)</b>	<b>1,950</b>
<b>Total comprehensive income for the year</b>	<b>21,866</b>	<b>12,566</b>	<b>59,620</b>
<b>Dividends received from associates and joint ventures</b>	<b>–</b>	<b>–</b>	<b>(31,490)</b>

<sup>1</sup> Presented revenue of Gazprombank (Joint-stock Company) and its subsidiaries include revenue of media business, machinery business and other non-banking companies.

	Assets	Liabilities	Revenues	Profit (loss)
<b>As of and for the year ended 31 December 2017</b>				
Nord Stream AG	437,421	281,955	71,008	29,150
LLC Yamal razvitie and its subsidiaries	401,450	212,622	147,204	42,365
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	252,107	155,126	46,519	11,789
JSC Messoyakhaneftegaz	171,124	135,612	61,030	19,952
JSC Achimgaz	78,206	11,188	31,027	17,536
Wintershall AG	67,904	44,818	10,066	522
JSC EUROPOL GAZ	64,993	3,353	13,865	(1,051)
CJSC Northgas	58,730	32,221	23,079	6,868
Wintershall Noordzee B.V.	50,550	38,271	9,858	414
KazRosGas LLP	30,824	11,953	43,548	3,087
JSC Latvijas Gaze and its subsidiaries	19,638	6,338	21,050	1,706
<b>As of and for the year ended 31 December 2016</b>				
Nord Stream AG	416,875	292,719	80,325	31,949
LLC Yamal razvitie and its subsidiaries	387,516	241,054	133,229	30,877
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	227,154	143,680	45,735	19,137
JSC Messoyakhaneftegaz	130,129	129,842	12,097	1,889
Wintershall AG	72,134	50,551	14,259	(5,641)
JSC Achimgaz	71,778	7,693	27,994	20,441
JSC EUROPOL GAZ	62,485	7,513	19,196	1,873
CJSC Northgas	56,543	32,136	25,692	6,019
Wintershall Noordzee B.V.	49,008	38,088	11,114	(3,248)
KazRosGas LLP	46,158	17,220	45,435	7,203
JSC Latvijas Gaze	37,720	12,417	26,170	2,920

## 16. Long-term accounts receivable and prepayments

	31 December	
	2017	2016
Long-term accounts receivable and prepayments	183,894	198,242
Advances for assets under construction	485,392	512,505
<b>Total long-term accounts receivable and prepayments</b>	<b>669,286</b>	<b>710,747</b>

Long-term accounts receivable, prepayments and advances for assets under construction are presented net of impairment allowance of RUB 16,318 million and RUB 16,481 million as of 31 December 2017 and 31 December 2016, respectively.

As of 31 December 2017 and 31 December 2016 long-term accounts receivable and prepayments with carrying value RUB 183,894 million and RUB 198,242 million have an estimated fair value RUB 181,218 million and RUB 193,868 million, respectively.

	31 December	
	2017	2016
Long-term accounts receivable neither past due nor impaired	180,520	194,876
Long-term accounts receivable past due and impaired	8,819	5,838
Allowance for impairment of long-term accounts receivable at the end of the year	(8,810)	(5,837)
Long-term accounts receivable past due but not impaired	3,365	3,365
<b>Total long-term accounts receivable and prepayments</b>	<b>183,894</b>	<b>198,242</b>

	31 December	
	2017	2016
Long-term loans	81,892	101,600
Long-term trade receivables	11,243	16,292
Other long-term receivables <sup>1</sup>	87,385	76,984
<b>Total long-term accounts receivable neither past due nor impaired</b>	<b>180,520</b>	<b>194,876</b>

<sup>1</sup> Other long-term accounts receivable includes prepayments in the amount of RUB 25,561 million and RUB 20,747 million as of 31 December 2017 and 31 December 2016, respectively.

Management experience indicates that long-term loans granted mainly for capital construction purposes are of strong credit quality.

Movements of the Group's allowance for impairment of long-term accounts receivable and prepayments are as follows:

	Year ended 31 December	
	2017	2016
<b>Allowance for impairment of long-term accounts receivable at the beginning of the year</b>	<b>5,837</b>	<b>5,859</b>
Allowance for impairment of long-term accounts receivable accrued <sup>1</sup>	3,010	1,732
Release of previously created allowance <sup>1</sup>	(33)	(856)
Foreign exchange rate differences	(4)	(898)
<b>Allowance for impairment of long-term accounts receivable at the end of the year</b>	<b>8,810</b>	<b>5,837</b>

<sup>1</sup> The accrual and release of provision for impaired long-term accounts receivable have been included in the line "Change in impairment and other provisions" in the consolidated statement of comprehensive income.

## 17. Available-for-sale long-term financial assets

	31 December	
	2017	2016
Equity securities <sup>1</sup>	268,183	294,034
Debt instruments	249	311
	<b>268,432</b>	<b>294,345</b>

<sup>1</sup> As of 31 December 2017 and 31 December 2016 equity securities include PJSC NOVATEK shares in the amount of RUB 210,010 million and RUB 238,817 million, respectively.

Available-for-sale long-term financial assets are shown net of allowance for impairment of RUB 379 million and RUB 1,275 million as of 31 December 2017 and 31 December 2016, respectively.

Debt instruments include promissory notes on Group companies' balances which are assessed by management as of high credit quality.

Movements in available-for-sale long-term financial assets are as follows:

	Year ended 31 December	
	2017	2016
<b>Available-for-sale long-term financial assets at the beginning of the year</b>	<b>294,345</b>	<b>235,607</b>
(Decrease) increase in fair value of long-term available-for-sale financial assets	(30,404)	62,451
Acquisition of long-term available-for-sale financial assets	5,691	1,719
Disposal of long-term available-for-sale financial assets	(2,096)	(6,285)
Release of impairment of long-term available-for-sale financial assets	896	853
<b>Available-for-sale long-term financial assets at the end of the year</b>	<b>268,432</b>	<b>294,345</b>

The maximum exposure to credit risk as of the reporting date is the fair value of the debt securities classified as available-for-sale. The impairment of available-for-sale assets has been performed using the quoted market prices.

## 18. Accounts payable and provisions for liabilities and charges

	Year ended 31 December	
	2017	2016
<b>Financial liabilities</b>		
Accounts payable for acquisition of property, plant and equipment	354,857	351,170
Trade payables	353,179	331,774
Derivative financial instruments	64,342	94,414
Provision under financial guarantees <sup>1</sup>	–	3,427
Other payables <sup>2</sup>	455,585	296,180
	<b>1,227,963</b>	<b>1,076,965</b>
<b>Non-financial liabilities</b>		
Advances received	148,324	108,921
Accruals and deferred income	1,895	11,119
	<b>150,219</b>	<b>120,040</b>
<b>Total accounts payable, accruals and provisions for liabilities and charges</b>	<b>1,378,182</b>	<b>1,197,005</b>

<sup>1</sup> As of 31 December 2016 provision under financial guarantees includes accrual related to financial guarantee contract issued to Gazprombank (Joint-stock Company) for Ostchem Holding Limited. As of 31 December 2017 the guarantee agreement was terminated (see Note 27 and 35).

<sup>2</sup> As of 31 December 2017 and 31 December 2016 other payables include RUB 111,607 million and RUB 112,256 million of accruals for probable price adjustments related to natural gas deliveries made from 2013 to 2017, respectively.

Fair values of these liabilities approximate the carrying values.

## 19. Taxes and fees payable

	31 December	
	2017	2016
VAT	103,698	81,859
MET	96,320	65,776
Property tax	35,240	30,615
Excise tax	21,432	18,858
Other taxes	19,917	18,136
<b>Total taxes and fees payable</b>	<b>276,607</b>	<b>215,244</b>

## 20. Short-term borrowings, promissory notes and current portion of long-term borrowings

	31 December	
	2017	2016
Short-term borrowings and promissory notes:		
Borrowings and promissory notes denominated in Russian Rubles	74,374	44,352
Foreign currency denominated borrowings	11,807	16,280
	86,181	60,632
Current portion of long-term borrowings (see Note 21)	788,624	386,448
<b>Total short-term borrowings, promissory notes and current portion of long-term borrowings</b>	<b>874,805</b>	<b>447,080</b>

The weighted average effective interest rates at the balance sheet date were as follows:

	31 December	
	2017	2016
Fixed rate short-term borrowings denominated in Russian Rubles	8.82 %	10.48 %
Fixed rate foreign currency denominated short-term borrowings	7.47 %	7.78 %
Variable rate short-term borrowings denominated in Russian Rubles	9.72 %	11.81 %
Variable rate foreign currency denominated short-term borrowings	3.05 %	2.73 %

Fair values of these liabilities approximate the carrying values.

## 21. Long-term borrowings, promissory notes

	Currency	Final maturity	31 December	
			2017	2016
Long-term borrowings and promissory notes payable to:				
Bank of China Limited, London branch	Euro	2021	137,186	126,414
Loan participation notes issued in April 2009 <sup>1</sup>	US Dollar	2019	131,865	138,863
Loan participation notes issued in September 2012 <sup>2</sup>	US Dollar	2022	87,461	92,102
Loan participation notes issued in October 2007 <sup>1</sup>	Euro	2018	87,456	81,035
Loan participation notes issued in November 2013 <sup>2</sup>	US Dollar	2023	86,875	91,485
Loan participation notes issued in March 2007 <sup>1</sup>	US Dollar	2022	76,424	80,480
China Construction Bank Corporation, Beijing branch <sup>3</sup>	US Dollar	2020	75,699	92,627
Loan participation notes issued in August 2007 <sup>1</sup>	US Dollar	2037	73,968	77,893
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2020	70,702	65,512
Loan participation notes issued in April 2004 <sup>1</sup>	US Dollar	2034	70,163	73,886
Loan participation notes issued in October 2015 <sup>1</sup>	Euro	2018	69,539	64,434
Loan participation notes issued in November 2016 <sup>1</sup>	Euro	2023	68,530	63,353
J.P. Morgan Europe Limited <sup>3</sup>	Euro	2022	68,256	–
Loan participation notes issued in April 2017 <sup>1, 4</sup>	British Pound Sterling	2024	67,474	–
Loan participation notes issued in April 2008 <sup>1</sup>	US Dollar	2018	64,507	67,930
Loan participation notes issued in July 2013 <sup>1</sup>	Euro	2018	62,985	58,361
Loan participation notes issued in July 2012 <sup>1</sup>	US Dollar	2022	58,883	62,008
J.P. Morgan Europe Limited <sup>3</sup>	Euro	2020	54,522	–
Loan participation notes issued in February 2014 <sup>1</sup>	Euro	2021	53,224	49,317
Mizuho Bank Ltd. <sup>3</sup>	US Dollar	2019	53,130	93,228
Loan participation notes issued in February 2013 <sup>1</sup>	US Dollar	2028	52,874	55,680
Loan participation notes issued in April 2013 <sup>2</sup>	Euro	2018	52,684	48,817
Loan participation notes issued in November 2017 <sup>1</sup>	Euro	2024	51,194	–
Credit Agricole CIB	Euro	2022	48,138	–
Loan participation notes issued in February 2013 <sup>1</sup>	US Dollar	2020	46,795	49,278
PJSC Sberbank	US Dollar	2018	43,776	46,099
Loan participation notes issued in March 2017 <sup>1</sup>	US Dollar	2027	43,261	–
Loan participation notes issued in September 2013 <sup>1, 4</sup>	British Pound Sterling	2020	41,651	38,593
Loan participation notes issued in March 2013 <sup>1</sup>	Euro	2025	35,611	32,997
Loan participation notes issued in November 2011 <sup>1</sup>	US Dollar	2021	35,470	37,353
Loan participation notes issued in November 2016 <sup>1, 4</sup>	Swiss Franc	2021	31,923	29,492
Loan participation notes issued in July 2017 <sup>1, 4</sup>	Swiss Franc	2022	31,272	–
Loan participation notes issued in October 2013 <sup>1</sup>	Swiss Franc	2019	29,641	29,863
Loan participation notes issued in March 2016 <sup>1</sup>	Swiss Franc	2018	29,438	29,513
UniCredit Bank S.p.A.	Euro	2022	27,135	–
Russian bonds issued in October 2017 <sup>2</sup>	Russian Ruble	2022	25,371	–
UniCredit Bank Austria AG	Euro	2021	23,908	19,172
Alfa-Bank (Joint Stock Company)	US Dollar	2019	23,052	24,271
Gazprombank (Joint-stock Company)	US Dollar	2019	20,736	21,836
Wintershall Nederland Transport and Trading B.V. <sup>5</sup>	Euro	2035	20,555	–
Uniper Gas Transportation & Finance B.V. <sup>5</sup>	Euro	2035	20,555	–
OMV Gas Marketing Trading & Finance B.V. <sup>5</sup>	Euro	2035	20,554	–

