



# A Strategic Resource





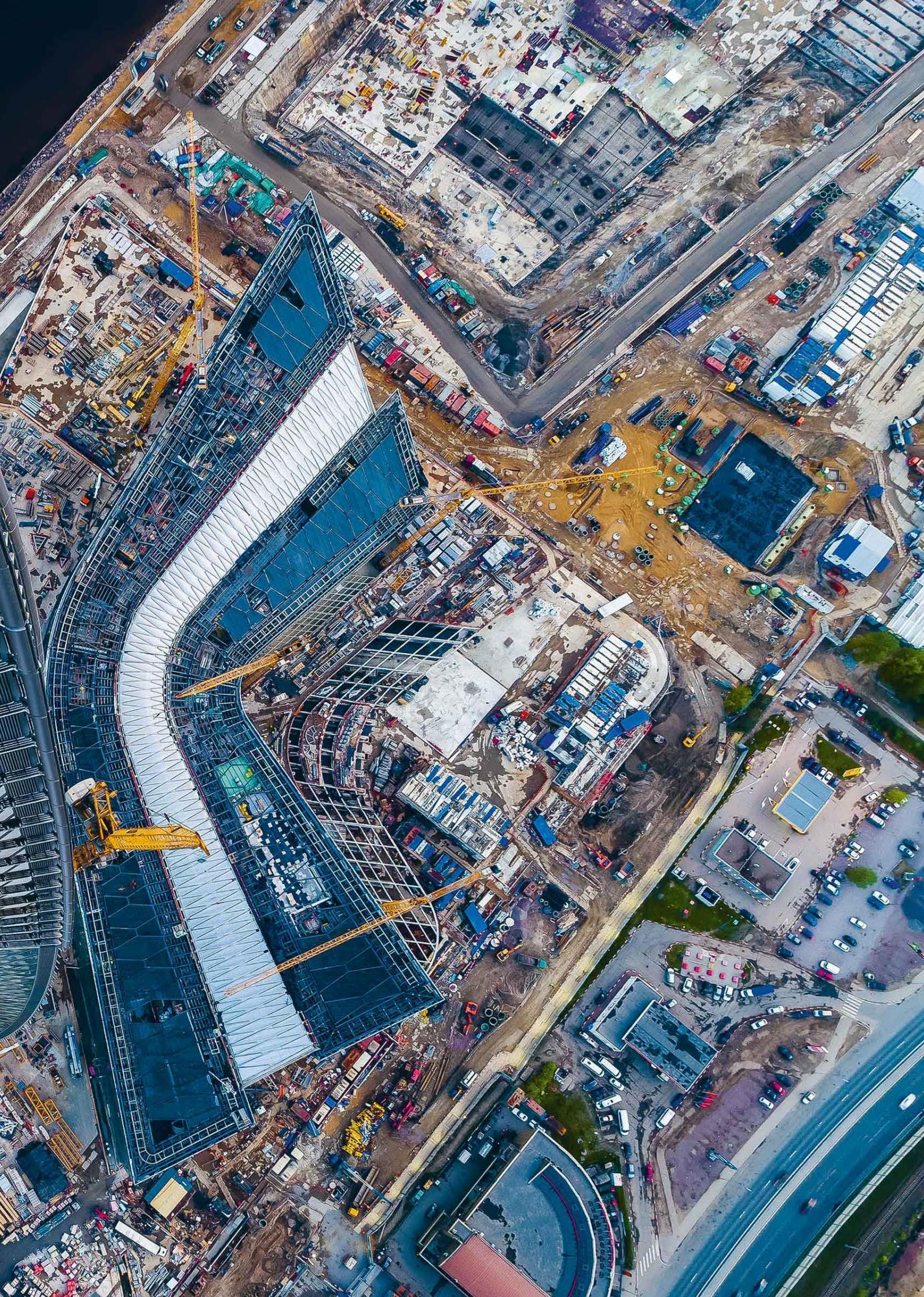














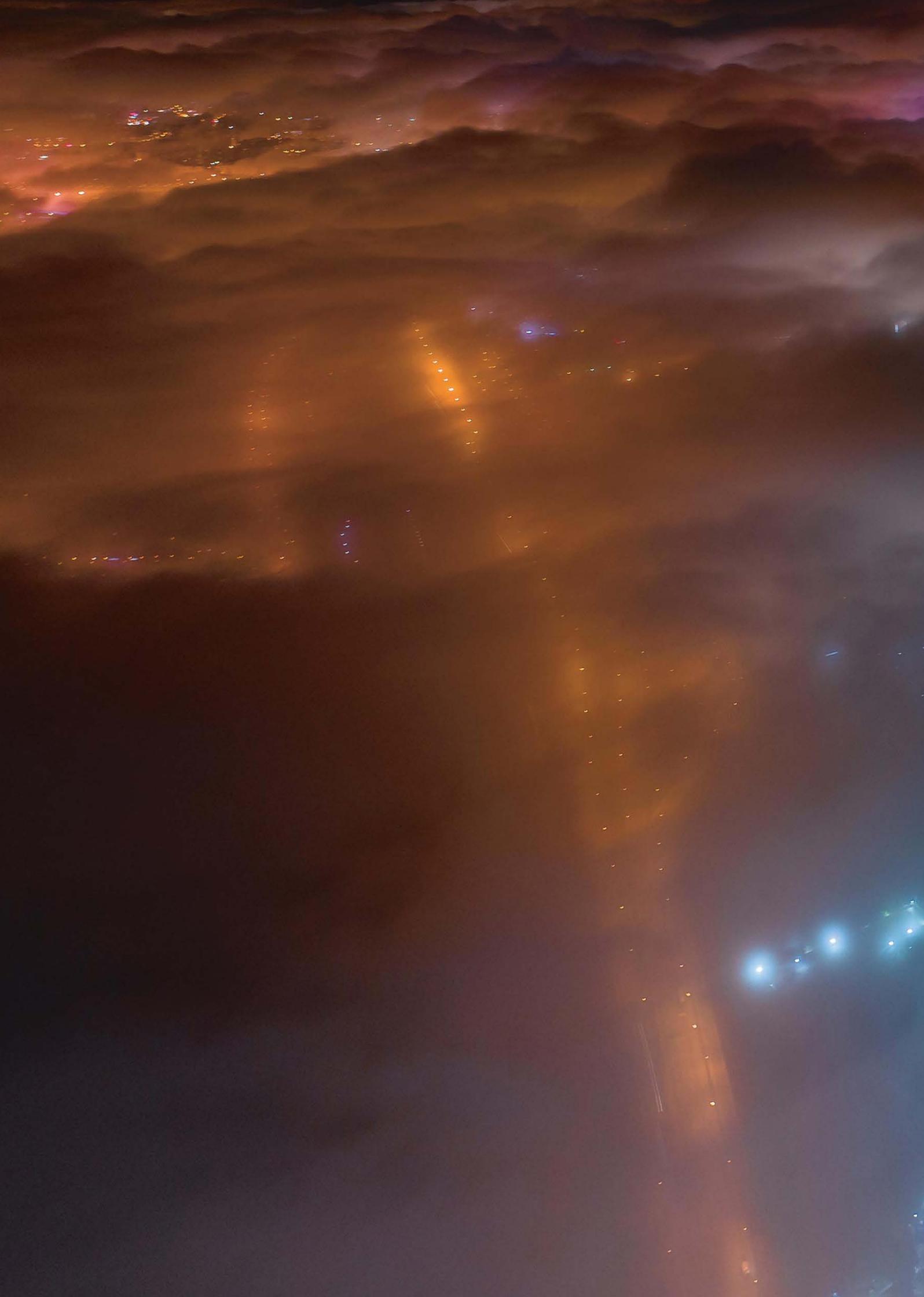










































This Annual Report has been prepared based on Resolution No. 1 of PJSC Gazprom's Management Committee On Organising Activities Related to Holding PJSC Gazprom's Annual General Shareholders Meeting dated 24 January 2019.

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

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

This Annual Report determines some operating and economic parameters in accordance with the IFRS principles for Gazprom Group's entities included in the IFRS consolidated financial statements of PJSC Gazprom for the year ended 31 December 2018. Therefore, they may differ from similar parameters in reports of PJSC Gazprom prepared under Russian statutory requirements.

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

Analysis of financial results should be read in conjunction with the audited consolidated financial statements of PJSC Gazprom for the year ended 31 December 2018 prepared in accordance with IFRS.

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

# **PJSC Gazprom Annual Report 2018**

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

## Dear Shareholders,

The reporting year was extremely successful for Gazprom. We delivered on all our targets and demonstrated an impressive operational performance against key indicators while achieving strong financial results.

In 2018, Gazprom produced 498.7 bcm of gas,\* up 5.6% or 26.6 bcm year-on-year. We made further substantial progress on expanding our production potential, primarily on the Yamal Peninsula. In December 2018, the Bovanenkovskoye field — our core field in Yamal — was ramped up to its design capacity of 115 bcm per year. The field is expected to produce for more than a hundred years, until 2128. The Kharasaveyskoye field is another of our core assets in the peninsula. Its full-scale development was launched in March 2019 and is expected to last until 2131. The field's launch was an important step towards building Russia's largest gas production hub.

During the year, we had a strong focus on expanding Russia's Northern Gas Transmission Corridor from Yamal to the Baltic. Compressor plants were launched at four compressor stations of the Bovanenkovskoye — Ukhta 2 gas pipeline, and a new high-tech gas pipeline, Ukhta — Torzhok 2, was commissioned. In 2019, the Group will complete construction of the gas pipeline from Gryazovets to the Slavyanskaya CS near the seaport of Ust-Luga — the starting point of the new Nord Stream 2 gas pipeline running from Russia to Europe. Its deep-water installation across the Baltic Sea began in September 2018. Combined with the Nord Stream 1 pipeline, already successfully operating to meet high consumer demand, Nord Stream 2 will double our capacity for gas supply in the region.

The offshore installation of another export gas pipeline, TurkStream, running across the Black Sea, was completed ahead of schedule in November. TurkStream is the world's first trunk pipeline with a pipe diameter of 812 mm installed at a depth of 2,200 metres. The pipeline was installed at a rate of up to 6.33 km per day — a world record for deep-water offshore gas pipelines.

Gazprom has ample resources to fully meet its supply commitments under the Nord Stream 2 and TurkStream projects, both of which are important for maintaining energy security in Europe as its domestic gas production declines.

Gazprom supplied 201.9 bcm of gas to European far abroad countries in 2018, hitting a record high for the third year running. Gazprom's share in gas supply to Europe also reached an all-time high of 36.8%.

Gazprom's pipeline gas will start flowing to the Asian market via China on 1 December 2019. Russian gas will be supplied through the Eastern route of the Power of Siberia gas pipeline, first from the Chayandinskoye field and then from the Kovyktinskoye field. Drilling of gas production wells and installation of on-site equipment were continued at the Chayandinskoye field during the year, while construction of the linear section of the Power of Siberia gas pipeline has mostly been completed. Adjacent to the border between Russia and China, the Atamanskaya compressor station was also being actively constructed throughout the year.

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

Rapidly increasing its gas imports, China became the world's largest natural gas importer in 2018. Experts believe that this trend will persist, as gas consumption in China will continue to outpace the country's domestic production. Therefore, another two high-potential projects are on the agenda of Gazprom and CNPC, our Chinese partner: the Western and Far Eastern routes.

Our strong focus on the oil and power generation sectors generates tremendous long-term synergies for Gazprom's business.

PAO Gazprom Neft ranks among the Top 3 Russian companies by oil production and refining volumes, and is among the industry leaders by efficiency. The Triton field discovered in the Sea of Okhotsk through exploration by PAO Gazprom Neft was a major discovery in the global oil and gas industry in 2018.

OOO Gazprom energoholding is Russia's leading heat and electricity generator. The launch of Unit 2 at the Grozny TPP in 2019 will be the final step in the ambitious investment programme to build and upgrade Gazprom energoholding's assets in line with its obligations under capacity supply agreements (CSAs). Thirty-six generating facilities with a total installed electrical capacity of about 9 GW will thus have been constructed and revamped over 12 years.

Active contribution to societal and economic growth across the Russian regions is a top priority for Gazprom. The Programme for Expansion of Gas Infrastructure in Russian Regions is the Company's largest project in this area, connecting 272 locations across 66 Russian regions to the gas grid in 2018, primarily in rural areas. As a result, the gas infrastructure coverage in Russia reached 68.6% by 1 January 2019. Gas infrastructure expansion leads to higher living standards, improved environmental conditions, and a powerful impetus for industrial growth.

In implementing its major projects, PJSC Gazprom leverages domestic production and its R&D capabilities. A stronger focus on import substitution in recent years has brought impressive results. Our breakthrough technology solutions deployed across a number of business areas will help deliver on our import substitution goals and also support the accelerated development agenda, while showing potential for both domestic applications and technology exports. Innovation and technology leadership are essential to maintaining Gazprom's success going forward.

Dear Shareholders, Gazprom delivered outstanding financial performance in 2018. Profit attributable to the owners more than doubled year-on-year, leading to the highest dividends in the Company's history recommended by the Board of Directors for the year.

Gazprom is a robust, advanced, and highly efficient business. Our success is driven by our ambitious goals, smart long-term planning, clear goal-setting, and strong performance against targets. We are confident that Gazprom will continue to deliver stable growth across all strategic priorities.



**Viktor Zubkov**

Chairman of PJSC Gazprom's Board of Directors



**Alexey Miller**

Chairman of PJSC Gazprom's Management Committee

# Contents

1

2

3

4

5

6

**Company  
Information 36**

**Strategy 66**

**Performance  
Results 90**

**Environmental  
and Social  
Responsibility 140**

**Corporate  
Governance 162**

**Appendices 210**

# Company Information

<b>Gazprom Group Today</b>	<b>38</b>
<b>Operations and Marketing Geography</b>	<b>43</b>
<b>Gazprom Group's Position in the Global and Russian Energy Industry</b>	<b>46</b>
<b>Business Model</b>	<b>50</b>
<b>The Company's History</b>	<b>56</b>
<b>PJSC Gazprom's Board of Directors</b>	<b>59</b>
<b>PJSC Gazprom's Management Committee</b>	<b>62</b>

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

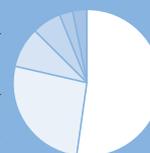
## Key Figures for 2018

RUB **8,224.2** bn

Gazprom Group's net sales revenue

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

■ Net revenue from gas sales	4,303.7
■ Net revenue from sales of refined products	2,179.8
■ Net revenue from sales of crude oil and gas condensate	734.9
■ Net revenue from sales of electricity and heat	522.1
■ Net revenue from gas transportation sales	225.7
■ Other revenues	258.0



RUB **1,795.9** bn

Capital expenditures

RUB **1,456.3** bn

Profit for the year attributable to the owners of PJSC Gazprom

**35,195.3** bcm

Natural gas reserves in Russia as at 31 December 2018\*

**498.7** bcm

Natural and associated gas production in Russia\*\*

**466.1** thousand people

Total headcount as at 31 December 2018

**5.1**%

Cost of debt as at 31 December 2018

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

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

## Mission

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

## Strategic Goal

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

**Company's ranking positions and certification of PJSC Gazprom's management systems to internationally recognised standards**

**No. 1 in the 2018 Ranking of Russia's Most Attractive Employers according to University Students majoring in Engineering / Natural Science, compiled by Universum**

### **OHSAS 18001:2007**

Certificate of compliance for PJSC Gazprom's Unified Occupational Health and Safety Management System (UOHSMS) also covering 56 of its subsidiaries and entities.

### **ISO 9001:2015**

Certificate of compliance for PJSC Gazprom's Quality Management System also covering 64 of its subsidiaries and entities.

### **ISO 14001:2015**

Certificate of compliance for PJSC Gazprom's Environmental Management System (EMS) covering 34 of its wholly-owned subsidiaries and entities.

**International and national sustainability initiatives PJSC Gazprom has committed to**

### **UN Global Compact Principles**

**Transforming Our World: the 2030 Agenda for Sustainable Development, Resolution adopted by the UN General Assembly on 25 September 2015**

### **Russian Standard GOST R ISO 26000:2012 — Guidance on Social Responsibility**

**Public Non-Financial Reporting Development Concept and the Concept Implementation Plan approved by Russian Government Decree No. 876-r dated 5 May 2015**

**Corporate Governance Code approved by the Board of Directors of the Bank of Russia on 21 March 2014**

### **Anti-Corruption Charter of Russian Business**

### **Social Charter of Russian Business**

## Operating Highlights

Natural and associated gas production in Russia, bcm*	
2016	420.1
2017	472.1
2018	498.7

Oil production in Russia, mm tonnes*	
2016	47.2
2017	48.6
2018	48.3

Gas condensate production in Russia, mm tonnes*	
2016	15.9
2017	15.9
2018	15.9

Total hydrocarbon production in Russia, mm boe*	
2016	3,202.5
2017	3,550.2
2018	3,720.7

Liquid hydrocarbon processing, mm tonnes**	
2016	65.9
2017	64.1
2018	67.4

Electricity generation, billion kWh	
2016	157.5
2017	156.5
2018	153.2

## Financial Highlights

Net sales revenue, RUB bn	
2016	6,111.1
2017	6,546.1
2018	8,224.2

Adjusted EBITDA, RUB bn	
2016	1,323.3
2017	1,467.7
2018	2,599.3

Capital expenditures, RUB bn	
2016	1,357.3
2017	1,504.6
2018	1,795.9

Free cash flow, RUB bn	
2016	202.3
2017	-218.8
2018	-22.1

Net debt / adjusted EBITDA	
2016	1.5
2017	1.6
2018	1.2

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

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

\*\* Excluding tolling arrangements.

## Debt Capital

Total debt, RUB bn	
2016	2,829.6
2017	3,266.5
2018	3,863.8

Net debt, RUB bn	
2016	1,932.9
2017	2,397.5
2018	3,014.4

Cash and cash equivalents, RUB bn	
2016	896.7
2017	869.0
2018	849.4

## Debt maturities as at 31 December 2018, %

Less than 1 year (inclusive)	15
1–2 years (inclusive)	16
2–5 years (inclusive)	43
Over 5 years	26



## Credit ratings of PJSC Gazprom

Rating agency	Long-term foreign currency rating	Rating date
Standard & Poor's	BBB– (stable outlook)	27 February 2018
Fitch Ratings	BBB– (positive outlook)	25 September 2018
Moody's	Baa2 (stable outlook)	12 February 2019
Dagong	AAA (stable outlook)	30 October 2018
ACRA	AAA (stable outlook)	31 January 2019

## Share Capital

## Shares are listed on:

The Moscow Exchange — ordinary shares  
The London Stock Exchange (LSE) — ADRs

**Tickers:** GAZP, OGZD

**Industry:** Integrated Oil and Gas

## PJSC Gazprom's shareholding structure as at 31 December 2018, %

The Russian Federation represented by the Federal Agency for State Property Management	38.37
AO ROSNEFTEGAZ*	10.97
AO Rosgazifikatsiya*	0.89
ADR holders**	24.13
Other registered holders	25.64



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

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

## Environmental and Social Responsibility

PJSC Gazprom is committed to sustainable development and is guided by Russian laws and internationally recognised sustainability initiatives.

The Company is focused on enhancing public non-financial reporting and supports respective regulatory initiatives of the Russian Government.

### Lost-time injury frequency rate (LTIFR) across entities covered by the UOHSMS

2016		0.16
2017		0.11
2018		0.17

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

2014		0.275
2018		0.259
Change 2018/2014		-5.8%

## Dividends

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

### PJSC Gazprom's dividend history and dividend yields, 2014–2018\*

	2014	2015	2016	2017	2018**
Dividend per share, RUB	7.20	7.89	8.0397	8.04	16.61
PJSC Gazprom's dividend yield, %**	5.5	5.8	5.2	6.2	10.8

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

\*\* Recommended dividend shown for 2018.

# Operations and Marketing Geography

(in 2018 or as at 31 December 2018)

Gazprom operates in more than 20 countries, and its products are supplied to more than 130 markets around the world.

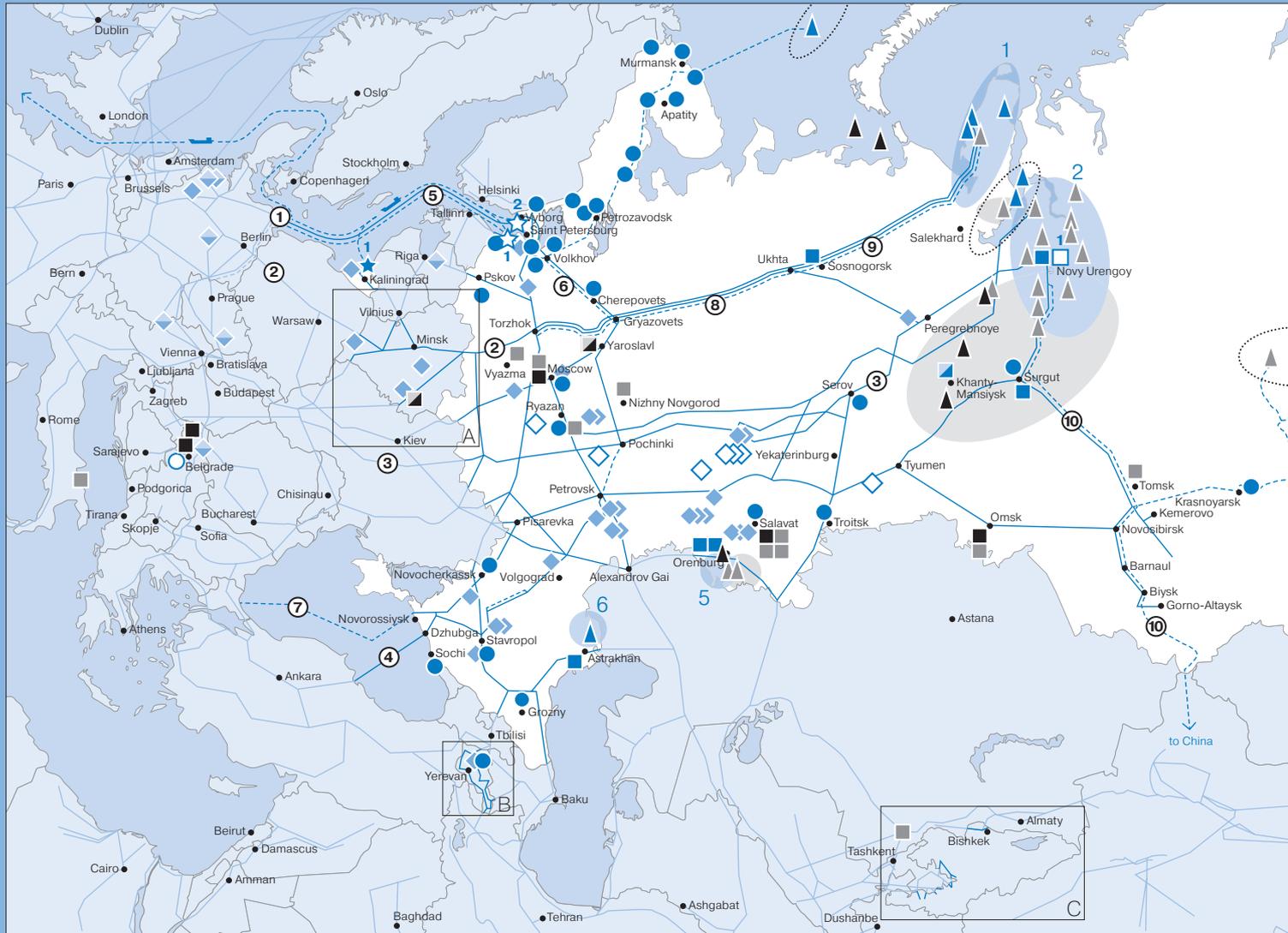
## Gazprom Group's operating geography



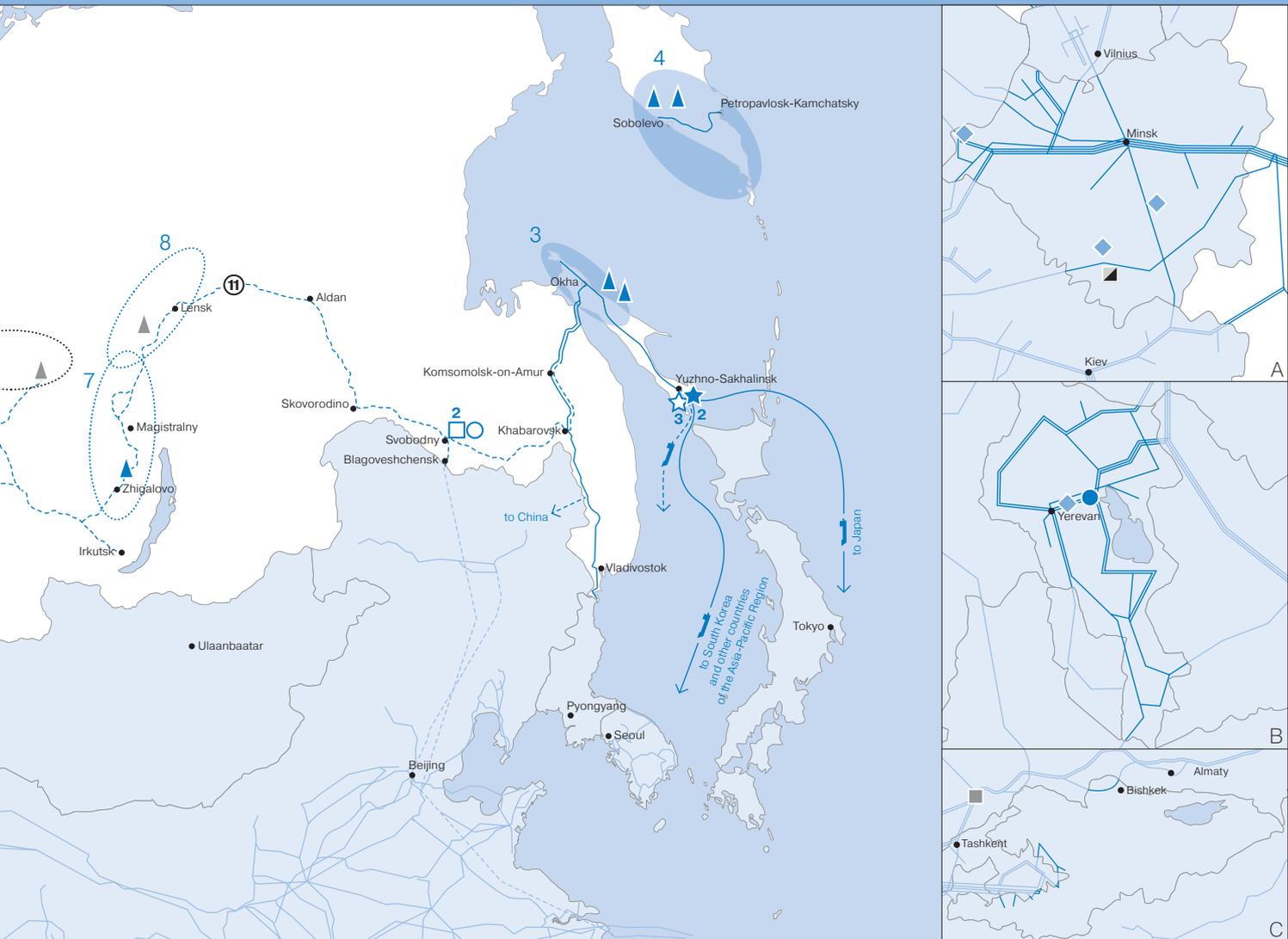
## Gazprom Group's marketing geography



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



Largest fields	Gas production centres in operation	Underground gas storage facilities
Gas and gas condensate fields	Yamal Peninsula	Existing UGSFs
Oil fields	Nadym-Pur-Taz region	Existing UGSFs co-invested by Gazprom Group
Oil and gas, oil and gas condensate fields	Sakhalin	UGSFs under construction and projected UGSFs
Major trunk gas pipelines	Kamchatka	Power generation facilities
Gazprom Group's existing gas pipelines	Orenburg	Existing power generation facilities
Other existing gas pipelines	Astrakhan	Power generation facilities under construction and projected power generation facilities
Gas pipelines under construction and projected gas pipelines	Projected gas production centres	
	Irkutsk	
	Yakutsk	
	Other	
	Existing oil production centres	



Existing refining/processing and petrochemical assets

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

LNG production and regasification assets

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

Key gas export routes

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

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

(in 2018 or as at 31 December 2018)

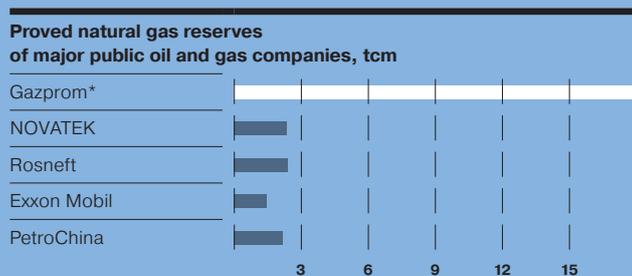
## Natural Gas

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

PJSC Gazprom is the biggest supplier of natural gas to European far abroad countries. Gazprom Group is the absolute leader by sales in the Russian market.

### Exploration

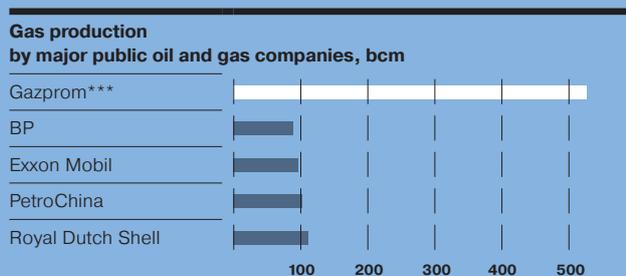
No.1 globally by natural gas reserves



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

### Production

No.1 globally by natural gas production



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

16%

of global natural gas reserves\*\*

12%

of global natural gas production\*\*

71%

of Russia's natural gas reserves\*\*

69%

of Russia's natural gas production\*\*

\* Gazprom Group's proved natural gas reserves under PRMS, including share in the reserves of entities in which Gazprom has investments classified as joint operations and excluding share in the reserves of associates and joint ventures. 93.0% of Gazprom Group's A+B<sub>1</sub>+C<sub>1</sub> reserves (as per the Russian Classification of Reserves and Resources) were estimated under PRMS standards as totalling 35.2 tcm. Data on other major public oil and gas companies includes share in the reserves of associates and joint ventures.

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

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

Transportation

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

**172.6** thousand km

total length of GTS in Russia

Processing

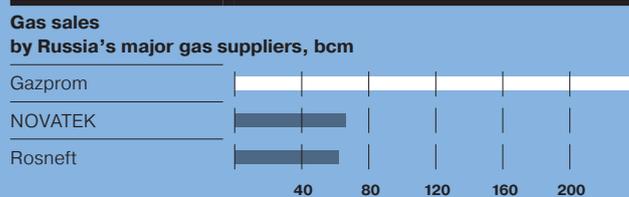
No.1 in Russia  
by gas processing  
volumes

More than **50**%

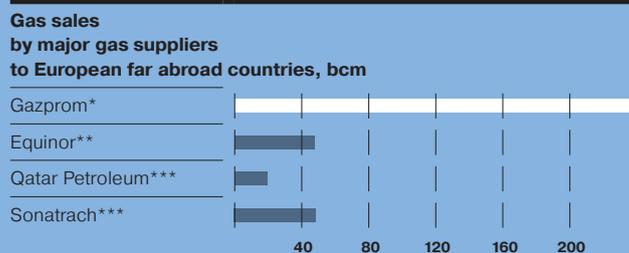
of Russia's total gas processing volumes

Marketing

No.1 globally  
by natural gas  
exports



Source: PJSC Gazprom's IFRS consolidated financial statements



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

**36.8**%

of total gas consumption  
in European far abroad countries\*\*\*\*

\* IFRS consolidated financial statements.  
 \*\* Excluding volumes of gas sold from the SDFI portfolio.  
 \*\*\* Sales volumes of joint ventures are taken into account proportionally to share of participation.  
 \*\*\*\* Share of PJSC Gazprom's gas sales under OOO Gazprom export's contracts and Gazprom Schweiz AG's direct contracts in the total gas consumption in European far abroad countries.

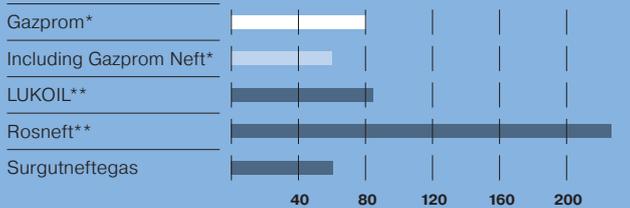
### Oil and Gas Condensate

PAO Gazprom Neft is one of Russia's leading oil companies in terms of production and refining of liquid hydrocarbons.

#### Production

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

**Liquid hydrocarbon production in Russia  
by largest Russian oil and gas companies, mm tonnes**



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

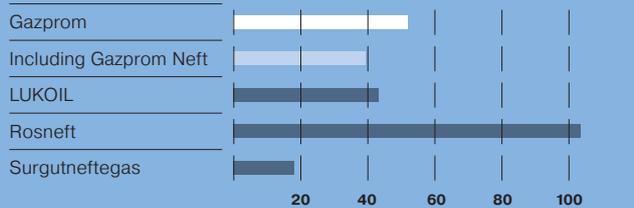
**12%**

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

#### Refining

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

**Oil and stable gas condensate refining in Russia  
by largest Russian oil and gas companies, mm tonnes**



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

**18%**

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

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

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

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

## Electricity and Heat Generation

Gazprom Group includes Russia's largest power generation holding company and market leader by installed capacity in heat generation.

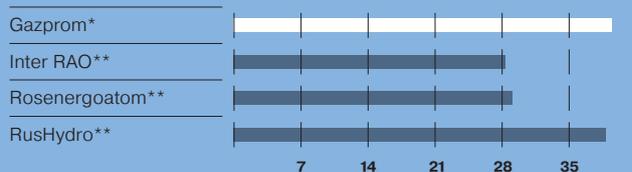
### Electricity Generation

No.1 in Russia  
by installed  
electrical capacity  
and electricity output  
in heat generation

### Heat Generation

No.1 in Russia  
by heat generation

**Installed electrical capacity  
of largest Russian generating companies in Russia, GW**



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

14%

of Russia's total electricity generation

\* Installed electrical capacity of Gazprom energoholding and other generating assets of Gazprom Group in Russia.  
\*\* Including subsidiaries.

# Business Model

(in 2018 or as at 31 December 2018)

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

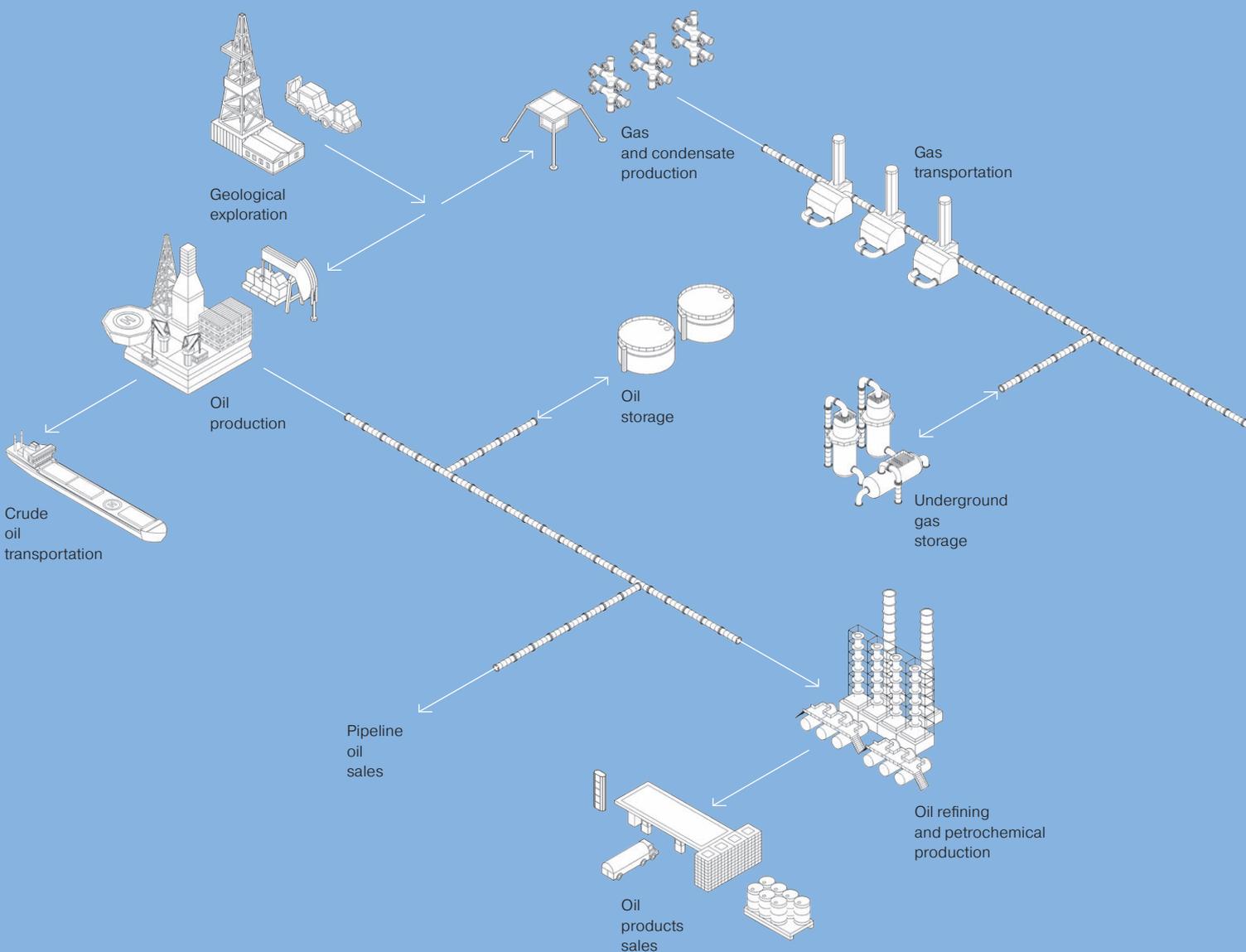
Its comprehensive vertically integrated business model is aligned with Gazprom's strategic goal, driving operational efficiencies, improving reliability of supplies, and leveraging the existing production and R&D capabilities.