## 21. Long-term borrowings, promissory notes (continued)

	Currency	Final maturity	31 December	
			2017	2016
Shell Exploration and Production (LXXI) B.V. <sup>5</sup>	Euro	2035	20,554	–
Engie Energy Management Holding Switzerland AG <sup>5</sup>	Euro	2035	20,554	–
VTB Bank (Europe) S.E.	Euro	2027	19,640	–
Gazprombank (Joint-stock Company)	US Dollar	2019	19,008	20,017
Gazprombank (Joint-stock Company)	US Dollar	2019	17,856	18,804
Bank of America Securities Limited	US Dollar	2018	17,453	18,368
PJSC Sberbank	Euro	2020	16,591	15,373
PJSC Sberbank	Euro	2022	15,736	7,713
Russian bonds issued in February 2017 <sup>6</sup>	Russian Ruble	2027	15,501	–
Russian bonds issued in February 2017 <sup>6</sup>	Russian Ruble	2027	15,501	–
Russian bonds issued in August 2017 <sup>2</sup>	Russian Ruble	2024	15,476	–
Russian bonds issued in March 2016 <sup>2</sup>	Russian Ruble	2046	15,427	15,344
Russian bonds issued in April 2017 <sup>2</sup>	Russian Ruble	2022	15,276	–
Russian bonds issued in November 2013 <sup>7</sup>	Russian Ruble	2043	15,059	15,111
Russian bonds issued in November 2013 <sup>7</sup>	Russian Ruble	2043	15,059	15,111
BANK ROSSIYA	Russian Ruble	2022	15,012	–
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,001	9,809
BNP Paribas S.A. <sup>3</sup>	Euro	2022	14,069	15,644
Deutsche Bank Luxembourg S.A.	Euro	2022	13,818	–
UniCredit Bank Austria AG	US Dollar	2018	11,526	12,135
Commerzbank International S.A.	US Dollar	2018	11,522	24,265
Russian bonds issued in February 2011 <sup>2</sup>	Russian Ruble	2021	10,371	10,368
Russian bonds issued in August 2016 <sup>2</sup>	Russian Ruble	2046	10,319	10,317
Russian bonds issued in March 2016 <sup>2</sup>	Russian Ruble	2046	10,303	10,378
Russian bonds issued in April 2009 <sup>2</sup>	Russian Ruble	2019	10,184	10,182
Russian bonds issued in June 2016 <sup>2</sup>	Russian Ruble	2046	10,064	10,062
Russian bonds issued in December 2017 <sup>2</sup>	Russian Ruble	2024	10,021	–
Gazprombank (Joint-stock Company)	Russian Ruble	2019	10,000	–
Gazprombank (Joint-stock Company)	Russian Ruble	2018	10,000	10,000
UniCredit Bank Austria AG	Euro	2019	9,548	14,745
Citibank International plc <sup>3</sup>	US Dollar	2021	7,420	10,042
J.P. Morgan Europe Limited <sup>3</sup>	US Dollar	2018	3,601	18,962
Loan participation notes issued in July 2012 <sup>1</sup>	Euro	2017	–	92,019
Loan participation notes issued in November 2006 <sup>1</sup>	Euro	2017	–	33,185
Loan participation notes issued in March 2007 <sup>1</sup>	Euro	2017	–	32,191
PJSC VTB Bank	Russian Ruble	2017	–	29,800
PJSC Sberbank	Russian Ruble	2017	–	19,802
PJSC Sberbank	Russian Ruble	2017	–	15,068
PJSC Sberbank	Russian Ruble	2017	–	15,067
PJSC VTB Bank	Russian Ruble	2017	–	14,654
PJSC Sberbank	Euro	2017	–	14,388
PJSC Sberbank	Russian Ruble	2017	–	12,511
PJSC Sberbank	Russian Ruble	2017	–	12,511
Bank of America Securities Limited	Euro	2017	–	11,541

## 21. Long-term borrowings, promissory notes (continued)

	Currency	Final maturity	31 December	
			2017	2016
Russian bonds issued in February 2013 <sup>6</sup>	Russian Ruble	2017	–	10,279
Russian bonds issued in December 2012 <sup>2</sup>	Russian Ruble	2017	–	10,075
PJSC Sberbank	Russian Ruble	2017	–	10,009
Gazprombank (Joint-stock Company)	Russian Ruble	2017	–	10,000
Other long-term borrowings, promissory notes	Various	Various	468,424	291,249
<b>Total long-term borrowings, promissory notes</b>			<b>3,180,337</b>	<b>2,768,991</b>
Less: current portion of long-term borrowings			(788,624)	(386,448)
			<b>2,391,713</b>	<b>2,382,543</b>

<sup>1</sup> Issuer of these bonds is Gaz Capital S.A.

<sup>2</sup> Issuer of these bonds is PJSC Gazprom Neft.

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

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

<sup>5</sup> Borrowings were obtained for financing of the Nord Stream 2 project.

<sup>6</sup> Issuer of these bonds is Gazprom capital LLC.

<sup>7</sup> Issuer of these bonds is PJSC Gazprom

	31 December	
	2017	2016
Long-term borrowings and promissory notes		
denominated in Russian Rubles (including current portion of RUB 142,484 million and RUB 69,489 million as of 31 December 2017 and 31 December 2016, respectively)	558,509	427,014
denominated in foreign currency (including current portion of RUB 646,140 million and RUB 316,959 million as of 31 December 2017 and 31 December 2016, respectively)	2,621,828	2,341,977
	<b>3,180,337</b>	<b>2,768,991</b>

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

	31 December	
	2017	2016
<b>Due for repayment</b>		
Between one and two years	481,070	708,355
Between two and five years	1,087,239	956,731
After five years	823,404	717,457
	<b>2,391,713</b>	<b>2,382,543</b>

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,355,672 million and RUB 2,086,181 million and fair value of RUB 2,605,734 million and RUB 2,209,883 million as of 31 December 2017 and 31 December 2016, respectively.

All other long-term liabilities have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 824,665 million and RUB 682,810 million and fair value is RUB 837,266 million and RUB 702,251 million as of 31 December 2017 and 31 December 2016, respectively.



## 21. Long-term borrowings, promissory notes (continued)

The weighted average effective interest rates at the balance sheet date were as follows:

	31 December	
	2017	2016
Fixed rate long-term borrowings denominated in Russian Rubles	8.81 %	10.41 %
Fixed rate foreign currency denominated long-term borrowings	5.59 %	5.43 %
Variable rate long-term borrowings denominated in Russian Rubles	6.51 %	9.20 %
Variable rate foreign currency denominated long-term borrowings	3.28 %	3.72 %

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

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

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

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

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

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

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

The Group has no subordinated debt and no debt that may be converted into an equity interest of the Group (see Note 25).

## 22. Profit tax

Profit before profit tax for financial reporting purposes is reconciled to profit tax expense as follows:

Notes	Year ended 31 December	
	2017	2016
Profit before profit tax	1,018,006	1,285,138
Theoretical tax charge calculated at applicable tax rates	(203,601)	(257,028)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-deductible expenses, including:		
Tax losses for which no deferred tax asset was recognised	(12,253)	(1,659)
24, 27 Provision for post-employment benefit obligations	(9,704)	(10,192)
13 Provision for impairment of assets under construction	(2,990)	(12,525)
Non-operating expenses	(19,774)	(14,035)
Social expenses	(6,338)	(5,619)
Other non-deductible expenses	(25,779)	(7,192)
15 Non-taxable share of net income of associates and joint ventures	25,388	16,574
Changes in tax policy regarding making of impairment allowance of accounts receivable	–	–
Other non-taxable income	3,924	3,642
<b>Profit tax</b>	<b>(251,127)</b>	<b>(288,034)</b>

Differences between the recognition criteria in IFRS and Russian statutory taxation regulations give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the applicable statutory rates, including the prevailing rate of 20 % in the Russian Federation.

	Year ended 31 December 2015	Differences recognition and reversals recognised		Year ended 31 December 2016	Differences recognition and reversals recognised		Year ended 31 December 2017
		In profit or loss	In other comprehensive income		In profit or loss	In other comprehensive income	
Property, plant and equipment	(686,070)	(64,303)	–	(750,373)	(80,862)	–	(831,235)
Financial assets	377	3,020	(1,461)	1,936	(7,661)	1,151	(4,574)
Account receivables	28,559	10,606	–	39,165	7,906	–	47,071
Inventories	(14,743)	3,124	–	(11,619)	2,712	–	(8,907)
Tax losses carry forward	18,356	(12,697)	–	5,659	7,682	–	13,341
Retroactive gas price adjustments	20,600	2,157	–	22,757	(297)	–	22,460
Accounts payable	–	–	–	–	53,859	–	53,859
Other deductible temporary differences	14,517	(11,828)	1,283	3,972	7,351	(2,751)	8,572
<b>Total net deferred tax liabilities</b>	<b>(618,404)</b>	<b>(69,921)</b>	<b>(178)</b>	<b>(688,503)</b>	<b>(9,310)</b>	<b>(1,600)</b>	<b>(699,413)</b>

Taxable temporary differences recognised for the years ended 31 December 2017 and 31 December 2016 include the effect of depreciation premium on certain property, plant and equipment. A deferred tax liability related to property, plant and equipment was recognised in the amount of RUB 44,723 million and RUB 14,742 million with the corresponding offsetting credit to the current profit tax expense and therefore no net impact on the consolidated net profit for the years ended 31 December 2017 and 31 December 2016.

Effective 1 January 2012, 55 major Russian subsidiaries of PJSC Gazprom formed a consolidated group of taxpayers ("CGT") with PJSC Gazprom acting as the responsible tax payer. Starting from 1 January 2013 the membership was expanded to 65 participants. Starting from

## 22. Profit tax (continued)

1 January 2014, the list of participants was 69. Starting from 1 January 2015 the number of participants was reduced to 65. Starting from 1 January 2016, the list of participants has been expanded to 67. In 2017, the number of participants did not change compared to 2016. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies within the CGT to the extent those losses and profits are recognised for tax purposes in the reporting year and, thus, are included into the tax base of the CGT. Tax assets recognised on losses prior to the formation of the CGT are written off.

## 23. Derivative financial instruments

The Group has outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

Where appropriate, in order to manage currency risk the Group uses foreign currency derivatives.

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting year. Fair values of derivatives are reflected at their gross value included in other assets and other liabilities in the consolidated balance sheet.

Fair value	31 December	
	2017	2016
<b>Assets</b>		
Commodity contracts	73,273	100,021
Foreign currency derivatives and currency and interest rate swaps	1,504	1,565
	<b>74,777</b>	<b>101,586</b>
<b>Liabilities</b>		
Commodity contracts	58,181	100,111
Foreign currency derivatives and currency and interest rate swaps	20,680	46,330
Other derivatives	13,188	3,948
	<b>92,049</b>	<b>150,389</b>

Derivative financial instruments are mainly denominated in US dollars, Euros and Pounds sterling.

## 24. Provisions for liabilities and charges

	31 December	
	2017	2016
Provision for post-employment benefit obligations	258,132	236,852
Provision for decommissioning and site restoration costs	202,616	161,764
Other	8,705	7,618
<b>Total provisions for liabilities and charges</b>	<b>469,453</b>	<b>406,234</b>

Provision for decommissioning and site restoration costs changed due to decrease in discount rate from 8.54 % to 8.47 % as of 31 December 2016 and 31 December 2017, respectively, and change in other estimations.

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

The amount of benefits depends on the period of the employees' service (years of service), salary level at retirement, predetermined fixed amount or the combination of these factors.

## 24. Provisions for liabilities and charges (continued)

Principal actuarial assumptions used:

	31 December	
	2017	2016
Discount rate (nominal)	7.6 %	8.5 %
Future salary and pension increases (nominal)	5.0 %	6.0 %
Retirement age, years	females 55, males 58	
Turnover ratio p.a.	Age-related curve, 3.8 % pa on average	

Weighted-average duration of obligations is 12 years.

The assumptions relating to life expectancy at expected pension age were 19.3 years for a 58 year old men and 28.5 years for a 55 year old women in 2017 and 2016.

The amounts associated with post-employment benefit obligations recognised in the consolidated balance sheet are as follows:

	31 December 2017		31 December 2016	
	Funded benefits — provided through NPF GAZFOND	Unfunded liabilities — other benefits	Funded benefits — provided through NPF GAZFOND	Unfunded liabilities — other benefits
Present value of benefit obligations	(422,641)	(258,132)	(372,845)	(236,852)
Fair value of plan assets	449,814	—	393,344	—
<b>Net balance assets (liabilities)</b>	<b>27,173</b>	<b>(258,132)</b>	<b>20,499</b>	<b>(236,852)</b>

The net pension assets related to benefits provided through plan NPF GAZFOND in the amount of RUB 27,173 million and RUB 20,499 million as of 31 December 2017 and 31 December 2016, respectively, are included within other non-current assets.

Changes in the present value of the defined benefit obligations and fair value of plan assets for the years ended 31 December 2017 and 31 December 2016 are as follows:

	Funded liabilities — benefits provided through NPF GAZFOND	Fair value of plan assets	Net (assets) liabilities	Unfunded liabilities — other post-employment benefits
<b>Opening balance as of 31 December 2016</b>	<b>372,845</b>	<b>(393,344)</b>	<b>(20,499)</b>	<b>236,852</b>
Current service cost	14,966	—	14,966	12,703
Past service cost	1,878	—	1,878	1,134
Net interest expense (income)	31,678	(33,641)	(1,963)	19,804
<b>Total expenses included in staff costs</b>	<b>48,522</b>	<b>(33,641)</b>	<b>14,881</b>	<b>33,641</b>
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(4,384)	—	(4,384)	(2,996)
Actuarial (gains) losses arising from changes in demographic assumptions	(339)	—	(339)	72
Actuarial losses — experience adjustments	19,996	—	19,996	10,467
Return on plan assets excluding amounts included in net interest income	—	(17,972)	(17,972)	—
Exchange differences	—	—	—	220
<b>Total recognised in other comprehensive loss</b>	<b>15,273</b>	<b>(17,972)</b>	<b>(2,699)</b>	<b>7,763</b>
Benefits paid	(13,999)	13,999	—	(20,124)
Employer's contributions	—	(18,856)	(18,856)	—
<b>Closing balance as of 31 December 2017</b>	<b>422,641</b>	<b>(449,814)</b>	<b>(27,173)</b>	<b>258,132</b>

## 24. Provisions for liabilities and charges (continued)

	Funded liabilities — benefits provided through NPF GAZFOND	Fair value of plan assets	Net (assets) liabilities	Unfunded liabilities — other post-employment benefits
<b>Opening balance as of 31 December 2015</b>	<b>356,565</b>	<b>(349,585)</b>	<b>6,980</b>	<b>226,097</b>
Current service cost	12,496	—	12,496	11,810
Past service cost	1,203	—	1,203	3,713
Net interest expense (income)	33,868	(33,385)	483	21,256
<b>Total expenses included in staff costs</b>	<b>47,567</b>	<b>(33,385)</b>	<b>14,182</b>	<b>36,779</b>
Remeasurements:				
Actuarial gains arising from changes in financial assumptions	(719)	—	(719)	(583)
Actuarial losses arising from changes in demographic assumptions	58	—	58	134
Actuarial gains — experience adjustments	(17,901)	—	(17,901)	(6,771)
Return on plan assets excluding amounts included in net interest income	—	(6,702)	(6,702)	—
Exchange differences	—	—	—	(626)
<b>Total recognised in other comprehensive loss</b>	<b>(18,562)</b>	<b>(6,702)</b>	<b>(25,264)</b>	<b>(7,846)</b>
Benefits paid	(12,725)	12,725	—	(18,178)
Employer's contributions	—	(16,397)	(16,397)	—
<b>Closing balance as of 31 December 2016</b>	<b>372,845</b>	<b>(393,344)</b>	<b>(20,499)</b>	<b>236,852</b>

The major categories of plan assets as a fair value and percentage of total plan assets are as follows:

	31 December 2017		31 December 2016	
	Fair value	Percent in plan assets, %	Fair value	Percent in plan assets, %
<b>Quoted plan assets, including</b>	<b>231,468</b>	<b>51.5 %</b>	<b>185,271</b>	<b>47.1 %</b>
Mutual funds	60,610	13.5 %	57,579	14.6 %
Bonds	108,236	24.1 %	49,065	12.5 %
Shares	62,622	13.9 %	78,627	20.0 %
<b>Unquoted plan assets, including</b>	<b>218,346</b>	<b>48.5 %</b>	<b>208,073</b>	<b>52.9 %</b>
Shares	177,016	39.3 %	171,949	43.7 %
Deposits	18,843	4.2 %	16,541	4.2 %
Mutual funds	18,400	4.1 %	17,553	4.5 %
Other securities	4,087	0.9 %	2,030	0.5 %
<b>Total plan assets</b>	<b>449,814</b>	<b>100 %</b>	<b>393,344</b>	<b>100 %</b>

The amount of ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB 32,490 million and RUB 38,599 million as of 31 December 2017 and 31 December 2016, respectively.

Non-quoted equities within plan assets are mostly represented by Gazprombank (Joint-stock Company) shares, which are measured at fair value (Level 2) using market approach valuation techniques based on available market data.

For the years ended 31 December 2017 and 31 December 2016 actual return on plan assets was a gain of RUB 51,613 million and RUB 40,087 million, respectively, primarily caused by the change in fair value of plan assets.

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions as at 31 December 2017 is presented below:

## 24. Provisions for liabilities and charges (continued)

	Increase (decrease) of defined benefit obligation	Increase (decrease) of defined benefit obligation, %
Mortality rates lower by 20 %	24,634	3.7 %
Mortality rates higher by 20 %	(20,550)	(3.1 %)
Discount rate lower by 1 pp	63,240	9.4 %
Discount rate higher by 1 pp	(53,561)	(8.0 %)
Benefit growth lower by 1 pp	(55,628)	(8.3 %)
Benefit growth higher by 1 pp	64,708	9.7 %
Staff turnover lower by 1 pp for all ages	32,166	4.8 %
Staff turnover higher by 1 pp for all ages	(28,194)	(4.2 %)
Retirement ages lower by 1 year	29,837	4.5 %
Retirement ages higher by 1 year	(29,691)	(4.4 %)

The Group expects to contribute RUB 42,100 million to the defined benefit plans in 2018.

### Retirement benefit plan parameters and related risks

As a rule, the above benefits are indexed in line with inflation rate or salary growth for benefits that depend on salary level. All retirement benefit plans of the Group are exposed to inflation risk.

In addition to the inflation risk, the pension plan of the Group is exposed to mortality risk.

## 25. Equity

### Share capital

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

### Dividends

In 2017 PJSC Gazprom declared and paid dividends in the nominal amount of 8.04 Russian Rubles per share for the year ended 31 December 2016. In 2016 PJSC Gazprom declared and paid dividends in the nominal amount of 7.89 Russian Rubles per share for the year ended 31 December 2015.

### Treasury shares

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

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

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

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

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

### Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Ruble as of 31 December 2002, when Russian economy ceased to be hyperinflationary under

## 25. Equity (continued)

IAS 29 Financial Reporting in Hyperinflation Economies. Also, retained earnings and other reserves include translation differences arising on the translation of the net assets of foreign subsidiaries, associates and joint arrangements in the amount of RUB 634,067 million and RUB 617,922 million as of 31 December 2017 and 31 December 2016, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of these assets to governmental authorities and this process may continue. Social assets with a net book value of RUB 23 million and RUB 18 million have been transferred to governmental authorities for 2016 and 2017, respectively. These transactions have been recorded as a reduction of retained earnings and other reserves.

The basis of distribution is defined by legislation as the current year net profit of the Group parent company, as calculated in accordance with Russian Accounting Rules. For the year ended 31 December 2017 the statutory profit of the parent company was RUB 100,298 million. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable profits and reserves in these consolidated financial statements.

## 26. Sales

	Year ended 31 December	
	2017	2016
Gas sales gross of excise tax and customs duties to customers in:		
Russian Federation	875,685	819,924
Former Soviet Union (excluding Russian Federation)	323,037	340,437
Europe and other countries	2,823,939	2,685,551
	4,022,661	3,845,912
Customs duties	(581,109)	(537,059)
Excise tax	(51,873)	(39,258)
Retroactive gas price adjustments <sup>1</sup>	(49,092)	33,175
Total gas sales	3,340,587	3,302,770
Sales of refined products to customers in:		
Russian Federation	1,115,125	980,352
Former Soviet Union (excluding the Russian Federation)	117,635	88,883
Europe and other countries	454,330	428,327
Total sales of refined products	1,687,090	1,497,562
Sales of crude oil and gas condensate to customers in:		
Russian Federation	71,434	81,302
Former Soviet Union (excluding the Russian Federation)	29,770	23,528
Europe and other countries	438,754	307,128
Total sales of crude oil and gas condensate	539,958	411,958
Electric and heat energy sales:		
Russian Federation	487,283	461,908
Former Soviet Union (excluding the Russian Federation)	2,937	2,458
Europe and other countries	13,599	17,350
Total electric and heat energy sales	503,819	481,716
Gas transportation sales:		
Russian Federation	229,395	192,649
Former Soviet Union (excluding the Russian Federation)	2,433	2,689
Europe and other countries	3,233	3,633
Total gas transportation sales	235,061	198,971

## 26. Sales (continued)

	Year ended 31 December	
	2017	2016
Other revenues:		
Russian Federation	199,506	174,378
Former Soviet Union (excluding the Russian Federation)	6,212	5,858
Europe and other countries	33,910	37,838
Total other revenues	239,628	218,074
<b>Total sales</b>	<b>6,546,143</b>	<b>6,111,051</b>

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

The effects of retroactive gas price adjustments on sales for the years ended 31 December 2017 and 31 December 2016 were the decrease of sales by RUB 49,092 million and the increase of sales by RUB 33,175 million, respectively.