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

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

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

## Production and marketing of Gazprom Group



**Competitive Advantages**

**The Company's Extensive Resource Base and Robust Production Infrastructure**

**Unique Unified Gas Supply System (UGSS) of Russia**

**Vertical Integration of the Company**

**Favourable Geographical Position between Europe and Asia**

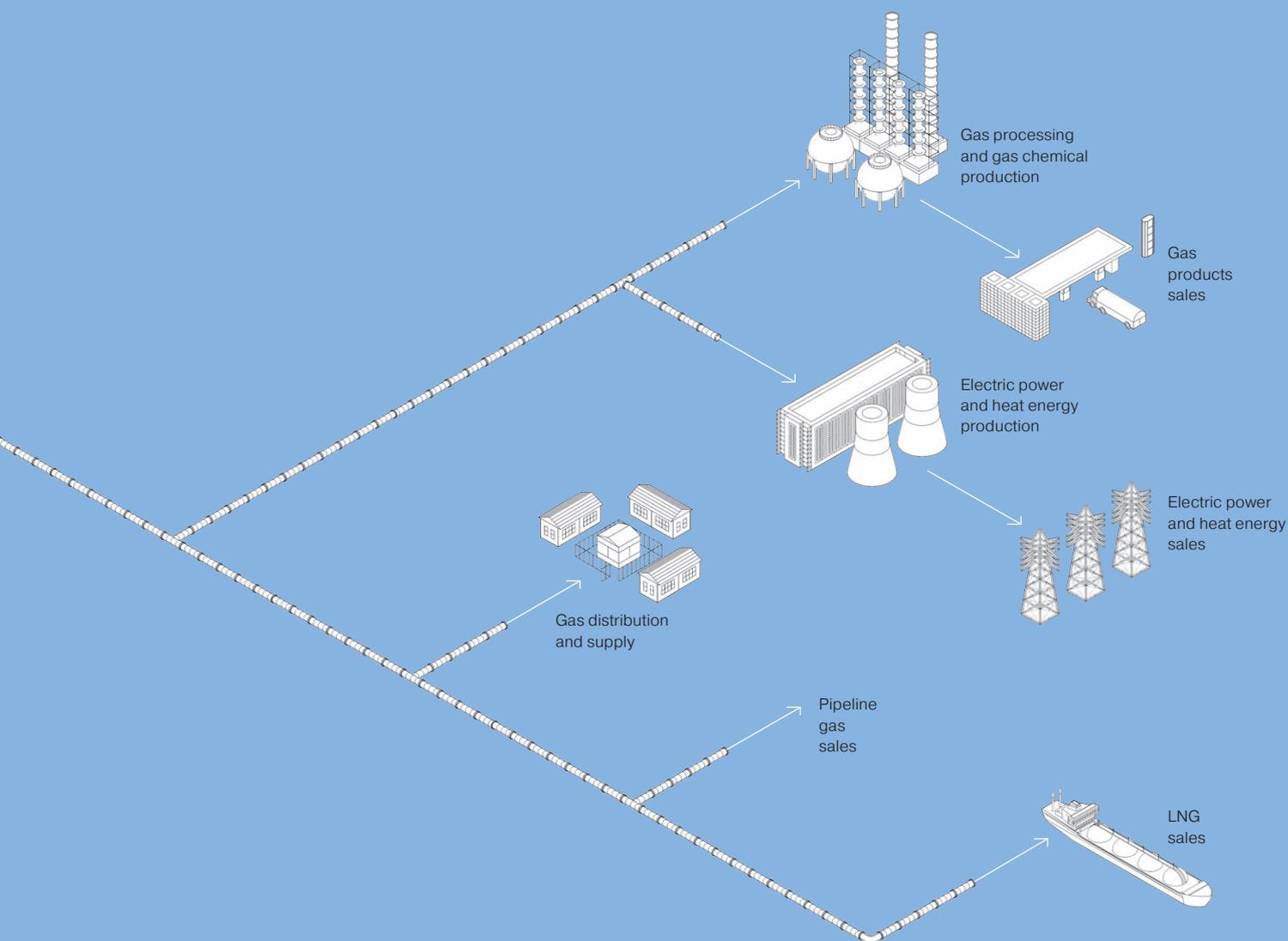
**Track Record of Cooperation with Foreign Partners and a Strong Reputation as a Reliable Supplier**

**An Established Portfolio of Long-term Contracts for Gas Supplies to European and Asian Consumers**

**Access to International Capital Markets on Terms acceptable to the Company**

**Extensive Production, Research and Design Capabilities**

**Social Policy that makes the Company an Attractive Employer for Highly Skilled Professionals**



## Exploration and Production

Resources and capital	Performance highlights
<b>35,195.3 bcm</b> of natural gas reserves in Russia*,**	<b>498.7 bcm</b> of natural and associated gas production in Russia**
<b>3,620.1 mm tonnes</b> of oil and gas condensate reserves in Russia*,***	<b>64.2 mm tonnes</b> of oil and gas condensate production in Russia**
<b>7,418</b> active gas production wells in Russia	<b>1.60</b> natural gas reserve replacement ratio**
<b>8,489</b> active oil production wells in Russia	<b>0.69</b> crude oil and gas condensate reserve replacement ratio**

For more details see the [Exploration and Production](#) section

## Gas Transportation and Underground Storage

Resources and capital	Performance highlights
<b>172.6 thousand km</b> total length of trunk gas pipelines in Russia	<b>693.1 bcm</b> of gas transported via Gazprom's GTS in Russia, including 136.4 bcm of gas supplied by companies outside the Group
<b>75.0 bcm</b> of aggregate working gas capacity across 27 underground gas storage facilities in Russia	
<b>6.0 bcm</b> of working gas capacity across OOO Gazprom export's underground storage facilities (UGSFs) by the start of the autumn and winter period 2018/2019	

For more details see the [Transportation and Underground Storage](#) section

## Processing/Refining

Resources and capital	Performance highlights
3 gas processing plants, a helium plant, condensate pretransportation preparation plant, and condensate stabilisation plant in Russia	<b>31.1 bcm</b> natural and associated gas processing volumes***
3 refineries in Russia and 2 refineries abroad	<b>67.4 mm tonnes</b> oil and gas condensate refining volumes***
Gas chemical and petrochemical plants	<b>51.4 mm tonnes</b> output of oil products

For more details see the [Hydrocarbon Processing and Petrochemicals](#) section

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

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

\*\*\* Excluding tolling arrangements.

## Power Generation

### Resources and capital

**40.0 GW**

total installed electrical capacity of generating assets in Russia and abroad

### Performance highlights

**153.2 billion kWh**

total electricity generation in Russia and abroad

**131.2 mm Gcal**

total heat generation

For more details see the [Power Generation](#) section

## Marketing

### Resources and capital

An established portfolio of long-term contracts for gas supplies to European and Asian consumers

Reputation as a reliable supplier

### Performance highlights

**521.1 bcm**

of gas sales

**25.6 mm tonnes**

of oil and gas condensate sales

**68.9 mm tonnes**

of refined products sales

For more details see the [Gas Distribution](#), [Gas Infrastructure Expansion](#), and [NGV Fuel Markets](#) section and the [Marketing](#) section

## Other Important Aspects of Activities

### Resources and capital

Access to international capital markets on terms acceptable to the Company

Human capital

Integrated corporate R&D capabilities

### Performance highlights

Significant contribution to the energy security of the Russian Federation

Ensuring reliable and stable supplies of gas and other high-quality products and services to consumers in Russia and abroad

Gas infrastructure expansion across Russian regions, and developing their social and economic potential, paying taxes, and contributing to investment activity and improved business environment; job creation

Ensuring demand for Russian products; supporting SMEs

Providing safe working environment for employees

Staff training and social programmes

Involvement in the efforts to improve tax, land, natural resources, and environmental protection laws

Sustainable use of natural resources, improved energy efficiency of operations, and better environment in Russian regions through extending gas infrastructure to communities and energy and transport facilities

Support for vulnerable groups; constructing and developing sports and social and economic infrastructure

Cooperation with indigenous small-numbered peoples of the North

Support for education, science, culture, arts, and sports

For more details see the sections: [Gas Distribution](#), [Gas Infrastructure Expansion](#), and [Development of NGV Fuel Markets](#); [Marketing](#); [Financial Performance](#); [Innovations and Import Substitution](#); [Environmental and Social Responsibility](#); [Procurement Performance](#); and [Share Capital and Securities Market](#)

Supply Chain



Quality control of materials and equipment, works and services



The Quality Assurance Policy of PJSC Gazprom is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



# The Company's History

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

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

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

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

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

## Milestones

### 17 February

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

### 31 May

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

### November

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

### 20 February

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

### 18 August

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

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

### April

Privatisation of RAO Gazprom started.

### 26 June

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

### 30 May

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

### 31 October

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

### 2 September

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

### 21 October

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

### December

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

### 25 April

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

### 18 December

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

**6 June**  
The Dzhubga — Lazarevskoye — Sochi, Russia's first offshore gas pipeline, was commissioned.

**8 September**  
First section of the Sakhalin — Khabarovsk — Vladivostok gas transmission system, the Far East's first interregional GTS, was inaugurated.

**8 November**  
Commercial gas supplies started via the first string of the Nord Stream pipeline, a fundamentally new Russian gas export supply route to Europe through the Baltic Sea.

**18 February**  
Russia's first large-scale LNG plant was put into operation in Sakhalin.

**26 August**  
The Dzuarikau — Tskhinvali pipeline was commissioned, running over the mountainous part of the Greater Caucasus at altitudes of over 1,500 m.

**15 January**  
The Zapolyarnoye field ramped up to full design capacity of 130 bcm of gas per year, becoming Russia's largest producing field.

**23 October**  
Gazprom was the first in Russia to produce gas by using an underwater production system without recurring to above-water structures on the Kirinskoye field in the Sea of Okhotsk.

**20 December**  
Oil production started at the Prirazlomnoye field in the Pechora Sea. It is Russia's first ever Arctic shelf project.

**14 October**  
The Company launched the construction of the (laid the foundation stone) of the Amur GPP, Russia's largest gas processing facility, which will be an essential part of the process chain of natural gas supply to China via the Power of Siberia gas pipeline.

**27 October**  
The Company commenced the construction of the Ukhta — Torzhok 2 gas pipeline to supply additional gas to north-western Russia, expand the gas infrastructure to domestic consumers, and support export supplies via Nord Stream 2.

**18 January**  
Launch events were held for the commissioning of the Bovanenkovo — Ukhta 2 gas pipeline increasing the supplies of gas from the Yamal Peninsula to Russia's UGSS.

**7 May**  
The construction of the TurkStream gas pipeline's offshore section commenced for Russian gas supplies to Turkey and Europe as a new route to avoid transit through third countries.

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

2009 — 2010 — 2011 — 2012 — 2013 — 2014 — 2015 — 2016 — 2017 — 2018

**12 February**  
Russia's first coal bed methane project was launched in the Kemerovo Region.

**29 September**  
The Sobolevo — Petropavlovsk-Kamchatsky trunk pipeline was put into operation, bringing first natural gas supplies to the capital of the Kamchatka Territory.

**23 March**  
An 800 MW CCGT plant was launched at the Kirishskaya GRES. It was the largest heat generation plant commissioned in 30 years, and Russia's most powerful combined cycle gas turbine unit at the time.

**23 October**  
A new major gas production hub was launched in Russia, in the Yamal Peninsula. The Bovanenkovskoye field and the Bovanenkovo — Ukhta trunk gas pipeline came on stream.

**21 May**  
The Company and China's CNPC signed a contract for gas supplies — the 30-year gas supply contract for over 1 tcm is the largest of its kind in the entire history of the Russian gas industry.

**1 September**  
Welding of the first joint of the Power of Siberia trunk pipeline to transport gas from the Yakutia and Irkutsk gas production hubs to consumers in the Far East and China.

**25 May**  
The Arctic Gate ("Vorota Arktiki"), a unique oil loading terminal, was commissioned enabling, for the first time ever, year-round oil shipments from the Yamal Peninsula by sea.

**16 September**  
With Gazprom's involvement, commercial production was launched at the Incahuasi field, one of the largest gas and condensate fields in Bolivia.

**5 September**  
Work started to install the deep-water section of the Nord Stream 2 gas pipeline.

**19 November**  
Gazprom completed the offshore installation of the TurkStream gas pipeline.

**5 December**  
The third and final gas production site was commissioned at the core Bovanenkovskoye field. The Ukhta — Torzhok 2 trunk gas pipeline was commissioned within the Northern Gas Transmission Corridor of Russia's UGSS.

## 2018 in the Company's History

In 2018, PJSC Gazprom's gas exports to Europe reached an all-time high of 201.9 bcm, with the Company's share of supply amounting to 36.8%, far ahead of other companies exporting gas to the region.

In September, work started in the Baltic Sea to install the deep-water section of the Nord Stream 2 gas pipeline, a new export route to Europe. Just like Nord Stream, the new pipeline will provide a direct connection between Russian gas fields and European gas consumers, ensuring the high reliability of Russian gas supplies.

In November, Gazprom completed the offshore installation of both strings of the TurkStream gas pipeline. The pipeline is scheduled for commissioning in late 2019. The project will significantly increase reliability of gas supplies to Turkey, and to Southern and South-Eastern Europe. Construction of a receiving terminal near Kiyikoy in Turkey is in progress.

Construction of the linear section of the Power of Siberia gas pipeline, from the Chayandinskoye field to the Chinese border in the Amur Region, was mostly completed. Construction at the Chayandinskoye field is in progress, including drilling of gas production wells and installation of on-site equipment. The Company also continued construction of the Amur GPP, an essential part of the process chain of natural gas supply via the Power of Siberia gas pipeline. With a production capacity of 42 bcm per year, the plant will become Russia's No. 1 and the world's No. 2 gas processing facility. The projects are part of Gazprom's efforts to ensure Russian gas supplies to China via the eastern route.

Gazprom continued its efforts to create Russia's main prospective gas production hub on the Yamal Peninsula.

In December, the third and final gas production site with a design capacity of 30 bcm per year was commissioned at the core Bovanenkovskoye field. This will help ramp up gas production from the field's Cenomanian-Aptian deposits to a design capacity of 115 bcm per year.

In December, Gazprom commissioned the linear part of the new high-tech 970 km Ukhta — Torzhok 2 trunk gas pipeline with an annual design capacity of 45 bcm. The new Northern Gas Transmission Corridor pipeline will be the key route of the Unified Gas Supply System (UGSS) of Russia.

New Neptune and Triton oil fields were discovered in the Sea of Okhotsk and included into the State Register of Mineral Reserves of the Russian Federation, and the construction of production wells commenced at the Yuzhno-Kirinskoye field using the Polyarnaya Zvezda (Polar Star) and Severnoye Siyaniye (Northern Lights) semi-submersible drilling rigs.

In June 2018, PJSC Gazprom's Board of Directors approved PJSC Gazprom's Power Generation Strategy for 2018–2027. Also, in December, Gazprom energoholding commissioned the first (with a capacity of 176 MW) of the two generating units at the Grozny TPP, which is crucial for power supply to Russia's southern regions.

# PJSC Gazprom's Board of Directors

(as at 31 December 2018)



**Viktor  
Alekseevich  
Zubkov**

**Chairman  
of the Board of Directors**

**Non-executive director**

Born in 1941.  
Graduate of Leningrad Agricultural  
Institute.  
Doctor of Economics.

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

Chairman of the Company's  
Board of Directors  
since 2008.



**Alexey  
Borisovich  
Miller**

**Deputy Chairman  
of the Board of Directors**

**Executive director**

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

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

Deputy Chairman of the Company's  
Board of Directors  
since 2002.



**Andrey  
Igorevich  
Akimov**

**Non-executive director**

Born in 1953.  
Graduate of Moscow Finance  
Academy.

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

Member of the Company's  
Board of Directors  
since 2011.



**Timur  
Askarovich  
Kulibaev**

**Independent director**

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

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

Member of the Company's  
Board of Directors  
since 2011.

There were no changes to the Board of Directors in 2018

**Note.** The independent status of members of the Board of Directors is determined in compliance with criteria for assessing independence of members of the board of directors (nominees to the board of directors) set forth in the Corporate Governance Code recommended by the Bank of Russia, and Appendix 4 to the Listing Rules of the Moscow Exchange.



**Denis  
Valentinovich  
Manturov**

**Non-executive director**

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

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

Member of the Company's  
Board of Directors  
since 2017.



**Vitaly  
Anatolievich  
Markelov**

**Executive director**

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

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

Member of the Company's  
Board of Directors  
since 2012.



**Viktor  
Georgievich  
Martynov**

**Independent director**

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

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

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

Member of the Company's  
Board of Directors  
since 2013.



**Vladimir  
Alexandrovich  
Mau**

**Independent director**

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

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

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

Member of the Company's  
Board of Directors  
since 2011.



**Alexander  
Valentinovich  
Novak**

**Non-executive director**

Born in 1971.  
Graduate of Norilsk Industrial Institute.

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

Member of the Company's Board of Directors since 2015.



**Dmitry  
Nikolaevich  
Patrushev**

**Non-executive director**

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

2007–2010:  
Senior Vice-President of OAO Vneshtorgbank.  
2010–2018:  
member of the Supervisory Board of AO Russian Agricultural Bank, Chairman of the Management Board of AO Russian Agricultural Bank.  
Since 2018 —  
Minister of Agriculture of the Russian Federation.

Member of the Company's Board of Directors since 2016.



**Mikhail  
Leonidovich  
Sereda**

**Executive director**

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

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

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

Member of the Company's Board of Directors since 2002.

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



# PJSC Gazprom's Management Committee

(as at 31 December 2018)



**Alexey  
Borisovich  
Miller**

**Chairman  
of the Management  
Committee**

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

Chairman of the Company's  
Management Committee  
since 2001.



**Elena  
Alexandrovna  
Vasilieva**

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

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

Member of the Company's  
Management Committee  
since 2001.



**Valery  
Alexandrovich  
Golubev**

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

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

Member of the Company's  
Management Committee  
since 2003.



**Andrey  
Vyacheslavovich  
Kruglov**

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

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

Member of the Company's  
Management Committee  
since 2002.

## Changes in the Management Committee in 2018

### **Mikhail Evgenievich Putin**

was elected by Resolution of the Board of Directors No. 3089 dated 23 March 2018



**Vitaly  
Anatolievich  
Markelov**

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

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

Member of the Company's  
Management Committee  
since 2012.



**Alexander  
Ivanovich  
Medvedev**

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

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

Member of the Company's  
Management Committee  
since 2002.



**Mikhail  
Evgenievich  
Putin**

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

Born in 1967.  
Graduate of A.S. Bubnov Ivanovo  
State Medical Institute and  
the S. Ordzhonikidze State  
Academy of Management.  
Candidate of Medical Sciences.

Member of the Company's  
Management Committee  
since 2018.



**Sergey  
Fyodorovich  
Khomyakov**

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

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

Member of the Company's  
Management Committee  
since 2007.



**Oleg  
Evgenievich  
Aksyutin**

**Head of Department  
(Prospective Development)**

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

Member of the Company's  
Management Committee  
since 2008.



**Vladimir  
Konstantinovich  
Markov**

**Head of Department  
(Government Relations)**

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

Member of the Company's  
Management Committee  
since 2012.



**Elena  
Vladimirovna  
Mikhailova**

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

Born in 1977.  
Graduate of Moscow State  
Industrial University.

Member of the Company's  
Management Committee  
since 2012.



**Vyacheslav  
Alexandrovich  
Mikhailenko**

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

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

Member of the Company's  
Management Committee  
since 2015.



**Sergey  
Frolovich  
Prozorov**

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

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

Member of the Company's  
Management Committee  
since 2014.



**Kirill  
Gennadievich  
Seleznev**

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

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

Member of the Company's  
Management Committee  
since 2002.



**Igor  
Yurievich  
Fyodorov**

**Head of Department  
(Legal Support)**

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

Member of the Company's  
Management Committee  
since 2007.



**Vsevolod  
Vladimirovich  
Cherepanov**

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

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

Member of the Company's  
Management Committee  
since 2010.

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



# Strategy

**Trends and Developments on Gas Markets 68**

**Strategic Priorities 74**

**Capex Programmes 82**

**Long-Term Development Programme  
and Key Performance Indicators 85**

Key trends and developments in the gas and oil sectors of the energy market continue to provide additional potential for strengthening Gazprom’s long-term market position and competitive advantage.

## Expected Global Energy Demand and a Rising Share of Natural Gas in the Global Energy Mix

The International Energy Agency (IEA) forecasts a steady long-term increase in the global energy consumption, expected to grow by 15% from the 2018 level between now and 2035, with almost two thirds of this incremental growth coming from Asia. In addition, significant energy consumption growth will be seen in the regions comprised mostly of emerging markets, i.e. Africa, the Middle East, and South America.

This significant energy demand will make Asia the world’s largest energy importer: the region’s oil and coal imports will increase by more than a third by 2035 while its natural gas imports will more than double from the 2018 levels.

**By 2035, Asia will be the world’s biggest natural gas consumer.**

The growth in global energy consumption will be accompanied by structural changes in the global energy mix. As a clean burning, cost-efficient fuel, natural gas is a solid competitor to other fossil fuels — oil and coal.

**Global demand for fossil fuels, 2018 and forecast for 2035, bn toe**

	2018	2035
Natural gas		
2018	3.3	
2035		4.1
Coal		
2018	3.7	
2035		3.8
Oil		
2018	4.5	
2035		4.8

Source: IEA

Until 2035, natural gas will account for the largest share of the incremental global energy consumption in absolute terms. Rising environmental awareness and the need to reduce CO<sub>2</sub> emissions drive upwards the global consumption of natural gas, the cleanest fossil fuel. Global gas consumption will grow at a rate between 1.5% and 2% per year, exceeding 5 tcm by 2035, or ca. 25% of the global fuel energy mix.

Asia will show the highest growth rate in natural gas consumption.

---

# 25%

---

## Expected share of natural gas in the global energy mix by 2035

---

### Key drivers of gas consumption growth

---

- Global economy growth and the resulting increase in energy consumption
- Global population growth, leading to higher gas consumption in the utilities and electricity generation sectors
- The relative environmental benefits of natural gas compared to other fossil fuels
- Natural gas-fired power plants are dispatchable and can flexibly adjust their load to efficiently to balance the grid in the context of a growing share of intermittent renewables in the power sector
- Greater focus on transport decarbonisation and incentives to use natural gas as motor fuel

### A Growing Gap Between Natural Gas Consumption and Domestic Gas Production in European Far Abroad Countries

Declining domestic production will increase Europe's reliance on gas imports, making PJSC Gazprom, the largest gas supplier to Europe, well positioned to further strengthen its market position in the region.

Following three straight years of natural gas consumption growth in Europe, demand in 2018 was at 548.6 bcm, down 3.5% or 20.1 bcm year-on-year. The decrease was mostly due to weather conditions. However, the fundamentals that have been driving gas consumption in the previous years, such as industrial development and the growing use of gas in electricity generation, have continued to bolster Europe's gas demand. In particular, the growth in average global coal prices in 2018 and higher carbon prices make gas more competitive than coal for power generation.

---

### Higher carbon permit prices in Europe

---

Carbon permit prices in Europe grew rapidly during 2018: whereas in December 2017, carbon emission allowances in the EU's Emissions Trading System (ETS) had traded at EUR 7.7 per tonne of CO<sub>2</sub> equivalent, the price more than tripled to EUR 23.0 by December 2018.

The growth in carbon permit prices is an important driver of gas competitiveness in the European power sector. Higher permit prices make coal-fired generation less attractive, potentially leading to increased utilisation of gas-fired capacity.

Continued declines in domestic production have been an important trend in the European gas market. In the reporting year, a decision was taken to accelerate output cuts at the Groningen gas field in the Netherlands. Due to more frequent earthquakes, the Dutch Government had repeatedly capped production from the Groningen field and then in March 2018 decided to reduce the output to 12 bcm per year by the end of 2022 and to shut it down completely by 2030. This decision will have significant implications for the European natural gas balance as the declining gas production will have to be offset by higher imports.

A consensus forecast based on data from international energy companies, market analysts, and policy and energy departments suggests that by 2035, Europe's incremental demand for gas imports will grow by ca. 89 bcm from the 2010–2018 average level.

---

# 89

bcm

---

### European countries' incremental demand for gas imports by 2035

In the reporting year, increased gas injection volumes combined with declines in domestic production (–10.8 bcm or –4.1%) led to higher net imports (+14.5 bcm or +4.7%). Among major gas exporters, PJSC Gazprom demonstrated the largest growth in gas supplies to European far abroad countries, with gas exports under OOO Gazprom export's contracts and Gazprom Schweiz AG's direct contracts growing in 2018 by 7.5 bcm (+3.8%) year-on-year to 201.9 bcm.

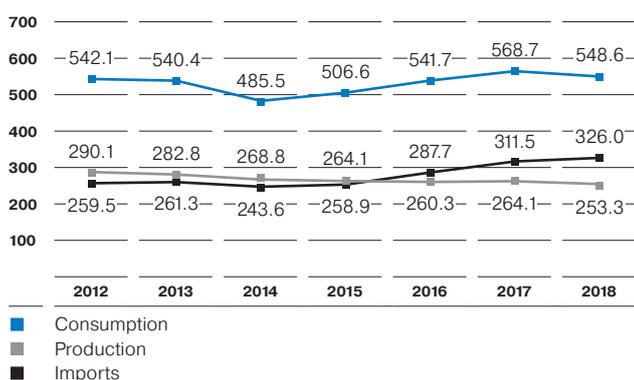
## Breakdown of gas supplies to European far abroad countries, 2012–2018, bcm

	2012	2013	2014	2015	2016	2017	2018
Supplies by major gas exporters							
■ RJSC Gazprom (under OOO Gazprom export's contracts and Gazprom Schweiz AG's direct contracts)	139.9	162.7	147.6	159.4	179.3	194.4	201.9
■ Algeria (incl. LNG)	49.2	43.4	38.9	38.1	51.2	49.4	48.5
■ Qatar	31.6	24.2	23.7	28.6	23.7	24.1	23.4
■ Nigeria	12.0	6.7	6.2	8.0	9.8	12.6	13.1
■ Iran	8.5	9.0	9.2	8.1	8.0	9.6	8.1
Supplies by major European producers							
■ Norway	120.6	114.1	115.1	124.5	124.1	134.8	130.8
■ UK	43.8	41.2	41.2	44.6	44.9	45.0	43.6
■ The Netherlands	72.1	77.7	65.4	48.9	45.5	39.5	35.7
■ Other supplies (excluding re-export)	64.4	61.4	38.2	46.4	55.2	59.3	43.5
Total	542.1	540.4	485.5	506.6	541.7	568.7	548.6

**Note.** Calculated based on the International Energy Agency data, with natural gas volumes converted to Russian standards (calorific value of 8,850 kcal/cu m at 20°C). Figures for 2017 and previous years may differ from the data in Annual Report 2017 since international statistics may be subsequently updated.

**Sources:** IEA, IHS Markit

## Gas consumption, domestic production, and imports in European far abroad countries, 2012–2018, bcm



**Note.** Calculated based on the International Energy Agency data, with natural gas volumes converted to Russian standards (calorific value of 8,850 kcal/cu m at 20°C). Figures for 2017 and previous years may differ from the data in Annual Report 2017 since international statistics may be subsequently updated.

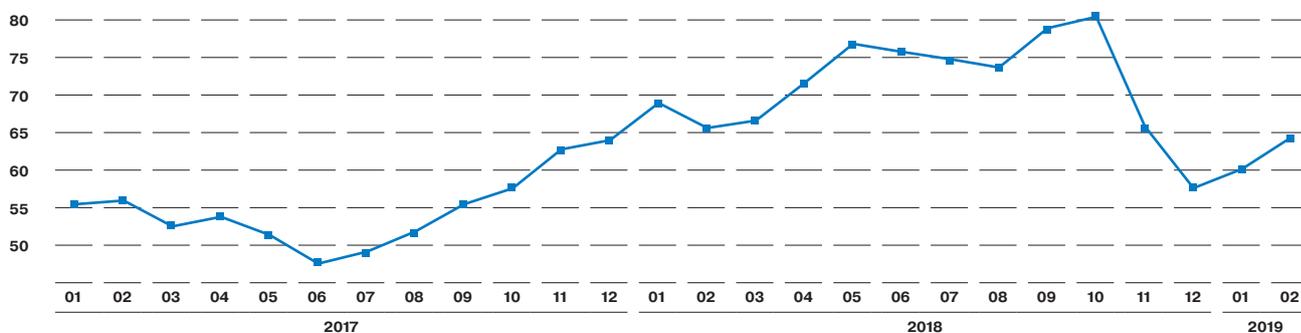
**Sources:** IEA, IHS Markit

For more details on Gazprom Group's sales of natural gas to European far abroad countries in 2018 see the [Marketing](#) section

In 2018, domestic gas production in Europe declined, with the largest producers — Norway, the UK, and the Netherlands — reducing their supplies to the European market by a total of 9.2 bcm. Official forecasts by national gas industry authorities suggest that domestic production declines in Europe will continue into the future.

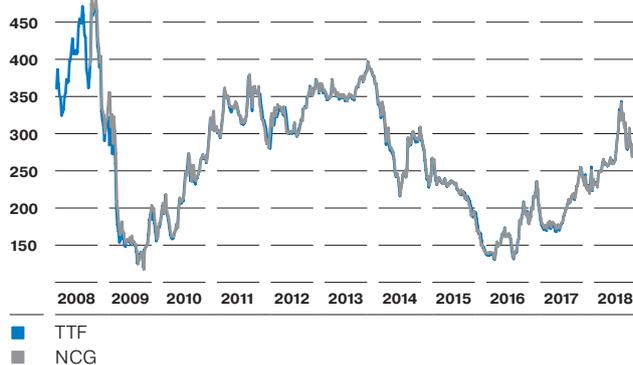
In the reporting year, crude oil prices increased by over 30% to a yearly average of USD 72 per barrel. Coal prices increased by 27% and averaged USD 88 per ton for the year. The increases in prices for competing energy sources led to higher prices at Europe's gas hubs. The average TTF month-ahead and NCG month-ahead prices grew to USD 270 per mcm (+34.6% and +33.0% year-on-year, respectively). Most of Europe's gas hubs saw a year-on-year increase in trading volumes in 2018.

**Brent crude oil price in 2017 to early 2019, USD per barrel**



Source: Bloomberg

**Month-ahead gas prices on TTF and NCG (weekly), 2008–2018, USD per mcm**



Source: Bloomberg

**Global LNG Trade Growth**

In 2018, the global net LNG imports for the first time passed the 300 mm tonnes mark, reaching 319 mm tonnes (+27 mm tonnes, or +9%, year-on-year).

**Global LNG trade volume, 2012–2018, mm tonnes**

2012	238
2013	239
2014	241
2015	248
2016	262
2017	292
2018	319

**Note.** Data for actual LNG deliveries (including boil-off gas), less any re-exports. Figures for 2014, 2016, and 2017 differ from the data in Annual Report 2017 since the data source has changed the methodology used to calculate these metrics.

Source: IHS Markit

Asia-Pacific countries remained the largest center of demand growth for LNG in 2018, while China accounted for more than half the increase in global demand. China’s LNG imports grew by 15.9 mm tonnes, or 41%, to 54.9 mm tonnes. Significant growth of LNG imports also took place in South Korea (+6.5 mm tonnes, or +17%), India (+3.3 mm tonnes, or +17%), and Pakistan (+2.3 mm tonnes, or +48%). In 2018, Bangladesh and Panama received their first-ever LNG deliveries.

Spot LNG prices in 2018 were generally higher year-on-year: the average LNG price was USD 9.7 per mm BTU in the Northeast Asian markets (USD 7.1 per mm BTU in 2017) and USD 7.9 per mm BTU at the NBP hub (USD 5.9 per mm BTU in 2017).

**Growing Gas Consumption and Imports in China**

China is one of the world’s fastest growing gas markets. The country’s gas consumption is far outpacing domestic production, pushing Chinese companies to boost gas imports.

According to China’s National Development and Reform Commission, the country’s gas consumption in 2018 was at 280 bcm, up 18% (more than 40 bcm) year-on-year. The significant increase in gas consumption from 2017 was attributable to higher demand from the industry, power generation, and utilities as well as to the national government’s continued policy of growing the share of natural gas in the country’s energy mix.

At the same time, as in prior years, China’s domestic gas production in 2018 was lagging behind gas consumption. According to the National Bureau of Statistics of China, domestic gas production in 2018 increased by 8% to 161 bcm.

As a result of the above factors, China's gas imports reached 126 bcm in 2018 (an increase of over 30 bcm, or over 30%). LNG accounted for the bulk of this growth: China's LNG imports increased by 22 bcm to 75 bcm, up by over 40% year-on-year. Given the insufficient domestic production growth and unstable pipeline gas imports from Central Asia and Myanmar in 2018, LNG imports were China's key lever for growing and levelling out gas supplies.

**Ca. 126** bcm

#### Natural gas imports to China in 2018

**China became the world's largest natural gas importer in 2018 (by combined pipeline gas and LNG imports), overtaking Japan.**

The demand for natural gas in China is expected to continue growing at a relatively high pace over the next few years: according to the national gas industry 2016–2020 development plan, China's natural gas consumption may reach 360 bcm by 2020, with the share of natural gas in China's energy mix growing significantly from 8% in 2018 to 10% in 2020.

China's natural gas consumption is expected to grow further over the longer term horizon. An estimate by CNPC (China's largest gas importer and PJSC Gazprom's key partner in the Chinese market) suggests that China's gas demand may exceed 600 bcm by 2035, with gas imports accounting for approximately half of this amount.

The development of gas transportation infrastructure in eastern Russia will make the Company one of China's key gas suppliers and gain a solid foothold in the world's fastest growing gas market.

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

In 2018, Russia's total gas consumption was 493.2 bcm, up 5.3% year-on-year. The increase was mainly driven by colder weather in Q1 and Q4 2018 compared to similar periods in 2017.

##### Russia's gas consumption, 2014–2018, bcm

2014	458.4
2015	444.3
2016	456.7
2017	468.0
2018	493.2

**493.2** bcm

#### Natural gas consumption in Russia in 2018

In 2018, natural gas accounted for ca. 54% in Russia's energy mix, remaining virtually flat over the past few years.

The largest consumers of natural gas in Russia include electricity and heat generators (36%), household consumers (12%), the oil industry (9%), the housing and utilities sector (9%), and metallurgy (6%).

##### Gazprom's contribution to covering domestic gas consumption in Russia, 2014–2018

	2014	2015	2016	2017	2018
Domestic gas consumption in Russia, bcm	458.4	444.3	456.7	468.0	493.2
Supplies to Russian consumers via Gazprom's GTS (excluding GTS process needs), bcm	353.7	339.4	348.8	351.3	361.7
share of Gazprom Group's production, bcm	237.0	211.2	210.2	216.3	224.9
share of Gazprom Group's production, %	67	62	60	62	62

62%

### The share of Gazprom Group's production in total gas supplies to Russian consumers via Gazprom's GTS

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

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

As per the Forecast of Russia's Socio-economic Development drafted by the Russian Ministry of Economic Development and approved by the Government in September 2018, a rise in regulated domestic wholesale gas prices is expected.

#### Changes in regulated wholesale gas prices as per the 2019–2021 Forecast of the Ministry of Economic Development of the Russian Federation, year-on-year average, %

	2019	2020	2021
An average across all consumer groups	1.4	3.0	3.0
For industrial consumers	1.4	3.0	3.0
For household consumers	1.4	3.0	3.0

**Note.** Indexation has been scheduled as of 1 July in accordance with the Forecast of Russia's Socio-economic Development drafted by the Russian Ministry of Economic Development and approved by the Government in September 2018.

As part of the efforts to create a level playing field in the domestic market, PJSC Gazprom works toward partial deregulation of wholesale gas prices. These efforts resulted in Resolution of the Government of the Russian Federation No. 1663 dated 27 December 2017, which allows PJSC Gazprom and its affiliates to use unregulated wholesale prices in respect of natural gas produced by these entities as of 1 January 2018 when selling it in a gaseous state to LNG producers for liquefaction and export.

In 2018, further decisions were made concerning this matter. PJSC Gazprom and its affiliates are now allowed to use unregulated wholesale prices in respect of natural gas produced by these entities when selling it under gas supply agreements signed after 1 November 2018 and providing for first natural gas supplies after 1 January 2020 to methanol producers for producing methanol from natural gas in a gaseous state for exports (Resolution of the Government of the Russian Federation No. 1282 dated 29 October 2018). Moreover, in 2018, government regulation of gas prices was abandoned in respect of natural gas supplied to industrial consumers with the use of liquefaction and/or regasification technology (Resolution of the Government of the Russian Federation No. 1442 dated 30 November 2018).

13.6 bcm

### The volume of natural gas sold under PJSC Gazprom's contracts signed through the St Petersburg International Mercantile Exchange

To promote market-driven pricing principles, PJSC Gazprom is actively engaged in exchange-based gas trade at Saint Petersburg International Mercantile Exchange (AO SPIMEX). Thus, in 2018, PJSC Gazprom's gas volumes sold through the exchange totalled 13.6 bcm (87% of the total exchange-traded gas volumes supplied to the domestic market in the reporting year), which is within the allowable limits of 17.5 bcm placed on PJSC Gazprom's gas sales through the exchange-based trading channel. The key destination areas for PJSC Gazprom's gas supplies are those with predominantly industrial consumers and those located near gas producing regions. In 2018, the natural gas purchased through exchange-based trading channel was supplied to 42 Russian regions. Factoring in the costs of purchasing exchange-traded natural gas and the gas transportation costs, the average ratio of exchange-traded gas price to the regulated regional wholesale price remained flat at 97% in 2018.

PJSC Gazprom also continues to be actively involved in promoting exchange trade in the Russian market, including improvements to trading arrangements for month-ahead and day-ahead gas contracts.