The effects decreasing sales were due to increase in related accruals following agreements reached prior to the issuance of the respective consolidated financial statements. The effect arising from retroactive gas price adjustments on sales for the year ended 31 December 2017 included amount of adjustment related to the gas supply contract with NJSC Naftogaz Ukraine reflected in accordance with the court decision (see Note 36).

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

## 27. Operating expenses

	Year ended 31 December	
	2017	2016
Taxes other than on income	1,246,059	900,397
Purchased gas and oil	1,236,201	1,157,585
Staff costs	682,060	641,036
Depreciation	613,160	571,564
Transit of gas, oil and refined products	593,327	610,275
Materials	261,642	288,497
Cost of goods for resale, including refined products	207,689	185,441
Repairs and maintenance	154,785	147,608
Electricity and heating expenses	109,485	98,992
Rental expenses	37,723	30,152
Social expenses	34,461	35,516
Insurance expenses	30,491	29,967
Transportation services	27,253	28,923
Processing services	16,261	15,568
Research and development expenses	16,175	28,990
Foreign exchange rate differences on operating items	(14,487)	52,880
Derivatives (gain) loss	(18,344)	9,863
Other	610,787	414,638
	<b>5,844,728</b>	<b>5,247,892</b>
Change in finished goods, work in progress and other effects	(130,638)	(2,909)
<b>Total operating expenses</b>	<b>5,714,090</b>	<b>5,244,983</b>



## 27. Operating expenses (continued)

Taxes other than on income consist of:

	Year ended 31 December	
	2017	2016
MET	915,228	613,662
Excise tax	162,140	144,648
Property tax	154,639	127,053
Other taxes	14,052	15,034
<b>Total taxes other than profit tax</b>	<b>1,246,059</b>	<b>900,397</b>

Gas purchase expenses included within purchased gas and oil amount to RUB 873,866 million and RUB 872,892 million for the years ended 31 December 2017 and 31 December 2016, respectively.

Staff costs include RUB 48,522 million and RUB 50,961 million of expenses associated with post-employment benefit obligations for the years ended 31 December 2017 and 31 December 2016, respectively (see Note 24).

The change in impairment and other provisions is presented below.

Notes	Year ended 31 December	
	2017	2016
Change in allowance for investments	5,046	(596)
11 Change in allowance for inventory obsolescence	773	(2,976)
18, 35 Change in provision under financial guarantees	–	(50,736)
13 Change in allowance for impairment of property, plant and equipment	(22,692)	79,363
Change in allowance for impairment of receivables	(38,049)	118,815
<b>Total change in impairment and other provisions</b>	<b>(54,922)</b>	<b>143,870</b>

## 28. Finance income and expense

	Year ended 31 December	
	2017	2016
Foreign exchange gains	342,984	925,503
Interest income	83,721	93,494
<b>Total finance income</b>	<b>426,705</b>	<b>1,018,997</b>
Foreign exchange losses	353,712	471,814
Interest expense	53,332	71,556
<b>Total finance expense</b>	<b>407,044</b>	<b>543,370</b>

Total interest paid amounted to RUB 161,455 million and RUB 183,312 million for the years ended 31 December 2017 and 31 December 2016, respectively.

Foreign exchange gains and losses for the years ended 31 December 2017 and 31 December 2016 were recognised as a result of change in the US Dollar and Euro exchange rates against the Russian Ruble. Gains and losses primarily relate to revaluation of borrowings denominated in foreign currencies.

## 29. Reconciliation of profit, disclosed in consolidated statement of financial results, prepared in accordance with russian accounting rules (RAR) to profit disclosed in IFRS consolidated statement of comprehensive income

	Year ended 31 December	
	2017	2016
<b>RAR profit for the year per consolidated statutory accounts</b>	<b>82,118</b>	<b>666,912</b>
Effects of IFRS adjustments:		
Differences in depreciation of property, plant and equipment and intangible assets	451,406	370,692
Loan interest and foreign exchange losses capitalized	135,556	93,256
Reversal of goodwill amortisation	63,083	62,787
Classification of revaluation of available-for-sale financial assets	30,404	(62,132)
Impairment and other provisions, including provision for pension obligations	15,049	(113,994)
Differences in fixed assets disposal	7,272	1,103
Difference in share of net income of associates and joint ventures	(3,451)	(24,157)
Write-off of research and development expenses capitalized for RAR purposes	(2,480)	(5,488)
Other effects	(12,078)	8,125
<b>IFRS profit for the year</b>	<b>766,879</b>	<b>997,104</b>

## 30. Basic and diluted earnings per share for profit attributable to the owners of PJSC GAZPROM

Earnings per share attributable to owners of PJSC Gazprom have been calculated by dividing the profit for the year, attributable to the owners of PJSC Gazprom by the annual weighted average number of shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 25).

There were 22.1 billion and 22.6 billion weighted average shares outstanding for the years ended 31 December 2017 and 31 December 2016, respectively.

There are no dilutive financial instruments outstanding in the Group.

## 31. Net cash from operating activities

Notes	Year ended 31 December	
	2017	2016
<b>Profit before profit tax</b>	<b>1,018,006</b>	<b>1,285,138</b>
<b>Adjustments to profit before profit tax for:</b>		
27 Depreciation	613,160	571,564
28 Net finance income	(19,661)	(475,627)
15 Share of net income of associates and joint ventures	(126,940)	(82,872)
27 Change in provisions	(6,400)	194,831
27 Derivatives (gains) losses	(18,344)	9,863
Gain on disposal of available-for-sale financial assets	(782)	(1,059)
Other	(900)	(12,393)
Total effect of adjustments	440,133	204,307
Cash flows from operating activities before working capital changes	1,458,139	1,489,445
(Increase) decrease in non-current assets	(6,973)	3,541
Increase (decrease) in non-current liabilities	4,056	(8,821)
	1,455,222	1,484,165

### 31. Net cash from operating activities (continued)

Notes	Year ended 31 December	
	2017	2016
<b>Changes in working capital:</b>		
Increase (decrease) in accounts receivable and prepayments	33,989	(98,791)
(Increase) decrease in inventories	(51,996)	96,578
(Increase) decrease in other current assets	(207,558)	159,473
Increase (decrease) in accounts payable and accrued charges, excluding interest, dividends and capital construction	161,325	(33,497)
Settlements on taxes and fees payable (other than profit tax)	43,190	59,923
Increase in available-for-sale financial assets and financial assets held for trading	(19,601)	(952)
Total effect of working capital changes	(40,651)	182,734
Profit tax paid	(227,549)	(95,576)
<b>Net cash from operating activities</b>	<b>1,187,022</b>	<b>1,571,323</b>

Total taxes and other similar payments paid in cash during 2016-2017:

	Year ended 31 December	
	2017	2016
MET	883,895	601,985
Customs duties	664,191	617,788
Excise	256,205	236,892
Profit tax	227,549	95,576
Property tax	149,236	120,391
Insurance contributions	126,307	117,503
VAT	93,862	53,771
Personal income tax	67,879	63,000
Other taxes	65,329	59,545
<b>Total taxes paid</b>	<b>2,534,453</b>	<b>1,966,451</b>

### 32. Subsidiaries

#### Significant subsidiaries

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2017	2016
LLC Aviapredpriyatie Gazprom avia	Russia	100	100
WIBG GmbH	Germany	100	100
WIEE Hungary Kft.	Hungary	100	100
WIEH GmbH	Germany	100	100
WINGAS GmbH	Germany	100	100
OJSC Vostokgazprom	Russia	100	100
CJSC Gazprom Armenia	Armenia	100	100
JSC Gazprom gazoraspredelenie	Russia	100	100
LLC Gazprom geologorazvedka	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100

## 32. Subsidiaries (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2017	2016
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100
LLC Gazprom dobycha Nadym	Russia	100	100
LLC Gazprom dobycha Noyabrsk	Russia	100	100
LLC Gazprom dobycha Orenburg	Russia	100	100
LLC Gazprom dobycha Urengoy	Russia	100	100
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	Russia	100	100
LLC Gazprom dobycha Yamburg	Russia	100	100
LLC Gazprom invest	Russia	100	100
LLC Gazprom invest RGK	Russia	100	100
LLC Gazprom investgazifikatsiya	Russia	100	100
LLC Gazprom komplektatsiya	Russia	100	100
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
Gazprom Marketing and Trading Retail Ltd.	United Kingdom	100	100
LLC Gazprom mezhregiongaz	Russia	100	100
LLC Gazprom mezhregiongaz Moskva	Russia	100	100
JSC Gazprom mezhregiongaz Nizhny Novgorod	Russia	51	51
LLC Gazprom mezhregiongaz Sankt-Peterburg	Russia	100	100
LLC Gazprom neftekhim Salavat	Russia	100	100
PJSC Gazprom Neft	Russia	96	96
Gazprom Neft Badra B.V. <sup>2</sup>	Netherlands	100	100
Gazprom Neft Trading GmbH <sup>2</sup>	Austria	100	100
LLC Gazprom nefte shelf <sup>2</sup>	Russia	100	100
LLC Gazprom pererabotka	Russia	100	100
LLC Gazprom pererabotka Blagoveshchensk	Russia	100	100
LLC Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
OJSC Gazprom transgaz Belarus	Belorussia	100	100
LLC Gazprom transgaz Volgograd	Russia	100	100
LLC Gazprom transgaz Ekaterinburg	Russia	100	100
LLC Gazprom transgaz Kazan	Russia	100	100
LLC Gazprom transgaz Krasnodar	Russia	100	100
LLC Gazprom transgaz Moskva	Russia	100	100
LLC Gazprom transgaz Nizhny Novgorod	Russia	100	100
LLC Gazprom transgaz Samara	Russia	100	100
LLC Gazprom transgaz Sankt-Peterburg	Russia	100	100
LLC Gazprom transgaz Saratov	Russia	100	100
LLC Gazprom transgaz Stavropol	Russia	100	100
LLC Gazprom transgaz Surgut	Russia	100	100
LLC Gazprom transgaz Tomsk	Russia	100	100
LLC Gazprom transgaz Ufa	Russia	100	100
LLC Gazprom transgaz Ukhta	Russia	100	100
LLC Gazprom transgaz Tchaikovsky	Russia	100	100
LLC Gazprom transgaz Yugorsk	Russia	100	100