# Strategic Priorities

## Gas Business

No significant adjustments were made to PJSC Gazprom's strategy in the reporting year. Commissioning dates for certain fields and major project timelines were adjusted based on the current market forecasts, including commissioning dates for the Kruzenshternskoye field and a full ramp-up timeline for the Bovanenkovo — Ukhta 2 gas pipeline. Gazprom took a decision to start a full-scale development of the Kharasaveyskoye field in the Yamal Peninsula in 2019.

For details on Gazprom Group's prospective projects across all segments see Gazprom in Figures 2014–2018 Factbook

## Exploration and Production

### Strategic priorities

Building gas production hubs in eastern Russia

Bringing into development the Yamal Peninsula's unique, large fields

Bringing online new fields in the Nadym-Pur-Taz region

Further exploration of the deposits in deep-lying Achimov and Jurassic sediments and above the Cenomanian sediments in fields under development in the Yamal-Nenets Autonomous Area

Bringing into development continental shelf fields in Russian northern seas

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

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

For more details on the key risk drivers see the Risk Management section

### Activities to support the strategic priorities in 2018

Field construction continued to develop the Chayandinskoye OGCF

Development of the Cenomanian-Aptian deposits continued at the Bovanenkovskoye OGCF

Preparations continued to move the Kovyktinskoye gas and condensate field from pilot development to the commercial production phase

Revamps and retrofits of gas production facilities carried out at the Yamburgskoye, Urengoykoye, Medvezhye, Yubileynoye, Yamsoveiskoye, Orenburgskoye, and Astrakhanskoye fields

Exploration-based gas reserve growth achieved at the levels exceeding production volumes

Further exploration of the Achimov and Jurassic sediments at the Urengoykoye, Yamburgskoye, and other fields in the Yamal-Nenets Autonomous Area

Feasibility studies of developing deposits above the Cenomanian sediments carried out at the Yuzhno-Russkoye, Medvezhye, Yamburgskoye, Zapolyarnoye, Vyngapurovskoye, and other fields in the Yamal-Nenets Autonomous Area

**2019 and mid-term objectives in the context of strategic priorities**

Ensuring increased reserve replacement rates

Further building of new gas production hubs in Russia

Revamps and retrofits of existing gas production facilities to maintain target gas production levels

→ 2019	→ 2020	→ 2021	→ 2022	→ 2023
<b>Chayandinskoye field</b> (start of commercial development)	<b>Blocks 4 and 5 of the Achimov deposits in the Urengoyskoye field</b> (start of commercial development)	<b>Bovanenkovskoye field</b> (completion of well commissioning to provide for the ramp-up to design capacity of the Cenomanian-Aptian deposits)	<b>Kovyktinskoye field</b> (start of commercial development)	<b>Kharasaveyskoye field</b> (start of commercial development of the Cenomanian-Aptian deposits)
		<b>Kirinskoye field</b> (ramp-up to design capacity)		<b>Yuzhno-Kirinskoye field</b> (start of commercial development)

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

Transportation

Strategic priorities	Activities to support the strategic priorities in 2018
Comprehensive expansion in tandem with the expansion of gas production and storage, taking into account the degree of readiness to receive gas shown by new consumers, as well as export projects	Construction of the Power of Siberia gas pipeline continued: construction of the linear section of the gas pipeline, from the Chayandinskoye field to the Chinese border in the Amur Region, including a two-line crossing of the Amur River, was mostly completed; construction of the Atamanskaya compressor station adjacent to the border was continued
Diversification of gas export routes	Expansion of the GTS in Russia continued to support gas supplies to the Nord Stream 2 gas pipeline
Construction of new gas transportation capacity	Implementation of the Nord Stream 2 and TurkStream projects continued: as at 31 December 2018, a total of 423 km of the Nord Stream 2 gas pipeline was installed; installation of the deep-water offshore section of the TurkStream pipeline was completed
Revamps and retrofits of existing gas transportation facilities	Revamps of gas transportation infrastructure carried out

Underground Gas Storage

Strategic priorities	Activities to support the strategic priorities in 2018
Sustaining the capacity levels achieved for the UGSF network, improving the flexibility of the UGSF system, and providing UGSF capacity to Russian regions where such capacity is in short supply	Projects carried out in Russia to expand and revamp existing UGSFs, as well as identify geological structures suitable for new UGSF construction
Expansion of Gazprom Group's UGSF capacity outside Russia	

Gas and Condensate Processing, and Gas Chemical

Strategic priorities	Activities to support the strategic priorities in 2018
Construction of new gas processing facilities to support hydrocarbon developments in Eastern Siberia and the Far East	Construction of the Amur GPP continued
Processing of the projected volumes of liquid hydrocarbons produced at fields in Western Siberia	Projects continued to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region

**2019 and mid-term objectives in the context of strategic priorities**

Construction of gas transportation capacity to ensure diversification of gas export routes

Construction of new gas transportation capacity in Russia to ensure gas supplies to the domestic market and meet obligations under export contracts, including gas transportation capacity intended to carry gas from the Yamal fields to the Nord Stream 2 gas pipeline

Implementation of comprehensive programmes for revamping and retrofitting existing gas transportation facilities

Decommissioning of excess capacity of the Central Gas Transmission Corridor

→ 2019	→ 2020	→ 2021	→ 2023
<b>Power of Siberia gas pipeline</b> (commissioning)	<b>Ukhta – Torzhok 2 gas pipeline</b> (ramp-up to full capacity)	<b>Bovanenkovo – Ukhta 2 gas pipeline</b> (ramp-up to full capacity)	<b>Bovanenkovo – Ukhta 3 gas pipeline</b> (start of the phased commissioning)
<b>TurkStream gas pipeline</b> (commissioning)			<b>Ukhta – Torzhok 3 gas pipeline</b> (commissioning)
<b>Nord Stream 2 gas pipeline</b> (commissioning)			
<b>Development of GTS facilities at the Gryazovets – Slavyanskaya CS section</b> (commissioning)			

**2019 and mid-term objectives in the context of strategic priorities**

Revamps and replacement of worn-out and obsolete fixed assets at existing UGSFs

Construction and expansion of the peak-shaving Kaliningradskoye, Volgogradskoye, and Novomoskovskoye UGSFs, as well as the Udmurtia Reserving Complex

Providing UGSF capacity to regions where such capacity is in short supply. The prospective areas for the construction of new UGSFs are Russia's Northwestern, Siberian, and Far Eastern Federal Districts

→ 2019	→ 2020	→ 2021
<b>Volgogradskoye UGSF</b> (capacity commissioning, deliverability increases)	<b>Kaliningradskoye UGSF</b> (capacity commissioning)	<b>Udmurtia Reserving Complex</b> (capacity commissioning, deliverability increases)

**2019 and mid-term objectives in the context of strategic priorities**

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

Revamps of existing facilities

→ 2019	→ 2021
<b>Projects to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region</b> (commissioning)	<b>Amur GPP</b> (commissioning)

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

LNG Production and Trading

Strategic priorities	Activities to support the strategic priorities in 2018
Expansion of own LNG production capacity	<p>Within the Sakhalin-2 T3 project, Sakhalin Energy completed the development and approval process for design documents developed to Russian standards, and positive opinions were obtained from the Main Department of State Expertise Federal Autonomous Institution (Glavgosexpertiza of Russia)</p>
	<p>Construction of an LNG production, storage, and shipping complex continued near the Portovaya compressor station in the Leningrad Region</p>
	<p>In October 2018, PJSC Gazprom and Shell signed a Joint Design Concept Framework Agreement for the Baltic LNG project (pre-FEED)</p>
	<p>Gazprom started a pre-investment study for a project to construct an LNG plant near Vladivostok with an annual capacity of up to 1.5 mm tonnes of LNG</p>

Oil Business

The high volatility in the energy markets, the increased competition and its changing nature, and the energy industry transformation are posing new challenges for the oil and gas industry. PAO Gazprom Neft's Development Strategy has been updated to reflect these challenges, as well as the company's evolving scale and role in the industry.

The new 2030 Strategy approved by the company's Board of Directors in late 2018 builds upon the 2025 Strategy, which focused on growing the company into a major industry player while maintaining operational efficiency. PAO Gazprom Neft's key 2030 objective is to evolve into a next-generation business, an oil industry leader across its core business segments.

2030 strategic goals:

- maintain the company's position as a top 10 global producer of liquid hydrocarbons among public companies, sustaining at or above market growth rates
- maximise value creation for each barrel through the effective management of the entire value chain
- achieve leadership in returns on capital employed through the effective management of project/asset portfolio with a focus on profit maximisation
- achieve leadership in efficiency, technology, and safety, setting the benchmark for other global industry players

Exploration and Production

Strategic priorities	Activities to support the strategic priorities in 2018
Efficient development of mature assets	<p>The development of the Novoportovskoye OGCF and the Prirazlomnoye oil field continued, with Gazprom Neft's overall hydrocarbon production reaching 92.9 mm toe*</p>
Developing the resource base of the Yamal Peninsula	<p>The Triton field discovered in the Sea of Okhotsk</p>
Bringing into development and monetising the uniquely vast liquid hydrocarbon reserves in the Nadym-Pur-Taz region	<p>Industry's first digital model of the Achimov strata built</p>
Building a hydrocarbon production hub in the Sea of Okhotsk	<p>* Including share in the production volumes of entities in which Gazprom has investments classified as joint operations, as well as associates and joint ventures, and in international projects.</p>
Developing technology for cost-effective development of the Bazhenov suite, Domanic and Paleozoic deposits	
Bringing into development the remaining recoverable reserves that are currently economically unrecoverable through development and deployment of new technologies	
Building up the resource base to support production beyond 2025	

**2019 and mid-term objectives in the context of strategic priorities**

Implementation of LNG projects in Russia

→ **2019**

**LNG production, storage, and shipping complex near the Portovaya compressor station**  
(commissioning)

**2019 and mid-term objectives in the context of strategic priorities**

Driving mature asset performance and implementing the enhanced oil recovery programme

Further exploration of blocks in the Sea of Okhotsk

Development of the Novoportovskoye field and the Vostochno-Messoyakhskoye OGCF in the Nadym-Pur-Taz region, including the infrastructure development

Developing technology for cost-effective development of hard-to-recover hydrocarbon reserves

→ 2020	→ 2021
<p><b>Novoportovskoye field</b> (ramp-up to design capacity)</p>	<p><b>Eastern block of the Orenburgskoye field</b> (ramp-up to design capacity)</p>
	<p><b>Vostochno-Messoyakhskoye field</b> (ramp-up to design capacity)</p>

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

Logistics, Refining, and Marketing

Strategic priorities	Activities to support the strategic priorities in 2018
Increasing the refining depth and yields for light products	Gazprom Neft continued its refinery upgrade programmes in Russia and abroad: Omsk Refinery completed the construction of a process condensate treatment unit and on-spot automatic loading station to load oil products into railway tanks, as well as Phase 1 upgrade of a delayed coking unit; Moscow Refinery completed main construction and installation activities on the Euro+ combined refining unit and overhauled legacy refining units; construction of a new delayed coking unit continued at the refinery in Pančevo, Serbia; and upgrade programmes were continued with Gazprom Neft's involvement at PAO Slavneft-YANOS Refinery and Mozyr Refinery (Belarus)
Enhancing the efficiency of processing and marketing	
Improving conventional business sustainability through developing petrochemical businesses	
Maintaining leadership and growing market shares in existing and new markets for the company's products	
	Product mix was expanded, and marketing infrastructure was further built up
	New platform solutions have been rolled out to improve the marketing business efficiency

Power Generation Business

By 2018, Gazprom Group had achieved the key objectives set out upon entering into the electricity sector: target assets in electricity generation were acquired, investment obligations were successfully met, and Gazprom energoholding's financial stability was achieved. In 2018, the Company approved its Power Generation Strategy for 2018–2027, setting out steady profit growth while maintaining reliable energy supply to consumers as the Company's key strategic goal in this business.

The strategy involves constructing new and upgrading existing generating capacity, and decommissioning low-performing facilities. In addition, the document outlines the areas for further operational efficiency improvements, driving technological advances, and diversifying the power business by entering promising markets in Russia and abroad.

By 2027, Gazprom energoholding is to become:

- Russia's largest power generation holding company in related and global markets
- a customer-oriented company ensuring reliable power supply to consumers
- a financially stable company demonstrating steady profit growth and debt reduction
- a company supporting the priority of the import substitution policy and the use of Russian equipment.

Strategic priorities	Activities to support the strategic priorities in 2018
Optimisation of the generation capacity mix	Unit 1 at the Grozny TPP commissioned
Operational excellence and cost optimisation	Measures to improve operational efficiency and optimise costs implemented
Constructing new and upgrading existing generating capacity, and decommissioning low-performing facilities	Low-performing generating capacity decommissioned
Driving technological advances	Operation modes for generating equipment optimised
Diversifying the power business by entering promising markets in Russia and abroad	The Company commenced construction of CHP plant in Pančevo, Serbia to meet the power and heat needs of an oil refinery operated by NIS, a Gazprom Neft subsidiary

**2019 and mid-term objectives in the context of strategic priorities**

Upgrades and capacity expansions across refineries

Implementing an LNG bunkering project

→ 2019	→ 2020	→ 2021	→ 2023
<p><b>New Euro+ combined refining unit at Moscow Refinery</b> (commissioning)</p> <p><b>New delayed coking unit at the refinery in Pančevo, Serbia</b> (commissioning)</p>	<p><b>New primary refining unit, advanced oil refining facility, and delayed coking unit at Omsk Refinery</b> (commissioning)</p>	<p><b>Catalyst production business in Omsk</b> (commissioning)</p> <p><b>LNG bunkering vessel</b> (commissioning)</p>	<p><b>Advanced oil refining facility at Moscow Refinery</b> (commissioning)</p>

**2019 and mid-term objectives in the context of strategic priorities**

Completion of an ambitious programme to build new generating capacity under capacity supply agreements (CSAs)

Generating fleet upgrades

Decommissioning of over 2 GW of low-performing capacity by 2022

Implementation of measures to improve operational efficiency and optimise costs

→ 2019	→ 2020
<p><b>Grozny TPP</b> (commissioning of Unit 2)</p>	<p><b>Svobodnenskaya TPP for power supply of the Amur GPP</b> (commissioning)</p> <p><b>CHP plant in Pančevo, Serbia</b> (commissioning)</p>

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

# Capex Programmes

Gazprom Group channels significant funds to investment programmes to develop and maintain its production assets. In 2018–2019, Gazprom’s investment cycle reaches its peak as a number of major strategic projects are implemented concurrently which, among other things, will allow PJSC Gazprom to strengthen its leadership in the European market and diversify exports into the rapidly growing Asian market.

## Gazprom Group’s capital expenditures, RUB bn

2016	1,357.3
2017	1,504.6
2018	1,795.9
2019*	2,094.2

\* Total actual expenditure under Gazprom’s capex programme for 2019 (covering gas, oil, electricity, heat generating, and other assets) and similar plans of the Group.

## Gazprom Group’s capex breakdown, RUB bn

	2016	2017	2018	Change 2018/2017
Gas transportation	406.8	498.6	640.1	28.4 %
Processing/refining	193.2	225.2	309.4	37.4 %
Gas production	235.2	216.5	308.0	42.3 %
Oil and gas condensate production	326.4	330.4	257.9	-21.9 %
Electricity and heat generation and sales	63.5	58.1	72.9	25.5 %
Gas distribution	41.8	51.7	39.1	-24.4 %
Gas storage	35.5	37.7	19.4	-48.5 %
Other business segments	54.9	86.4	149.1	72.6 %
Total	1,357.3	1,504.6	1,795.9	19.4 %

## Capacity commissioned by Gazprom Group in 2018

Business segment	Facilities commissioned
Gas production	A 30 bcm per year comprehensive gas treatment unit (CGTU) at the Bovanenkovskoye OGCF Two booster compressor stations at the Zapolyarnoye and Bovanenkovskoye fields with a combined capacity of 237 MW 102 gas production wells in Russia
Oil and gas condensate production	Phase 2 facilities of a compressor station with a CGTU at the Novoportovskoye OGCF and Phase 1 facilities of the TL-4 compressor station at the Orenburgskoye OGCF’s Eastern block 578 oil production wells in Russia The second train of the CGTU at the Badra field in Iraq
Gas transportation	Four compressor plants with a combined capacity of 371 MW at the Bovanenkovo — Ukhta trunk gas pipeline compressor station 890.8 km of trunk gas pipelines and connections in Russia, including 361.7 km following upgrades Ten gas pumping units with a combined capacity of 73 MW and two upgraded gas distribution stations in Russia

**Capacity commissioned by Gazprom Group in 2018 (continued)**

Business segment	Facilities commissioned
Underground gas storage	Working gas capacity of 0.08 bcm at the Volgogradskoye UGSF
	Ten wells at the Sovkhoznoye, Volgogradskoye, and Peschano-Umetskoye UGSFs
	A 12 MW compressor plant at the Volgogradskoye UGSF
	OOO Gazprom export's working gas capacity of 0.08 bcm at the Dambořice UGSF in the Czech Republic
Hydrocarbon processing	187.1 km of the Urengoy — Surgut gas condensate pipeline (Line 2). The 107 km–288 km section
	A hydrogen production unit (intended to increase the output of premium Euro-5 fuels) and a diesel fuel hydrotreating unit (upgraded) at the Astrakhan GPP
	A refinery hydrogen pressure swing adsorption facility (allowing to increase hydrogen concentration in the plant's network and the hydrotreating severity of motor fuels across units, as well as reduce the amount of gases discharged to flare) and a sulfur-alkaline wastewater neutralisation unit at Gazprom neftekhim Salavat's refinery and Monomer plant
Gas distribution	An LNG receiving terminal and a floating storage and regasification unit in the Kaliningrad Region
Electricity and heat generation	Unit 1 at the Grozny TPP with an installed capacity of 176 MW

Gazprom Group's capital expenditures in 2018 were directed mostly towards a number of projects across our business segments.

- In gas production — field construction to develop the Chayandinskoye OGCF, the Cenomanian-Aptian deposits at the Bovanenkovskoye OGCF, and the Achimov deposits in the Urengoy OGCF. Production drilling for gas in Russia totalled 304.4 thousand m.
- Oil and gas condensate production — field construction to develop the oil rim at the Chayandinskoye OGCF, and the implementation of Gazprom Neft's projects, including construction and production drilling at the Novoportovskoye OGCF and the Prirazlomnoye oil field, building of high-tech ice breakers, participation in auctions for sub-soil licences, as well as capex projects for conventional assets. Production drilling for oil in Russia totalled 2,202.6 thousand m.
- Gas transportation — construction of the Power of Siberia and Ukhta — Torzhok 2 trunk gas pipelines, the UGSS expansion project for the Gryazovets — Slavyanskaya CS section in the North-West region, and the construction of the TurkStream and Nord Stream 2 trunk gas pipelines.

**Progress on the Nord Stream 2 gas pipeline project**

During 2018, the Company obtained full sets of permits for the gas pipeline construction in Russia, Germany, Finland, and Sweden. As at 31 December 2018, the permitting process was in progress for the primary and alternative routes in Denmark (within Denmark's exclusive economic zone, to the north of the Bornholm Island).

In September 2018, the Solitaire offshore pipelay vessel started the pipelay, and on 1 November 2018, the pipelaying of both gas pipeline strings was completed in the German coastal waters. In December 2018, dredging and backfilling were completed for the section. The Company also completed the construction of a microtunnel.

Also in December 2018, the Pioneering Spirit vessel arrived for pipelay in Finland's waters. The Company expects to complete the main construction on the pipeline in 2019 to ensure its commissioning.

The Company continued the capex project to build gas transportation capacity to support supplies via the Nord Stream 2 gas pipeline in Germany (the EUGAL gas pipeline), the Czech Republic, and other European countries.

**Progress on the TurkStream gas pipeline project**

In 2018, the Company completed the landfall section of the gas pipeline in Russia and pipelaying of the deep-water offshore section. Landfall facilities and a receiving terminal are under construction in Turkey.

In November 2018, TurkAkim Gaz Tasima A.S. joint project company was established to implement the construction project for the onshore transit section in Turkey. Expansion of the gas transportation infrastructure in Bulgaria and Serbia is in progress. Options are being considered for the extension of the TurkStream pipeline's onshore transit string into the territory of European countries. In June 2017, PJSC Gazprom, the Italian Edison, and the Greek DEPA signed a Cooperation Agreement, which envisages establishing a southern route for Russian gas supplies from Russia to Europe, which will run across Turkey to Greece and further to Italy. The Company is also exploring options to deliver Russian gas to consumers in Bulgaria, Serbia, and Hungary.

- Underground gas storage — construction of the new Volgogradskoye UGSF, revamp of the Sovkhoznoye UGSF, revamps of existing and construction of new facilities at the Kaliningradskoye UGSF in Russia, as well as capacity expansions at the Katharina and Jemgum UGSFs in Germany, and the Dambořice UGSF in the Czech Republic.
- Hydrocarbon processing/refining — construction of the Amur GPP, implementation of projects to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region, construction and upgrade of oil refining and petrochemical facilities at Gazprom neftekhim Salavat (construction of a catalytic cracking complex and a hydrogen unit), construction and upgrade of production facilities at Moscow Refinery (construction of Euro+ combined refining unit), and at Omsk Refinery (construction of a primary refining unit, an advanced oil refining facility, and a delayed coking unit), and the construction of a delayed coking unit at Pančevo Refinery in Serbia.

#### Progress on the Amur GPP project

Construction of the Amur GPP — Russia's No. 1 and the world's No. 2 gas processing facility by production capacity (42 bcm per year), and also the global leader in helium production (up to 60 mmcm per year) — is in active phase.

The first coil-wound heat exchanger was delivered to the plant construction site. The unit, produced in Russia for the first time, is a key link in the helium production chain.

In 2018, the Company signed a contract to supply ethane fraction from the Amur GPP to Amur GCC (part of SIBUR Group) — about 2 mm tonnes per year will be supplied over 20 years.

- Gas supply — construction of an LNG production, storage, and shipping complex with an annual production capacity of 1.5 mm tonnes near the Portovaya compressor station in the Leningrad Region, gas infrastructure expansion in Russia, and the implementation of a series of projects to ensure gas supplies in the Kaliningrad Region (a floating storage and regasification unit (FSRU) terminal).
- Power and heat generation — construction of two new GTU-180 units at the Grozny TTP, Svobodnenskaya TPP, Pančevo CHPP (Serbia), as well as the upgrade of the existing generating equipment (particularly, the upgrade of the Verkhne-Tulomskaya HPP of PAO TGC-1, and the equipment upgrade of Power Unit 9 at CHPP-22 operated by PAO Mosenergo) and implementation of a series of projects to ensure the reliability and safety of generating facilities and maintain the heat network infrastructure.

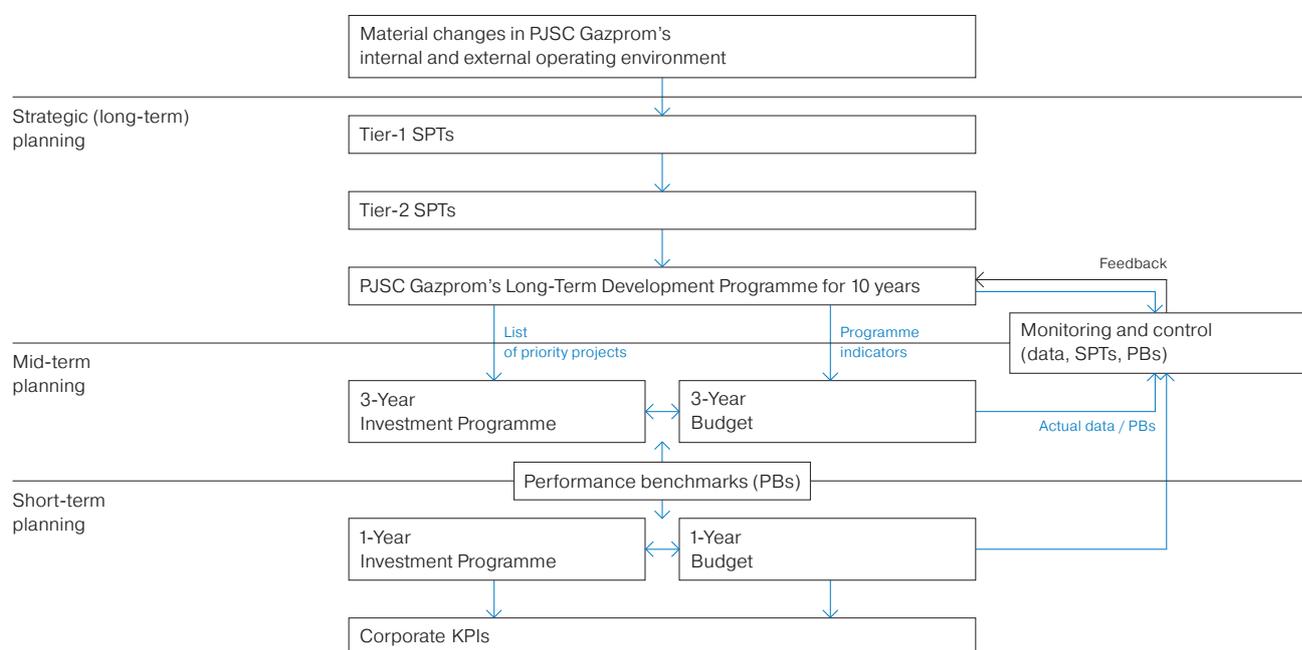
#### Investment priorities for 2019

- Gas production — production drilling and field construction to develop the Chayandinskoye OGCF, field construction to develop the Cenomanian-Aptian deposits at the Bovanenkovskoye OGCF, production drilling and field construction to develop the Achimov deposits at the Urengoy OGCF, and production drilling and field construction to develop the Kovyktinskoye gas and condensate field
- Oil and gas condensate production — field construction to develop the oil rim in the Botuobinsky horizon of the Chayandinskoye OGCF; development of the Novoportovskoye OGCF and the Prirazlomnoye oil field
- Gas transportation — construction of the Power of Siberia trunk gas pipeline, the UGSS expansion project for the Gryazovets — Slavanskaya CS section in the North-West region, construction of the Sakhalin — Khabarovsk — Vladivostok and the Ukhta — Torzhok 2 trunk gas pipelines, and the implementation of the Nord Stream 2 and TurkStream gas pipeline projects
- Underground gas storage — construction of the Kaliningradskoye UGSF and Volgogradskoye UGSF, expansion and revamp of the Kanchurinsko-Musinskoye UGSF complex, construction of the Udmurtia Reserving UGSF Complex, and expansion of the Punginskoye UGSF
- Hydrocarbon processing/refining — construction of the Amur GPP, implementation of projects to enable liquid hydrocarbon transportation from the Nadym-Pur-Taz region (stabilisation unit for Achimov deposit condensate from the Nadym-Pur-Taz region, Urengoy oil pumping station, the Urengoy — Purpe oil and condensate pipeline, a jumper between the gas condensate pipeline from Blocks 1A and 2A of the Urengoy OGCF and the stabilisation unit for Achimov deposit condensate from the Nadym-Pur-Taz region), construction of a catalytic cracking complex at Gazprom neftekhim Salavat, and projects to boost refining depths at Omsk and Moscow Refineries.
- Gas supply — gas infrastructure expansion in Russia and construction of an LNG production, storage, and shipping complex near the Portovaya compressor station
- Power and heat generation — construction of Unit 2 at the Grozny TTP, Svobodnenskaya TPP, and Pančevo CHPP (Serbia), upgrade of the existing generating equipment, and implementation of a series of projects to ensure the reliability and safety of generating facilities and maintain the heat network infrastructure

For more details on Gazprom Group's key projects see [Gazprom in Figures 2014–2018 Factbook](#)

# Long-Term Development Programme and Key Performance Indicators

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



### Strategic Performance Targets

PJSC Gazprom's long-term strategic planning is based on a framework of strategic performance targets (SPTs) well-balanced across all lines of business and quantifying targets in achieving PJSC Gazprom's strategic goals. Strategic planning identifies growth areas and management decisions, which are detailed at the mid-term and short-term planning levels. Results of the planning process are used as inputs for PJSC Gazprom's budgeting and Investment Programme for the coming year and a three-year period.

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

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

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

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

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

### Long-Term Development Programme

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

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

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

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

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

PJSC Gazprom's Long-Term Development Programme (for 2019–2028, covering the gas business) was approved by Resolution of the Board of Directors No. 3164 dated 2 October 2018 (Minutes of the Board of Directors' meeting No. 1215 dated 2 October 2018). It covers PJSC Gazprom's gas business — the core business line. As a global vertically integrated energy company with different lines of business, Gazprom is working to create a mechanism for rolling out the SPT-based long-term planning framework across its oil and power generation businesses, as well as international operations, pursuant to the Russian Government Directives No. 4955p-P13 dated 17 July 2014.

Extending the SPT-based long-term planning framework to international operations and oil and power generation businesses will facilitate the development of a framework of quantitative indicators covering the key metrics of Gazprom Group's performance, enable monitoring of progress on the strategy and the actual values achieved against targets, ensure Gazprom Group's adaptation to the changing external and internal environment, boost planning efficiency, and improve management decisions, thus achieving synergies across different lines of business.

### Changes in PJSC Gazprom's Long-Term Development Programme in 2018

In 2018, PJSC Gazprom's Long-Term Development Programme was developed with the use of actual performance metrics for 2017, updated forecast operating, economic, and financial performance targets for the Company's gas business, and projections made by the Russian Ministry of Economic Development about the country's long-term socio-economic development.

Also, within the efforts to create a mechanism for rolling out the SPT-based long-term planning framework across the oil and power generation businesses in 2018, a special section was added to the Company's Long-Term Development Programme, covering the extension of the long-term planning framework to international operations and oil and power generation businesses.

Russian Government Directives No. 4955p-P13 dated 17 July 2014 provide for audits covering the progress on the Long-Term Development Programme.

In 2018, a progress audit of PJSC Gazprom's Long-Term Development Programme (for 2017–2026, covering the gas business) was conducted by OOO FBK. The audit was performed in accordance with the Standard for Conducting a Progress Audit of PJSC Gazprom's Long-Term Development Programme and the Terms of Reference for Conducting a Progress Audit of PJSC Gazprom's Long-Term Development Programme (approved by Resolution of the Board of Directors of PJSC Gazprom No. 3074 dated 16 February 2018). Based on the results of the audit procedures and the audit evidence obtained, the auditor produced a report (No. 3675 dated 28 December 2018) confirming that the actual values achieved against the targets set out in the Programme were reliable and the targets set in PJSC Gazprom's Long-Term Development Programme (for 2017–2026, covering the gas business) were on the whole achieved in 2017.

In line with the Standard for Conducting a Progress Audit of PJSC Gazprom's Long-Term Development Programme, proposals for implementing the auditor's recommendations are submitted for approval to PJSC Gazprom's Board of Directors. Information on implementation of the auditor's recommendations is included in the Programme as part of its annual update.

Proposals for implementing the auditor's recommendations produced following the progress audit of PJSC Gazprom's Long-Term Development Programme for 2017 were approved by Resolution of PJSC Gazprom's Board of Directors No. 3242 dated 10 April 2019.

### Key Performance Indicators

The medium and short term investment, financial, and operational planning at PJSC Gazprom is consolidated within the budget planning framework.

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

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

KPI targets for 2018 were set by resolutions of the Board of Directors based on PJSC Gazprom's 2018 budget (financial plan) and Investment Programme, with some of the KPIs subsequently adjusted as per the new version of the 2018 budget (financial plan) and Investment Programme.

The adjustment was mainly driven by increased gas supplies to consumers in Russia and abroad on the back of growing demand.

Target and actual values of corporate KPIs for 2018					
KPI metric	Target value		Actual value	KPI achievement, % of the target	Explanation of variance between target and actual KPI values
	Initial*	Adjusted**			
Financial and economic KPIs					
Per unit costs in Production, RUB/t c. e.	933.30	926.07	907.52	102%	Higher demand for gas resulting in increased gas supplies to far abroad countries and Russia
Per unit costs in Transportation, RUB per unit of transportation (mcm/100 km)	69.90	68.38	67.47	101%	
Reduction of operating costs (expenses), %	2	No adjustments	-2.61	-	Significantly higher gas transit and storage costs outside Russia due to record-high export volumes
Total shareholder return (TSR)	0.10	No adjustments	0.242	242%	Higher market value of PJSC Gazprom shares on the Moscow Exchange
Return on Equity (ROE), %	6	No adjustments	11.68	195%	Growth in operating profit due to increased sales and higher prices for the key products sold by Gazprom Group
Labour productivity, RUB thousand/ man-hour	68.89	74.36	85.88	115%	Higher revenue for PJSC Gazprom, combined with reduced man-hours vs the assumptions used in calculating the target
Industry-specific KPIs					
Gas sales by volume, bcm	439.899	456.988	465.130	102%	Higher demand for gas resulting in increased gas supplies to far abroad countries and Russia
Commissioning of priority production facilities	10	10 (list of production facilities adjusted)	10	100%	-
Integrated innovation key performance indicator, %	95	No adjustments	104.1	110%	Implementation of PJSC Gazprom's Innovative Development Programme and well-organised innovation

\* Resolution of PJSC Gazprom's Board of Directors No. 3096 dated 17 April 2018.

\*\* Resolution of PJSC Gazprom's Board of Directors No. 3205 dated 28 December 2018.

Description of the KPIs is provided in the Remuneration of Members of Management and Supervisory Bodies section

Target corporate KPIs for 2019 were approved by Resolution of PJSC Gazprom's Board of Directors No. 3249 dated 16 April 2019.

<b>Target corporate KPIs for 2019</b>	
<b>KPI metric</b>	<b>Target value*</b>
Financial and economic KPIs	
Per unit costs in Production, RUB/t c.e.	926.50
Per unit costs in Transportation, RUB per unit of transportation (mcm/100 km)	69.32
Reduction of operating costs (expenses), %	2
Total shareholder return (TSR)	0.10
Return on Equity (ROE), %	6
Labour productivity, RUB thousand/man-hour	81.42
Industry-specific KPIs	
Gas sales by volume, bcm	453.288
Commissioning of priority production facilities	10
Integrated innovation key performance indicator, %	95

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

# Performance Results

## **Operations and Marketing 92**

Exploration and Production **92**

Transportation and Underground Storage **100**

Gas Distribution, Gas Infrastructure Expansion,  
and NGV Fuel Markets **104**

Hydrocarbon Processing and Petrochemicals **108**

Power Generation **113**

Marketing **117**

## **Innovations and Import Substitution 126**

## **Financial Performance 133**

## Exploration and Production

Gazprom — the global leader by gas reserves and production. The Company effectively expands its resource base, successfully develops new gas production hubs in the Yamal Peninsula and in eastern Russia, implements prospective projects abroad. Among the key results of 2018 is the commissioning of the Bovanenkovskoye field production site No. 3 in the Yamal Peninsula, the largest by explored reserves.

PJSC Gazprom maintains its leadership in gas reserves and production among Russian and global public companies of the fuel and energy sector. The Company's priority is ensuring increased reserve replacement rates which will allow producing hydrocarbon volumes matching the consumer needs. Since 2005, exploration-based reserve replacement consistently remains at the levels exceeding gas production volumes. To replace its mineral resource base, Gazprom Group actively conducts exploration in Russia and abroad, and constantly monitors new projects.

According to DeGolyer and MacNaughton, Gazprom Group's proved and probable PRMS reserves as at 31 December 2018 were 24,255.1 bcm of natural gas, 1,090.2 mm tonnes of gas condensate, and 1,335.4 mm tonnes of oil, including share in the reserves of entities in which Gazprom has investments classified as joint operations (22.4 bcm of natural gas and 152.7 mm tonnes of oil).

Most of Gazprom Group's projects have been audited, totalling 93.0% of gas reserves, 94.1% of condensate reserves and 93.9% of oil reserves in A+B<sub>1</sub>+C<sub>1</sub> reserve categories.

<b>Proved and probable PRMS hydrocarbon reserves of Gazprom Group (including share in the reserves of entities in which Gazprom has investments classified as joint operations)</b>		
	As at 31 December 2017	As at 31 December 2018
Natural gas, bcm	24,146.6	24,255.1
including proved reserves	18,253.4	17,890.4
Gas condensate, mm tonnes	1,105.7	1,090.2
including proved reserves	797.7	759.7
Oil, mm tonnes	1,360.0	1,335.4
including proved reserves	736.8	712.3
Total, bn boe*	175.7	176.1
including proved reserves	130.4	127.5

\* For management accounting purposes, Gazprom Group measures hydrocarbon reserves and production in metric units. In this Annual Report, gas reserves are converted from metric units to barrels of oil equivalent at a ratio of 1,000 cu m to 6,49 boe.

The relevant conversion ratios are provided in the [Glossary](#) section

In addition to the annual production from the fields operated by Gazprom, the key factors behind the changes in reserve estimates under international standards included a review of geological models following exploration activities and re-estimation (at the Tambeykoye, Yen-Yakhinskoye, Taldinskoye, and Gubkinskoye fields), new development solutions (Yen-Yakhinskoye, Gubkinskoye, and Taldinskoye fields), transfer of the Semakovskoye field licence to the books of OOO RusGazAlyans, as well as PAO Gazprom Neft's investment decisions on gas transportation and sale for the Novoportovskoye field.

**Operations in Russia**

**Mineral Resource Base**

As at 31 December 2018, Gazprom Group's A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves in Russia were 35,195.3 bcm of natural gas, 1,604.4 mm tonnes of gas condensate, and 2,015.7 mm tonnes of oil, including share in the reserves of entities in which Gazprom has investments classified as joint operations — 23.9 bcm of gas, 2.8 mm tonnes of gas condensate, and 190.9 mm tonnes of oil. Gazprom Group's A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves total 256.3 bboe.

**Subsoil licence portfolio as at 31 December 2018**

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

For more details on Gazprom Group's licences for major hydrocarbon fields and licensing activities see [Gazprom in Figures 2014–2018 Factbook](#)

**Factors behind the changes in A+B<sub>1</sub>+C<sub>1</sub> natural gas reserves in 2018, bcm**

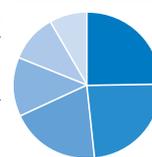
Natural gas reserves as at 31 December 2017		35,355.4
Re-estimation	←	-49.6
Exploration-based additions to reserves	→	+796.6
Transfer of reserves to the Russian open acreage*, to the books of other companies	←	-409.3
Production (including losses)**	←	-497.8
Natural gas reserves as at 31 December 2018		35,195.3

\* Under the Russian laws, a subsoil user does not have any vested right to develop reserves it discovers within the areas covered by its exploration licences or beyond the licensed areas. Such reserves are to be transferred to the open acreage of the Russian Federation, with the subsoil user granted the pre-emptive right to subsequently obtain a licence for developing the relevant discovery.  
 \*\* Excluding dissolved gas.

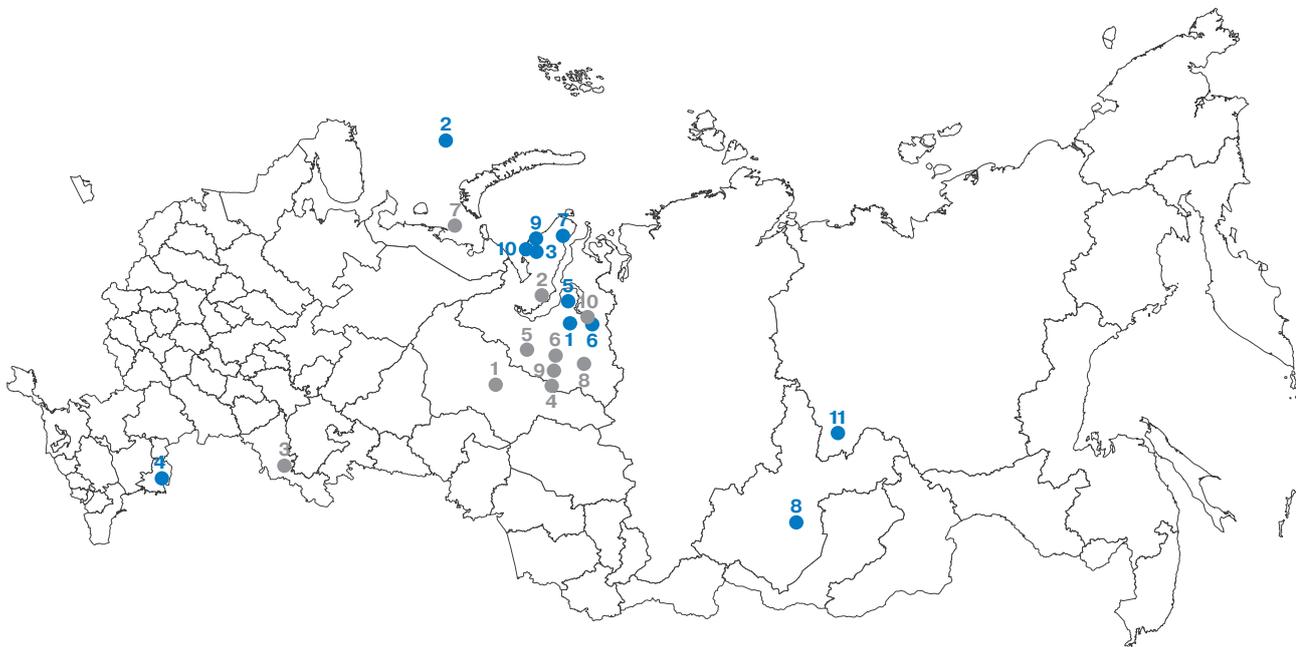
Gazprom Group's mineral resource base has a high concentration of reserves with about 60% concentrated in Western Siberia. Unique, and large fields of the region such as Yamburgskoye, Urengoyskoye, Medvezhye, and Vyngayakhinskoye, which for a long time ensured planned natural gas production levels, entered the declining production phase. A significant part of reserves is located in deposits with low reservoir energy, challenging geology, poor porosity and permeability, flooding of pay zone. New approaches to reservoir engineering and reliable well productivity forecasting are required to ensure cost-effective operation of such fields and achieve high recovery ratio. Over the mid- and longer term, resource base expansion will be ensured through exploration and appraisal of conventional resources in promising oil and gas regions, as well as through the development of hard-to-recover, and unconventional resources.

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

Reserves in offshore fields	24.8
Reserves in remote fields with poor infrastructure	23.8
Reserves securing stable production rates in areas covered by the existing UGSS	19.5
Reserves in the fields with declining production rates	13.2
Reserves in deep-lying complex deposits	10.6
Reserves in the Astrakhanskoye field (with environmental restrictions on gas production depth)	8.1



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



● The largest fields by natural gas reserves

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

● The largest fields by oil reserves

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

**Note.** The map shows Gazprom Group's hydrocarbon fields (excluding entities in which Gazprom has investments classified as joint operations) with combined A+B<sub>1</sub>+C<sub>1</sub> reserves accounting for over 70% of natural gas and over 50% of oil reserves as at 31 December 2018.

The Group's share in A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves of associates and joint ventures (including share in the reserves of OOO RusGazAlyans joint venture) as at 31 December 2018 was 1,146.7 bcm of gas, 110.1 mm tonnes of gas condensate, and 592.0 mm tonnes of oil, which totals 12.7 bboe.

**Re-estimation**

Gazprom continued revising gas recovery factors (GRFs) under the new Russian Classification of Reserves and Resources of Oil and Flammable Gases. The revision did not have any significant impact on the changes in natural gas reserves in 2018 since it covered the fields comprising a minor share of Gazprom Group's total gas reserves. As at 31 December 2018, Gazprom completed the GRF estimation for the fields containing 19% of the Group's total A+B<sub>1</sub>+C<sub>1</sub> reserves. Revision of GRFs for Gazprom Group's other fields in the coming years may have a significant impact on the size of its recoverable gas reserves.

**Exploration**

Exploration programme employing advanced prospecting methods is underway to replace and expand the mineral resource base.

**Exploration drilling for gas and oil across Gazprom Group, thousand m**



Within its licence areas Gazprom conducts exploration in almost every oil and gas province located onshore, on the Arctic continental shelf, and in the Okhotsk oil and gas province.

In 2018, the Company completed seismic surveys in Russia: 2D — 5.7 thousand square km, 3D — 9.5 thousand square km. In the same period, exploration drilling totalled 157.6 thousand m of solid rock, and 25 oil and gas wells were completed, with 20 wells producing flow when tested. Increase in exploration drilling meterage was, in particular, due to the Bazhenov project implementation by Gazprom Neft.

For more details on the project see the [Innovations and Import Substitution](#) section

During the year, the Company also used sidetrack drilling for further exploration. Drilling meterage totalled 637 m, with four production wells completed.

The Company allocated RUB 86.4 bn for its exploration programmes (inclusive of VAT).

In addition, for entities in which Gazprom has investments classified as joint operations, exploration drilling stood at 28.7 thousand m, with eight exploration wells (including five production wells) completed, and 3D seismic survey was acquired on 474 square km. Further exploration using sidetrack drilling totalled 5.0 thousand m.

In 2018, exploration-driven additions to A+B<sub>1</sub>+C<sub>1</sub> hydrocarbon reserves in Russia totalled 796.6 bcm of natural gas, 21.8 mm tonnes of gas condensate, and 19.4 mm tonnes of oil. Including additions to the reserves of companies in which Gazprom has investments classified as joint operations — 6.8 mm tonnes of oil.

Significant growth in gas reserves was achieved at the Leningradskoye field in the Kara Sea (+667.4 bcm) and the Yuzhno-Kirinskoye field in the Sea of Okhotsk (+100.9 bcm). The Group made three new field discoveries during 2018: the Neptune and Triton fields in the Sea of Okhotsk and the Blichnenovoportovskoye field in the Yamal-Nenets Autonomous Area, as well as identified 12 new deposits at the previously discovered fields in the Yamal-Nenets Autonomous Area, Khanty-Mansi Autonomous Area — Yugra, the Tomsk and Orenburg regions, and the Kara Sea. In addition, entities in which Gazprom has investments classified as joint operations discovered the Vostochno-Talovoye field in the Tomsk Region and three deposits in the Khanty-Mansi Autonomous Area — Yugra.

The results of exploration activities at the Nyarmeyevsky and Rusanovsky licence blocks in the Kara Sea allow Gazprom to expect more discoveries in the areas.

The exploration success rate in 2018 was 34.5 thousand boe per metre drilled (excluding entities in which Gazprom has investments classified as joint operations).

# 1.60

## The gas reserve replacement ratio

### Transfer of Reserves

In the reporting year, the transfer of subsoil licences for the Severo-Parusovoye and Semakovskoye fields located in the Tazovsky and Nadymsky districts of the Yamal-Nenets Autonomous Area and in the Taz Bay of the Kara Sea to OOO RusGazAlyans (a joint venture between OOO Gazprom dobycha Yamburg and AO RusGazDobycha) was a major factor behind the changes in natural gas reserves vs the estimate as at 31 December 2017. The transaction was made under the Master Agreement on the implementation of a joint project for the development of the Parusovoye, Severo-Parusovoye and Semakovskoye fields located in the Yamal-Nenets Autonomous Area, signed between PJSC Gazprom and AO RusGazDobycha.

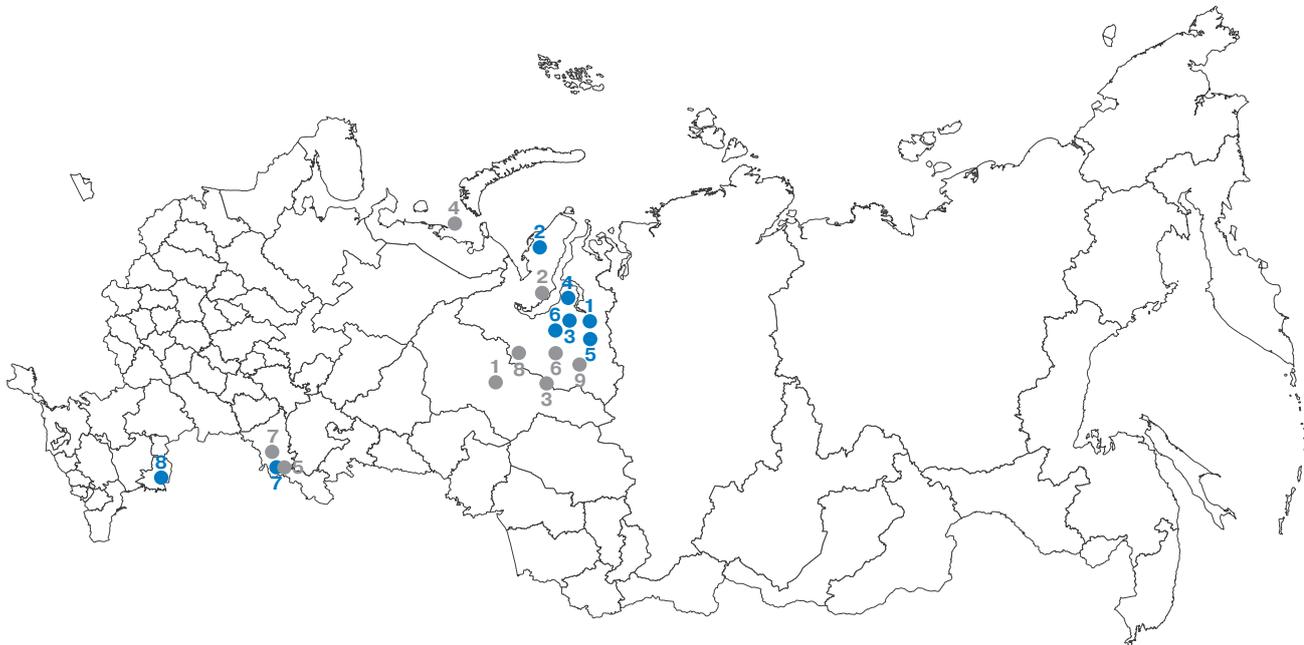
### Field Developments

PJSC Gazprom's consistent success in implementing unique and strategically important hydrocarbon production projects is largely driven by its recognised technology leadership.

### Gazprom Group's hydrocarbon production assets in Russia as at 31 December 2018

Gazprom Group	
138	fields in commercial development
7,418	gas producing wells
1,166 bcm	total design capacity of comprehensive and preliminary gas treatment units
8,489	oil producing wells
Entities in which Gazprom has investments classified as joint operations	
38	fields in commercial development

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



● The largest fields by natural gas production

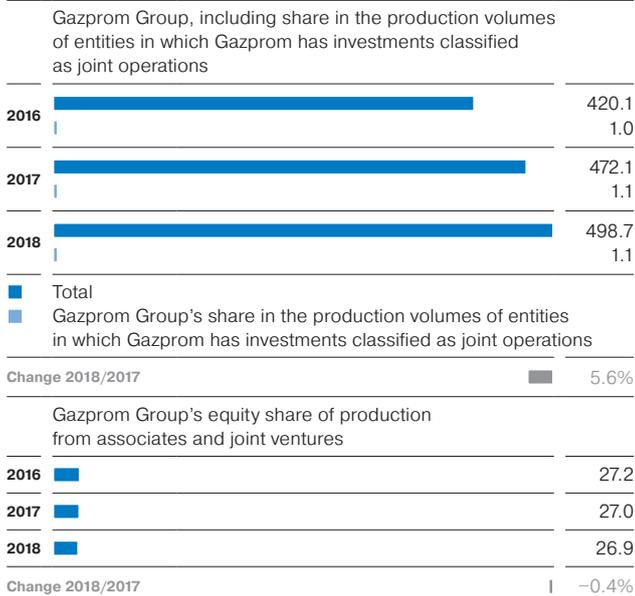
- 1 Zapolyarnoye
- 2 Bovanenkovskoye
- 3 Urengoyenskoye
- 4 Yamburgskoye
- 5 Yuzhno-Russkoye
- 6 Yamsoveiskoye
- 7 Orenburgskoye
- 8 Astrakhanskoye

● The largest fields by oil production

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

**Note.** The map shows Gazprom Group's hydrocarbon fields (excluding entities in which Gazprom has investments classified as joint operations) with combined production accounting for 70% or more of total natural gas and oil production in 2018.

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



The Group produced 498.7 bcm of natural and associated gas in the reporting year, demonstrating growth due to an increase in demand. In autumn and winter of 2017/2018, actual maximum daily production in the UGSS area amounted to 1,494.2 mmcm.

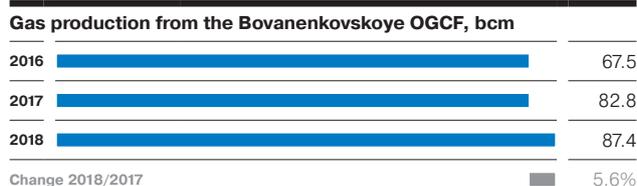
The Zapolyarnoye OGCF (Cenomanian) and the Bovanenkovskoye OGCF significantly contributed to the growth in natural gas production. In 2018, the third gas production site with a 30 bcm per year gas treatment unit was launched at the Bovanenkovskoye field. This will help ramp up gas production from the field's Cenomanian-Aptian deposits to a design capacity of 115 bcm per year.

Actual gas production at the field is increased incrementally based on market demands.

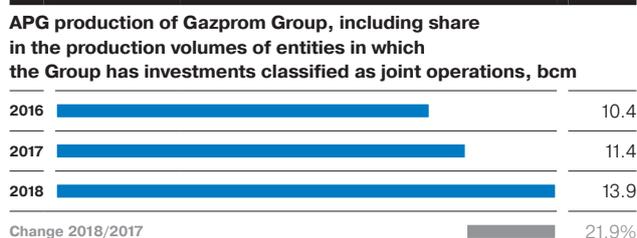
**The Bovanenkovskoye OGCF was tested at maximum daily gas production of 317 mmcm.**

Information on the commissioning of exploration and production capacities in the reporting year is presented in the [Capex Programmes](#) section

**In only ten years, in the most challenging Arctic conditions, Gazprom has built a strong production complex and transportation and life-supporting infrastructure at the Bovanenkovskoye field in the Yamal Peninsula from the ground up.**



In 2018, Gazprom Group also increased the production of APG. The primary contributor to this growth was the Novoportovskoye OGCF of Gazprom Neft, where facilities allowing APG re injection into a reservoir to maintain formation pressure at the required level were commissioned in 2017. APG utilisation level across Gazprom Neft Group (excluding entities in which the Group has investments classified as joint operations) increased to 78.4% (in 2017 — 76.2%).



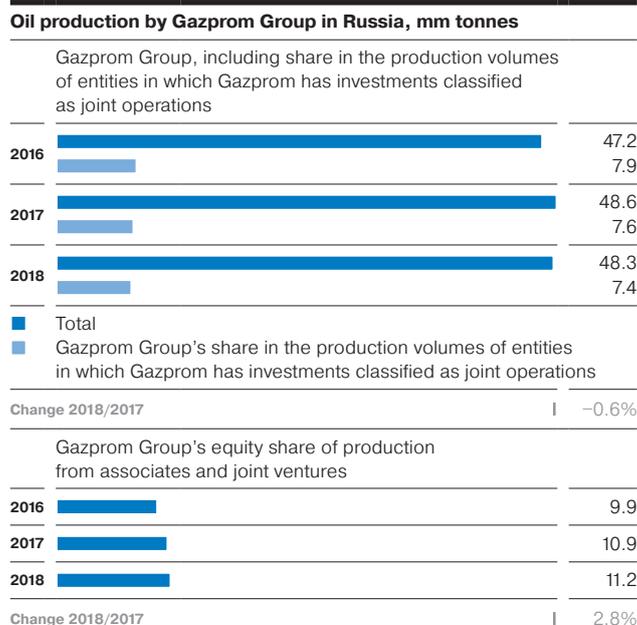
Gazprom Neft is working to improve APG utilisation level in line with the APG Efficient Utilisation Programme involving capex projects for construction of gas infrastructure. APG utilisation of at least 95% is planned to be achieved by 2020 for assets with well-developed gas infrastructure and by 2022 taking into account the new assets. In 2018, new facilities were commissioned at Eastern block of the Orenburgskoye OGCF under the programme.

In 2018, APG utilisation across Gazprom Group's assets in Russia reached 81.8%, including share in the production volumes of entities in which the Group has investments classified as joint operations.

**PJSC Gazprom's gas production subsidiaries achieved APG utilisation rates of almost 100%.**

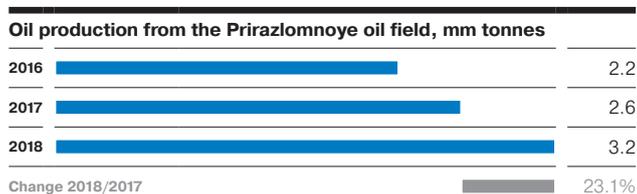
Revamps and retrofits of gas production facilities carried out under comprehensive programmes ensure reliable, safe, and cost-efficient operation of Gazprom Group's gas production assets to maintain target gas production levels, including fields in the declining production phase. Activities under such programmes in 2018 covered the Yamburgskoye, Urengoykoye, Medvezhye, Yubileynoye, and Yamsoveiskoye, and Orenburgskoye OGCFs, as well as the Astrakhanskoye GCF. The Group allocated RUB 6.0 bn (inclusive of VAT) to fund these programmes.

Gazprom Group's oil and gas condensate production volumes in 2018 remained almost flat year-on-year. Production volumes were reduced for a number of Gazprom Neft's fields to meet quotas defined by the Ministry of Energy of the Russian Federation for Gazprom Group under the OPEC+ production cut deal.



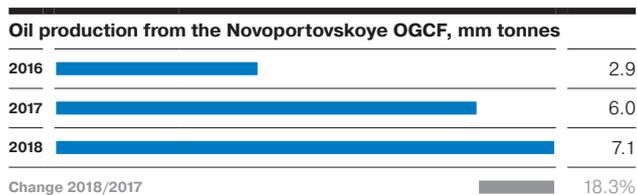
The Group continued to ramp up oil production at the Novoportovskoye OGCF and the Prirazlomnoye oil field under the field development projects.

As at 31 December 2018, 16 of 32 planned wells were commissioned at the Prirazlomnoye field located on the south-eastern Pechora Sea shelf. Year-round oil shipments are ensured, including the ice season in winter.



**The ARCO oil type produced at the Prirazlomnoye field is in high demand since its unique properties and composition are perfectly suited for deep processing at European refineries.**

Two next-generation icebreakers commissioned by Gazprom Neft and built in 2018 will help enhance the logistics of year-round Arctic oil shipment from the Novoportovskoye field.



**Attracting investments in the development of hard-to-recover reserves**

In September 2018, Gazprom Neft Group, Mubadala Petroleum investment fund (UAE), and the Russian Direct Investment Fund announced the completion of a transaction establishing a joint venture to develop oil fields in Western Siberia. Further to the transaction, a 49% minority interest in OOO Gazpromneft-Vostok operating 13 fields in the Tomsk and Omsk regions was sold to the investor consortium. The subsidiary's potential lies in designing technology for the cost-effective development of pre-Jurassic hydrocarbon resources.

The increase in the oil production volumes of associates and joint ventures was driven by higher production from AO Mes-soyakhaneftgaz-operated Vostochno-Messoyakhskoye field, put into commercial development in 2016 (a joint venture between PJSC Gazprom Neft and PAO Rosneft).

For more details on Gazprom Group's priority field developments in the Russian Federation see the [Strategy](#) section and [Gazprom in Figures 2014–2018 Factbook](#)

For more details on the application of new development technologies see the [Innovations and Import Substitution](#) section



**Operations outside Russia**

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

During 2018, Gazprom Group carried out a number of geological and geophysical (G&G) surveys under the relevant contracts in FSU countries, Europe, Southeast Asia, Africa, the Middle East, and South America.

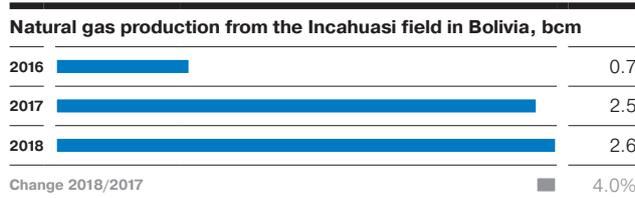
Exploration campaigns conducted by Gazprom Group on the Group-operated projects included exploratory drilling of 21.9 thousand m of rocks with 10 exploration wells completed (including 9 producing wells), as well as 3D seismic surveys of 1.1 thousand square km. Drilling operations were conducted in Serbia and Iraq, 3D seismic surveys — in Serbia.

Under the Agreement of Strategic Cooperation between PJSC Gazprom and AO Uzbekneftgaz, hydrocarbon potential of six investment blocks, as well as the Paleozoic deposits in the Bukhara-Khiva region in Uzbekistan was assessed.

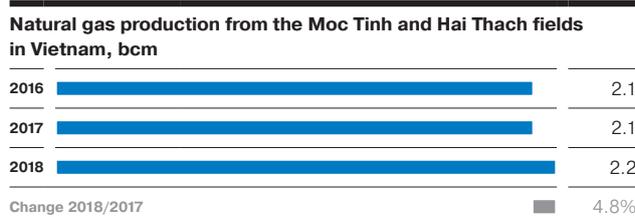
In Algeria, Gazprom Group optimised the technical and economic parameters of the ZERN and ZER field development (including negotiations with the Algerian party on amending the contract terms), which led to the decision to transfer the blocks to the state. In 2018, Gazprom Group also returned licences for the Shohambary and Sarikamysh prospects in Tajikistan, and the Kugart and Eastern Mailu-Suu IV licence blocks in Kyrgyzstan since PJSC Gazprom resolved that further exploration would be unviable.

Gazprom Group spent RUB 4.7 bn in 2018 on exploration projects outside Russia (inclusive of VAT).

Gazprom Group also has stakes in a number of oil and gas projects at the production stage. In terms of natural gas and gas condensate production, the largest of them include the projects on development of the Moc Tinh and Hai Thach fields in the Vietnamese section of the South China Sea bed (49% held by Gazprom Group), and the Incahuasi field in Ipati and Aquio licence blocks in Bolivia (20% held by Gazprom Group). The Badra field development project in Iraq (30% held by Gazprom Group) is the largest by production of oil and APG.



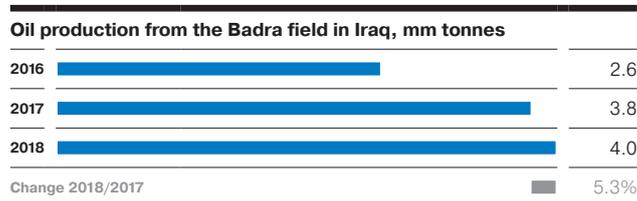
**Note.** Total production figures are given for the project, without separating the share attributable to Gazprom Group.



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

**More than 20%**  
**The share of Vietnamese natural gas produced by the joint venture at the Moc Tinh and Hai Thach fields developed with the Group's participation**

In 2018, the Group completed the production well drilling programme at the Badra field and commissioned the second train for gas treatment.



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

The Group signed the supplementary agreement to the production sharing agreement for the development of the Shakhpakhty field extending its validity till 2024, and the production sharing agreement for the Djel field development (Uzbekistan) in 2018.

Naftna Industrija Srbije (NIS), a Serbian subsidiary of Gazprom Neft, produced 0.9 mm tonnes of oil and 0.5 bcm of natural and associated gas.

In 2018, Wintershall Noordzee joint venture (50% were obtained by the Group following an asset swap deal between PJSC Gazprom and Wintershall Holding GmbH) produced 0.7 bcm of gas in the North Sea. The Group's associate Wintershall AG (49% held by the Group) still faces challenges due to the ongoing political crisis in Libya, which resulted in limited oil production and export: in the reporting year, 2.1 mm tonnes of oil and 0.3 bcm of associated gas were produced.

For more details on Gazprom Group's prospecting and exploration projects and on performance of associates and joint ventures outside Russia see [Gazprom in Figures 2014–2018 Factbook](#)

Gazprom Group executes oilfield services contracts in the Republic of Bangladesh. In 2018, the Group completed the construction of the Bhola North 1 well in Bangladesh for BAPEX.

**Exploring business opportunities in Iran**

Gazprom Group is exploring opportunities to conduct business in Iran in compliance with the laws of the Russian Federation, international laws, and considering economic, operational, and legal risks.

Between 2009 and 2017, PJSC Gazprom signed a number of non-binding memoranda of understanding with Iranian companies to cooperate in exploration, production, transportation, processing, and marketing of hydrocarbons. The Company does not conduct any investments and operations under these memorandums.

In 2018, the Group continued to focus on exploring opportunities for participation in new oil and gas projects in South America and Tajikistan. Under the Agreement of Strategic Cooperation with YPFB, PJSC Gazprom is focusing on possible participation in the development of the Vitiacua block in Bolivia. In addition, in line with the Memorandum of Cooperation with YPF, PJSC Gazprom is exploring a number of prospective projects in hydrocarbon exploration and production in Argentina.

## Transportation and Underground Storage

The effective operation of the world’s largest gas transportation system (GTS) of Gazprom ensures highly reliable and flexible gas supplies. The Company consistently develops the system with an emphasis on constructing advanced high-tech gas pipelines. Major efforts are focused on the expansion of the Northern Gas Transmission Corridor becoming the key route for domestic and export supplies, and on building gas transportation system in eastern Russia.

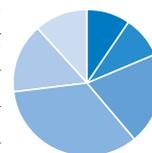
### Gas Transportation in Russia

The Unified Gas Supply System (UGSS) of Russia is a centrally operated system of natural gas treatment, transportation, and storage. The UGSS incorporates the world’s longest network of high-pressure trunk pipelines covering European Russia and Western Siberia. In addition, the Group owns trunk pipelines in the Russian Far East: Sakhalin — Khabarovsk — Vladivostok and Sobolevo — Petropavlosk-Kamchat-sky. As at 31 December 2018, the combined length of trunk pipelines and connections operated by the Group’s gas transportation subsidiaries in Russia totalled 172.6 thousand km.

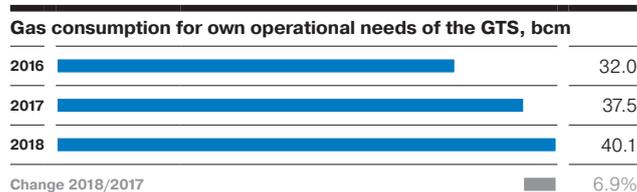
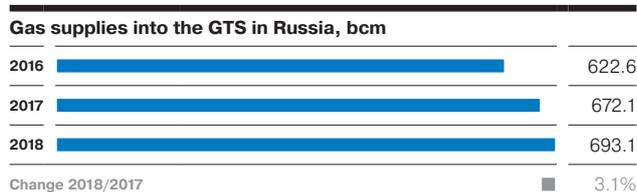
**Gazprom’s GTS, which is unique in its size and quality parameters, ensures highly reliable and flexible gas supplies for consumers in Russia and abroad.**

**Breakdown of Russian trunk gas pipelines operated by the Group’s gas transportation subsidiaries by time in service as at 31 December 2018, thousand km**

■	Less than 10 years (inclusive)	16.7
■	11 to 20 years (inclusive)	15.7
■	21 to 30 years (inclusive)	34.8
■	31 to 40 years (inclusive)	59.1
■	41 to 50 years (inclusive)	26.3
■	Over 50 years	20.0
	Total	172.6



During 2018, a total 693.1 bcm of gas were supplied into Gazprom’s GTS in Russia exceeding the level of 2017. The growth was driven by higher demand and a subsequent increase in gas supplies by Gazprom.



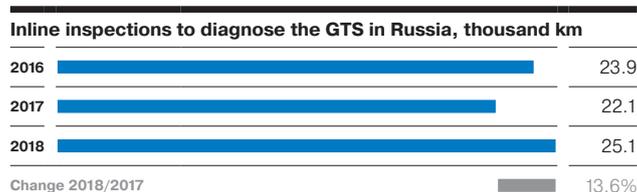
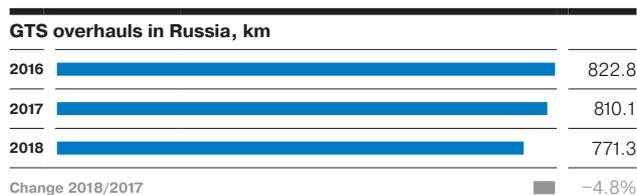
**Gas transportation services to non-Group companies via Gazprom’s GTS in Russia**

	2016	2017	2018	Change 2018/2017
Gas transported, bcm	129.0	137.9	136.4	-1.1%
including Russian gas	121.3	130.4	128.3	-1.6%
Companies serviced	24	24	25	4.2%

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

**Over the last ten years, there were no significant problems in gas supplies to consumers due to break-downs or faults in GTS operation.**

Every year, under the relevant targeted comprehensive repair programmes, the Company performs overhauls and scheduled maintenance of gas transportation facilities based on inline and corrosion inspections data. It improves the reliability of gas supplies, technical and environmental safety of transportation, and distribution of gas flows.



Reduced overhauls of trunk gas pipelines over the last years were due to a higher share of pipe replacements in the total overhauls and redistribution of funding on repairs for gas processing facilities, GPUs, and gas-turbine engines. To compensate for the change and ensure reliable GTS operation, the number of inline inspections in trunk gas pipelines was increased.

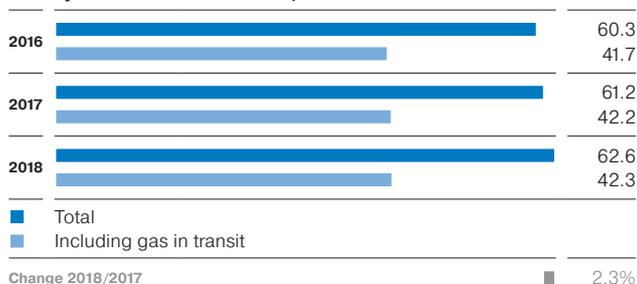
For more details on the diagnostics and overhauls of trunk gas pipelines in Russia and on the number of GTS technical fault see [Gazprom in Figures 2014–2018 Factbook](#)

### Gas Transportation outside Russia

In the former Soviet Union (FSU) countries, Gazprom Group companies own the gas transportation systems in Belarus, Armenia, and Kyrgyzstan. The gas transportation system in Belarus, which is owned by PJSC Gazprom’s subsidiary OAO Gazprom transgaz Belarus, supplies natural gas to consumers in Belarus, and carries transit supplies of gas to Europe and Russia’s Kaliningrad Region.

For more details on profiles of Gazprom Group’s gas transportation infrastructure outside Russia see [Gazprom in Figures 2014–2018 Factbook](#)

#### Gas injected into Belarus’ GTS, bcm



Nord Stream (operated by joint venture Nord Stream) and Blue Stream (operated by Blue Stream, which is included in the list of entities in which Gazprom has investments classified as joint operations) offshore cross-border pipeline systems constructed with Gazprom’s involvement, secure gas supplies to consumers in Northwest and Central Europe, as well as in Turkey.

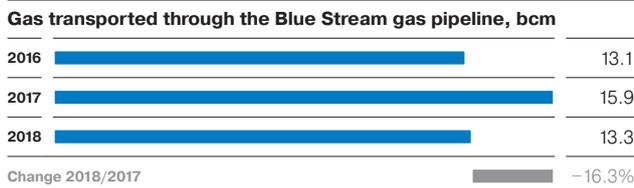
The key drivers of gas pipeline capacity utilisation include demand from European consumers and regulatory restrictions by supervisory authorities on access to pipeline capacity for transit supplies.

For details on key gas export routes of PJSC Gazprom see the [Company Information](#) section

#### Gas transported through the Nord Stream gas pipeline, bcm



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



Note. Gas injection into the pipeline at the Beregovaya compressor station.

In 2018, the share of these GTS in transit supplies of gas to Europe totalled ca. 36%.

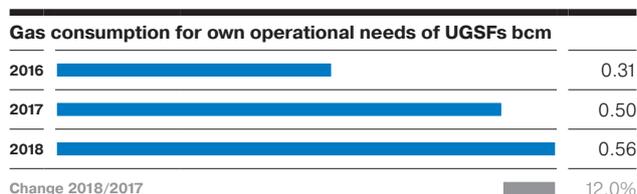
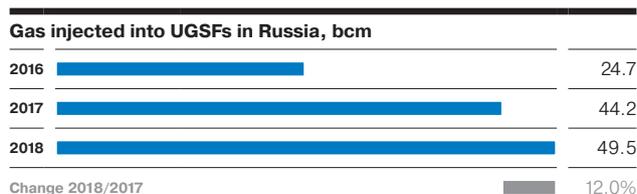
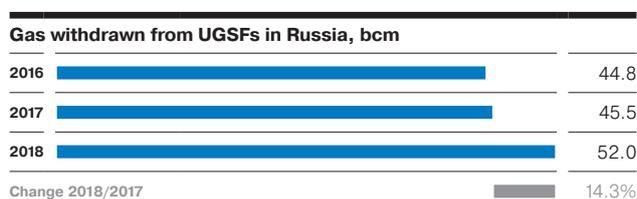
### Underground Gas Storage in Russia

Underground gas storage facilities (UGSFs) are located in key gas consumption areas. Peak and base load gas storage facilities improve the reliability of the UGSS infrastructure and optimise technical parameters and capital intensity of gas transportation systems. UGSFs have been constructed and are used by Gazprom Group for process purposes, as well as to ensure the reliability of gas supplies during seasonal consumption peaks and level off seasonal and daily fluctuations in demand.

**Volgogradskoye UGSF (phase 1) was commissioned in 2018.**

In Russia, Gazprom Group operates 23 UGSFs in 27 geological structures. As at 31 December 2018, Gazprom Group’s UGSFs in Russia had an aggregate total gas storage capacity of 75.0 bcm.

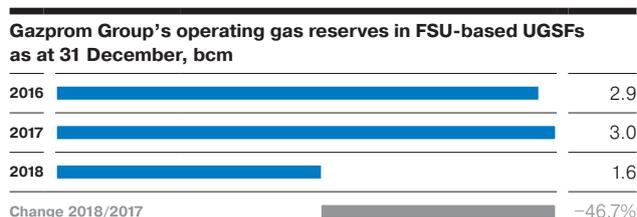
During 2018, withdrawal and injection amounts for Russian UGSFs totalled 52.0 bcm and 49.5 bcm of gas. The maximum aggregate daily deliverability was registered on 1 March 2018 at 555 mmcm. By the start of the withdrawal season, the potential maximum daily deliverability was increased by 7.2 mmcm from 2017 and totalled 812.5 mmcm of gas. By the 2018/2019 withdrawal season, operating gas reserves in Russian UGSFs increased by 0.088 bcm from the previous season to 72.2 bcm. The improved performance was driven by a recovery in target well productivity and revamps of the existing Kasimovskoye, Sovkhoznoye, Kalinigradskoye, Elshano-Kurdyumskoye, and Peschano-Umet-skoye UGSFs, as well as the construction of the new Volgogradskoye UGSF.



**Underground Gas Storage outside Russia**

The UGSFs outside Russia enable Gazprom Group to build strategic natural gas reserves mitigating transit risks.

In the FSU countries, Gazprom operates UGSFs in Belarus (Pribugskoye, Osipovichskoye, and Mozyrskoye), in Armenia (the Abovianskaya underground gas storage station), and employs capacities of the Inčukalns UGSF in Latvia during repairs and emergencies. As at 31 December 2018, the operating gas reserves in FSU-based UGSFs totalled 1.6 bcm, down from 31 December 2017 due to reduced operating gas reserves in the Inčukalns UGSF.



Gazprom Group injected 1.2 bcm of gas into FSU-based UGSFs, and withdrew the same volume of gas.

To secure reliable and flexible gas supplies, Gazprom makes extensive use of gas storage facilities located in European far abroad countries: in Austria (Haidach), Germany (Jemgum, Rehden, Katharina, and Etzel), Serbia (Banatski Dvor), the Netherlands (Bergermeer), and the Czech Republic (Dambořice).