### 32. Subsidiaries (continued)

Subsidiaries	Country of primary operation	Percent of share capital as of 31 December <sup>1</sup>	
		2017	2016
Gazprom Finance B.V.	Netherlands	100	100
Gazprom Holding Cooperatie U.A.	Netherlands	100	100
LLC Gazprom tsentrremont	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
LLC Gazprom export	Russia	100	100
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft Marine Bunker <sup>2</sup>	Russia	100	100
JSC Gazpromneft-Aero <sup>2</sup>	Russia	100	100
LLC Gazpromneft-Vostok <sup>2</sup>	Russia	100	100
LLC Gazpromneft Corporate Sales <sup>2</sup>	Russia	100	100
JSC Gazpromneft - MNPZ <sup>2</sup>	Russia	100	100
JSC Gazpromneft-Noyabrskneftegaz <sup>2</sup>	Russia	100	100
JSC Gazpromneft - ONPZ <sup>2</sup>	Russia	100	100
LLC Gazpromneft-Orenburg <sup>2</sup>	Russia	100	100
LLC Gazpromneft Regional Sales <sup>2</sup>	Russia	100	100
LLC Gazpromneft-Khantos <sup>2</sup>	Russia	100	100
LLC Gazpromneft-Centr <sup>2</sup>	Russia	100	100
LLC Gazpromneft-Yamal <sup>2</sup>	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
Gazfin Cyprus Limited	Cyprus	100	100
LLC GPN-Invest <sup>2</sup>	Russia	100	100
LLC GPN-Finans <sup>2</sup>	Russia	100	100
LLC Zapolyarneft <sup>2</sup>	Russia	100	100
JSC Mezhtregionenergosbyt	Russia	58	58
PJSC Mosenergo	Russia	53	53
PJSC MIPC	Russia	90	90
Naftna Industrija Srbije a.d. <sup>2</sup>	Serbia	56	56
LLC Novourengoysky gazohimicheskii kompleks	Russia	100	100
Nord Stream 2 AG	Switzerland	100	100
PJSC WGC-2	Russia	77	77
Rosingaz Limited	Cyprus	100	100
South Stream Transport B.V.	Netherlands	100	100
OJSC Severneftegazprom <sup>3</sup>	Russia	50	50
LLC Sibmetakhim	Russia	100	100
PJSC TGC-1	Russia	52	52
JSC Teploset Sankt-Peterburga	Russia	75	75
OJSC Tomskgazprom	Russia	100	100
LLC Faktoring-Finance	Russia	100	100
PJSC Centerenergoholding	Russia	100	100

<sup>1</sup> Cumulative share of the Group in charter capital of investees.

<sup>2</sup> Subsidiaries of PJSC Gazprom Neft.

<sup>3</sup> Group's portion of voting shares.

### 33. Non-controlling interest

	Year ended 31 December	
	2017	2016
<b>Non-controlling interest at the beginning of the year</b>	<b>347,308</b>	<b>325,036</b>
Non-controlling interest share of net profit of subsidiaries <sup>1</sup>	52,577	45,467
Changes in interest in JSC Gazprom StroyTEK Salavat <sup>2</sup>	(2,127)	–
Changes in interest in PJSC MIPC	(777)	–
Changes in interest in JSC Gazprom gazoraspredelenie Sever	(117)	2,644
Changes in interest in PJSC WGC-2	91	131
Changes in the non-controlling interest as a result of other acquisitions and disposals	(33)	676
Gain from cash flow hedges	796	1,361
(Loss) gain arising from change in fair value of available-for-sale financial assets	(7)	1
Remeasurements of post-employment benefit obligations	(82)	8
Dividends	(18,379)	(11,727)
Translation differences	7,145	(16,289)
<b>Non-controlling interest at the end of the year</b>	<b>386,395</b>	<b>347,308</b>

<sup>1</sup> Non-controlling interest share of net profit of subsidiaries includes share in impairment of assets in the amount of RUB 3,299 million and RUB 5,365 million for the years ended 31 December 2017 and 31 December 2016, respectively.

<sup>2</sup> Subsidiary of LLC Gazprom neftekhim Salavat.

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Country of primary operation	Percent of share capital held by non-controlling interest <sup>1</sup>	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
<b>As of and for the year ended 31 December 2017</b>					
Gazprom Neft Group <sup>2</sup>	Russia	4 %	32,093	149,974	5,061
Naftna Industrija Srbije a.d. Group	Serbia	46 %	6,808	75,560	1,014
Mosenergo Group	Russia	46 %	10,857	97,594	1,556
TGC-1 Group	Russia	48 %	5,009	67,012	642
WGC-2 Group	Russia	20 %	915	30,364	171
<b>As of and for the year ended 31 December 2016</b>					
Gazprom Neft Group <sup>2</sup>	Russia	4 %	20,412	114,916	1,377
Naftna Industrija Srbije a.d. Group	Serbia	46 %	4,183	62,044	1,049
Mosenergo Group	Russia	46 %	6,398	88,296	1,039
TGC-1 Group	Russia	48 %	4,088	62,701	452
WGC-2 Group	Russia	19 %	200	29,558	117

<sup>1</sup> Effective share held by non-controlling interest in charter capital of investments.

<sup>2</sup> Including non-controlling interest in Naftna Industrija Srbije a.d. Group.

### 33. Non-controlling interest (continued)

The summarised financial information of these subsidiaries before inter-company eliminations was as follows:

	Gazprom Neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
<b>As of and for the year ended 31 December 2017</b>					
Current assets	422,567	61,658	87,075	26,943	29,510
Non-current assets	2,732,329	218,321	189,909	159,749	216,978
Current liabilities	479,606	36,160	29,657	18,968	21,504
Non-current liabilities	851,041	61,812	21,726	33,874	80,831
Revenue	1,857,929	195,130	196,216	87,568	141,504
Profit for the year	294,784	13,997	23,470	10,047	4,776
Total comprehensive income for the year	326,072	14,340	23,463	9,926	4,630
Net cash from (used in):					
operating activities	401,778	29,130	42,067	17,209	24,741
investing activities	(328,608)	(19,533)	(6,580)	(9,968)	(9,788)
financing activities	(15,477)	(7,553)	(24,921)	(3,752)	(14,323)
<b>As of and for the year ended 31 December 2016</b>					
Current assets	396,286	48,388	83,363	24,233	29,375
Non-current assets	2,357,154	195,271	201,377	155,517	220,817
Current liabilities	290,940	35,641	45,361	20,945	49,695
Non-current liabilities	864,337	57,136	33,696	33,552	60,053
Revenue	1,545,608	189,781	190,744	79,228	134,537
Profit for the year	201,763	7,483	13,482	8,453	809
Total comprehensive income for the year	187,873	7,483	12,789	8,065	527
Net cash from (used in):					
operating activities	397,128	22,896	31,690	14,162	24,266
investing activities	(382,981)	(15,894)	(23,668)	(8,949)	(14,064)
financing activities	(86,500)	(4,914)	(3,581)	(3,386)	(13,097)

The rights of the non-controlling shareholders of the presented subgroups are determined by the respective laws of country of incorporation and the charter documents of the subsidiaries.

### 34. Related parties

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

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

### 34. Related parties (continued)

#### Government (Russian Federation)

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

As of 31 December 2017 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. 11.859 % are owned JSC Rosneftegaz and JSC Rosgazifikatsiya controlled by Government.

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

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

#### Parties under control of the Government

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

As of 31 December 2017 prices of natural gas sales, gas transportation and electricity tariffs in Russia are regulated by the FAS.

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

As of 31 December 2017 and 31 December 2016 and for the years ended 31 December 2017 and 31 December 2016, the Group had the following significant transactions and balances with the Government and parties under control of the Government:

	As of 31 December 2017		Year ended 31 December 2017	
	Assets	Liabilities	Revenues	Expenses
<b>Transactions and balances with the Government</b>				
Current profit tax	4,088	53,112	–	228,221
Insurance contributions	1,359	7,689	–	129,947
VAT recoverable / payable	300,567	90,632	–	–
Customs duties	16,249	–	–	–
Other taxes	4,029	153,784	–	1,172,472
<b>Transactions and balances with other parties under control of the Government</b>				
Gas sales	–	–	113,062	–
Electricity and heating sales	–	–	166,292	–
Gas transportation sales	–	–	49,846	–
Other services sales	–	–	7,865	–
Accounts receivable	43,701	–	–	–
Oil and refined products transportation expenses	–	–	–	121,118
Accounts payable	–	17,201	–	–
Borrowings	–	226,565	–	–
Interest expense	–	–	–	19,171
Short-term financial assets	27,472	–	–	–
Available-for-sale long-term financial assets	5,711	–	–	–



### 34. Related parties (continued)

	As of 31 December 2016		Year ended 31 December 2016	
	Assets	Liabilities	Revenues	Expenses
<b>Transactions and balances with the Government</b>				
Current profit tax	11,608	56,695	–	199,675
Insurance contributions	720	7,795	–	96,693
VAT recoverable / payable	322,643	72,557	–	–
Customs duties	16,183	–	–	–
Other taxes	2,457	116,769	–	763,267
<b>Transactions and balances with other parties under control of the Government</b>				
Gas sales	–	–	76,955	–
Electricity and heating sales	–	–	154,923	–
Gas transportation sales	–	–	46,849	–
Other services sales	–	–	3,842	–
Accounts receivable	46,274	–	–	–
Oil and refined products transportation expenses	–	–	–	109,508
Accounts payable	–	13,381	–	–
Borrowings	–	345,604	–	–
Interest expense	–	–	–	11,467
Short-term financial assets	10,136	–	–	–
Available-for-sale long-term financial assets	8,087	–	–	–

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

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2017 and 31 December 2016. See Note 13 for net book values as of 31 December 2017 and 31 December 2016 of social assets vested to the Group at privatisation.

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

As of 31 December 2016 and for the year ended 31 December 2016 comparative data in the section "Parties under control of the Government" was adjusted in connection with the separate disclosure of balances and transactions with JSC Financial Settling Center ("JSC FSC").

### 34. Related parties (continued)

#### Transactions with JSC FSC

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with JSC FSC. Current financial system of JSC FSC does not provide the final counterparty with automated information about transactions and outstanding balances with the ultimate consumers.

The Group's transactions and balances with JSC FSC are detailed below.

	As of 31 December 2017		Year ended 31 December 2017	
	Assets	Liabilities	Revenues	Expenses
<b>Transactions and balances with JSC FSC</b>				
Electricity and heating sales	–	–	153,914	–
Purchased electricity and heating	–	–	–	26,621
Accounts receivable	6,030	–	–	–
Accounts payable	–	1,856	–	–

	As of 31 December 2016		Year ended 31 December 2016	
	Assets	Liabilities	Assets	Liabilities
<b>Transactions and balances with JSC FSC</b>				
Electricity and heating sales	–	–	157,898	–
Purchased electricity and heating	–	–	–	24,686
Accounts receivable	7,219	–	–	–
Accounts payable	–	1,954	–	–

#### Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of various Group companies, amounted to approximately RUB 4,537 million and RUB 4,685 million for the years ended 31 December 2017 and 31 December 2016, respectively.

Government officials, who are directors, do not receive remuneration from the Group.

The remuneration for serving on the Boards of Directors of Group companies is subject to approval by the General Meeting of Shareholders of each Group company. Compensation of key management personnel (other than remuneration for serving as directors of Group companies) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

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

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

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

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

### 34. Related parties (continued)

#### Associates and joint ventures

For the years ended 31 December 2017 and 31 December 2016 and as of 31 December 2017 and 31 December 2016 the Group had the following significant transactions and balances with associates and joint ventures.