By the start of the 2018/2019 withdrawal season, PJSC Gazprom owned gas storage capacity in far abroad European countries totalled approximately 5 bcm of working gas while the additional gas storage contracts signed in autumn and winter of 2018/2019 added 5.8 bcm in gas inventories by 1 December 2018. In 2018, a total of 6.6 bcm of PJSC Gazprom's gas were injected into UGSFs in far abroad European countries under OOO Gazprom export contracts, with a total gas withdrawal of 7.2 bcm.

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

Gazprom implements an important national objective of expanding gas infrastructure across Russia: every year tens of thousands of consumers are connected to the gas network. Gas infrastructure expansion means higher living standards for local residents and a major boost in social and economic growth for Russian regions. Promoting the use of natural gas vehicle fuel (NGV fuel) through expanding the network of advanced gas filling stations is an integral part of this effort.

Gazprom Group operates its network in a safe and reliable way while providing corporate control over compliance with industrial safety requirements for the operation of gas distribution systems in Russia. Work is in progress to consolidate gas distribution assets in Russia through acquiring economically viable gas-distributing facilities in strict compliance with the applicable laws.

The Group's gas distribution networks are operated by AO Gazprom gazoraspredelenie, its subsidiaries and associates, and OOO Gazprom transgaz Kazan.

As at 31 December 2018, the Group's gas distribution subsidiaries and associates owned and operated a total of 786.7 thousand km of gas distribution networks in Russia, which makes up ca. 82% of all gas distribution networks in Russian regions.

---

Ca. **74**%

**The share of end consumers supplied Gazprom Group's gas distribution entities**

In 2018, Gazprom Group's gas distribution subsidiaries and associates transported 239.7 bcm of natural gas via their gas distribution networks. Gas was supplied to:

- 27.7 million apartments and private households
- 32.4 thousand industrial facilities
- 8.1 thousand agricultural facilities
- 332.6 thousand utility facilities

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

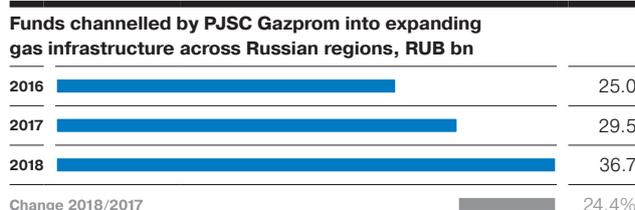
---

For more details on Gazprom Group's gas distribution business see [Gazprom in Figures 2014–2018 Factbook](#)

### Expansion of Gas Infrastructure in Russian Regions

The implementation of the Programme for Expansion of Gas Infrastructure, which has a direct impact on social and economic growth in Russian regions and people's living standards, is one of the Gazprom's strategic priorities Russia. In 2018, the Programme for Expansion of Gas Infrastructure covered 66 Russian regions.

**RUB 36.7 bn**  
**were allocated by PJSC Gazprom in 2018 to expand gas infrastructure across Russian regions**



146 facilities spanning 2,019 km were built under the Programme in 2018. The Company extended gas infrastructure to connect 49.1 thousand households and apartments and 210 boiler houses across 272 locations. As part of utility connection services, 101.8 thousand capital facilities were connected to gas distribution networks.

**24.4%**  
**A year-on-year increase in funds channelled by PJSC Gazprom into expanding gas infrastructure across Russian regions in 2018**

Increased PJSC Gazprom's investment in infrastructure expansion across Russia in 2018 was mainly due to activities with significant impact on Russia's social and economic growth in general and aimed at developing the gas market in Russia's Far East (supplying gas in priority development areas (PDAs) in the Primorye, Khabarovsk, and Kamchatka Territories, in the Sakhalin Region, the Vostochny Cosmodrome, and the Svobodny PDA in the Amur Region) and expanding gas infrastructure in rural areas.

In 2018, the gas infrastructure coverage grew by 0.5 p.p. year-on-year and, as at 31 December 2018, reached 68.6% in Russia, including 71.9% in urban and 59.4% in rural areas.

As part of supplying gas and expanding gas infrastructure in PDAs of the Primorye, Khabarovsk, and Kamchatka Territories and the Sakhalin Region in 2018, 16 gas supply facilities for the PDAs Mikhailovsky, Nadezhdinskaya, Parus, Komso-molsk, and Gorny Vozdukh spanning a total of 170 km were in design and construction phase with three facilities spanning 31 km completed. In 2018, the Company also designed gas supply facilities for the Vostochny Cosmodrome (two facilities), and continued designing gas supply facilities for the Svobodny PDA in the Amur Region (two facilities).

The main challenge in implementing the gasification programme in the Kamchatka PDA is the shortage of gas resources due to a lack of proved gas reserves for a number of fields. To maintain current production volumes, Gazprom makes efforts in expanding mineral resource base in the region and considers alternative gas supply options.

Capex projects in off-mains solutions employing natural gas liquefaction technology are underway in the Tomsk Region. In 2018, as part of these efforts, the Company designed five facilities: Kargala, a small-scale LNG production facility (7 tonnes of LNG per hour), and four receiving, storage, and regasification stations.

The Programme for Expansion of Gas Infrastructure in Russian Regions for 2019 covers 66 regions (just like in 2018). Allocated investments totalled RUB 34.3 bn.

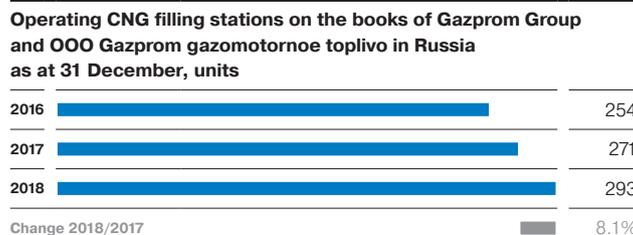
### NGV Fuel Markets

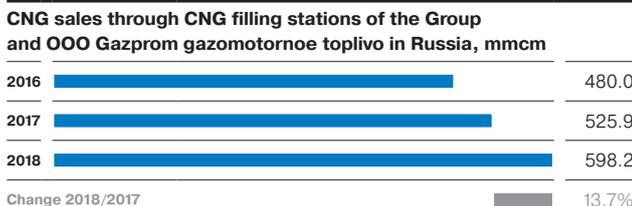
#### Development of the NGV Fuel Market in Russia

Promoting the use of natural gas as motor fuel in Russia is one of Gazprom Group's priorities.

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

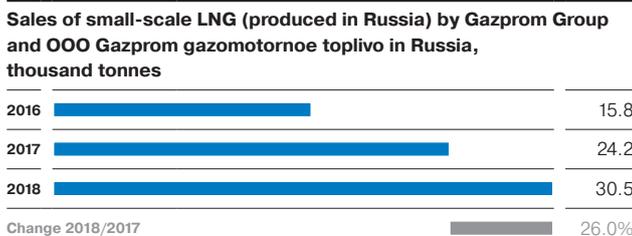
As at 31 December 2018, Gazprom Group operated a network of 293 compressed natural gas (CNG) filling stations in Russia with total sales of over 2.2 bcm per year. 235 of these CNG filling stations were operated by OOO Gazprom gazomotornoe toplivo, and 58 — by PJSC Gazprom's subsidiaries.





CNG sales in 2018 grew due to implementing marketing programmes to promote the use of natural gas as motor fuel, incentive programmes to convert vehicles to natural gas, and a rapidly growing federal network of gas filling stations.

Total sales of small-scale LNG (produced in Russia) by Gazprom Group and OOO Gazprom gazomotornoe toplivo increased year-on-year due to growth in export supplies.



In 2018, the Group promoted the use of NGV fuel with a focus on following key areas: development of gas-filling infrastructure, interaction with Russian automakers and carriers, interaction with state authorities of the Russian Federation.

**NGV Infrastructure Expansion**

In cooperation with the Federal Road Agency (Rosavtodor), the Group developed the Master Plan for Developing NGV Infrastructure along the Federal Roads providing for constructing a core network of 181 facilities and setting up so-called transit NGV corridors at the existing and projected key highways of Russia.

Furthermore in 2018, 21 CNG filling stations and three mobile NGV-refuelling stations were completed and bought from private investors and four CNG filling stations and two mobile NGV-refuelling stations were revamped. LNG infrastructure for gas-powered locomotives was expanded.

**Cooperation with Russian Automotive Manufacturers and Carriers**

OOO Gazprom gazomotornoe toplivo and Russian automotive manufacturers jointly worked on developing an electronic catalogue of CNG-powered vehicles, discussed possible options for cooperation to expand the model range of CNG-powered vehicles (in particular, with PAO KAMAZ, and PAO AVTOVAZ), and ran activities to promote gas-powered transport and CNG use.

**Government Relations**

In the reporting year, major efforts were focused on relations with the Ministry of Energy of the Russian Federation (Minenergo of Russia), Ministry of Industry and Trade of the Russian Federation (Minpromtorg of Russia), Ministry of Transport of the Russian Federation (Mintrans of Russia), Ministry of Agriculture of the Russian Federation (Minselkhoz of Russia), Executive Office of the Government of the Russian Federation, and executive offices of the Presidential Plenipotentiary Envoys to the Federal Districts to address state support for the development of the NGV fuel market. In particular, proposals were drafted on improving the laws to encourage the use of NGV fuels.

In 2018, OOO Gazprom gazomotornoe toplivo signed agreements with eight Russian regions to promote the use of NGV fuel, and submitted proposals on measures to encourage the use of natural gas as motor fuel to 17 regions.

**60**

**Regions of the Russian Federation developing their gas refuelling networks under relevant agreements with OOO Gazprom gazomotornoe toplivo**

### Presence in the International NGV Fuel Market

Gazprom Group is also active in the international NGV fuel segment of the European market via Gazprom NGV Europe, a 100% subsidiary (active in the markets of Germany, the Czech Republic, and Poland), and via NIS (part of Gazprom Neft Group) that markets CNG in Serbia. In 2018, the number of CNG filling stations and cryogenic filling stations in Europe grew to 70 (over a half of them — in Germany) driven by the expansion of CNG filling station network in the Czech Republic. CNG and LNG sales also increased and amounted 12.9 mmcm (12.3 mmcm in 2017).

The Group offers CNG via CNG filling stations in FSU countries — Armenia, Belarus, and Kyrgyzstan. CNG sales totalled 42.3 mmcm in 2018.

---

#### **Status of the project on promoting the NGV fuel market in Vietnam (as at 31 December 2018)**

---

- The Group completed and approved a feasibility study on the project providing for the construction of a small-scale natural gas liquefaction plant with an annual capacity of 20 mmcm, and a network of LNG/CNG filling stations in the southern provinces of Vietnam
- An official confirmation of natural gas supply for a pilot project until 2033 was obtained from PV Gas
- The Group rented a land plot to site an LNG facility
- The project was approved for implementation under an EPC-contract
- A document package was prepared to initiate tender procedures

In cooperation with our foreign partners, we took efforts on developing the NGV fuel markets, including implementation of the NGV infrastructure projects in Bolivia and Vietnam.

---

#### **An NGV rally across the international transport route between Europe and China (in partnership with CNPC and JSC National Company KazMunayGas)**

---

The motor rally commenced on 4 September 2018 in Rudong, China, and officially concluded on 4 October 2018 at the 8th St Petersburg International Gas Forum. The motor rally involved several events (round-table discussions, presentations) to promote the use of natural gas as motor fuel. The motor rally featured a total of 15 gas-powered trucks, cars, and buses.

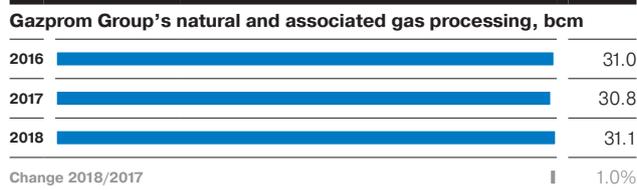
The international conference Silk Road Clean Energy — the Future of International Transcontinental Gas-Motor Corridors, held on 4 October 2018, summarised the motor rally. The conference participants also discussed the prospects of development of LNG filling infrastructure on the transport route between Europe and China.

## Hydrocarbon Processing and Petrochemicals

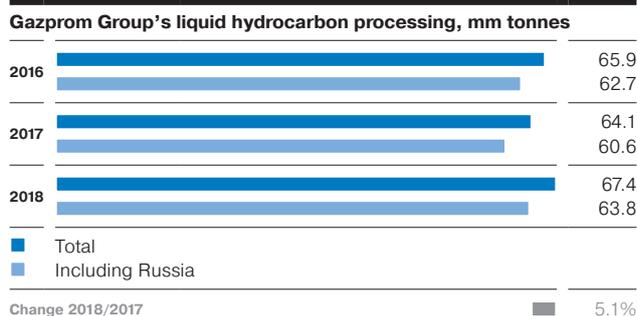
The Company consistently develops its gas processing business with the half of Russia's gas volumes processed at Gazprom Group's facilities. The Amur GPP, Russia's No. 1 and the world's No. 2 gas processing facility, is under construction and a number of other promising projects are explored.

In 2018, Gazprom Group processed 31.1 bcm of natural and associated gas (almost flat year-on-year), excluding tolling arrangements. Processing of liquid hydrocarbon feedstocks (crude oil, gas condensate, and fuel oil) grew by 5.1% year-on-year to 67.4 mm tonnes mainly due to higher processing volumes across Gazprom Neft Group and Gazprom neftekhim Salavat Group.

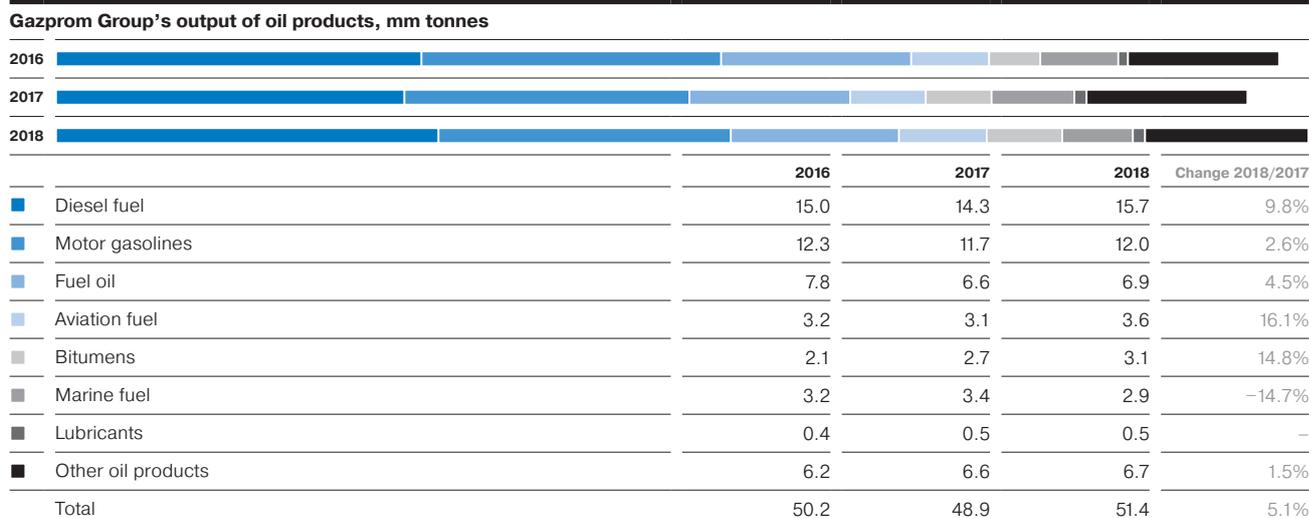
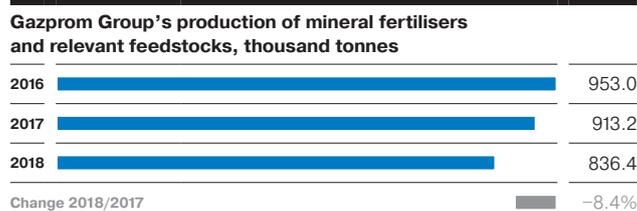
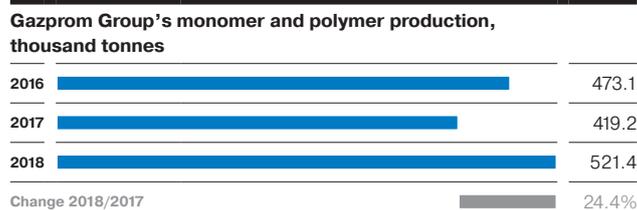
The Group produced 3.6 mm tonnes of liquefied petroleum gas (LPG) and 5.1 mmcm of helium in 2018. Due to higher processing volumes of liquid hydrocarbon feedstocks, the output of petroleum products reached 51.4 mm tonnes. As a result of the production facilities upgrade, Gazprom neftekhim Salavat ramped up its output of monomers and polymers. At the same time, the output of mineral fertilisers was down following the sale of a non-performing asset.



Note. Excluding tolling arrangements.



Note. Excluding tolling arrangements.



**Gazprom Group's hydrocarbon processing, and gas chemical and petrochemical capacity as at 31 December 2018**



● Gas processing plants (GPPs) with installed throughput capacity			● Refineries with installed throughput capacity				
1	Astrakhan	Astrakhan GPP	12.0	1	Serbia	Novi Sad Refinery***	10.0
			7.3				
2	Sosnogorsk	Sosnogorsk GPP	3.0			Pančevo Refinery	4.6
			2.5				
3	Orenburg	Orenburg GPP	37.5	2	Belarus	Mozyr Refinery****	14.0
			6.3				
		Orenburg Helium Plant	15.0	3	Moscow	Moscow Refinery	12.8
4	Khanty-Mansiysk	Yuzhno-Priobskiy GPP*	0.5	4	Yaroslavl	Slavneft-YANOS*	7.5
5	Surgut	Condensate stabilisation plant	12.1	5	Salavat	Salavat Refinery	10.0
6	Novy Urengoy	Condensate pre-transportation preparation plant**	13.7	6	Omsk	Omsk Refinery	22.2

■	Natural and associated gas, bcm
■	Oil, mm tonnes
■	Unstable gas condensate, mm tonnes
■	Oil, stable gas condensate, deethanised gas condensate, mm tonnes

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

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

\*\*\* Suspended as at 31 December 2018.

\*\*\*\* Up to 50% of oil supplied by the Group to the refinery. The actual processing volume at the refinery depends on cost-efficiency. In 2018, the Group did not run refining operations under tolling arrangements at the Mozyr Refinery.

For more details on Gazprom Group's hydrocarbon processing/refining capacities see Gazprom in Figures 2014–2018 Factbook

### Gas and Condensate Processing by Gazprom's Gas Processing and Gas Production Subsidiaries

In 2018, PJSC Gazprom's gas processing and gas production subsidiaries processed 30.1 bcm of natural and associated gas and refined 17.8 mm tonnes of crude oil and unstable gas condensate, excluding tolling arrangements. Gas processing and unstable gas condensate refining volumes remained flat year-on-year.

#### Plans for the construction of gas processing facilities near the seaport of Ust-Luga

In May 2018, PJSC Gazprom and AO RusGazDobycha signed the Heads of Agreement on cooperation in implementing a joint project to construct new gas processing facilities relying on PJSC Gazprom's current hydrocarbon resource base in the Nadym-Pur-Taz region. The Agreement specifies the key terms of a GPP construction near the seaport of Ust-Luga intended to process ethane-containing natural gas produced from the Achimov and Valanginian deposits.

In 2018, a joint venture, OOO RusKhimAlyans, was established to implement this project, and a pre-investment study was carried out to support the main investment decision making.

In 2018, the Orenburg GPP processed 9.5 bcm of gas from the Karachaganakskoye gas and condensate field (Kazakhstan) under tolling arrangements (8.8 bcm in 2017).

#### Unstable gas condensate and crude oil processing by Gazprom's gas processing and gas production subsidiaries, mm tonnes



Note. Excluding tolling arrangements.

#### Stable gas condensate (crude oil) processing by Gazprom's gas processing and gas production subsidiaries, mm tonnes



Note. Excluding tolling arrangements.

The decrease in stable gas condensate (crude oil) primary refining volumes was due to an upgrade of the diesel fuel hydrotreating unit at the Astrakhan GPP.

In 2018, PJSC Gazprom completed the consolidation of its processing assets into OOO Gazprom pererabotka: the subsidiary acquired the Orenburg GPP and the Orenburg Helium Plant, both formerly owned by OOO Gazprom dobycha Orenburg, and the Astrakhan GPP formerly owned by OOO Gazprom dobycha Astrakhan. OOO Gazprom pererabotka has obtained all applicable licences.

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

In 2018, Gazprom neftekhim Salavat's production facilities refined 6.7 mm tonnes of liquid hydrocarbon feedstocks (including 1.6 mm tonnes of crude oil, 4.8 mm tonnes of stable gas condensate and 0.3 mm tonnes of fuel oil) and processed 0.5 bcm of natural gas.

#### Stable gas condensate and crude oil processing by Gazprom neftekhim Salavat's facilities, mm tonnes



Motor gasoline production ramped up in 2018 due to the commissioning of a pentane-hexane fraction isomerisation plant in 2017 and favourable market conditions. The subsidiary also increased its diesel fuel output, while cutting production of the relatively low-margin marine fuel. The production process upgrade to the updated GOST 33133-2014 and the launch of grade BND 70/100 and BND 100/300 road bitumens production enabled the subsidiary to achieve a record-high bitumen output.

#### New products launched by Gazprom neftekhim Salavat's facilities in 2018

Facility	Product
Salavat Refinery	Grade BND 70/100 and BND 100/300 road bitumens
	Isopentane fraction
	Feedstock for grade SDB 80/120 bitumen production
Monomer plant	SNOLEN ER 0.26/51N PE100 slurry high-density polyethylene

The Monomer plant underwent a phased upgrade and increased its monomer and polymer output in 2018 year-on-year. Thus, by upgrading the ethylene and propylene production facilities and switching them to a two-year maintenance cycle, the plant was able to ramp up its ethylene, styrene, and high-density polyethylene output.

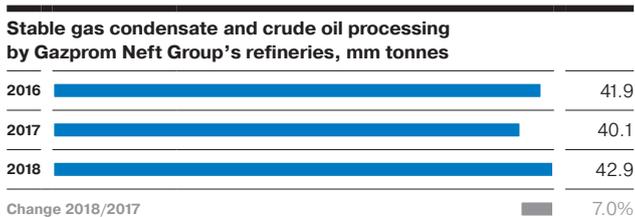
In early 2018, the plant completed the sale of its 100%-stake in a non-performing OAO Meleuz Mineral Fertilisers, therefore its mineral fertiliser range no longer includes ammonium nitrate; however, the plant's ammonia supply volumes to OAO Meleuz Mineral Fertilisers have remained flat.

**OOO Akril Salavat is Russia's largest acrylic acid and butyl acrylate producer.**

Due to higher market demand, the acrylic acid plant's output increased year-on-year.

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

In 2018, Gazprom Neft Group refined 42.9 mm tonnes of oil and stable gas condensate and 0.5 bcm of APG supplied to the Yuzhno-Priobskiy GPP as Gazprom Neft Group's equity share of production. The increased volumes of processed liquid hydrocarbon feedstocks were due to the completion of scheduled overhaul programme at Russian refineries operated by Gazprom Neft Group in 2017.



Higher processing volumes enabled Gazprom Neft Group to increase the motor gasoline and diesel fuel output. Moreover, due to an increase in processing volumes and a production process optimisation at PAO Slavneft-YANOS the aviation fuel output also grew. The increase in bitumen output resulted from higher domestic market demand and addition of new export destinations.

New products launched by Gazprom Neft's refineries in 2018	
Facility	Product
Moscow Refinery	G-DRIVE-100 motor gasoline
Omsk Refinery	Needle coke (pilot batch)
	RT jet fuel (for subsonic aircraft)
	Aromatics
	Catalytically cracked gasoline
	Avangard-NEO microspheric cracking catalyst
	Diesel fuel isodewaxing catalyst (pilot batch)
PAO Slavneft-YANOS	Grade 50/70, 70/100, and 100/150 road bitumens made to EN 12591:2009 standard for export to the EU countries
	Asphalt

The Group continued the efforts to expand its product range, improve the product quality, and launch new innovative products.

For more details on the use of new hydrocarbon processing/refining technologies, see the [Innovations and Import Substitution](#) section

## Power Generation

Gazprom is the leader in heat and power generation among domestic heat producing companies. In 2019, the Group will complete an ambitious programme to build new generating capacity under capacity supply agreements (CSAs).

Russia's largest vertically integrated power generation holding company has been established within PJSC Gazprom and has consolidated electricity and heat generating assets, heat transmission and distribution assets, as well as assets in related segments.

Gazprom Group's generating assets are consolidated within its 100% subsidiary, OOO Gazprom energoholding, managing PAO TGC-1, PAO Mosenergo, PAO OGK-2, and PAO MIPC.

AO Gazprom energosbyt, a Gazprom Group company, is a leader in the Russian electricity market, active in both wholesale and retail segments and providing over 95% of electricity needs of Gazprom Group's subsidiaries.

Outside Russia, the Group owns Unit 5 at the Hrazdan TPP through its subsidiary ZAO Gazprom Armenia.

### Gazprom Group's generating capacity as at 31 December 2018

	Installed electrical capacity, GW	Installed heat capacity, thousand Gcal/h
Gazprom energoholding	38.58	67.91
Other generating assets in Russia and abroad	1.38	2.88
Total	39.96	70.79

The year-on-year change in the installed electrical and heat capacity in 2018 was due to the retirement of obsolete and underperforming generating assets and installed capacity upgrades across OOO Gazprom energoholding companies as well as the launch of Unit 1 at the Grozny TPP. Replacing heat generation capacity of retired facilities remains a major challenge in decommissioning low-performing assets.

For more details on capacity commissioned in the power generation segment in 2018 see the [Capex Programmes](#) section

16%

**Gazprom energoholding's share in the installed electrical capacity of Russia's Unified Energy System (UES)**

### Factors affecting Gazprom energoholding's installed electrical capacity in 2018, GW

Installed electrical capacity as at 31 December 2017		38.82
New capacity commissioned	→	+0.18
Low-performing capacity decommissioned	←	-0.55
Other factors	→	+0.13
Installed electrical capacity as at 31 December 2018		38.58

**Gazprom energoholding's generating capacity as at 31 December 2018**



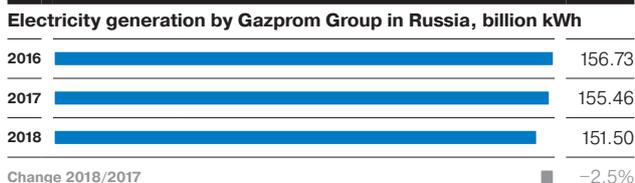
1	Adler	Adler TPP PAO OGK-2	367 63	8	Cherepovets	Cherepovetskaya GRES PAO OGK-2	1,080 39
2	Stavropol	Stavropolskaya GRES PAO OGK-2	2,423 145	9	Moscow and the Moscow Region	15 power stations of PAO Mosenergo PAO MIPC and its subsidiaries	12,798 43,136 7,091
3	Grozny	Grozny TPP PAO OGK-2	176	10	Ryazan	Ryazanskaya GRES PAO OGK-2	3,130 213
4	Novocherkassk	Novocherkasskaya GRES PAO OGK-2	2,258 60	11	Troitsk	Troitskaya GRES PAO OGK-2	1,315 210
5	Pskov	Pskovskaya GRES PAO OGK-2	440 91	12	Serov	Serovskaya GRES PAO OGK-2	451
6	Saint Petersburg, Republic of Karelia, the Leningrad and Murmansk Regions	52 power stations of PAO TGC-1 and its subsidiaries	6,950 13,745	13	Surgut	Surgutskaya GRES-1 PAO OGK-2	3,333 903
7	Kirishi	Kirishskaya GRES PAO OGK-2	2,595 1,234	14	Krasnoyarsk	Krasnoyarskaya GRES-2 PAO OGK-2	1,260 976

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

**Electricity and Heat Generation**

According to the UES System Operator, power consumption within the Unified Energy System (UES) of Russia totalled 1,056 billion kWh in 2018 while electricity generation was 1,071 kWh.

During 2018, the Group generated 151.5 billion kWh of electricity and 131.25 mm Gcal of heat at its generating assets in Russia. The decline in electricity generation by the Group was due to the streamlining of the load factors for Gazprom energoholding's inefficient generating equipment. Heat generation increased due to cooler average temperatures during the heating season.



**Heat generation by Gazprom Group in Russia, mm Gcal**

2016	129.48
2017	127.34
2018	131.25
Change 2018/2017	3.1%

# 14%

**Gazprom's share in electricity generation in Russia****Electricity generation by Gazprom Group, billion kWh**

	2016	2017	2018	Change 2018/2017
Gazprom energoholding	153.83	150.81	146.56	-2.8%
PAO Mosenergo	59.07	57.87	58.31	0.8%
PAO OGK-2	67.09	63.43	58.92	-7.1%
PAO TGC-1 and its subsidiaries	27.67	29.51	29.33	-0.6%
Other generating assets in Russia and abroad	3.68	5.74	6.63	15.5%
Total	157.51	156.55	153.19	-2.1%

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

**Heat generation by Gazprom Group, mm Gcal**

	2016	2017	2018	Change 2018/2017
Gazprom energoholding	123.36	120.77	124.36	3.0%
PAO Mosenergo	81.83	79.45	82.29	3.6%
PAO MIPC and its subsidiaries*	10.19	9.85	10.17	3.2%
PAO OGK-2	6.90	6.76	7.01	3.7%
PAO TGC-1 and its subsidiaries	24.44	24.71	24.89	0.7%
Other generating assets in Russia and abroad	6.12	6.57	6.89	4.9%
Total	129.48	127.34	131.25	3.1%

\* Heat generation figures include PAO MIPC's subsidiaries — OOO TSK Novaya Moskva and OOO TSK Mosenergo.

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

For more details on Gazprom Group's generating capacity and output of power and heat see [Gazprom in Figures 2014–2018 Factbook](#)

**Electricity generation by Gazprom Group abroad, billion kWh**

2016	0.78
2017	1.09
2018	1.69
Change 2018/2017	55.1%

**Pursuing a customer-focused policy**

Gazprom energoholding companies pursue a customer-focused policy, which has proven to be successful both globally and in Russia. A customer focus implying consistent engagement with consumers and analysis of their feedback on customer service is expected to drive our revenues from other services to existing and new consumers in the medium and longer term.

As part of this policy, Gazprom energoholding companies are taking steps to ensure better, faster, and more convenient customer service through establishing a contact centre, upgrading customer service centres, launching an e-invoicing platform for consumers, and offering a customer account service. Client websites were upgraded with an extremely user-friendly interface to provide users with all the information they might need.

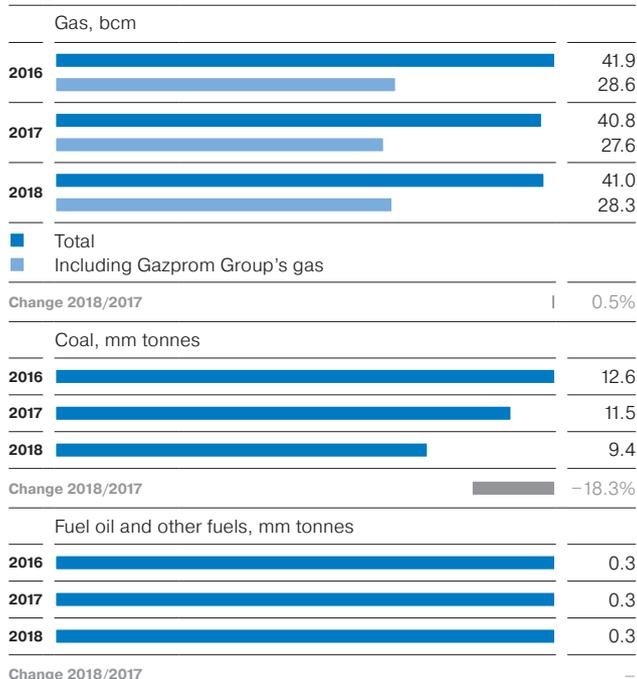
Outside Russia, Gazprom Group generated 1.69 billion kWh of electricity. The year-on-year increase was due to increased power output from Unit 5 at Hrazdan TPP, reflecting the actual operation modes of Armenia's national grid in the context of extended repair operations at the Armenian NPP and Yerevan CHPP, as well as the need to meet both domestic and export demand.

**Diversification of Gazprom energoholding's power generation business**

- PAO Mosenergo is implementing a project for constructing electric vehicle (EV) charging stations
- Gazprom energoholding companies provide power plant resources (electricity, heat and water supply to consumers) and infrastructure (unoccupied floor space and land, warehouse facilities, and equipment, including for laboratory water tests) to drive SME growth while also looking for opportunities in renewable energy
- International expansion opportunities for the power generation business are explored to boost sales of Gazprom Group's natural gas, including pipeline gas, as well as sales of LNG from Russian projects and from Gazprom Group's trading portfolio, and gas from international hydrocarbon production projects of the Group

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

**Volume-based fuel mix of Gazprom energoholding**



**Gazprom Group's coal assets**

Given a significant share of coal in Gazprom energoholding's fuel mix, Gazprom acquired Angren Group in 2016 to diversify the risk of fuel supply shortfalls and optimise its pricing policy in the coal market. The coal company is engaged in mining, processing, and marketing of coal from the Ekibastuzsky open pit in the Pavlodar Region of Kazakhstan. Coal production in 2018 was 2.6 mm tonnes. Gazprom energoholding's share in the total coal supplies by the group is approximately 30%.

**Improvements in Operational Efficiency**

Improving operational efficiency is a strategic priority of Gazprom's power generation business.

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

- Improvement of the production system
- Operational efficiency improvements
- Cost reduction
- Decommissioning/optimisation of low-performing and idle facilities
- Non-core asset disposal and efficient use of assets

The economic effect from operational efficiency and cost reduction initiatives in 2018 totalled RUB 4.0 bn.

## Marketing

Gazprom is the largest supplier of gas in Russia and a global leader in gas exports. The Company has a strong track record of delivering on its commitments to ensure reliable gas supply to consumers amid the growing demand. In 2018, Gazprom's gas exports to European far abroad countries were at a record high for the third year running.

### Far Abroad Gas Markets

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

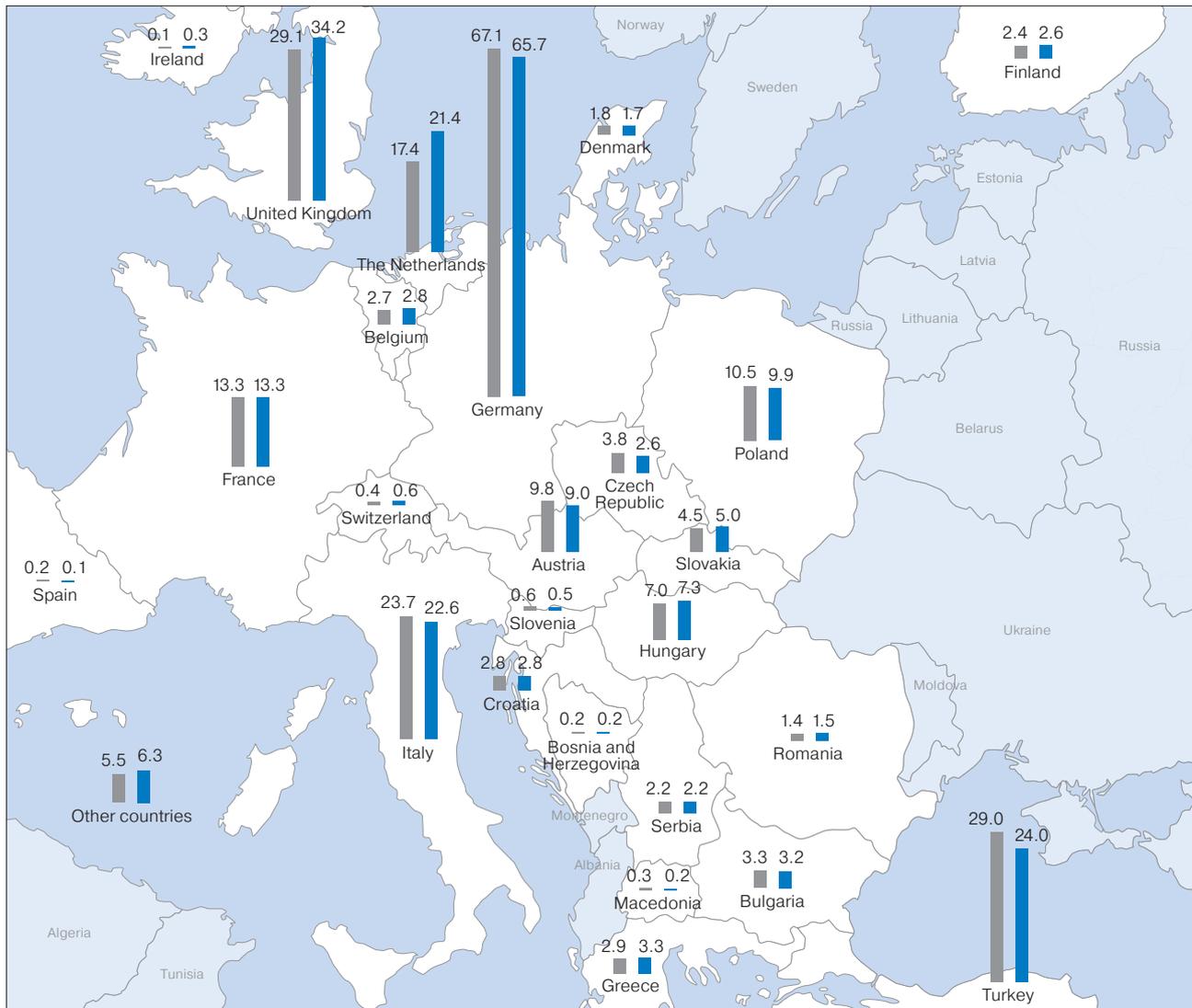
In 2018, Gazprom Group sold 243.3 bcm of natural gas to far abroad countries. Gas sales showed significant growth in the UK and the Netherlands. At the same time, sales to Turkey decreased due to the impact of weather conditions, increased LNG supplies to the market in Q4 2018, and a weaker national economy.

Net sales revenue (net of excise tax and customs duties) was RUB 2,951.2 bn. The increase in sales revenue was mainly driven by higher average selling price and increased sales volumes.

Gazprom Group's sales of natural gas to far abroad countries	
Sales volumes, bcm	
2016	228.3
2017	242.0
2018	243.3
Change 2018/2017	0.5%
Average selling price (including excise tax and customs duties), USD per mcm*	
2016	176.0
2017	200.2
2018	246.4
Change 2018/2017	23.1%
Average selling price (including excise tax and customs duties), RUB per mcm	
2016	11,763.3
2017	11,670.5
2018	15,499.5
Change 2018/2017	32.8%
Net sales revenue (net of excise tax and customs duties), RUB bn	
2016	2,140.0
2017	2,221.2
2018	2,951.2
Change 2018/2017	32.9%

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

**Gazprom Group's gas sales to far abroad countries, 2017–2018, bcm**



■ Natural gas sales in 2017  
 ■ Natural gas sales in 2018

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

**PJSC Gazprom's compliance with the EU competition laws**

On 24 May 2018, the European Commission adopted a decision in accordance with Article 9 of Council Regulation (EC) No. 1/2003 on the alleged infringement by PJSC Gazprom of the EU competition laws, imposing binding commitments on Gazprom to enable free flow of gas at competitive prices in Central and Eastern European gas markets as offered by PJSC Gazprom and OOO Gazprom export on 15 March 2018.

The Company has taken steps to meet the above Commitments as soon as the notice on the decision has been given to PJSC Gazprom and OOO Gazprom export. The first phase of these efforts, completed on 6 August 2018, included sending letters specified in the Commitments to PJSC Gazprom's and OOO Gazprom export's counterparties covered by the Commitments.

PJSC Gazprom is a major supplier of natural gas to the European market.

In 2018, PJSC Gazprom's gas supplies to European far abroad countries under OOO Gazprom export's contracts and Gazprom Schweiz AG's direct contracts totalled 201.9 bcm, up 7.5 bcm, or 3.8% year-on-year.

**201.9** bcm

**An all-time record for gas supplies to European far abroad countries**

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

**Growth drivers for PJSC Gazprom's gas supplies to European far abroad countries in 2018**

- A year-on-year increase in demand for natural gas in European countries in February and March 2018 due to cold weather
- Gas injections into UGSFs in European countries exceeding withdrawals
- Declining domestic gas production in European far abroad countries as compared to 2017, and higher net gas imports in Europe
- Limited capabilities of other gas exporters and lower net LNG imports in Q1–Q3 2018

**Our goal for 2019 in the European far abroad markets is to sustain our achievements and maintain our position in the market, including our share in overall supplies.**

**Share of PJSC Gazprom's gas sales under OOO Gazprom export's contracts and Gazprom Schweiz AG's direct contracts in the total gas consumption in European far abroad countries, 2014–2018, %**

Year	Share, %
2014	30.4
2015	31.5
2016	33.1
2017	34.2
2018	36.8

**Note.** Figures for 2017 and previous years may differ from the data in Annual Reports of PJSC Gazprom for previous periods since international statistics may be subsequently updated.

**Proprietary electronic sales platform**

In August 2018, OOO Gazprom export launched its Electronic Sales Platform (ESP) to sell natural gas both on standard market terms and on its own terms. Contracts for gas supply at any delivery point (both at trading platforms or facilities with slow-moving inventories located close to the borders) with delivery periods starting from one day can be offered via the ESP. OOO Gazprom export holds daily trading sessions and offers contracts for the supply of natural gas to various delivery points to pre-qualified companies registered on the ESP.

As a result of trading sessions held in 2018, OOO Gazprom export sold about 1.1 bcm of gas with delivery in the reporting year.

In 2018, Gazprom Group's subsidiaries sold 28.2 bcm of gas directly to end consumers in Europe.

For more details on gas sales volumes to end consumers in far abroad countries see Gazprom in Figures 2014–2018 Factbook

**Large-scale LNG Sales**

Large-scale LNG sales from Gazprom Group's trading portfolio totalled 3.88 mm tonnes, or 5.18 bcm, in 2018, up by 16% year-on-year.

Corporates in Asia Pacific were the key buyers of large-scale LNG (76% of the total supply volume) from Gazprom Group's trading portfolio in the reporting year, just like in previous years. In 2018, India became the key destination for LNG supplies for the first time: this market accounted for 20% of total supplies (1.01 bcm). The growth in India's share in large-scale LNG supplies by Gazprom Group was mainly driven by the start of supplies under a long-term LNG sales and purchase agreement signed between Gazprom Marketing & Trading Singapore and Indian GAIL. The agreement provides for the annual supply of up to 2.9 mm tonnes of LNG over 20 years (at a plateau).

For more details on LNG market trends see the Trends and Developments on Gas Markets section

**Large-scale LNG sales by Gazprom Group in foreign countries**

	2016	2017	2018
mm BTU	176,474,067	159,151,850	184,990,184
including LNG from Sakhalin-2	59,443,050	72,894,365	70,068,095
mm tonnes	3.71	3.34	3.88
bcm	4.94	4.46	5.18

**Notes:**

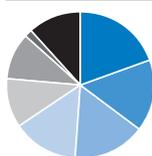
1. Calculated in accordance with the principles underlying management reporting. Parameters calculated using these methods might be not comparable between each other due to differences in the methodologies used for preparing consolidated financial statements and for management reporting.
2. Data excludes LNG supplies from Gazprom Group's trading portfolio to Russia (0.08 mm tonnes, or 0.11 bcm) as part of pre-commissioning operations at an LNG receiving terminal in the Kaliningrad Region.

**76%**

**Share of Asia Pacific markets in total LNG supplied from Gazprom Group's trading portfolio in 2018**

**LNG sales to foreign markets in 2018, mm BTU**

India	36,100,075
Japan	29,667,398
China	29,159,927
South Korea	26,402,240
Kuwait	20,072,378
Taiwan (China)	19,257,270
Spain	2,945,511
FOB LNG supplies	21,385,385
<b>Total</b>	<b>184,990,184</b>



LNG supplies under a long-term sales and purchase agreement signed between Gazprom Marketing & Trading Singapore and Yamal Trade in 2015 started in May 2018. The agreement provides for the annual supply of 2.9 mm tonnes of LNG to Gazprom Group’s trading portfolio from Russia’s Yamal LNG project over 20 years (at a plateau), FOB Zeebrugge, Belgium.

LNG supplies from the Cameroon FLNG project were added to Gazprom Group’s trading portfolio in June 2018 under a long-term agreement with Perenco Cameroon and Societe Nationale des Hydrocarbures for the annual supply of 1.2 mm tonnes of LNG over eight years.

For more details on Gazprom Group’s LNG sales to different countries see Gazprom in Figures 2014–2018 Factbook

**Russian Gas Market**

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

In 2018, Gazprom Group sold 239.7 bcm of gas to consumers in the Russian Federation, up by 9.8 bcm, or 4.3% year-on-year, primarily due to colder weather conditions in Q1 and Q4 2018. Gas supplies increased mainly to consumers in the energy and fertiliser industries, and the utilities sector. Net sales revenue was also driven by higher selling prices.

**Gas sales by Gazprom Group in Russia**

Sales volumes, bcm	
2016	214.9
2017	229.9
2018	239.7
Change 2018/2017	4.3%
Average selling price (net of VAT), RUB per mcm	
2016	3,815.5
2017	3,808.3
2018	3,981.3
Change 2018/2017	4.5%
Net sales revenue (net of VAT), RUB bn	
2016	819.9
2017	875.7
2018	954.5
Change 2018/2017	9.0%

For more details on Russian gas market trends see the Trends and Developments on Gas Markets section

In accordance with applicable Russian laws, end consumers buy gas at regulated prices which are differentiated between consumer groups (households vs industrial consumers), as well as by price zone, based on the relative distance from the gas production region to the consumer. In 2018, wholesale gas prices for subsequent resale to household consumers were 16% lower than wholesale gas prices for industrial consumers.

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

Weighted average annual price for industrial and household consumers*	
2016	3,938.2
2017	3,988.5
2018	4,117.2
Change 2018/2017	3.2%
Weighted average annual price for industrial consumers**	
2016	4,158.1
2017	4,202.3
2018	4,316.4
Change 2018/2017	2.7%
Weighted average annual price for subsequent resale to households**	
2016	3,422.8
2017	3,512.9
2018	3,640.0
Change 2018/2017	3.6%

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

**FSU Gas Markets**

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

In 2018, the Group sold 38.1 bcm of natural gas to FSU countries, with net sales revenue (net of customs duties) amounting to RUB 348.6 bn. The increase in sales revenue was due to higher average selling prices and higher volumes of sales.

The increase in gas supplies to FSU countries in 2018 resulted from higher demand and gas withdrawals in Belarus, and higher gas supplies to Azerbaijan under an agreement with SOCAR (Azerbaijan), as well as higher volumes of gas from Uzbekistan supplied to Kazakhstan.

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

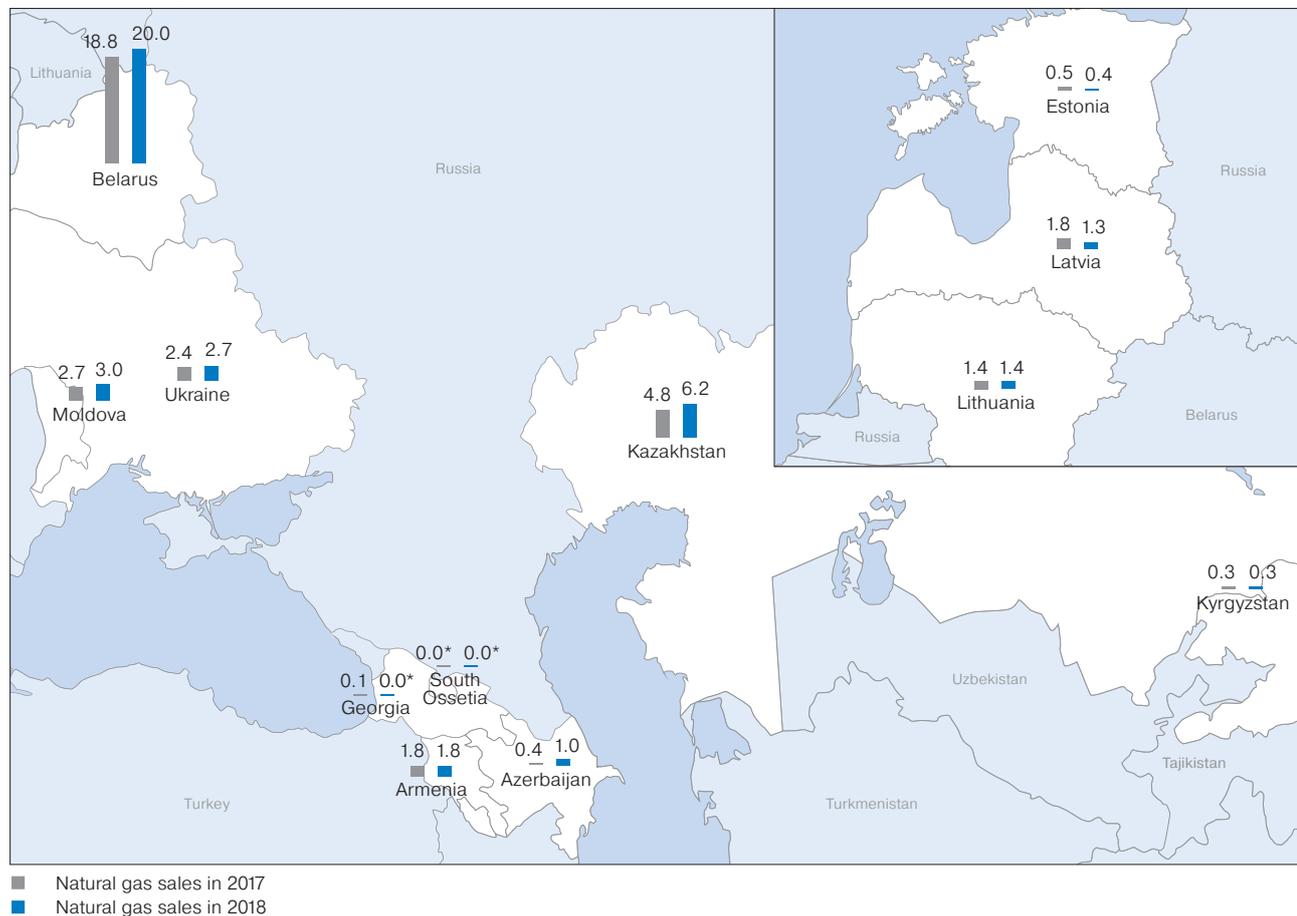
Sales volumes, bcm	
2016	33.2
2017	35.0
2018	38.1
Change 2018/2017	8.9%
Average selling price (including customs duties), USD per mcm*	
2016	153.6
2017	158.4
2018	162.6
Change 2018/2017	2.7%
Average selling price (including customs duties), RUB per mcm	
2016	10 263.1
2017	9 237.0
2018	10 225.9
Change 2018/2017	10.7%
Net sales revenue (net of customs duties), RUB bn	
2016	309.7
2017	292.8
2018	348.6
Change 2018/2017	19.1%

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

**To improve dynamic interaction with our partners from Azerbaijan, PJSC Gazprom registered a representative office in Baku in December 2018.**

Gazprom Group continued to purchase natural gas from Central Asian countries in 2018, with the weighted average purchase price for the gas supplied from Central Asia increasing from 2017 (9.5% year-on-year) due to higher oil prices and the resulting growth in prices of oil products.

**Gazprom Group's gas sales in FSU countries in 2017–2018, bcm**



\* Less than 0.05.

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

	2016	2017	2018	Change 2018/2017
For subsequent supplies to far abroad countries				
Uzbekistan	4.3	5.5	3.8	-30.9%
Kazakhstan	12.7	13.8	12.3	-10.9%
Weighted average purchase price on the border of supplying countries, USD per mcm				
	116.3	121.6	133.1	9.5%
For subsequent supplies to Southern Kazakhstan				
Uzbekistan	1.9	1.7	2.9	70.6%
For subsequent supplies to Kyrgyzstan				
Uzbekistan	0.0*	0.0*	0.0*	-
Kazakhstan	0.2	0.3	0.3	-

\* Less than 0.05.

### Oil and Gas Condensate Sales

In 2018, Gazprom Group sold 25.6 mm tonnes of crude oil and stable gas condensate with total net sales revenue (net of VAT and customs duties) reaching RUB 734.9 bn, an increase over 2017 driven by higher selling prices.

The decline in oil sales was due to increased volumes of processed liquid hydrocarbon feedstocks following the completion of scheduled overhaul programme at Russian refineries operated by Gazprom Neft Group in 2017.

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

Total	
2016	411.9
2017	539.9
2018	734.9
Change 2018/2017	36.1%
Russia	
2016	81.3
2017	71.4
2018	64.6
Change 2018/2017	-9.5%
Far abroad countries	
2016	307.1
2017	438.7
2018	631.6
Change 2018/2017	44.0%
FSU	
2016	23.5
2017	29.8
2018	38.7
Change 2018/2017	29.9%

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

Total	
2016	24.7
	19.7
2017	27.6
	23.8
2018	25.6
	21.2
Change 2018/2017 -7.2%	
Russia	
2016	5.9
	4.4
2017	4.3
	2.8
2018	2.7
	1.2
Change 2018/2017 -37.2%	
Far abroad countries	
2016	17.1
	13.6
2017	21.6
	19.3
2018	21.2
	18.3
Change 2018/2017 -1.9%	
FSU	
2016	1.7
	1.7
2017	1.7
	1.7
2018	1.7
	1.7
Change 2018/2017 -	

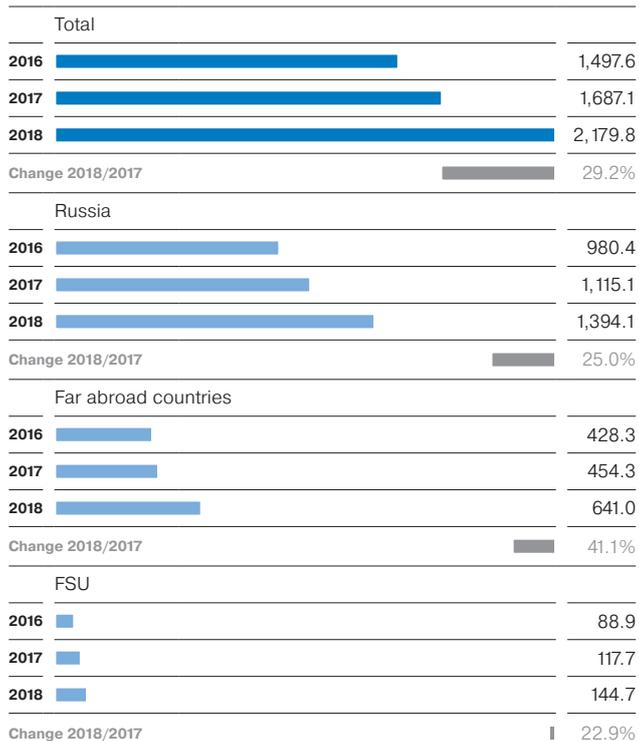
Note. Excluding intra-group sales.

### Refined Product Sales

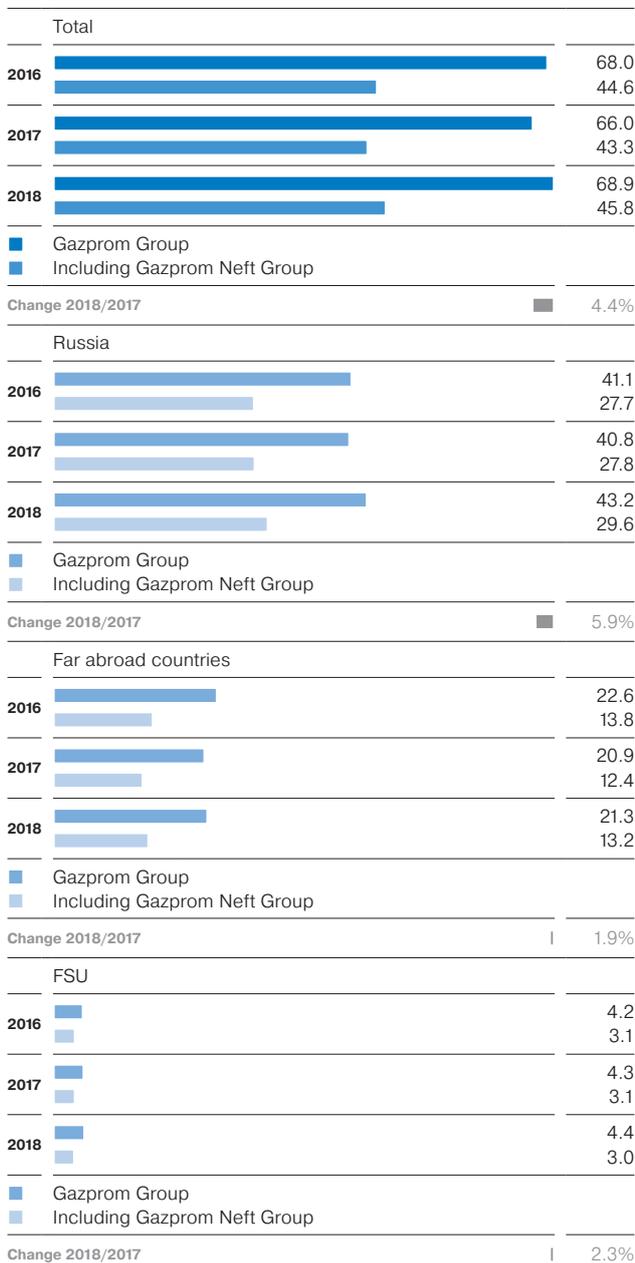
In 2018, Gazprom Group sold 68.9 mm tonnes of refined oil and gas products. Net sales revenue amounted to RUB 2,179.8 bn (net of excise tax, VAT, and customs duties) driven by higher average prices across all geographical segments and higher volumes of sales by Gazprom Neft Group to consumers within Russia and in far abroad countries.

In 2018, total sales of refined oil and gas products by Gazprom Group increased due to a higher output of refined products at Gazprom Neft's refineries and a respective increase in sales volumes. Sales of liquid helium declined due to lower exports associated with the growing demand in the domestic market and volume redistribution in favour of gaseous helium.

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



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



**Note.** Excluding intra-group sales and sales of helium.

<b>Sales of refined products by Gazprom Group, mm tonnes</b>				
	2016	2017	2018	Change 2018/2017
Diesel fuel	15.9	15.9	17.3	8.8%
Motor gasoline	14.9	13.4	15.5	15.7%
Fuel oil	7.6	5.8	6.5	12.1%
Sulphur	5.5	5.3	5.2	-1.9%
LPG	4.5	3.7	4.1	10.8%
Aviation fuel	3.5	3.6	3.9	8.3%
Mineral fertilisers	1.0	0.9	0.9	-
Lubricants	0.4	0.4	0.5	25.0%
Polymers	0.1	0.1	0.1	-
Other refined, petrochemical, and gas chemical products	14.6	16.9	14.9	-11.8%

**Note.** Excluding intra-group sales and sales of helium.

<b>Sales of helium by Gazprom Group</b>				
	2016	2017	2018	Change 2018/2017
Gaseous helium, mmcm	3.2	3.3	3.4	3.0%
Liquid helium, tonnes	299.3	289.6	260.1	-10.2%

**Note.** Excluding intra-group sales.

### Electricity and Heat Distribution

In 2018, Gazprom Group's net revenue from electricity and heat sales (net of VAT) was RUB 522.1 bn, with the increase mostly due to higher competitive (unregulated) electricity prices and tariffs for capacity under capacity supply agreements (CSAs) in the Russian market. In particular, the weighted average selling price of electricity produced by Gazprom energoholding's generating companies increased at the day-ahead market by 3.7% year-on-year.

Electricity produced by the Group's Russian generating companies is sold mainly in Russia, with a small portion exported to Norway and Finland. Gazprom Group also supplies electricity to end consumers in the UK and the Netherlands. In 2018, these supplies amounted to 1.5 billion kWh.

<b>Gazprom Group's net revenue from electricity and heat sales (net of VAT), RUB bn</b>	
2016	481.7
2017	503.8
2018	522.1
Change 2018/2017	3.6%

### Sales of Gas Transportation Services

In 2018, Gazprom Group's net revenue from sales of gas transportation services (net of VAT) was RUB 225.7 bn. The decrease from 2017 was mainly due to lower gas transportation volumes supplied by independent producers via Gazprom's GTS within Russia.

In 2018, the average regulated tariffs charged to independent companies for services related to gas transportation via PJSC Gazprom's trunk pipelines comprising the UGSS amounted to RUB 65.20 per mcm/100 km. The tariff rate was set by the FTS of Russia back in 2015 and, despite the repeated annual requests by PJSC Gazprom to the FAS of Russia to change the gas transportation rates, setting economically sound tariffs, the FAS of Russia has been reluctant to adjust them.

<b>Gazprom Group's net revenue from sales of gas transportation services (net of VAT), RUB bn</b>	
2016	199.0
2017	235.1
2018	225.7
Change 2018/2017	-4.0%

Gazprom successfully pursues most ambitious and challenging projects through active deployment of advanced equipment and technology. The Company is consistently working on technological innovations and import substitution with a focus on engaging Russian R&D and production capabilities.

## Innovations

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

## PJSC Gazprom's Innovation Engine

PJSC Gazprom's Innovative Development Programme until 2025 approved by Resolution of PJSC Gazprom's Board of Directors No. 3099 dated 17 April 2018 (Minutes No. 1196 dated 17 April 2018) is a fundamental instrument for long-term planning and management of innovations embedded into Gazprom's strategic development planning. The Programme covers gas, oil, and power generation businesses of the Company. PJSC Gazprom, PAO Gazprom Neft, OOO Gazprom energoholding, and other subsidiaries and associates implement R&D programmes (plans) to achieve the technology and organisational priorities set out in the Programme.

Gazprom has in place an extensive innovation management framework. The R&D Committee of PJSC Gazprom serves as a platform to discuss all matters related to R&D performance through comprehensive review and collective decision-making driven by the principles of openness, fairness, and independence while balancing the interests of Operations, Economics, and Prospective Development.

Within its Corporate Framework for Management of Innovations at Subsidiaries of PJSC Gazprom, PJSC Gazprom focuses on further use (roll-out) and commercialisation of R&D results and protected intellectual property that deliver a positive and meaningful impact for PJSC Gazprom as well as on reviewing and following up compliance of its subsidiaries' innovation efforts with Russian laws and internal documents of PJSC Gazprom.

Cooperation with Russian and global companies, external institutions, research centres, and anchor universities is vital for stronger and better innovation at PJSC Gazprom. Russian research partners of PJSC Gazprom include leading research organisations of the Russian Academy of Sciences, Rosatom, Rostec, State Space Corporation ROSCOSMOS, RUSNANO, the Skolkovo Foundation, Russia's largest pipe manufacturers, and innovative SMEs.

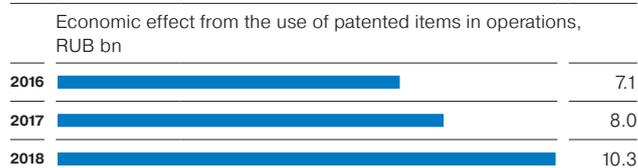
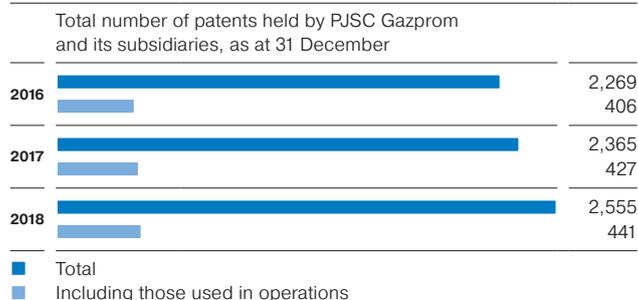
Gazprom runs R&D programmes in collaboration with 14 foreign energy companies, as well as engages 13 anchor universities across seven Russian regions to implement targeted R&D and personnel training programmes for Gazprom Group.

Over RUB **25** bn

**The economic effect from using patented items in operations in 2016–2018**

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

**Number of patents held by PJSC Gazprom and its subsidiaries and their use in operations**



**Innovation Performance**

The Group allocates significant amounts for its annual R&D budgets, and R&D results are applied in its priority projects across different lines of business.

**Total spending on R&D projects commissioned by Gazprom Group (net of VAT), RUB bn**



**Actual economic effect from the use of R&D results in Gazprom Group subsidiaries, RUB bn**



Our R&D efforts aim to develop and implement high-tech equipment and sophisticated engineering complexes unrivalled in the world, as well as to create advanced R&D solutions.

**Gas Business**

Hydrocarbon exploration and production yielded the best R&D results in 2018.

Knowledge-intensive technologies were widely used when building the TurkStream and the Power of Siberia trunk gas pipelines — the Company’s strategic projects. The innovations used in the Power of Siberia pipeline project were designed either under the R&D Programme of PJSC Gazprom and its subsidiaries or by Russian contractors based on PJSC Gazprom’s specifications.

**Technological priorities in gas business**

- Hydrocarbon field exploration and appraisal, including development of unconventional resources
- Brownfield enhancement technologies
- Offshore hydrocarbon development technologies
- Greenfield development technologies
- Efficiency enhancement of trunk gas pipelines and diversification of gas distribution methods
- Enhancement of gas storage
- Enhancement of gas and condensate processing
- LNG production technologies
- Gas marketing and utilisation technologies

**Selected brownfield enhancement solutions developed in 2018**

Field	Innovative R&D project outcomes	Patent protection
Yuzhno-Russkoye OGCF	<p>Innovative techniques and solutions developed for tapping hard-to-recover Cenomanian and Turonian gas reserves using existing infrastructure and equipment at the Cenomanian gas production sites:</p> <ul style="list-style-type: none"> <li>— Double hole well in a dual completion design</li> <li>— Multi-stage hydraulic fracturing for dual completion wells</li> <li>— Slant-hole well</li> </ul> <p>The first slant-hole well was developed, drilled, and piloted to produce Turonian gas. The technology ensures optimal operating mode, high well productivity and gas recovery, and uses only Russian equipment and components.</p>	The developed technical solutions are protected by 5 patents.
Astrakhan GCF	<p>Developed and utilized new water-based cationic polymer drilling fluid systems (Katburr). These are fundamentally new drilling fluid systems offering almost the same performance as hydrocarbon-based drilling muds while having significantly improved cost efficiency when drilling in geotechnically challenged areas.</p>	The developed water-based cationic polymer drilling fluid systems are protected by 24 patents.

**State-of-the-art knowledge-intensive technologies and equipment used in the construction of the TurkStream and the Power of Siberia trunk gas pipelines**

Pipeline	Project specifics requiring advanced knowledge-intensive technologies and equipment	Technologies and equipment
TurkStream	<ul style="list-style-type: none"> <li>— Ultra-deepwater installation (depths below 1,500 m)</li> <li>— Aggressive hydrogen sulphide environment</li> <li>— Landfall section located at steep slopes and near densely populated areas</li> </ul>	<ul style="list-style-type: none"> <li>— The technical solution in the form of thick-walled integral buckle arrestors welded into pre-coated (external anti-corrosion coating) Russian-made pipe</li> <li>— A tie-in will connect the landfall facilities with the offshore section using an innovative technique for microtunnelling through hard rock and reinforcing two shafts with concrete</li> <li>— Unique domestically-produced 812.8 mm high-strength thick-wall pipe made of K65 steel for operation at a pressure of 300 atm will be used to construct the tie-in connecting the landfall facilities with the offshore section</li> </ul>
Power of Siberia	<ul style="list-style-type: none"> <li>— The pipeline route passes through swampy, mountainous, seismically active, permafrost, and rocky areas with extreme environmental conditions. The absolute lowest air temperatures along the Power of Siberia route range from -62°C in the Republic of Sakha (Yakutia) to -41°C in the Amur Region.</li> </ul>	<ul style="list-style-type: none"> <li>— Domestically-produced steel pipe with internal flow coating, including pipe with enhanced deformation properties and special engineering solutions for pipe installation.                             <ul style="list-style-type: none"> <li>External insulation coating is made of innovative domestic nanocomposite materials, which ensures high corrosion resistance of the gas pipeline.</li> <li>Reduced pipe roughness and, therefore, friction makes gas transmission less energy-consuming. Pipes crossing active tectonic faults can withstand high seismic activity and ground displacements</li> </ul> </li> <li>— Quick-opening highly reliable axial-flow anti-surge and control valves that are not inferior to foreign alternatives due to unique design solutions</li> </ul>

At the Chayandinskoye OGCF, the construction of a membrane unit (with projected capacity of a 32 bcm per year) to recover helium from natural gas based on the membrane technology for in-field helium extraction commissioned by PJSC Gazprom (US patent No. 9987596 Membrane gas separation module held by PJSC Gazprom) was in progress.

Cooperation with BASF/Wintershall and OMV to enhance the co-development of Cenomanian and Turonian deposits at the Yuzhno-Russkoye OGCF by launching a project to build a digital twin of OAO Severneftegazprom’s operational facilities.

In 2018, Gazprom also continued its innovative breakthrough projects to develop a methane-hydrogen mixture production and application technology, including as a fuel for gas pumping units (GPU), as well as innovative materials for midstream applications: research and feasibility studies for new, high-performance methane adsorbents.

**The value of using methane-hydrogen fuel for GPUs at Gazprom’s operations lies in improved energy efficiency, 4–5 times lower CO and NO<sub>x</sub> emissions, and 30% lower GHG emissions.**

**Oil Business**

The deployment of advanced technologies in oil business will ensure cost-effective implementation of major upstream projects and strategic leadership. Projects for developing, testing, and implementing new technologies have already been launched or planned for each prioritised area.

**Technological priorities in oil business**

- Development of multiphase fields
- Production from low-permeability reservoirs
- Effective and safe shelf operations in ice conditions
- Development and production of catalysts for refining processes

**Recovery enhancement solutions developed in 2018**

Field	Innovative R&D project outcomes
Tazovskoye OGCF	A production well with a record-long horizontal section of 2,070 m was drilled to completion
Yuzhno-Priobskoye oil field	Workover of a 3,600-m well with a record long horizontal sidetrack of 700 m was completed
Eastern block of the Orenburgskoye OGCF	First multi-stage combined acid and proppant fracturing. Well productivity under seven-stage fracking proved to be 57% higher than at similar wells with standard multi-stage acid fracturing
Zapadno-Salymskoye oil field	A pilot project to inject a mixture of sodium carbonate, surfactants, and a polymer into a reservoir was wrapped up. The oil recovery ratio was increased by 17 p.p.

Gazprom Neft Group continued the Bazhenov project which was granted a national status in 2017. A hydraulic fracturing software suite was used in 2018 for modelling an optimal fissure system for each well drilled during the year.

**Bazhenov project**

The Bazhenov suite is a formation spanning the entire Western Siberia, which is comparable in scale to the discovery of a new oil province onshore or a complex of large fields offshore. A benefit of the Bazhenov suite is that it will be developed using existing infrastructure. The extremely challenging geology of the oil-bearing formation will require new engineering solutions to ensure cost-effective production.

The goal of the project is to bring together research, industry, and business communities, as well as the Government, to develop cost-effective technology for bringing unconventional and hard-to-recover reserves of the Bazhenov suite on stream. The production programme of the Bazhenov Technology Centre for Engineering and Technology for Hard-to-Recover Reserves is run across nine licence blocks in the Yamal-Nenets Autonomous Area with the strategic goal of developing a cost-effective technology for the Bazhenov suite by 2025.

Gazprom Neft and IBM created a unique cognitive tool to search for missed intervals. The prototype testing showed an 80% overlap between predictions made by the system and an expert with the tool operating 600 times faster. Cognitive tools are also being designed to predict complications and change in lithological bottomhole parameters during the drilling process.

In terms of hydrocarbon processing, hydrocracking catalyst technology has fully matured. The catalyst range is constantly updated to match feedstock profile. Hydrocracking catalyst range has products for a single-stage process, the first step of a two-stage process, and pre-treatment of hydrocracking feed. In 2018, Aroforming, a promising process unique in the industry, was developed along with effective catalysts for oligomerisation, isodewaxing, and reforming.

**The Aroforming technology allows using refining by-products to produce high-margin high-octane gasolines.**

**Refining enhancement solutions developed in 2018**

Refinery	Innovative R&D project outcomes
Omsk Refinery	The existing catalyst production site launched production of Avangard-Neo, an advanced hydrocracking catalyst  An isodewaxing catalyst used to produce winter and Arctic grades of diesel fuel was introduced and a pilot batch was manufactured. The product contains no platinum-group metals, which allowed to significantly reduce the catalyst cost as compared to imported alternatives
Moscow Refinery	The commercial production of an oligomerisation catalyst developed in-house was launched. As compared to the previously used catalyst, the new product has increased the high-octane component yield by 30% and the catalyst cycle length 2.5 times

**Power Generation Business**

Gazprom energoholding designs and implements innovative technologies for electricity and heat generation at power stations. In 2018, the construction of Unit 1 at the Grozny TPP was completed. The new 176 MW unit comprises a Siemens gas turbine and a generator. Unit 1 project involved a wide use of domestically-produced engineering systems and equipment, including protective relaying and controls, switch gears, fuel gas conditioning system components, mechanical draft cooling towers, and smokestacks with emission monitors.

**Technological priorities in power generation business**

- Increasing energy efficiency in power generation
- Reducing the environmental footprint of operations
- Implementing advanced engineering solutions

For more details on PJSC Gazprom’s innovation engine and innovations see Gazprom Group’s Sustainability Reports published on an annual basis

**Import Substitution**

Growing the share of Russian products used in Gazprom Group’s operations and encouraging the development of Russian alternatives to critical imported products are some of the key initiatives being taken to address the risk associated with using foreign equipment and technologies in the context of economic sanctions.

An action plan has been implemented since 2015 to address the challenges of import substitution and identify the Company’s needs for import substituting equipment and technologies. The economic effect from the deployment of import substituting equipment and technologies is estimated annually.

**Over RUB 20 bn**  
**The economic effect from import substitution initiatives in 2016–2018**

**Economic effect from deploying import substituting equipment and technologies at PJSC Gazprom’s facilities in 2016–2018**

Segment	Economic effect, RUB bn	Initiatives with the largest economic effect
Gas transportation	10.0	Development of drive repair technology for foreign-made GPUs by a Russian company using domestically made components (progress in the reporting year)
Hydrocarbon production	9.2	Using Russian-made hydrogen sulphide-resistant downhole equipment for operation at a pressure of 70.0 MPa (production launched in 2017)
Other	1.5	Purchasing Russian materials and components to replace foreign alternatives

Development of new high-tech (including import substituting) products by Russian businesses

The Company engages Russian businesses and research institutions in manufacturing high-tech and import substituting products and materials under focused agreements, memoranda, roadmaps with businesses and organisations, roadmaps on types of equipment, and roadmaps signed with Russian regions.

**17 roadmaps across 22 Russian regions were being implemented in 2018.**

In 2017, PJSC Gazprom, the Russian Ministry of Industry and Trade, and regional governments started signing tripartite roadmaps.

**The benefits achieved by PJSC Gazprom through signing tripartite roadmaps with regional manufacturers as a new cooperation mechanism**

- A series of consistent initiatives aimed at developing high-tech (including import substituting) products, as well as state support for participating businesses from the Russian Ministry of Industry and Trade
- No binding agreements and no investments in the initiatives from PJSC Gazprom
- The participants may receive subsidies from the Russian Ministry of Industry and Trade and PJSC Gazprom may consider entering into long-term contracts for the supply of developed products

**As at 31 December 2018, PJSC Gazprom was cooperating with more than 50 businesses from adjacent industries.**

High-tech (including import substituting) products developed by Russian businesses in 2018 will be primarily used in gas transportation, including the Power of Siberia gas pipeline.

Long-term contracts as a framework for import substitution projects

In 2018, the Company continued to sign long-term contracts with domestic manufacturers for mass production, supply, maintenance, service, and repair of import-substituting products against guaranteed future supplies.