	Year ended 31 December	
	2017	2016
	Revenues	
<b>Gas sales</b>		
Panrusgas Gas Trading Plc	46,715	38,041
JSV Moldovagaz	18,063	24,849
CJSC Gazprom YRGM Trading <sup>1</sup>	17,264	7,917
Bosphorus Gaz Corporation A.S.	15,128	15,376
JSC Latvijas Gaze	14,608	10,237
JSC Gazprom YRGM Development <sup>1</sup>	12,332	7,137
KazRosGas LLP	11,118	10,509
VEMEX s.r.o. and its subsidiaries	8,654	16,046
Prometheus Gas S.A.	7,454	806
JSC EUROPOL GAZ	2,347	4,759
PremiumGas S.p.A.	677	4,702
<b>Gas transportation sales</b>		
CJSC Gazprom YRGM Trading <sup>1</sup>	25,391	11,453
JSC Gazprom YRGM Development <sup>1</sup>	18,137	10,323
KazRosGas LLP	2,432	2,688
<b>Gas condensate, crude oil and refined products sales</b>		
OJSC NGK Slavneft and its subsidiaries	39,597	38,445
CJSC SOVEKS	5,377	3,696
LLC Poliom	2,931	1,800
LLC NPP Neftekhimia	2,732	2,379
Sakhalin Energy Investment Company Ltd.	2,118	2,054
<b>Operator services sales and other services sales</b>		
OJSC NGK Slavneft and its subsidiaries	4,486	663
JSC Messoyakhaneftegaz	4,389	4,538
<b>Gas refining services sales</b>		
KazRosGas LLP	8,137	8,169
<b>Interest income</b>		
Gazprombank (Joint-stock Company)	39,507	39,167
JSC Messoyakhaneftegaz	6,352	5,480

### 34. Related parties (continued)

	Year ended 31 December	
	2017	2016
	Expenses	
<b>Purchased gas</b>		
CJSC Gazprom YRGM Trading <sup>1</sup>	54,752	24,566
LLC SeverEnergiya and its subsidiaries	43,980	49,393
JSC Gazprom YRGM Development <sup>1</sup>	39,154	22,089
KazRosGas LLP	30,264	32,567
Sakhalin Energy Investment Company Ltd.	17,525	11,811
CJSC Northgas	2,732	8,512
VEMEX s.r.o. and its subsidiaries	465	3,885
<b>Purchased transit of gas</b>		
Nord Stream AG	71,047	79,002
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	30,699	38,035
JSC EUROPOL GAZ	12,572	16,613
JSV Moldovagaz	3,499	3,587
<b>Purchased crude oil and refined products</b>		
OJSC NGK Slavneft and its subsidiaries	114,674	96,427
JSC Messoyakhaneftegaz	29,699	6,351
Sakhalin Energy Investment Company Ltd.	18,380	19,090
<b>Purchased services of gas and gas condensate products</b>		
JSC Achimgaz	31,027	27,994
<b>Purchased refining services</b>		
OJSC NGK Slavneft and its subsidiaries	13,719	13,313
<b>Purchased transit of crude oil and oil refinery products</b>		
OJSC NGK Slavneft and its subsidiaries	6,252	6,766
JSC Messoyakhaneftegaz	3,863	771
<b>Interest expense</b>		
Gazprombank (Joint-stock Company) and its subsidiaries	11,736	10,750

<sup>1</sup> CJSC Gazprom YRGM Trading and JSC Gazprom YRGM Development are not associates and joint ventures.

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

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
<b>Short-term accounts receivable and prepayments</b>				
Gazprombank (Joint-stock Company)	17,380	–	14,306	–
KazRosGas LLP	5,457	–	3,287	–
OJSC NGK Slavneft and its subsidiaries	5,304	–	8,286	–
Panrusgas Gas Trading Plc	4,023	–	3,175	–
LLC Yamal razvitie	3,459	–	–	–
Bosphorus Gaz Corporation A.S.	2,603	–	–	–
CJSC Gazprom YRGM Trading	2,327	–	1,167	–
JSC Gazprom YRGM Development	1,662	–	1,052	–

### 34. Related parties (continued)

	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Sakhalin Energy Investment Company Ltd.	1,045	–	2,733	–
JSC Messoyakhaneftegaz	796	–	40,530	–
VEMEX s.r.o. and its subsidiaries	521	–	1,518	–
Wintershall Noordzee B.V.	–	–	5,811	–
Wintershall AG	–	–	2,125	–
<b>Cash balances</b>				
Gazprombank (Joint-stock Company)	388,436	–	518,084	–
OJSC Belgazprombank	19,320	–	917	–
<b>Other current assets</b>				
Gazprombank (Joint-stock Company)	290,322	–	100,015	–
OJSC Belgazprombank	7,436	–	968	–
<b>Other non-current assets</b>				
Gazprombank (Joint-stock Company)	–	–	42,230	–
<b>Long-term accounts receivable and prepayments</b>				
JSC Messoyakhaneftegaz	24,414	–	18,962	–
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	13,768	–	12,757	–
Gazprombank (Joint-stock Company)	9,599	–	745	–
Wintershall Noordzee B.V.	5,595	–	–	–
OJSC Belgazprombank	4,957	–	4,957	–
LLC Yamal razvitie	4,483	–	15,722	–
JSC Evroteck-Yugra	1,514	–	–	–
<b>Short-term accounts payable</b>				
OJSC NGK Slavneft and its subsidiaries	–	31,164	–	4,094
CJSC Gazprom YRGM Trading	–	7,927	–	4,490
JSC Messoyakhaneftegaz	–	6,928	–	3,694
Nord Stream AG	–	6,172	–	5,723
Sakhalin Energy Investment Company Ltd.	–	5,710	–	2,948
JSC Gazprom YRGM Development	–	5,662	–	3,682
JSC Achimgaz	–	3,195	–	3,025
LLC SeverEnergiya and its subsidiaries	–	2,963	–	3,436
KazRosGas LLP	–	2,079	–	4,186
JSC EUROPOL GAZ	–	2,078	–	2,100
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	–	1,957	–	124
<b>Short-term borrowings (including current portion of long-term borrowings)</b>				
Gazprombank (Joint-stock Company) and its subsidiaries	–	80,807	–	31,797
<b>Long-term borrowings</b>				
Gazprombank (Joint-stock Company)	–	87,511	–	88,850

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

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

### 34. Related parties (continued)

Accounts receivable due from JSV Moldovagaz are RUB nil million as of 31 December 2017 and 31 December 2016 net of impairment allowance of RUB 339,481 million and RUB 342,765 million as of 31 December 2017 and 31 December 2016, respectively.

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

Investments in associates and joint ventures are disclosed in Note 15.

Financial guarantees issued by the Group for the associates and joint ventures are disclosed in Note 35.

### 35. Commitments and contingencies

#### Financial guarantees

Notes	31 December	
	2017	2017
Outstanding guarantees issued for:		
LLC Stroygazconsulting	81,710	–
Blackrock Capital Investments Limited	1,572	4,968
18, 27 Ostchem Holding Limited	–	3,427
Other	24,781	36,362
<b>Total financial guarantees</b>	<b>108,063</b>	<b>44,757</b>

In 2017 and 2016 counterparties fulfilled their obligations.

Included in financial guarantees are amounts denominated in US Dollars of USD 27 million and USD 87 million as of 31 December 2017 and 31 December 2016, respectively, as well as amounts denominated in Euros of EUR 33 million and EUR 66 million as of 31 December 2017 and 31 December 2016, respectively.

In 2006 the Group guaranteed Asset Repackaging Trust Five B.V. (registered in Netherlands) in respect of bonds issued by five financing entities: Devere Capital International Limited, Blackrock Capital Investments Limited, DSL Assets International Limited, United Energy Investments Limited, EM Interfinance Limited (registered in Ireland) with due dates December 2012, June 2018, December 2009, December 2009 and December 2015, respectively. Bonds were issued for financing of construction of a transit pipeline in Poland by JSC EUROPOL GAZ. In December 2009 loans issued by DSL Assets International Limited and United Energy Investments Limited were redeemed. In December 2012 loans issued by Devere Capital International Limited were redeemed. In December 2015 loans issued by EM Interfinance Limited were redeemed. As a result as of 31 December 2017 and 31 December 2016 the guarantees issued for Blackrock Capital Investments Limited amounted to RUB 1,572 million (USD 27 million) and RUB 4,968 million (USD 82 million), respectively.

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

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

#### Other

The Group has transportation agreements with certain of its associates and joint ventures (see Note 34).

### 35. Commitments and contingencies (continued)

#### Capital commitments

The total investment program related to gas, oil and power assets for 2018 is RUB 1,981,965 million.

#### Operating lease commitments

As of 31 December 2017 and 31 December 2016 the Group does not have significant liabilities related to operating leases.

#### Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2017 no loss is expected to result from these long-term commitments.

### 36. Operating risks

#### Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

The future economic prospects of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government of the Russian Federation, together with tax, legal, regulatory, and political developments.

#### Taxation

The tax, currency and customs legislation in the Russian Federation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 December 2017 is appropriate and all of the Group's material tax, currency and customs positions will be sustainable.

#### Legal proceedings

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

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

### 36. Operating risks (continued)

out of Ukraine. The clarified claims of NJSC Naftogaz of Ukraine to PJSC Gazprom amounted to over USD 14,230 million.

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

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

- 1) to pay PJSC Gazprom the overdue debt for the gas supplied amounting to USD 2,019 million, and penalty interest for the period from 22 December 2017 to the date of such payment amounting at the rate 0.03 % for each day of delay;
- 2) starting from 2018 to buy and pay for 5 billion cubic meters of gas annually or in case of the failure to buy this quantity to pay for 80 % of this volume.

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

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

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

- (1) to acknowledge that rights and obligations of NJSC Naftogaz of Ukraine under the Contract No. TKGU dated 19 January 2009 (the "Contract No. TKGU") on volumes and terms of gas transportation through Ukraine in the years 2009–2019 should be transferred to PJSC Ukrtransgaz;
- (2) to acknowledge that certain provisions of the Contract No. TKGU, which will be subsequently updated, are invalid and / or inoperative and should be supplemented with or substituted by provisions which will be updated in line with the energy and anti-monopoly legislation of Ukraine and the European Union ("the EU");
- (3) to oblige PJSC Gazprom to pay a compensation of USD 3,200 million and related interest to NJSC Naftogaz of Ukraine for the failure to provide gas for transit;
- (4) to acknowledge that the transit tariff stipulated in the Contract No. TKGU should be revised in such a way as will be provided in further written statements of NJSC Naftogaz of Ukraine in line with key principles of the Swedish contractual law.

On 28 November 2014 PJSC Gazprom filed its response to the request of arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz of Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000–16,000 million. Oral hearings of the case were held, the parties provided post-hearing statements on 11 November 2016. On 2 February 2018 NJSC Naftogaz of Ukraine submitted the corrected amount of claim to the arbitration court, including a claim to recover damages for the failure to provide gas for transit and underpayment of the transit tariff for the second half of 2016 and 2017. Total amount of the claim filed by NJSC Naftogaz of Ukraine (without interest) was USD 14,865 million. On 16 February 2018 PJSC Gazprom submitted to the arbitration court a response to this claim and a claim to refund the overpaid transit tariff for the period from April 2014 to December 2017 due to the change in the gas price under the Contract No. KP for purchase and sale of natural gas in 2009–2019 totaling USD 44 million without interest. The final award in the case was delivered on 28 February 2018. The arbitration court rejected a request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of the Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the European Union to the Contract. The arbitration court rejected a request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under the Contract No. TKGU to PJSC Ukrtransgaz or to another gas transportation system operator. The arbitration court satisfied the demand of NJSC Naftogaz of Ukraine to oblige PJSC Gazprom to pay USD 4,673 million for having provided less gas for transit to European consumers than stipulated in the Contract. With consideration for the amount awarded to PJSC Gazprom



### 36. Operating risks (continued)

under the supply contract, the arbitration court set off counterclaims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million to NJSC Naftogaz of Ukraine. Expenses for recognition of the liabilities under the award are presented in the line "Operating expenses" in the consolidated statement of comprehensive income (see Note 27). The amount of the liability is presented in the line "Accounts payable and provisions for liabilities and charges" of the consolidated balance sheet. On 29 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to review stated final award of 28 February 2018 and to cancel it partially.