**In 2018, the Company signed a long-term agreement for manufacturing and purchasing LNG-powered shunting locomotives.**

As at 31 December 2018, the Company had nine long-term agreements for production and supply of import substituting products.

Development of high-tech import substituting products for subsea production systems used in hydrocarbon development

The State Programme of the Russian Federation for the Development of Shipbuilding and Equipment for Offshore Upstream Operations for 2013–2020 provides for R&D projects to produce offshore upstream technologies and equipment for hydrocarbon developments using subsea production systems (SPS). The Scientific and Technical Council for the Development of Oil and Gas Equipment of the Russian Ministry of Industry and Trade has set up the Subsea Production Facilities team of experts (led by Pavel Krylov, a Department Head at PJSC Gazprom) to coordinate projects for the development of Russian SPS equipment. The Russian Ministry of Industry and Trade signs government R&D contracts with general contractors.

**Prototype SPS for offshore upstream operations is expected to be manufactured in 2019.**

In 2018, the first and second phases of the project providing for preparing the schematic and detailed design documentation for equipment were completed. Prototypes will be manufactured in 2019 with acceptance testing planned for 2020.

The development of capabilities of Russian engineering and shipbuilding companies in manufacturing SPS equipment is also supported by an agreement for joint establishment of an industrial cluster focused on high-tech solutions to develop the World Ocean's and Arctic resources signed between PJSC Gazprom and the Governor of St Petersburg in 2017.

For more details on PJSC Gazprom's import substitution initiatives see Gazprom Group's Sustainability Reports published on an annual basis

PJSC Gazprom follows a conservative approach to budget planning, closely monitors its operating costs and capital expenditures, and uses a wide range of financial instruments for efficient debt management, which helps the Company maintain high financial stability and ensures its strong financial performance.

The reporting year was successful for PJSC Gazprom. The Company's figures came in strong on the back of various external and internal drivers, including higher oil and gas prices in international markets, record-high supplies of gas to Europe in the Company's entire history, strong performance of oil and power generation businesses, and a high level of operating cost control combined with the prioritisation of the capex schedule.

Meeting Gazprom Group companies' contractual obligations in full and ensuring the necessary liquidity buffer while providing sufficient financing for the Company's development and dividend payouts to shareholders are key priorities of PJSC Gazprom's financial policy.

## Revenue

Gazprom Group's sales revenue (net of VAT, excise tax, and customs duties) in 2018 amounted to RUB 8,224.2 bn, primarily driven by higher net sales of gas, refined products as well as by higher sales of crude oil and gas condensate.

A significant part of the Group's sales revenue is denominated in foreign currencies (mostly in US dollars and Euros).

---

**RUB 8,224.2 bn**

---

**PJSC Gazprom's revenue in 2018**

<b>Variation analysis of net sales revenue in 2018, RUB bn</b>		
Net sales revenue in 2017		6,546.1
Change in net revenue from sales of natural gas to far abroad countries		→ +730.0
Change in net revenue from sales of natural gas to FSU countries		→ +55.8
Change in net revenue from sales of natural gas in the Russian Federation		→ +78.8
Retroactive gas price adjustments		→ +98.5
Change in net revenue from sales of crude oil and gas condensate to far abroad countries		→ +192.9
Change in net revenue from sales of crude oil and gas condensate to FSU countries		→ +8.9
Change in net revenue from sales of crude oil and gas condensate in the Russian Federation		← -6.8
Change in net revenue from sales of refined products to far abroad countries		→ +186.7
Change in net revenue from sales of refined products to FSU countries		→ +27.0
Change in net revenue from sales of refined products in the Russian Federation		→ +279.0
Change in net revenue from sales of electricity and heat		→ +18.3
Change in net revenue from sales of gas transportation services		← -9.4
Change in other revenues		→ +18.4
Net sales revenue in 2018		8,224.2

**Net sales revenue, RUB bn**

	2016	2017	2018	Change 2018/2017
2016				
2017				
2018				
	2016	2017	2018	Change 2018/2017
■ Net revenue from gas sales	3,302.8	3,340.6	4,303.7	28.8%
■ Net revenue from sales of refined products	1,497.6	1,687.1	2,179.8	29.2%
■ Net revenue from sales of crude oil and gas condensate	411.9	539.9	734.9	36.1%
■ Net revenue from sales of electricity and heat	481.7	503.8	522.1	3.6%
■ Net revenue from sales of gas transportation services	199.0	235.1	225.7	-4.0%
■ Other revenues	218.1	239.6	258.0	7.7%
Total	6,111.1	6,546.1	8,224.2	25.6%

## Operating Expenses

In 2018, Gazprom Group's operating expenses amounted to RUB 6,181.2 bn, an increase driven by more expensive purchased oil and gas (by 19%) and higher taxes other than income tax (by 20%). The MET growth by 27% was the main driver behind higher taxes other than income tax. The Group's operating expenses as a percentage of sales decreased from 87% in 2017 to 75% in 2018.

**RUB 6,181.2 bn**

**PJSC Gazprom's operating expenses in 2018**

### Operating expenses breakdown, RUB bn

	2016	2017	2018	Change 2018/2017
Taxes other than income tax	900.4	1,246.1	1,498.3	20.2%
Purchased gas and oil	1,157.6	1,236.2	1,468.9	18.8%
Transit of gas, oil, and refined products	610.3	593.3	650.8	9.7%
Depreciation	571.6	613.2	648.0	5.7%
Staff costs	641.0	682.1	600.8	-11.9%
Other	1,400.0	1,326.2	1,314.4	-0.9%
<b>Total</b>	<b>5,280.9</b>	<b>5,697.1</b>	<b>6,181.2</b>	<b>8.5%</b>

Gazprom is Russia's major taxpayer. In 2018, the taxes payable by the Group (net of income tax), totalled RUB 1,498.3 bn, up RUB 252.2 bn year-on-year. A heavier tax burden on Gazprom Group in 2018 was predominantly driven by an increase in mineral extraction tax (MET), mainly as a result of higher oil prices, an increase in the adjusting coefficient in the MET formula for crude oil, and an increase in coefficient values in the MET formula for gas.

### Outlook for Gazprom Group's tax burden in 2019

A higher MET on oil and gas condensate is expected in 2019 due to changes in the MET rate calculation as part of the completion of the tax manoeuvre in the oil industry. The growing MET on oil and gas condensate is expected to be partially offset by the negative oil excise from the budget, and the lower export duty on oil and oil products.

For more details on oil price changes in 2018 see the [Trends and Developments on Gas Markets](#) section

### Breakdown of taxes other than on income, RUB bn

	2016	2017	2018	Change 2018/2017
MET	613.7	915.2	1,163.9	27.2%
Property tax	127.1	154.6	162.9	5.4%
Other taxes	159.6	176.3	171.5	-2.7%
<b>Total</b>	<b>900.4</b>	<b>1,246.1</b>	<b>1,498.3</b>	<b>20.2%</b>

**Profit**

In 2018, Gazprom Group’s operating profit amounted to RUB 1,930.0 bn. The increase in the Group’s adjusted EBITDA was due to the operating profit growth. In 2018, Gazprom Group’s adjusted EBITDA margin grew to 32%.

**RUB 2,599.3 bn**

**PJSC Gazprom’s adjusted EBITDA for 2018**

Income tax in the reporting year was RUB 323.6 bn. Effective tax rate decreased to 17.5% (24.7% in 2017).

In 2018, the Group’s profit attributable to the owners of PJSC Gazprom totalled RUB 1,456.3 bn. This growth was mostly due to higher revenue and a higher share of profit of associates and joint ventures. At the same time, the Company’s profit was affected by higher operating costs, the recognition of the impairment loss on financial assets, and of the foreign exchange losses resulting from changes in RUB/USD and RUB/EUR exchange rates in 2018. In 2018, profit margin attributable to the owners of PJSC Gazprom reached 18%.

<b>Profit, RUB bn</b>	
Operating profit	
2016	726.6
2017	871.4
2018	1,930.0
Change 2018/2017	121.5%
Adjusted EBITDA	
2016	1,323.3
2017	1,467.7
2018	2,599.3
Change 2018/2017	77.1%
Profit for the year attributable to the owners of PJSC Gazprom	
2016	951.6
2017	714.3
2018	1,456.3
Change 2018/2017	103.9%

<b>Gazprom Group’s profit margin, %</b>			
	2016	2017	2018
Adjusted EBITDA margin	22	22	32
Profit margin for the year attributable to the owners of PJSC Gazprom	16	11	18

**Variation analysis of profit attributable to the owners of PJSC Gazprom, 2018, RUB bn**

Profit for 2017 attributable to the owners of PJSC Gazprom	714.3
Change in sales revenue	+1,678.1
Change in operating expenses	-484.1
Change in impairment loss on financial assets	-169.7
Change in net financial income (expense)	-329.6
Change in income tax	-72.5
Change in share of profit of associates and joint ventures	+105.6
Other factors	+14.2
Profit for 2018 attributable to the owners of PJSC Gazprom	1,456.3

## Capital Expenditures

In 2018, Gazprom Group's capital expenditures amounted to RUB 1,795.9 bn.

Transportation, Gas Production, and Refining segments account for the bulk of the Group's capital expenditures. The high share of the Transportation segment in the total capital expenditures is due to the concurrent implementation of a number of major gas transportation projects. With Gazprom's capex mostly denominated in Russian roubles, its investment activities are less exposed to external factors.

Total actual expenditure under Gazprom Group's 2019 capex programme (covering gas, oil, electricity, heat generating, and other assets) and similar plans of the Group was RUB 2,094.2 bn.

# RUB 1,795.9 bn

## Gazprom Group's capital expenditures in 2018

For more details on Gazprom Group's key capital expenditures in 2018 and 2019 priorities see the [Capex Programmes](#) section

### Capital expenditures, RUB bn

	2016	2017	2018	Change 2018/2017
Transportation	406.8	498.6	640.1	28.4%
Refining	193.2	225.2	309.4	37.4%
Gas production	235.2	216.5	308.0	42.3%
Oil and gas condensate production	326.4	330.4	257.9	-21.9%
Electricity and heat generation and sales	63.5	58.1	72.9	25.5%
Gas distribution	41.8	51.7	39.1	-24.4%
Gas storage	35.5	37.7	19.4	-48.5%
Other segments	54.9	86.4	149.1	72.6%
Total	1,357.3	1,504.6	1,795.9	19.4%

**Note.** Capital expenditures are shown as reported in the segment information of PJSC Gazprom's IFRS consolidated financial statements.

## Cash and Free Cash Flow

According to Gazprom Group's financial policy, capital expenditures are covered by the operating cash flow.

In 2018, net cash from operating activities totalled RUB 1,617.4 bn. This growth was mainly due to higher cash from operating activities before the changes in the working capital year-on-year, mainly due to growth in sales profits.

In 2018, net cash from operating activities remained lower than cash capital expenditures as the Company was passing the peak of its investment cycle.

PJSC Gazprom is enhancing the Group's centralised cash flow and liquidity management system.

### Cash from operating activities, RUB bn

	2016	2017	2018	Change 2018/2017
Net cash from operating activities	1,571.3	1,187.0	1,617.4	36.3%
Cash capital expenditures	1,369.0	1,405.8	1,639.5	16.6%
Free cash flow	202.3	-218.8	-22.1	

Gazprom intends to expand the cash pooling system, including by means of cross-border cash pooling, optimising Gazprom Group's settlement system, improvement of corporate dealing, and the use of cutting-edge banking technologies in cash management.

**322** participants

**in Gazprom Group's real cash pooling system as at 31 December 2018**

**Debt, RUB bn**

	2016	2017	2018	Change 2018/2017
Net debt	1,932.9	2,397.5	3,014.4	25.7%
Cash and cash equivalents	896.7	869.0	849.4	-2.3%
Total	2,829.6	3,266.5	3,863.8	18.3%

**Net debt/adjusted EBITDA\***

2016	1.5
2017	1.6
2018	1.2
Change 2018/2017	-25%

\* Calculated as the ratio of net debt to adjusted EBITDA denominated in Russian roubles.

**1.2**

**Net debt/adjusted EBITDA in 2018**

**Debt Management**

As at 31 December 2018, the total debt of Gazprom Group was RUB 3,863.8 bn while its net debt amounted to RUB 3,014.4 bn.

Despite the growth, the weighted average interest rate decreased to 5.1% as at 31 December 2018 (5.6% as at 31 December 2017) while the debt repayment profile was extended. As at 31 December 2018, 43% of debt matured from two through five years.

In 2018, the Group's Net debt/adjusted EBITDA ratio stood at comfortable 1.2.

PJSC Gazprom's credit ratings assigned by the rating agencies Standard & Poor's, Fitch Ratings, and Moody's have an investment grade, which is a credible external recognition of the Group's high creditworthiness and financial stability. Gazprom Group companies are reliable borrowers in the domestic and international capital markets, able to raise funds on favourable terms.

**Cost of debt, %**

	2016	2017	2018
Weighted average fixed interest rate	6.3	6.3	6.0
Weighted average floating interest rate	4.1	3.6	2.9
Weighted average interest rate	5.8	5.6	5.1

Debt maturities, %				
2016				
2017				
2018				
		<b>2016</b>	<b>2017</b>	<b>2018</b>
■	0 through 1 year	16	27	15
■	1 through 2 years	25	15	16
■	2 through 5 years	34	33	43
■	Over 5 years	25	25	26

Gazprom successfully raises capital funds on international debt markets, making informed decisions when selecting its sources of finance, and ensuring strong management of borrowed funds. The Group's borrowed funds mainly come from foreign currency borrowings: ca. 29% of its debt is denominated in US dollars and 43% in Euros. This is due to a number of factors including low interest rates on foreign markets and a sizeable currency borrowings market as compared to rouble-denominated instruments. Considering the gradual increase of interest rates in US dollars and still negative interest rates in Euros, the share of Euro-denominated loans in the debt portfolio has been rising. On top of that, Gazprom Group's debt currency profile reflects prevailing foreign currency revenues, thus creating a natural hedge for debt servicing: if the Russian rouble depreciates against the US dollar/Euro, higher payments on external debt in the rouble equivalent will be offset by growing foreign currency revenues in their rouble equivalent.

Rouble-denominated loans prevailing in debt portfolios of Gazprom Group's subsidiaries account for nearly 20% of the Group's total debt.

For details on bond issues outstanding as at 31 December 2018 see the [Share Capital and Securities Market](#) section

The Group's debt portfolio is well-balanced in terms of maturity — loans maturing in more than five years account for about a fourth of the portfolio.

PJSC Gazprom pursues a policy of improving control over Gazprom Group companies' external borrowings and debt and managing their excessive liquidity. Group companies have debt caps and need to go through preliminary approvals of their external borrowing programmes and individual borrowings within set limits and financial metrics.

To reduce the debt load and streamline the debt structure, an increasing number of subsidiaries is involved in the cash pooling system, while the existing regulations on Gazprom Group's debt and borrowings are improved, and new regulations are developed. Moreover, Group companies consistently strive to reduce the rates through refinancing their current loans and borrowings, and use financial instruments not affecting their external debt.

In 2019, PJSC Gazprom will continue to control external borrowings and maintain comfortable external debt and debt ratios for the Group.

# Environmental and Social Responsibility

**Personnel 142**

**Occupational Safety 147**

**Environmental Protection 151**

**Energy Saving and Energy Efficiency 155**

**Social Projects 158**

A tight-knit professional team is one of Gazprom’s key competitive advantages. The Group strictly complies with the requirements of labour laws, fosters continuous improvement of its employees’ skills, and ensures a high level of their social security.

Social and labour relations within Gazprom Group are governed by labour laws, the General Agreement between the National Associations of Trade Unions and Employers, and the Russian Government, the Industry Agreement for Oil, Gas and Construction Companies, collective bargaining agreements, and Gazprom Group’s local regulations.

Governed by the standards of the International Labour Organisation, Gazprom respects the fundamental rights and principles set forth in ILO conventions and recommendations, covering in particular:

- freedom of association and the effective recognition of the right to collective bargaining
- elimination of all forms of forced or compulsory labour
- effective abolition of child labour
- elimination of discrimination in respect of employment and occupation.

Gazprom also adheres to international standards on hours and conditions of work, occupational safety, remuneration for work, social security, and holidays with pay.

## Personnel Structure

As at 31 December 2018, the total headcount of the Group was 466.1 thousand employees, including 26.6 thousand employees in entities registered abroad.

# 0.6%

**the share of Gazprom Group’s personnel in the total number of employed Russian citizens**

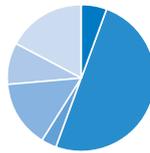
### Total headcount of Gazprom Group as at the end of the year, thousand people

2016	467.4
2017	469.6
2018	466.1
Change 2018/2017	−0.7%

**Note.** Excluding entities in which Gazprom has investments classified as joint operations.

**Breakdown of Gazprom Group's personnel as at 31 December 2018, thousand people**

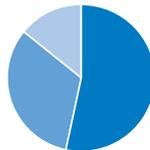
■ PJSC Gazprom (including branches and representative offices)	26.7
■ Major subsidiaries of Gazprom Group engaged in gas production, transportation, storage, and processing	232.9
■ Gazprom neftekhim Salavat	15.2
■ Gazprom Neft	68.5
■ Gazprom energoholding	43.3
■ Other subsidiaries	79.5
<b>Total</b>	<b>466.1</b>



**Note.** Excluding entities in which Gazprom has investments classified as joint operations.

**Breakdown of Gazprom Group's personnel by category as at 31 December 2018, thousand people**

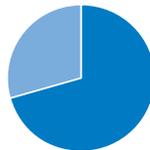
■ Blue collar	248.8
■ White collar	151.3
■ Managers	66.0
<b>Total</b>	<b>466.1</b>



**Note.** Excluding entities in which Gazprom has investments classified as joint operations.

**Gender balance of Gazprom Group's workforce as at 31 December 2018, thousand people**

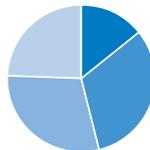
■ Men	330.1
■ Women	136.0
<b>Total</b>	<b>466.1</b>



**Note.** Excluding entities in which Gazprom has investments classified as joint operations.

**Age balance of Gazprom Group's workforce as at 31 December 2018, thousand people**

■ Under 30 years	67.0
■ 30 to 40 years	149.3
■ 40 to 50 years	137.1
■ Over 50 years	112.7
<b>Total</b>	<b>466.1</b>



**Note.** Excluding entities in which Gazprom has investments classified as joint operations.

For more details on Gazprom Group's personnel see [Gazprom in Figures 2014–2018 Factbook](#)

**Employee turnover rate across Gazprom Group entities, %**

2016	■ Gazprom Group	4.0
	■ including subsidiaries of Gazprom Group engaged in gas production, transportation, storage, and processing	1.3
2017	■ Gazprom Group	4.7
	■ including subsidiaries of Gazprom Group engaged in gas production, transportation, storage, and processing	1.3
2018	■ Gazprom Group	5.6
	■ including subsidiaries of Gazprom Group engaged in gas production, transportation, storage, and processing	2.1

■ Gazprom Group  
■ including subsidiaries of Gazprom Group engaged in gas production, transportation, storage, and processing

**Notes.**

- The following grounds for resignation are taken into account in calculating the employee turnover rate: clauses 3, 6, 7, 9, Article 77 of the Labour Code of the Russian Federation (termination of a labour agreement on employee's initiative). Only clause 3, Article 77 of the Labour Code of the Russian Federation was taken into account in calculating the employee turnover rate before 2018.
- Excluding share in the production volumes of entities in which Gazprom has investments classified as joint operations.

**Profile of Gazprom Group's workforce as at the end of the year**

Employees with a higher education degree, %	
2016	48.5
2017	49.4
2018	51.1
Candidates of Sciences	
2016	2,550
2017	2,654
2018	2,531
Doctors of Sciences	
2016	163
2017	141
2018	172
Mean age, years	
2016	41.3
2017	41.6
2018	41.3

**Note.** Excluding entities in which Gazprom has investments classified as joint operations.

Overall, the share of employees with higher education tends to grow. The average age of employees remained flat in 2016–2018.

Gazprom Interregional Trade Union, which is part of the Russian Oil, Gas and Construction Workers' Union, represents the interests of over 466 thousand Gazprom Group's employees.

## Young Talent Management

### Projects aimed at creating professional development opportunities for young specialists at PJSC Gazprom

- PJSC Gazprom's Young Specialist Training School
- Youth Coordination Council of PJSC Gazprom's subsidiaries and entities
- Councils of Young Researchers and Specialists
- R&D conferences for young employees

Gazprom runs a number of dedicated programmes for young employees and those new to the gas industry. The programmes, such as the Young Specialist Training School, a corporate post-graduate training programme, facilitate onboarding for young employees, identify their professional skills, and cultivate corporate traditions.

### Conferences, round-table discussions, and contests for young specialists

- Youth Day: Dialogue of Generations — 2018 at the 8th St Petersburg International Gas Forum (October 2018)
- Young Professionals Forum. Promising Research Projects of Young Scientists and Staff Training for Offshore Oil and Gas Development round-table discussion at Offshore Marintec Russia (October 2018)
- Two oceans: present and future of the Russian offshore oil and gas production youth session at the VII International Conference Russian Offshore Oil and Gas Development: Arctic and Far East (ROOGD 2018)
- PJSC Gazprom's Best Young Innovator contest

The Group has established the Youth Coordination Council of PJSC Gazprom's subsidiaries and entities. The Company's subsidiaries have their own councils of young researchers and specialists and hold R&D conferences for young employees aged under 35. A workshop for chairs of young researchers and specialist councils of PJSC Gazprom subsidiaries was held in October 2018 dedicated to discussing key matters related to young specialists' performance and identifying further focus areas of young talent management.

### Young talent management in Gazprom Group

University and vocational school graduates hired by Gazprom Group entities, people		
2016		2,743
2017		3,238
2018		2,931
Share in the total number of employees hired by Gazprom Group entities in 2018		
2016		5.5
2017		6.0
2018		5.0
Number of the Young Specialist Training School corporate post-graduate training programme participants, people		
2016		209
2017		271
2018		244

### Employee Training and Development

The Group has in place a corporate Continuous Vocational Education and Training System designed to upgrade employee skills to meet the ever-growing operational and performance requirements and support deployment of new technologies, adoption of professional standards, delivery of digital transformation across its business, and expansion of the Group's regional footprint.

### Number of Gazprom Group employees trained under career enhancement and retraining programmes, thousand people

2016		337.5
2017		342.9
2018		381.1

Change 2018/2017

11.1%

Gazprom runs targeted employee training programmes tailored for specific activities, such as development of offshore hydrocarbon fields, GTS dispatch control, LNG production, use of NGV fuels, use of innovative process equipment.

**Targeted training programmes for Gazprom Group employees developed in 2018**

Programme	Educational institution	Programme audience
Oil and Gas Trading (full-year, eight-module programme)	Gubkin Russian State Oil and Gas University and Gazprom Corporate Institute (joint project)	Employees engaged in trading activities
Gazprom MBA: Efficient Mineral Resource Base Management (full-year, eight-module programme)	Gazprom Corporate Institute	Gazprom Group companies' heads of operations and exploration

**Remuneration and Social Security**

The Company has in place the Remuneration Management Policy for Employees of PJSC Gazprom's Entities, which sets out unified corporate remuneration standards for Gazprom Group's employees. Its purpose is to provide a framework for attracting and retaining people with the required skills and motivate employees to perform as expected.

Current remuneration schemes link fixed salaries and pay rates to qualifications and business skills, and also provide for monthly performance bonuses, premiums and additional allowances for work scope and conditions, as well as ad hoc and annual bonuses.

**Key objectives of the Remuneration Management Policy for Employees of PJSC Gazprom's Entities**

- Adopting unified corporate employee remuneration standards
- Maintaining real pay levels reflecting consumer price index growth
- Ensuring competitive pay levels for employees of PJSC Gazprom entities based on market wage rate assessment
- Establishing an average monthly pay level for employees of Gazprom Group entities based on unified corporate remuneration standards
- Monitoring application of remuneration systems based on the unified corporate reporting on HR costs

**Staff costs of Gazprom Group, RUB bn**

2016	641.0
2017	682.1
2018	600.8
Change 2018/2017	-11.9%

To maintain real pay levels in accordance with the General Collective Bargaining Agreement of PJSC Gazprom and the collective bargaining agreements of its subsidiaries, the Company in its annual budgeting process takes into account the opinion of Gazprom Interregional Trade Union to decide on the increases of employee fixed salaries and pay rates, setting the time and rate of indexation versus the preceding year to reflect the projected CPI growth for the year based on forecasts by the Ministry of Economic Development of the Russian Federation.

**Increase of employee fixed salaries and pay rates in PJSC Gazprom and its budgeted subsidiaries and entities in Russia, %**

From 1 January 2017	From 1 January 2018	From 1 January 2019
5.0	3.7	4.6

PJSC Gazprom's social policy provides it with a competitive advantage in the employment market as it seeks to retain and motivate employees for strong and sustainable performance.

The social partnership between employees and employers is central to implementing our social policy, with its key aspects set out in the General Collective Bargaining Agreement of PJSC Gazprom and in the collective bargaining agreements of its subsidiaries.

**Key aspects of employees' social security**

Social benefits	Social benefits provide for necessary social security of both all the Company employees and certain employee groups (young talent, employees of subsidiaries located in the regions of Far North and equated localities, employees with family liability).
Personal insurance	
Healthcare benefits	PJSC Gazprom and its subsidiaries provide healthcare benefits to employees and retired employees and their families to ensure their occupational health, extend careers, as well as boost motivation and satisfaction. Healthcare benefits are an element of the operating process, a crucial part of managing personnel and its performance.
Housing programme	The Company has in place a corporate housing programme that is funded by both employees and financial institutions through bank mortgage lending facilities as well as by employer through subsidising mortgage loans.
Private pension plans	The Company runs a private pension arrangement to attract and retain key and highly skilled employees that have the necessary experience and qualifications and exhibit the greatest performance.

**Gazprom Group's social expenses, RUB bn**



To better incentivise and drive improvements in employee development, promote transfer of professional skills and knowledge, and cultural exchanges, Gazprom holds regular vocational skills competitions.

Starting from 2018, vocational skills competitions are held as part of Labour (vocational skills) Festivals.

**6 occupation types**

**across Gazprom Group's core businesses covered by the 2018 Labour Festival**

For more details on employee training, motivation system, and social benefits see [Gazprom Group's Sustainability Reports](#) published on an annual basis

The health and safety of employees are important priorities in Gazprom's business. The Group companies strictly comply with occupational health, industrial and fire safety laws, monitor the relevant risks, and implement preventive measures.

PJSC Gazprom puts the health and safety of its employees at the top of its operational agenda. In its activities, PJSC Gazprom is guided by its Occupational Health, Industrial and Fire Safety Policy.

**Objectives of PJSC Gazprom's Occupational Health, Industrial and Fire Safety Policy are to:**

- create safe working conditions and protect the health and safety of employees
- reduce the risks of accidents and incidents at hazardous production facilities
- ensure fire safety

For more details on commitments relating to occupational health, industrial and fire safety set out in PJSC Gazprom's Occupational Health, Industrial and Fire Safety Policy see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



**Unified Occupational Health and Safety Management System**

The Company has in place a Unified Occupational Health and Safety Management System (UOHSMS). It is a part of PJSC Gazprom's integrated management system developed and introduced to manage OHS risks and meet the Company's objectives and commitments under its occupational Health, Industrial and Fire Safety Policy.

**Health, industrial and fire safety performance results are subject to reviews at the highest level – meetings of PJSC Gazprom's Board of Directors.**

The scope of the Unified Occupational Health and Safety Management System covers PJSC Gazprom, its major gas exploration, production, processing, transportation, underground storage, and energy subsidiaries, as well as subsidiaries supporting the operation of the Russian UGSS, with a total headcount of around 319 thousand employees.

**Industrial safety leadership programme was developed by PJSC Gazprom in 2018.**

**UOHSMS improvements in 2018**

- Corporate requirements to the UOHSMS were reviewed to comply with ISO 45001:2018 international standard.
- Industrial safety leadership programme was developed by PJSC Gazprom.
- Industrial safety leadership workshops were organised for the executive management.
- Recommendations were developed to engage PJSC Gazprom employees in creating safe and healthy working conditions.
- Corporate requirements were established for visual alarm devices (Gazprom’s Corporate Standard 18000.1-007-2018 “Unified Occupational Health and Safety Management System of PJSC Gazprom. Procedure for Using Safety Signs and Other Visual Alarm Devices at PJSC Gazprom’s facilities”).
- Measures were taken to improve corporate monitoring of compliance with industrial safety requirements at PJSC Gazprom facilities.

UOHSMS certification

In 2014, the UOHSMS was certified to OHSAS 18001:2007.

PJSC Gazprom annually expands the certification scope by including new subsidiaries and entities.

**The Russian Register Certification Association (a member of the International Certification Bodies Association – IQNet) confirmed compliance of the UOHSMS to OHSAS 18001:2007 in 2018.**

**The UOHSMS is planned for certification to ISO 45001:2018 in 2020.**

**Number of PJSC Gazprom’s UOHSMS certified subsidiaries as at the end of the year**



**Average headcount of PJSC Gazprom’s UOHSMS certified subsidiaries, thousand people**



Outcomes of OHS activities

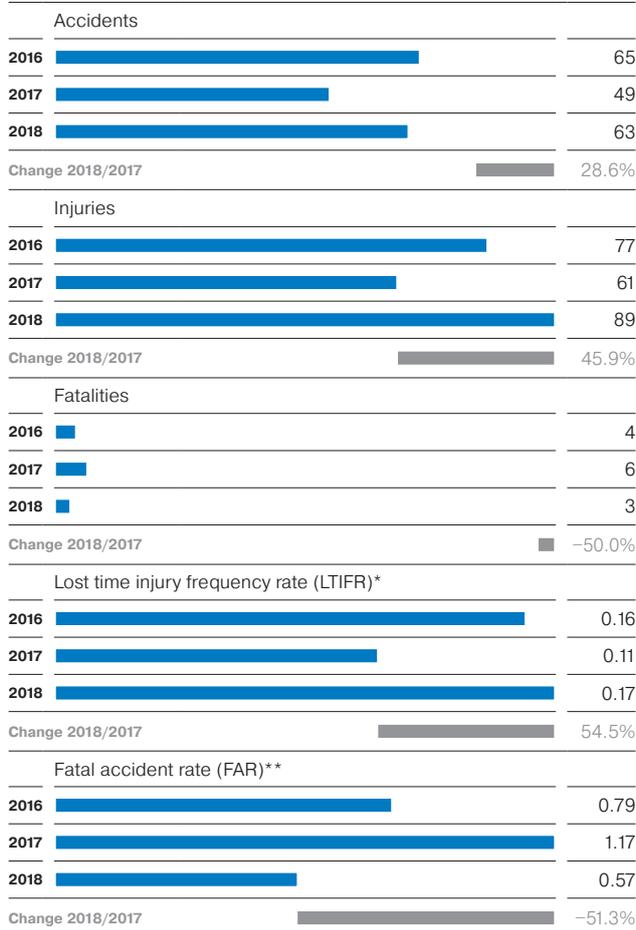
Gazprom makes consistent efforts to prevent injuries, occupational diseases, accidents, incidents, and fires.

Based on the identified critical and material risks, PJSC Gazprom develops and approves its occupational health, industrial and fire safety targets for the year, and develops programmes to achieve the annual targets while all its subsidiaries and entities develop programmes to improve labour conditions and action plans to ensure occupational safety at hazardous production facilities.

Pre-FEED and design documents are reviewed by our internal experts for compliance with PJSC Gazprom’s requirements to occupational safety.

Compliance with PJSC Gazprom’s OHS standards and regulations by suppliers and contractors operating at the facilities of PJSC Gazprom and its subsidiaries is an essential requirement of occupational safety. In its activities, the Company engages suppliers and contractors who share the principles set out in Gazprom’s Occupational Health, Industrial and Fire Safety Policy.

**Number of injuries and fatalities resulting from accidents and injury rates in entities covered by the UOHSMS**



\* Lost time injuries / total hours worked by all employees × 1,000,000.  
 \*\* Fatalities / total hours worked by all employees × 100,000,000.  
**Note.** Data published in Annual Report 2017 was amended after the internal investigation found one 2016 accident not to be related to the operational activities.

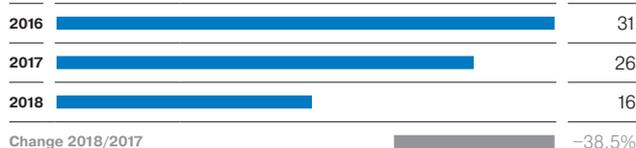
During 2018, causes for injury mainly included traffic accidents (47% of the total number of injured) and same-level falls (34%).

Fatal accident rate in 2018 reduced by 50% year-on-year. All employee fatal injuries in 2018 resulted from traffic accidents.

**Actions taken as a follow up to injury investigations**

- Additional requirements were imposed on passenger and freight transport service providers; and procedures established for controlling the entire process, from trip planning, releasing vehicles, speed monitoring, and driver work and rest hours, to return of the vehicles to the parking area.
- Requirements were set down for the purchased vehicles; specifically, a number of restrictions were introduced on the active and passive vehicle safety systems: a ban on using a vehicle without safety belts and restrictions related to routes, driver qualifications, and replacement of motor vehicles.
- A set of initiatives was developed for ensuring compliance of territories and premises with set requirements. Accountability for their maintenance was strengthened.

**Industrial safety incidents at hazardous production facilities of entities covered by the UOHSMS**



**Fires at facilities of entities covered by the UOHSMS**



A plan that included organisational and technical measures to ensure fire safety was implemented in the reporting period. The plan consisted of 50 measures and resulted from a root cause analysis of, and contributing factors to, fires that happened in the previous periods. The Company continuously improves the performance of professional emergency response services and fire safety units that maintain and protect PJSC Gazprom's facilities.

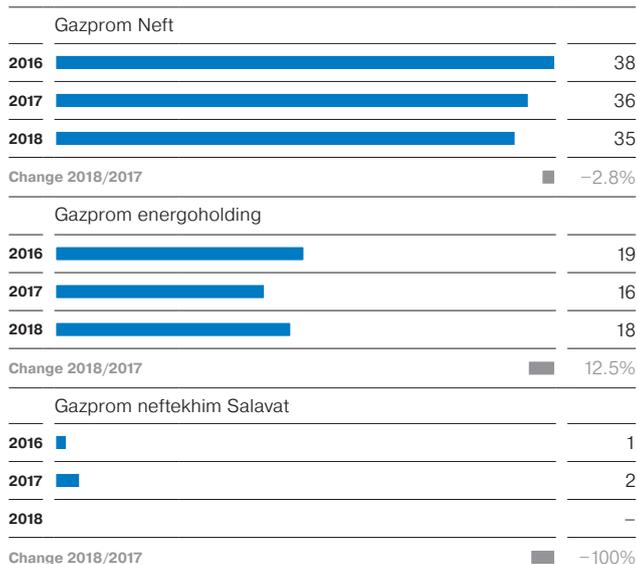
For more details on the Unified Occupational Health and Safety Management System see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



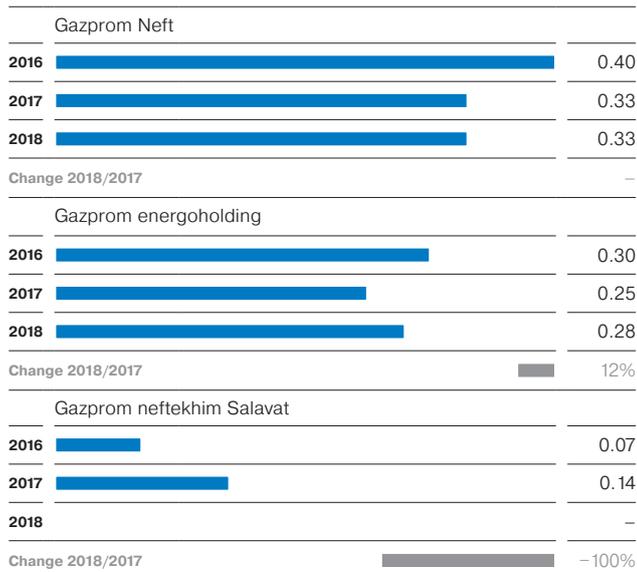
## Occupational Health and Safety at Gazprom Group Entities Outside the UOHSMS

Gazprom Group has in place the Occupational Health and Safety Management System across its oil, power generation, and petrochemical businesses.

### Number of people injured in accidents across Gazprom Group entities outside the UOHSMS



### Lost time injury frequency rate (LTIFR) across Gazprom Group entities outside the UOHSMS



**Note.** Lost time injuries / total hours worked by all employees × 1,000,000.

**Gazprom neftekhim Salavat Group reported no occupational injuries in 2018.**

## Gazprom Neft Group

Gazprom Neft Group benefits from a vertically integrated industrial and environmental safety, occupational safety, and civil protection management system compliant with ISO 14001, ISO 9001, and OHSAS 18001 international standards. PAO Gazprom Neft's operations are aligned with the in-house policy on industrial, fire and transport safety, environmental protection, health and workplace safety, and civil protection, and is coordinated by the Occupational Safety Department at the Corporate Centre. Gazprom Neft Group has in place a Health, Safety and Environmental Protection Board.

## Gazprom energoholding

At Gazprom energoholding Group and its subsidiaries, occupational health and safety issues are addressed in line with the requirements of Russian laws and applicable statutory regulations. CEOs are responsible for compliance with these requirements while relevant activities are coordinated by Chief Engineers of subsidiaries and their branches (power stations).

## Gazprom neftekhim Salavat

PJSC Gazprom's common goals, operating principles and commitments are also reflected in Gazprom neftekhim Salavat's existing OHS Policy. The company implements them in line with the requirements of federal, regional, and industry-related laws and international standards. Gazprom neftekhim Salavat has in place an OHS management system certified to OHSAS 18001:2007.

For more details on industrial safety across Gazprom Group see [Gazprom Group's Sustainability Reports](#) published on an annual basis

Sustainably using natural resources and caring for the environment are among Gazprom's top priorities. Gazprom Group runs a large number of environmental initiatives, many of which are voluntary.