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

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

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

In August 2012 the European Commission launched a formal stage of investigation into a potential breach of the EU antitrust law by PJSC Gazprom. In April 2015 the European Commission adopted a Statement of Objections in the course of the ongoing antitrust investigation of PJSC Gazprom activity in the EU. The adoption by the European Commission the Statement of Objections is one of the stages of the ongoing antitrust investigation and it doesn't recognise PJSC Gazprom guilty of any violation of the EU antitrust legislation. The European Commission extended the deadline for providing a formal response to the Statement of Objections until September 2015. A formal response to the Statement of Objections of the European Commission was sent by PJSC Gazprom at the end of September 2015. In September 2015 PJSC Gazprom filed its proposal of antitrust investigation settlement to the European Commission. In December 2015 PJSC Gazprom's representatives and the European Commission took part in closed-door oral hearings where PJSC Gazprom provided arguments which rendered the raised claims groundless. An oral hearing is just one of the stages of the ongoing antitrust investigation. On 27 December 2016 PJSC Gazprom forwarded to the European Commission a formal proposal for the settlement of the investigation (commitments). On 13 March 2017 the European Commission launched a market test process of the commitments upon which it will be able to rightfully accept the commitments and close the investigation without recognising the Gazprom Group guilty of violating the antitrust law of the European Union. On 29 May 2017 the European Commission and PJSC Gazprom officials held a joint meeting where the European party communicated key takeaways of the market test exercise and where the parties agreed to hold a series of working meetings to settle the issues that, in the EC's opinion, have not been addressed thus far, drawing on the market test findings. The parties currently are keeping on consulting on technical issues. Currently it's impossible to assess a potential negative impact of this ongoing investigation on activity of PJSC Gazprom in Europe and on financial position of PJSC Gazprom as a whole.

### 36. Operating risks (continued)

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

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

On 25 January 2016 the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of Ukrainian hryvnia 85,966 million (at the exchange rate as of 31 December 2017 — RUB 176,192 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an action with the Kiev Economic Court against the decision of the Antimonopoly Committee of Ukraine. On 13 April 2016 the action was returned unconsidered on formal grounds. On 4 May 2016 PJSC Gazprom filed an appeal with the Kiev Economic Court of Appeal which left the primary court's award unchanged based on the decision of 18 May 2016. On 7 June 2016 PJSC Gazprom filed a cassation appeal with the Ukraine's Higher Economic Court. On 13 July 2016 the Ukraine's Higher Economic Court dismissed the appeal of PJSC Gazprom and affirmed the ruling of the court of first appearance and the decision of appeals instance. On 2 September 2016 PJSC Gazprom filed with the Supreme Court of Ukraine a petition to review the judgements in the case delivered by the lower-level courts.

On 13 September 2016 the Supreme Court of Ukraine rejected to move the petition forward to review the judgements delivered in the case by the lower-level courts. On 7 October 2016 the Kiev Economic Court determined to initiate proceedings in the case in view of the application filed by the Antimonopoly Committee of Ukraine along with a claim to impose a penalty in the amount of about USD 3 billion on PJSC Gazprom, a fine in the amount of about USD 3 billion and a demand to enforce PJSC Gazprom to fulfil a portion of its decision which pertains to the performance of the terms and conditions to the fullest extent of the Contract No. TKGU regarding the volumes of gas intended for transit purposes. On 5 December 2016 the Court satisfied the claims of the Antimonopoly Committee of Ukraine to the fullest extent. On 22 February 2017 the Court dismissed the appeal of PJSC Gazprom keeping the first-instance court's decision in force. On 14 March 2017 PJSC Gazprom filed with the Ukraine's Higher Economic Court a cassation appeal on the decision of the Kiev Economic Court dated 5 December 2016 and the ruling of the Kiev Economic Court of Appeal dated 22 February 2017. As a result of the Ukraine's Higher Economic Court sitting session held on 16 May 2017 the cassation appeal of PJSC Gazprom was left unsatisfied. On 11 August 2017 PJSC Gazprom filed with the Supreme Court of Ukraine an appeal with a demand to cancel decisions of lower courts. On 11 September 2017 the Supreme Court of Ukraine left these decisions in force and the appeal of PJSC Gazprom was unsatisfied. In April 2017 the Antimonopoly Committee of Ukraine filed a demand with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of Ukrainian hryvnia 171,932 million (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office Orders of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover the amount of Ukrainian hryvnia 189,125 million (at the exchange rate as of 31 December 2017 — RUB 387,621 million), including an execution fee of Ukrainian hryvnia 17,193 million (at the exchange rate as of 31 December 2017 — RUB 35,238 million), the seizure of the accounts of the Kiev-based Branch of PJSC Gazprom, dividends due to PJSC Gazprom from the participation in JSC Gaztransit, the stocks of JSC Gaztransit owned by PJSC Gazprom, the stocks of PJSC YUZHNIIGIPROGAZ Institute, a participation stake in LLC Gazprom sbyt Ukraine, the LLC International Consortium for the Ukrainian Gas Transmission System Management and Development. PJSC Gazprom is currently challenging the actions under the enforcement proceedings in the Ukrainian courts. PJSC Gazprom is also considering other legal mechanisms to restore its violated rights.

On 3 February 2016 under EU Regulation No. 1/2003 on the implementation of competition policy stipulated by Articles 101 and 102 of the EU Agreement the European Commission filed an official request to PJSC Gazprom for presenting information regarding the alleged infringement by PJSC Gazprom of the EU competition laws within the framework of gas supply to Bulgaria. Submitting a request is not the beginning of the formal investigatory phase, it doesn't represent

### 36. Operating risks (continued)

acknowledgment of the infringement by PJSC Gazprom of the EU competition laws and is aimed solely at collection of information. The subject of the request is providing information regarding PJSC Gazprom relations with wholesale gas buyers in Bulgaria. The response to the request for information to the European Commission was filed by PJSC Gazprom on 7 April 2016. PJSC Gazprom's terms of contractual relationships with customers are defined by international legal obligations, commercial reasonableness and market conditions.

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

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

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

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

#### Sanctions

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

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

- 1) transacting in, providing financing for, or otherwise dealing with new debt of longer than 90 days maturity (from 28 November 2017 — 60 days maturity) or newly issued share capital, property or rights to property in respect of a number of Russian energy companies, including PJSC Gazprom Neft;
- 2) transacting in, providing financing for, or otherwise dealing with new debt of longer than 30 days maturity (from 28 November 2017 — 14 days maturity) or newly issued share capital, property or rights to property in respect of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock-Company) (PJSC Gazprom is not on the list of restricted entities in this respect);
- 3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction includes the Yuzhno-Kirinskoye field located in the Sea of Okhotsk. According to the changes from 31 October 2017 the scope of the stated prohibition is extended for projects that meet three criteria at the same time:
  - projects start after 29 January 2018;
  - projects relate to oil production around the world;
  - Russian companies included in the Sectoral Sanctions Identifications List, including PJSC Gazprom and PJSC Gazprom Neft and their subsidiaries, own a share of 33 % and more in such project or control the majority of voting rights.

### 36. Operating risks (continued)

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

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

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

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

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

- 1) provision of drilling, wells testing, logging and completion and services and supply of specialised floating vessels necessary for deep water oil exploration and production, and (or) Arctic oil exploration and production, and shale oil projects in Russia, as well as the direct or indirect financing, financial assistance, technical and brokerage services in relation to these activities;
- 2) purchasing, selling, providing of investment services for or assistance in the issuance of, or other dealings with transferable securities and money market instruments with a maturity of more than 90 days issued from 1 August 2014 to 12 September 2014 or more than 30 days, issued after 12 September 2014 by certain Russian companies in banking sector, including Gazprombank (Joint-stock Company), excluding PJSC Gazprom;
- 3) purchase, sale, provision of investment services for or assisting in the issuance of, or other dealings with transferable securities and money market instruments issued by some Russian energy companies, including PJSC Gazprom Neft but excluding PJSC Gazprom, after 12 September 2014 with maturity of more than 30 days;
- 4) providing after 12 September 2014 directly or indirectly or being part of any arrangement to make new loans or credit with a maturity of more than 30 days to a number of Russian companies (including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for loans or credit that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and the Russian Federation or for loans that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for legal entities established in the EU, whose proprietary rights are owned for more than 50 percent by any entity referred to above.

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

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

### 36. Operating risks (continued)

deep-water oil exploration (at a depth of more than 500 meters), for the exploration and production of oil in the Arctic, as well as the exploration and production of shale oil.

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

### 37. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

#### Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

#### (a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies.

Notes		Russian Ruble	US dollar	Euro	Other	Total
<b>As of 31 December 2017</b>						
<b>Financial assets</b>						
<b>Current</b>						
8	Cash and cash equivalents	478,401	201,232	162,436	26,938	869,007
9	Short-term financial assets (excluding equity securities)	30,851	–	–	–	30,851
10	Trade and other accounts receivable	533,110	132,995	244,398	133,929	1,044,432
<b>Non-current</b>						
16	Long-term accounts receivable (excluding prepayments)	121,411	2,026	33,254	1,642	158,333
17	Available-for-sale long-term financial assets (excluding equity securities)	249	–	–	–	249
<b>Total financial assets</b>		<b>1,164,022</b>	<b>336,253</b>	<b>440,088</b>	<b>162,509</b>	<b>2,102,872</b>
<b>Financial liabilities</b>						
<b>Current</b>						
18	Accounts payable (excluding derivative financial instruments)	706,795	261,772	148,179	46,875	1,163,621
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	216,858	259,646	366,685	31,616	874,805
<b>Non-current</b>						
21	Long-term borrowings, promissory notes	416,025	933,435	841,633	200,620	2,391,713
<b>Total financial liabilities</b>		<b>1,339,678</b>	<b>1,454,853</b>	<b>1,356,497</b>	<b>279,111</b>	<b>4,430,139</b>

### 37. Financial risk factors (continued)

Notes		Russian Ruble	US dollar	Euro	Other	Total
<b>As of 31 December 2016</b>						
<b>Financial assets</b>						
<b>Current</b>						
8	Cash and cash equivalents	539,158	249,143	90,458	17,969	896,728
9	Short-term financial assets (excluding equity securities)	11,094	–	–	–	11,094
10	Trade and other accounts receivable	506,332	187,767	216,638	97,249	1,007,986
<b>Non-current</b>						
16	Long-term accounts receivable (excluding prepayments)	130,556	6,573	39,068	1,298	177,495
17	Available-for-sale long-term financial assets (excluding equity securities)	311	–	–	–	311
<b>Total financial assets</b>		<b>1,187,451</b>	<b>443,483</b>	<b>346,164</b>	<b>116,516</b>	<b>2,093,614</b>
<b>Financial liabilities</b>						
<b>Current</b>						
18	Accounts payable (excluding derivative financial instruments)	692,907	126,497	96,091	67,056	982,551
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	113,841	108,334	223,953	952	447,080
<b>Non-current</b>						
21	Long-term borrowings, promissory notes	357,525	1,192,238	705,741	127,039	2,382,543
<b>Total financial liabilities</b>		<b>1,164,273</b>	<b>1,427,069</b>	<b>1,025,785</b>	<b>195,047</b>	<b>3,812,174</b>

See discussion of derivative financial instruments in Note 23.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in selected foreign currencies.

As of 31 December 2017, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 223,620 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 195,208 million, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings partially offset by foreign exchange gains on translation of US dollar-denominated trade receivables. The effect of related Russian Ruble strengthening against the US dollar would have been approximately the same amount with opposite impact.

As of 31 December 2017, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 183,626 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. As of 31 December 2016, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 145,508 million, mainly as a result of foreign exchange losses on translation of euro-denominated borrowings partially offset by foreign exchange gains on translation of euro-denominated trade receivables. The effect of related Russian Ruble strengthening against the Euro would have been approximately the same amount with opposite impact.

#### (b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.



### 37. Financial risk factors (continued)

The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Notes	31 December	
	2017	2016
<b>Long-term borrowings and promissory notes</b>		
21 At fixed rate	2,355,672	2,086,181
21 At variable rate	824,665	682,810
	<b>3,180,337</b>	<b>2,768,991</b>

The Group does not have a formal policy of determining how much the Group's exposure should be to fixed or variable rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

During the years ended 31 December 2017 and 31 December 2016 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2017, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 41,233 million for 2017, mainly as a result of higher interest expense on floating rate borrowings. As of 31 December 2016, if benchmark interest rates on borrowings had been 5 % higher with all other variables held constant, profit before profit tax would have been lower by RUB 34,141 million for 2016, mainly as a result of higher interest expense on floating rate borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

#### (c) Commodity price risk

Commodity price risk is the risk or uncertainty arising from possible movements in prices for natural gas, crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows.

The Group's overall strategy in production and sales of natural gas, crude oil and related products is centrally managed. Natural gas export prices to Europe and other countries are generally based on a formula linked to oil product prices, which in turn are linked to crude oil prices.

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2017, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 246,490 million for 2017. As of 31 December 2016, if the average gas prices related to the export market had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 248,285 million for 2016.

The Russian gas tariffs are regulated by the FAS and are as such less subject to significant price fluctuations.

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impacts on operational and investment decisions. However, in the current environment management estimates may materially differ from actual impact on the Group's financial position.

#### (d) Securities price risk

The Group is exposed to movements in the equity securities prices because of financial assets held by the Group and classified on the consolidated balance sheet either as available for sale or at fair value through profit or loss (see Notes 9 and 17).

As of 31 December 2017 and 31 December 2016, if London Stock Exchange equity index, which affects the major part of Group's equity securities, had decreased by 10 % with all other variables held constant, assuming the Group's equity instruments moved according to the historically high correlation with the index, Group's total comprehensive income for the year would have been RUB 26,839 million and RUB 29,442 million lower, respectively.

### 37. Financial risk factors (continued)

The Group is also exposed to movements in the equity securities prices used to assess the fair value of pension plan assets held by NPF GAZFOND (see Note 24).

#### Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of impairment provision (see Note 10, 16). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. Group operates with various customers and substantial part of sales relates to major customers.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

Notes	31 December	
	2017	2016
8 Cash and cash equivalents	869,007	896,728
9 Debt securities	30,851	11,094
10, 16 Long-term and short-term trade and other accounts receivable	1,202,765	1,185,481
35 Financial guarantees	108,063	44,757
<b>Total maximum exposure to credit risk</b>	<b>2,210,686</b>	<b>2,138,060</b>

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

Important factor in the Group's liquidity risk management is an access to a wide range of funding through capital markets and banks. Management aims is to maintain flexibility in financing sources by having committed facilities available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.



### 37. Financial risk factors (continued)

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
<b>As of 31 December 2017</b>					
Short-term and long-term loans and borrowings and promissory notes	404,002	470,803	481,070	1,087,239	823,404
Accounts payable (excluding derivative financial instruments and provision under financial guarantees)	1,118,632	44,989	–	–	–
Financial guarantees	10,765	5,916	912	3,223	87,247
<b>As of 31 December 2016</b>					
Short-term and long-term loans and borrowings and promissory notes	348,178	247,864	829,565	1,172,128	1,022,573
Accounts payable (excluding derivative financial instruments and provision under financial guarantees)	907,675	71,449	–	–	–
Financial guarantees	7,162	7,528	8,877	13,147	8,043

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities. For those borrowing facilities where the Group has financial covenants, the Group is in compliance. If the financial covenants are not met, the Group reclassifies long-term borrowing facilities into short-term.

#### Reconciliation of liabilities arising from financing activities

	Short-term and long-term debt	Dividends	Other liabilities from financing activities	Total
<b>As of 31 December 2016</b>	2,829,623	3,029	43,051	2,875,703
Cash flows, including:				
Proceeds from borrowings (net of costs directly related to the receipt)	1,008,563	–	–	1,008,563
Repayment of borrowings	(622,058)	–	(10,033)	(632,091)
Interest paid (in financing activities)	(33,757)	–	(539)	(34,296)
Dividends paid	–	(191,875)	–	(191,875)
Finance expense	37,063	–	539	37,602
Dividends declared	–	196,059	–	196,059
Change in fair value of cash flow hedges	–	–	(956)	(956)
Translation differences	25,103	–	–	25,103
Other non-cash movements	21,981	(2,114)	(997)	18,870
<b>As of 31 December 2017</b>	<b>3,266,518</b>	<b>5,099</b>	<b>31,065</b>	<b>3,302,682</b>
<b>As of 31 December 2015</b>	<b>3,442,215</b>	<b>4,969</b>	<b>79,722</b>	<b>3,526,906</b>
Cash flows, including:				
Proceeds from borrowings (net of costs directly related to the receipt)	673,406	–	–	673,406
Repayment of borrowings	(734,697)	–	(28,686)	(763,383)
Interest paid (in financing activities)	(48,528)	–	(2,307)	(50,835)
Dividends paid	–	(186,337)	–	(186,337)
Finance expense	59,366	–	2,307	61,673
Dividends declared	–	186,099	–	186,099
Change in fair value of cash flow hedges	–	–	(7,984)	(7,984)
Translation differences	(544,032)	–	(1)	(544,033)
Other non-cash movements	(18,107)	(1,702)	–	(19,809)
<b>As of 31 December 2016</b>	<b>2,829,623</b>	<b>3,029</b>	<b>43,051</b>	<b>2,875,703</b>

### 37. Financial risk factors (continued)

#### Capital risk management

The Group considers equity and debt to be the principal elements of capital management. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain or adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The Group considers its target debt to equity ratio at the level of not more than 40 %.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents and balances of cash and cash equivalents restricted as to withdrawal under the terms of certain borrowings and other contractual obligations.

Adjusted EBITDA is calculated as operating profit less depreciation and less provision for impairment of assets and other provisions (excluding allowance for impairment of accounts receivable).

The net debt to adjusted EBITDA ratios at 31 December 2017 and 31 December 2016 were as follows:

	31 December	
	2017	2016
Total debt	3,266,518	2,829,623
Less: cash and cash equivalents	(869,007)	(896,728)
Net debt	2,397,511	1,932,895
Adjusted EBITDA	1,466,910	1,322,199
<b>Net debt / Adjusted EBITDA ratio</b>	<b>1.63</b>	<b>1.46</b>

PJSC Gazprom has an investment grade credit rating of BB+ (stable outlook) by Standard & Poor's and BBB- (stable outlook) by Fitch Ratings as of 31 December 2017.

### 38. Fair value of financial instruments

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

#### a) Financial instruments in Level 1

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

#### b) Financial instruments in Level 2

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

#### c) Financial instruments in Level 3

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

Long-term accounts receivables are fair valued at Level 3 (see Note 16), long-term borrowings — Level 2 (see Note 21).

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

### 38. Fair value of financial instruments (continued)

Notes	31 December 2017			
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Total
9	Financial assets held for trading:			
	Bonds	30,758	–	30,758
	Equity securities	206	–	206
9	Available-for-sale financial assets:			
	Promissory notes	–	93	93
	<b>Total short-term financial assets</b>	<b>30,964</b>	<b>93</b>	<b>31,057</b>
17	Available-for-sale financial assets:			
	Equity securities	215,733	43,594	268,183
	Promissory notes	–	249	249
	<b>Total available-for-sale long-term financial assets</b>	<b>215,733</b>	<b>43,843</b>	<b>268,432</b>
23	Derivative financial instruments	11,946	60,854	74,777
	<b>Total assets</b>	<b>258,643</b>	<b>104,790</b>	<b>374,266</b>
23	Derivative financial instruments	7,258	82,317	92,049
	<b>Total liabilities</b>	<b>7,258</b>	<b>82,317</b>	<b>92,049</b>
9	Financial assets held for trading:			
	Bonds	10,976	–	10,976
	Equity securities	387	–	387
9	Available-for-sale financial assets:			
	Promissory notes	–	118	118
	<b>Total short-term financial assets</b>	<b>11,363</b>	<b>118</b>	<b>11,481</b>
17	Available-for-sale financial assets:			
	Equity securities	246,866	40,584	294,034
	Promissory notes	–	311	311
	<b>Total available-for-sale long-term financial assets</b>	<b>246,866</b>	<b>40,895</b>	<b>294,345</b>
23	Derivative financial instruments	16,931	81,110	101,586
	<b>Total assets</b>	<b>275,160</b>	<b>122,123</b>	<b>407,412</b>
23	Derivative financial instruments	11,922	135,648	150,389
	<b>Total liabilities</b>	<b>11,922</b>	<b>135,648</b>	<b>150,389</b>

The derivative financial instruments include natural gas purchase and sale contracts and are categorised in Levels 1, 2 and 3 of the fair value hierarchy. The contracts in Level 1 are valued using active market price of identical assets and liabilities. Due to absence of quoted prices or other observable, market-corroborated data the contracts in Level 2 are valued using models internally developed by the Group. These models include inputs such as: quoted forward prices, time value, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. Where necessary, the price curves are extrapolated to the expiry of the contracts using all available external pricing information, historic and long-term pricing relationships. These valuations are categorised in Level 3.

Foreign currency hedge contracts are categorised in Level 2. The Group uses estimation of fair value of foreign currency hedge contracts prepared by independent financial institutes. Valuation results are regularly reviewed by the Group management. No significant ineffectiveness occurred during the reporting year.

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the period. For the year ended 31 December 2017 and 31 December 2016 the Group did not write off any losses incurred as a result of a decrease in the fair value of available-for-sale financial assets, from other comprehensive income to profit or loss.

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

### 39. Offsetting financial assets and financial liabilities

In connection with its derivative activities, the Group generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Group with the right to, in the event of a default by the counterparty (such as bankruptcy), net counterparty's rights and obligations under the agreement and to liquidate and set off collateral against any net amount owed by the counterparty.

The following financial assets and liabilities are subject to offsetting, enforceable master netting agreements and similar agreements:

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
<b>As of 31 December 2017</b>				
<b>Financial assets</b>				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,535,132	332,367	1,202,765	64,696
Derivative financial instruments	364,018	289,241	74,777	1,010
<b>Financial liabilities</b>				
Accounts payable (excluding derivative financial instruments)	1,495,988	332,367	1,163,621	64,696
Derivative financial instruments	381,290	289,241	92,049	1,010
<b>As of 31 December 2016</b>				
<b>Financial assets</b>				
Long-term and short-term trade and other accounts receivable (excluding prepayments)	1,495,199	309,718	1,185,481	41,835
Derivative financial instruments	580,355	478,769	101,586	60,855
<b>Financial liabilities</b>				
Accounts payable (excluding derivative financial instruments)	1,292,269	309,718	982,551	41,835
Derivative financial instruments	629,158	478,769	150,389	60,855

### 40. Post balance sheet events

#### Borrowings

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

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

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

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

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

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

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

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