When implementing projects both in Russia and abroad, sustainable use of natural resources and environmental protection are among the key principles guiding PJSC Gazprom's operations as a socially and environmentally responsible energy company.

PJSC Gazprom's Environmental Policy is the primary document outlining the Company's corporate policy and environmental commitments across operating regions. PJSC Gazprom's Environmental Policy was recommended by the Board of Directors for adoption across Gazprom Group companies.

The Environmental Policy is available on PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



To assure the international community of its environmental responsibility in 2018, Gazprom committed to further reducing methane emissions from its facilities by signing the Guiding Principles on Reducing Methane Emissions across the Natural Gas Value Chain.

For more details on the Corporate Climate Policy see [Gazprom Group's Sustainability Reports](#) published on an annual basis

#### Guiding principles on reducing methane emissions across the natural gas value chain

- The Guiding Principles signed by Gazprom in 2018 are part of wider efforts by the global energy industry to ensure that natural gas continues to play an important role in helping to meet energy demand in the future
- The Guiding Principles were developed in cooperation with the United Nations Environment Programme, the International Energy Agency, the International Gas Union, the Oil and Gas Climate Initiative, the Environmental Defense Fund, and the Sustainable Gas Institute
- The Guiding Principles are also supported by leading international energy companies such as Shell, Total, Eni, Equinor, BP, Exxon, Repsol, and Wintershall

#### Environmental Management System

The Environmental Management System (EMS) is essential to the Company's Environmental Policy. It covers PJSC Gazprom's business units and 34 wholly-owned subsidiaries engaged in core activities: gas and gas condensate exploration, production, transportation, storage, and processing, or capital project management.

**In 2018, PJSC Gazprom's EMS underwent a recertification audit, receiving a certificate of compliance with ISO 14001:2015, valid until December 2020.**

In 2018, Gazprom Group continued to roll out the EMS to ISO 14001:2015 requirements at its entities operating in Armenia and Kyrgyzstan. ZAO Gazprom Armenia has fully adopted the EMS and received a certificate of compliance.

Corporate Environmental Targets are set and environmental activities are grouped into focused programmes within PJSC Gazprom's EMS and based on an annually updated list of significant environmental aspects.

**Recognition of Gazprom Group's environmental performance by stakeholders**

- PJSC Gazprom was ranked Russia's best energy sector company for the seventh time in the CDP's international rating for corporate climate reporting and GHG reduction strategy
- PJSC Gazprom is a leader in the Russian Union of Industrialists and Entrepreneurs' Transparency and Responsibility, and Sustainable Development Vector indices, which are used as benchmarking tools by Russian companies and included in The Reporting Exchange, a global database of sustainability ratings, rankings, and indices. 2018 indexes were audited by FBK Grant Thornton, an independent auditor

**PJSC Gazprom was ranked Russia's best energy sector company for the seventh time in the CDP's international rating.**

Four out of the six targets set for 2017 to 2019 were met in 2018. The growth in above-limit impact charges against the 2014 baseline was due to a failure to obtain necessary environmental permits on time, which did not result in higher environmental impact. The rise in specific fuel and energy consumption for own operational needs was driven by a disproportionate increase in fuel and energy consumption along with higher natural gas transportation volumes (up 15.5% in 2018). Analysis of energy consumption by trunk gas pipelines under comparable operating conditions confirmed that specific fuel and energy consumption is going down.

The Gazprom Group companies not covered by PJSC Gazprom's EMS also have their own effective, business-specific environmental management systems.

For more details on the environmental management systems in the Group companies see PJSC Gazprom's Environmental Report or information on the companies' official websites

**Achievement of PJSC Gazprom's corporate environmental targets in 2018**

No	Corporate environmental target	Entities within the EMS scope	Progress against the target (vs the 2014 baseline)
1	Reduction of methane emissions	All subsidiaries engaged in natural gas transportation	Down 3.8%
2	Reduction of specific emissions of nitrogen oxides	All subsidiaries engaged in natural gas transportation	Down 2.2%
3	Reduction of waste and effluent water discharge into surface water bodies	All subsidiaries	Down 23.5%
4	Reduction of landfill share	All subsidiaries	Down 5.3%
5	Reduction of above-limit impact charges	All subsidiaries	Up 2.7%
6	Reduction of specific fuel and energy consumption for own operational needs	All subsidiaries engaged in natural gas transportation	Up 1.8%

**Environmental Performance and Environmental Protection Costs**

The rise in Gazprom’s GHG emissions in Russia is due to increased production across all production operations segments.

A minor increase in the Group’s air pollutant emissions was due to higher natural gas production and transportation volumes, and gas injection/withdrawal volumes at underground gas storage facilities.

**100%**

**of Gazprom Group subsidiaries and entities covered by environmental reporting have adopted the greenhouse gas stocktaking system**

**Gazprom Group’s environmental performance in Russia**

	2016	2017	2018	Change 2018/2017
Air pollutant emissions, thousand tonnes	2,868.5	2,795.9	2,894.0	3.5%
carbon oxide	550.5	529.9	594.1	12.1%
nitrogen oxides	288.5	313.6	328.6	4.8%
sulphur dioxide	346.1	262.7	276.2	5.1%
hydrocarbons (including methane)	1,462.3	1,495.7	1,497.8	0.1%
GHG emissions, mm tonnes of CO <sub>2</sub> equivalent	228.2	233.8	240.0	2.7%
Wastewater discharge into surface water bodies, mmcm	3,855.5	3,905.3	3,658.4	-6.3%
including clean and treated as per standards	3,691.2	3,781.7	3,579.5	-5.3%
Waste generation, thousand tonnes	4,289.8	4,130.3	3,555.1	-13.9%
Area of land disturbed during the year, thousand ha	27.0	42.2	25.8	-38.9%
Area of land rehabilitated during the year, thousand ha	42.5	19.6	15.8	-19.4%

**Note.** Excluding entities, in which Gazprom has investments classified as joint operations.

**In 2018, PJSC Gazprom was the first Russian energy company to pass an independent audit (certification) of corporate GHG reporting to the International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on Greenhouse Gas Statements.**

During 2018, Gazprom Group undertook a large number of environmental initiatives to achieve more efficient water use for operational and household needs and improve wastewater treatment quality. The initiatives helped to reduce wastewater discharge into surface water bodies including untreated and effluent water discharge.

A smaller area of land was disturbed in the reporting year, as most of the area affected by the Power of Siberia trunk gas pipeline construction was reported during the previous period. The decrease in land remediation in 2018 was due to ongoing repairs and construction work in progress on the land leased during previous periods.

The decrease in waste generation resulted from lower Class 5 bottom ash waste levels at Gazprom energoholding’s facilities due to substituting coal with natural gas in the fuel mix and less drilling waste produced by Gazprom Neft.

**According to the CDP’s international rating, Gazprom’s products have the lowest carbon footprint across the world’s largest oil and gas companies.**

**Gazprom Group's environmental protection costs in Russia, RUB bn**

	2016	2017	2018	Change 2018/2017
■ Current environmental protection costs	34.10	34.47	39.15	13.6%
■ Capital expenditures for environmental protection and sustainable use of natural resources	22.55	35.58	29.19	-18.0%
■ Negative environmental impact charges	0.82	0.77	0.62	-19.5%
Total	57.47	70.82	68.96	-2.6%

**Note.** Excluding entities in which Gazprom has investments classified as joint operations.

Gazprom Group's current environmental protection costs in Russia grew in 2018 as a result of higher operating costs and overhaul costs for fixed capital assets used in environmental protection. The increase was primarily due to Gazprom neftekhim Salavat, which commissioned a sulfur-alkaline wastewater neutralisation unit at its refinery and Monomer plant and retrofitted the elemental sulphur production unit.

The decline in capital investments in environmental protection and sustainable use of natural resources was primarily due to lower investments made by Gazprom Neft Group during the year for reasons including the capital-intensive construction of water treatment facilities completed at refineries in 2017.

The decrease in negative environmental impact charges paid by Gazprom Group in 2018 was largely due to lower charges for discharge of pollutants into water bodies during APG flaring at Gazprom Neft Group's fields, reduced landfill, and a decline in the above-limit impact charges for discharge of pollutants into water bodies.

For more details on the capacities commissioned during the reporting year to increase APG use see the [Exploration and Production](#) section

**Penalties and compensation for environmental damage in Russia by Gazprom Group, RUB mn**

	2016	2017	2018	Change 2018/2017
Penalties	24	11	17	54.5%
Compensation for environmental damage	46	91	189	107.7%
including for previous years	30	90	177	96.7%

**Note.** Excluding entities in which Gazprom has investments classified as joint operations.

Compensation payments for damage primarily resulted from Gazprom Neft pipeline incidents in 2017 and minor land contamination in the Yamal-Nenets Autonomous Area.

Gazprom Group's subsidiaries operating abroad are also committed to minimising their environmental footprint in strict compliance with both local regulations and PJSC Gazprom's Environmental Policy.

**In 2018, the operations of PJSC Gazprom's subsidiaries outside Russia did not have a significant environmental impact.**

Since the date Gazprom Group gained control of its gas transportation subsidiaries in FSU countries (OAO Gazprom transgaz Belarus, OsOO Gazprom Kyrgyzstan, and ZAO Gazprom Armenia), it has been engaged in major efforts to upgrade production facilities and improve environmental management systems to bring them in line with PJSC Gazprom's corporate standards and ISO 14001. When prospecting, exploring, and developing hydrocarbon fields outside Russia, Gazprom Group applies technological and scientific innovations, including innovations aimed at reducing its environmental footprint.

For more details on Gazprom Group's environmental performance and environmental protection costs see [PJSC Gazprom's Environmental Report](#)

Saving energy and improving energy efficiency are among Gazprom's top priorities. Gazprom approved its corporate Energy Efficiency and Energy Saving Policy in 2018. The Policy builds on PJSC Gazprom's existing Energy Saving and Energy Efficiency Improvement Concept for 2011–2020.

Gazprom works consistently to save energy and improve its energy efficiency, particularly through its Energy Saving and Energy Efficiency Improvement Concept for 2011–2020.

For more details about the objectives set out in the Energy Saving and Energy Efficiency Improvement Concept for 2011–2020 see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



To further encourage energy saving and energy efficiency improvements, as well as prepare for the corporate energy management system's certification, PJSC Gazprom's Management Committee approved the Energy Efficiency and Energy Saving Policy in 2018. The Policy sets out commitments and mechanisms supporting rational use of energy resources, energy performance improvements, and further promoting systemic energy efficiency solutions.

**For a third consecutive year, the Russian Ministry of Energy ranked PJSC Gazprom the best energy company in terms of energy saving and energy efficiency management in operational processes.**

#### **Key commitments in PJSC Gazprom's Energy Efficiency and Energy Saving Policy**

- Consistently improve energy efficiency
- Save natural energy resources
- Further reduce GHG emissions from production facilities

The Energy Efficiency and Energy Saving Policy of PJSC Gazprom is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



**In 2019, PJSC Gazprom expects to certify its corporate Energy Management System for compliance with ISO 50001:2012.**

PJSC Gazprom achieves its energy saving and energy efficiency improvement objectives through energy saving initiatives run across all subsidiaries engaged in natural gas transportation, production, processing, underground storage, and distribution, as well as in OOO Gazprom energo.

# 5.5%

## fuel and energy savings in 2018

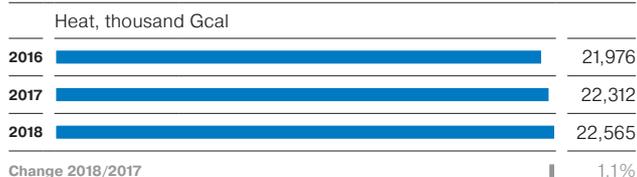
### Fuel and Energy Consumption and Saving by Subsidiaries Covered by PJSC Gazprom's Energy Saving Programmes

#### Fuel and energy consumption, mn t c.e.



**Note.** Fuel and energy consumption rates have been converted to t c.e. using the following ratios: 1 mcm of gas = 1.155 t c.e.; 1 thousand kWh = 0.325 t c.e.; 1 thousand Gcal = 0.143 t c.e.

#### Fuel and energy consumption by type

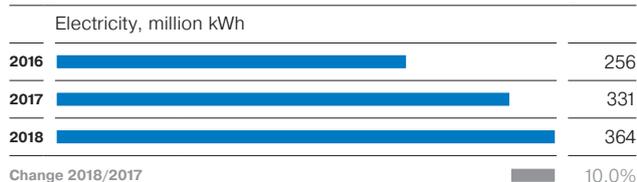


#### Fuel and energy savings, mm t c.e



**Note.** Fuel and energy consumption rates have been converted to t c.e. using the following ratios: 1 mcm of gas = 1.155 t c.e.; 1 thousand kWh = 0.325 t c.e.; 1 thousand Gcal = 0.143 t c.e.

#### Fuel and energy savings by type



#### Value of fuel and energy savings, RUB bn



**Note.** Calculations are based on the actual energy prices in respective period.

For more details on fuel and energy consumption and savings across all segments by the subsidiaries covered by PJSC Gazprom's energy saving programmes see the Environmental Report and Gazprom Group's Sustainability Reports published on an annual basis

#### Results of energy saving initiatives under PJSC Gazprom's energy saving programmes in 2011–2018

Savings:	
19.1 bcm of natural gas 2.2 billion kWh of electricity 1.8 mm Gcal of heat	22.5 mm t c.e. of fuel and energy worth a total of RUB 64.5 bn

**With an increase in goods transported relative to the level of 2011 by 9%, specific consumption of fuel and energy resources for own technological needs decreased by 18.5%.**

**RUB 12.0** bn

**value of PJSC Gazprom’s fuel and energy savings in 2018**

**19.1** bcm

**natural gas savings in 2011–2018**

As natural gas consumed by trunk gas pipelines accounts for over 70% of the fuel and energy consumption mix of the subsidiaries covered by PJSC Gazprom’s energy saving programmes, key energy saving and energy efficiency improvement initiatives, such as deploying energy efficient equipment, are focused on natural gas.

**Energy saving and energy efficiency objectives to 2021 under PJSC Gazprom’s Energy Saving and Energy Efficiency Improvement Programme for 2019–2021**

To implement	To save:	
over 2,800 energy saving initiatives	6.2 bcm of natural gas 635.8 million kWh of electricity 529.8 thousand Gcal of heat	over 7.4 mn t c.e. of fuel and energy worth a total of RUB 24 bn

**6.2** bcm

**gas savings planned for 2019–2021**

Subsidiaries of Gazprom Neft, Gazprom energoholding, and Gazprom neftekhim Salavat are not covered by PJSC Gazprom’s energy saving programmes, as they have their own energy saving and energy efficiency programmes compliant with federal laws and corporate requirements of Gazprom Group.

In 2018, Gazprom energoholding’s energy programme helped to save 1.4 mn t c.e. of fuel and energy worth RUB 6.1 bn primarily due to optimising operation modes of combined-cycle equipment and the initiatives to increase the share of heat generation by power plants.

**Key energy saving and energy efficiency improvement initiatives under PJSC Gazprom’s energy saving programmes**

- Optimising operation modes for power generating equipment at operating facilities
- Reducing gas losses
- Installing smart lighting, heating, and ventilation systems
- Reducing gas consumption for own operational needs by optimising operation modes of trunk gas pipelines
- Upgrading and replacing gas pumping units with highly efficient, next-generation units
- Reducing fuel gas consumption by replacing the flow channels at centrifugal gas compressors
- Telemetry-based well logging without gas venting
- Increasing vent gas recovery during repairs

Innovative and energy efficient technologies are implemented using contemporary practices such as energy service contracts.

For more details on the Corporate Climate Policy see [Gazprom Group’s Sustainability Reports](#) published on an annual basis

The economic effect from fuel and energy savings worth RUB 2.3 bn achieved by Gazprom Neft’s energy saving programme was primarily due to electricity savings in oil exploration and production segments.

For more details on energy saving programmes run by the companies of Gazprom Neft, Gazprom energoholding, and Gazprom neftekhim Salavat see their respective websites, [PJSC Gazprom’s Environmental Report](#), or [Gazprom Group’s Sustainability Reports](#) published on an annual basis

Gazprom is a socially responsible company. The Group actively runs and supports projects promoting sports, science, and arts and preserving heritage. A strong focus is placed on enhancing international cultural cooperation.

Gazprom Group undertakes a large number of charity and sponsorship initiatives. While most of the Group's social investments are in Russia, the scale and geography of its operations enables expanded support for certain international social and economic projects.

---

For more details on the social initiatives of PJSC Gazprom and its subsidiaries and entities see Gazprom Group's Sustainability Reports published on an annual basis or the Social Responsibility section of PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



## Charitable Activities

In its charitable activities, the Company seeks to contribute to the social and economic development in the regions in which it operates and strengthen its partnerships with each.

PJSC Gazprom and its subsidiaries consistently support science, education, culture, healthcare, physical education, and sports. Both in its regions of operation and country-wide, the Company helps to build new or rehabilitate existing sports, social, education, and healthcare facilities, as well as cultural heritage sites in need of renovation or restoration. The Company also focuses on environmental protection and projects reviving national spiritual and cultural values while supporting indigenous minorities of the Russian North.

---

Over **2,600**  
charitable projects and initiatives financed  
by Gazprom Group companies in 2018

---

<b>Key charity efforts of PJSC Gazprom and its subsidiaries and entities in 2018</b>	
The Gazprom for Children Programme	
Support for beautification and restoration of War Memorials in Russia and FSU countries	<p>Donations for maintaining Eternal Flame memorials in Russia's Hero Cities and Cities of Military Glory</p> <p>Maintaining a gas infrastructure for Eternal Flame memorials, including connecting both existing and new Eternal Flame memorials to the gas grid instead of using gas cylinders</p> <p>Restoring and renovating memorials and war grave sites</p>
Supporting healthcare	<p>Supporting construction and renovations of medical facilities</p> <p>Supporting medical projects run by Dmitry Rogachev National Research Centre of Paediatric Haematology, Oncology, and Immunology</p> <p>Financial support for scientific medical events</p>
Supporting vulnerable groups	<p>Financing charity events for children from foster, low-income, and large families, and children from care institutions</p> <p>Assistance in holding charity events for elderly people</p> <p>Financing treatment courses for people with disabilities and severely ill children</p> <p>Charitable support in acquisition of pharmaceuticals and medical devices</p>
Support for reviving cultural and spiritual values	<p>Participation in financing the Russia — My History initiative</p> <p>Supporting church construction and renovation and restoration of religious sites and church complexes</p> <p>Supporting the cultural education programmes run by the Russian Orthodox Church</p>
Supporting culture and the arts	<p>Assisting restoration projects in the Tsarskoye Selo State Museum-Preserve (jointly with ENGIE) and the Chinese Palace in Oranienbaum, part of the Peterhof State Museum-Reserve</p> <p>Rehabilitating and renovating cultural monuments and converting them to museums</p> <p>Financial support for theatres, museums, and musical groups</p> <p>Supporting musical education projects, including international projects</p>
Supporting indigenous minorities of the Russian North	
Supporting education	<p>Running the Gazprom Classes project</p> <p>Financial support for educational institutions with a particular focus on schools (renovation projects, provision of equipment, and specialised classrooms)</p>
Supporting organisations whose projects focus on environmental protection and population growth of rare animal species	
Supporting veteran organisations	

**The Gazprom for Children Programme is the Group's key social responsibility project.**

---

**Gazprom for Children Programme**

The Programme aims to contribute a positive effect in the intellectual, cultural, and physical development of children and teenagers and involve as many of them as possible in sports and the arts. PJSC Gazprom is the only Russian company with such an ambitious social project.

Since the launch of the Programme in 2007, over 1,659 various facilities have been built in Russia.

In 2018, the Group completed the construction of 51 sports facilities under the Programme:

- 18 fitness and health facilities (the largest community facilities include a fitness and health facility with a swimming pool and a multi-purpose sports hall in Komsomolsk-on-Amur and a fitness and health facility with an ice rink in Stavropol)
- Two indoor athletics arenas
- A riding school in Kursk
- 30 outdoor sports fields, including 7 school stadiums and 23 multi-courts

In 2018, 46 infrastructure projects were under construction. Financing under the Programme covered 25 Russian regions.

The Gazprom for Children Programme will continue, with plans set to 2024.

Gazprom Group increasingly involves its employees in charitable activities. Their participation as volunteers and philanthropists in various charitable projects has become part of the corporate culture.

---

# 211

countries and regions

---

**delegated children to participate in the Football for Friendship International Children's Social Programme in 2018**

---

**Football for Friendship International Children's Social Programme**

Football for Friendship International Children's Social Programme is PJSC Gazprom's ambitious social project in partnership with FIFA and UEFA.

The Program aims to develop children's football and promote universal human values such as equality, tolerance, and healthy lifestyles.

The sixth season of the Programme was PJSC Gazprom's key social project in 2018 and carried as a part of the 2018 FIFA World Cup events in Russia: Moscow hosted 12-year old participants, including children with disabilities, from the six continents: Asia, Africa, Australia and Oceania, Europe, North and South America. All in all, over 180 sports events and city festivals for children were held during the season in different parts of the globe with over 240 thousand children participating.

During the sixth season, over 70 environmental, educational, and volunteer events were held, aiming to raise global awareness of the need to save endangered species and protect the environment.

In 2018, 35 thousand publications about the Programme in 60 languages appeared in the world's leading media such as Euronews, Associated Press, Al Jazeera, Reuters, RT, DPA, TASS, and Africa News.

Football for Friendship was supported in 2018 by the UN, FIFA, and UEFA, national football federations, top global football clubs, international children's charitable foundations, NGOs, and governments from various countries who noted the Programme's significant social and humanitarian mission.

The Programme's partners in 42 countries financed their own social initiatives as part of the Football for Friendship: sports and humanitarian events, international football championships, workshops and presentations for children from orphanages, and inclusive football projects for children with disabilities.

During its existence, Football for Friendship has won 21 awards for communications, social, and sports initiatives such as the Gold Quill Awards, Sabre Awards, Silver Archer, and Eventiada IPRA GWA. The Programme has won global recognition and plays an important role in Russia's international social policy.

### Sponsorships

PJSC Gazprom and its subsidiaries and entities sponsor sports organisations and initiatives, cultural organisations, and events, along with major business forums held in Russia.

**The 2018 FIFA World Cup was a key sports project supported by PJSC Gazprom during the year.**

---

Over 200

---

**Projects and events sponsored by Gazprom Group companies in 2018**

---

**Key sponsorship efforts of PJSC Gazprom and its subsidiaries and entities in 2018**

Supporting sports	Partnerships with FIFA and UEFA Sponsoring the Russian Olympic Committee and Russian national teams in competition preparation and participation Sponsoring sports federations and sports clubs Sponsoring competitions and sports events
Supporting cultural and art projects	Sponsoring Children's Radio
Sponsoring business events	

---

**Sports federation and club sponsorships in 2018**

Sport	Sponsorship recipient
Football	Clubs: Zenit, Orenburg, Tom
Ice hockey	Clubs: SKA, Avangard, Vityaz
Volleyball	Volleyball Federation of Russia  the Zenit-Kazan, Zenit-Saint Petersburg, and Gazprom-Yugra clubs
Basketball	Zenit club
Rhythmic Gymnastics	Rhythmic Gymnastics Federation of Russia
Swimming	Russian Swimming Federation
Biathlon	Russian Biathlon Union
Kayaking and canoeing	Russian Canoe Federation
Billiards	Federation of Billiard Sports of Russia
Table tennis	Fakel-Gazprom club
Sailing sports	Bronenosets yacht crew

---

**Major business forums supported by PJSC Gazprom and its subsidiaries and entities in 2018**

- 8th St Petersburg International Gas Forum
- Sochi International Investment Forum
- 22nd St Petersburg International Economic Forum
- 4th Eastern Economic Forum in Vladivostok
- 9th Gaidar Forum, Russia and the World: Values and Virtues
- Russian Energy Week International Forum 2018

Sponsorship efforts help Gazprom pursue its communications strategy, run ambitious social projects, improve brand recognition, and boost its profile in key international markets.

# Corporate Governance

**Letter to Shareholders  
by the Chairman of PJSC Gazprom's  
Board of Directors 164**

**PJSC Gazprom's Corporate Governance Compliance  
Report, including Statement of Compliance  
with the Corporate Governance Principles Set Out  
in the Russian Corporate Governance Code 165**

**PJSC Gazprom's Corporate Governance Model 169**

**Remuneration of Members of Management  
and Supervisory Bodies 177**

**Liability Insurance of Directors, Officers,  
and the Company 182**

**Shareholdings of Members of the Board of Directors  
and Management Committee and Transactions  
with PJSC Gazprom Shares 183**

**Internal Audit 185**

**External Audit 187**

**Risk Management and Internal Control 188**

**Risk Management and Internal Control System 188**

**Key Risk Factors 191**

**Procurement Performance 194**

**Ensuring Compliance of Operations  
with Legal Requirements 198**

**Share Capital and Securities Market 202**

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

Dear Shareholders,

Gazprom, one of the global energy giants, is steadily strengthening its international position.

Having an effective corporate governance system is a key prerequisite for Gazprom's stable and sustainable development. The Company meets all legal requirements concerning corporate governance, proactively applying best Russian and international practices while reaching for ultimate excellence in everything we do. We are continuously focused on achieving the Company's strategic development objectives, safeguarding the rights and interests of all shareholders, ensuring informational transparency, and maintaining an open dialogue with the investment community.

In 2018, the Board of Directors dealt with dozens of matters of strategic importance to Gazprom. In particular, the Board monitored progress on our major investment projects and the Innovative Development Programme, as well as the Company's efforts in cost optimisation, import substitution, and adoption of advanced digital technologies. The Board approved a number of important corporate documents, including an updated PJSC Gazprom's Long-Term Development Programme and power generation strategy for the next decade.

We continued our efforts to improve disclosure quality. In 2018, Gazprom Group's Sustainability Report was reviewed for the first time by an independent auditor. The experts found the document to meet the applicable international standards.

In 2019, the Board of Directors prepared a number of recommendations for shareholders regarding amendments to the Company's governing documents: PJSC Gazprom's Articles of Association and Regulations on the General Shareholders Meeting, on the Board of Directors, and on the Management Committee. One of the proposals is to include a provision into the Articles of Association allowing shareholders to vote remotely online by using e-ballots. This will expand the shareholders' ability to take part in decision making on matters on the agenda discussed at the shareholders meetings.

In 2018, to further improve our investor relations, the Company arranged ten one-on-one meetings with its independent directors, Viktor Martynov and Timur Kulibaev. The meetings were attended by representatives of major international investment funds. Moreover, a series of meetings was held for investors to discuss our performance on environmental protection, social policy, and corporate governance. The investors who attended the meetings were provided with a comprehensive and detailed picture of Gazprom's current standing and future development areas, both in Russia and internationally. The investors who spoke to our independent directors and Company representatives considered such direct communication very fruitful and, among other things, commended Gazprom for its commitment to responsible business conduct.

Dear Shareholders, the Board of Directors will continue making every effort to ensure further improvement of Gazprom's business performance.



**Viktor Zubkov**

Chairman of PJSC Gazprom's Board of Directors

# PJSC Gazprom's Corporate Governance Compliance Report, including Statement of Compliance with the Corporate Governance Principles Set Out in the Russian Corporate Governance Code

Gazprom places particular emphasis on the quality of corporate governance and makes consistent efforts aimed at its development and enhancement in line with international standards and best practices.

## Key documents of PJSC Gazprom ensuring protection of shareholder rights

- Articles of Association of Public Joint Stock Company Gazprom
- Corporate Governance Code of PJSC Gazprom
- Corporate Code of Ethics of PJSC Gazprom (amended in 2018)
- Regulations on the General Shareholders Meeting of PJSC Gazprom (amended in 2018)
- Regulations on the Board of Directors of PJSC Gazprom
- Regulations on the Board of Directors' Audit Committee of JSC Gazprom
- Regulations on the Board of Directors' Nomination and Remuneration Committee of PJSC Gazprom
- Regulations on the Management Committee of PJSC Gazprom
- Regulations on the Chairman of the Management Committee of PJSC Gazprom
- Regulations on the Audit Commission of JSC Gazprom, new version
- Regulations on the Internal Control System of PJSC Gazprom
- External Audit Policy for PJSC Gazprom, its subsidiaries and entities
- Procedures for Documenting of Proposals and Requests of Shareholders Related to the Convocation of the General Shareholders Meeting of PJSC Gazprom
- Dividend Policy of Joint Stock Company Gazprom
- Regulations on the Information Disclosure of PJSC Gazprom (amended in 2018)
- Procedure for Providing Information about PJSC Gazprom to Shareholders (amended in 2018)
- Regulations of JSC Gazprom on Control of Compliance with the Laws on Countering the Unlawful Use of Insider Information and Market Manipulation
- Anti-Corruption Policy of PJSC Gazprom
- Regulations on the Hotline for Fighting Fraud, Corruption, and Embezzlement at Gazprom Group

## Description of amendments made in 2018 to PJSC Gazprom's documents ensuring protection of shareholder rights

Document	Amendments
Corporate Code of Ethics of PJSC Gazprom	A provision on regular tests for employees' knowledge of corporate ethics standards was introduced (Resolution of PJSC Gazprom's Board of Directors No. 3172 dated 26 October 2018)
Regulations on the General Shareholders Meeting of PJSC Gazprom	Amendments allowing the use of additional premises equipped for TV broadcasts of the General Shareholders Meeting and allowing shareholders to pose questions to spokespersons and make announcements concerning their participation in debates were introduced (Resolution of the Company's Annual General Shareholders Meeting dated 29 June 2018, Minutes No. 1)
Regulations on the Information Disclosure of PJSC Gazprom	Amendments were introduced to include information on proposed changes to the Articles of Association and PJSC Gazprom's internal documents on the list of additional information subject to disclosure to the participants of the General Shareholders Meeting in the form of a comparison between the current and proposed versions of the documents (Resolution of PJSC Gazprom's Board of Directors No. 3152 dated 22 August 2018)
Procedure for Providing Information about PJSC Gazprom to Shareholders	Aligned with the current version of Article 91 of Federal Law No. 208-FZ On Joint Stock Companies dated 26 December 1995 including in terms of shareholders' access to PJSC Gazprom's information and documents (Resolution of the Management Committee of PJSC Gazprom No. 36 dated 27 September 2018)

These documents are available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



The Board of Directors believes that compliance with the principles and recommendations set out in the Corporate Governance Code (the "Russian Corporate Governance Code" or "Code"), which is recommended as a guidance by the Bank of Russia, is key to the Company's long-term growth and stronger investment case.

For the Company, the principles set forth in the Russian Corporate Governance Code are an important source used to develop its internal regulations and a benchmark for building the best corporate governance practice.

The corporate governance practice pursued by PJSC Gazprom relies on compliance with the requirements of Russian laws, the requirements applicable to issuers, and on balancing the interests of the state, shareholders, and all stakeholders.

PJSC Gazprom pays close attention to the development of corporate governance and respective practices both in Russia and abroad.

The Company performs regular independent assessment of the current development level of corporate governance in order to analyse its compliance with the recommendations of the Russian Corporate Governance Code. The independent assessment is carried out with the involvement of experts from specialised external organisations.

Experts of AO KPMG conducted a scheduled independent audit of PJSC Gazprom's corporate governance practice in 2017, commended the Company for the positive developments in numerous areas of its corporate governance over the past few years and highlighted potential areas of further development.

The independent audit of PJSC Gazprom's corporate governance practice in 2017 also involved an independent assessment of the performance of PJSC Gazprom's Board of Directors, the Audit Committee, and the Nomination and Remuneration Committee. In 2018, PJSC Gazprom initiated self-assessment of the performance of the Board of Directors and its committees since regular self-assessment of the management bodies' performance is recommended by the Code. Members of the Board of Directors commended PJSC Gazprom for the current development level of the Board of Directors and its committees.

The results of the independent audit and performance assessment of the Company's management body are reviewed by PJSC Gazprom's Board of Directors, thoroughly discussed, and considered in future efforts to enhance corporate standards.

In accordance with the requirements of paragraph 70.4. of the Regulations on Disclosing Information by the Issuers of Issue-Grade Securities No. 454-P approved by the Bank of Russia on 30 December 2014, key principles and recommendations of the Russian Corporate Governance Code not fully complied or not complied with at PJSC Gazprom are listed below, along with the description of corporate governance mechanisms and tools used by PJSC Gazprom instead of those recommended by the Russian Corporate Governance Code. The Company includes in the key provisions of the Code principles and recommendations that correspond to the mandatory requirements of Russian stock exchanges (PAO Moscow Exchange and PAO Saint Petersburg Exchange) applicable to issuers' corporate governance for the purposes of inclusion of their shares in the first (top) level quotation list, which are mandatory for PJSC Gazprom to maintain its top listing on these exchanges.

**1 The Code recommends that independent directors constitute at least one third of the elected members of the board of directors** (paragraph 2.4.3 of the Code).

In 2018, the Company did not comply with this principle of the Code.

The Board of Directors of PJSC Gazprom (11 members) was elected by the Annual General Shareholders Meeting on 29 June 2018 from among the nominees proposed by shareholders. The Board of Directors included three independent directors, who were determined to be independent by Resolution of the Board of Directors of PJSC Gazprom No. 3132 dated 20 June 2018, as part of the procedures set forth in the rules of Russian stock exchanges.

---

**Determining nominees to PJSC Gazprom's Board of Directors to be independent nominees**

---

PJSC Gazprom's Board of Directors passed a resolution (Resolution No. 3132 dated 20 June 2018) determining Timur Kulibaev, Viktor Martynov and Vladimir Mau to be independent nominees to PJSC Gazprom's Board of Directors although they met the formal criteria of being related to PJSC Gazprom, and although Vladimir Mau and Viktor Martynov met the formal criteria of being related to the state and PJSC Gazprom's significant counterparties as it does not affect their ability to make impartial and independent judgements in good faith considering their professional experience, knowledge, and business reputation.

**2 To preview matters of supervision over the company's financial and business performance, the Code recommends to set up an audit committee comprised of independent directors**

(paragraph 2.8.1, Recommendation 173 of the Code).

**3 To preview matters of adopting an effective and transparent remuneration scheme, the Code recommends to set up a remuneration committee comprised of independent directors and headed by an independent director who is not the chairman of the board of directors**

(paragraph 2.8.2, Recommendation 179 of the Code).

**To preview matters of talent management (succession planning), professional composition and efficiency of the board of directors, the Code recommends to set up a nomination (appointments and HR) committee, predominantly comprised of independent directors**

(paragraph 2.8.3 of the Code).

**Where setting up a separate nomination committee is not practicable, its functions may be assigned to any other committee of the board of directors, i.e. a corporate governance committee or a remuneration committee**

(Recommendation 185 of the Code).

In 2018, the Company partially complied with the principles of setting up committees of the Board of Directors due in part to objective reasons (insufficient number of independent directors on the Board of Directors).

In accordance with the requirements of the Listing Rules of PAO Moscow Exchange, the above mentioned committees must comprise independent directors. If it is impossible due to objective reasons, independent directors must represent the majority of committee members, while the remaining committee members may be members of the Board of Directors who are neither the issuer's sole executive body nor members of the issuer's collegial executive body.

The majority of the Audit Committee and the Nomination and Remuneration Committee of the Board of Directors set up by PJSC Gazprom in 2018 was represented by independent directors — Viktor Martynov and Vladimir Mau. A member of both committees, Mikhail Sereda, is not a member of PJSC Gazprom's Management Committee. An independent director, Viktor Martynov, serves as Chairman of the Audit Committee of the Board of Directors.

PAO Moscow Exchange and PAO Saint Petersburg Exchange confirm the compliance of PJSC Gazprom's corporate governance with the rules of stock exchanges, required to maintain the Company's shares on the first (top) level quotation list.

Enhancement of PJSC Gazprom's corporate governance standards		
Focus area	Progress in 2018	Plans for 2019
Strategic planning	Strategic (long-term) planning: SPT lists for Gazprom Group's oil and power generation business were approved	Roll-out of the Long-Term Development Programme to international operations and the oil and power generation business
Shareholder rights	Changes to the Regulations on the General Shareholders Meeting of PJSC Gazprom were introduced allowing to use additional premises equipped for TV broadcasts of the General Shareholders Meeting and allowing shareholders to pose questions to spokespersons and make announcements concerning their participation in debates	Formalisation in PJSC Gazprom's Articles of Association of provisions ensuring the right to vote by electronic voting during the General Shareholders Meeting for individuals recorded in the Register of Shareholders
	Changes to the Regulations on the Information Disclosure of PJSC Gazprom were introduced to include information on amendments to the Articles of Association and PJSC Gazprom's internal documents on the list of additional information subject to disclosure to the participants of the General Shareholders Meeting in the form of a comparison between the current and proposed versions of the documents	
	Changes to the Procedure for Providing Information about PJSC Gazprom to Shareholders (Resolution of the Management Committee of PJSC Gazprom No. 36 dated 27 September 2018) were introduced — the document was aligned with the current version of the Federal Law on Joint Stock Companies including in terms of shareholders' access to PJSC Gazprom's information and documents	

<b>Enhancement of PJSC Gazprom's corporate governance standards (continued)</b>		
<b>Focus area</b>	<b>Progress in 2018</b>	<b>Plans for 2019</b>
Assessment of management bodies' performance	An internal assessment of the performance of PJSC Gazprom's Board of Directors, Audit Committee, and Nomination and Remuneration Committee (recommended by the Russian Corporate Governance Code) was initiated. Members of the Board of Directors commended PJSC Gazprom for the current development level of the Board of Directors and its committees. The assessment results were reviewed at the Board of Directors' meeting held in November 2018	
Information disclosure	Gazprom Group's Sustainability Report passed its first professional external audit and was subjected to a public verification procedure	Further improvement of operations transparency, including through the enhancement of information disclosure in Gazprom Group's Sustainability Reports
Procurement	A provision on the predominantly competitive procurement of independent valuator services to evaluate facilities was set out in PJSC Gazprom's internal document on the independent evaluation procedure. In line with fundamental changes in the Russian legislation on procurement, which came into force in 2018, a new version of the Regulations on the Procurement of Goods, Works, and Services by PJSC Gazprom and Gazprom Group Companies was approved	Further improvement of procurement to ensure targeted and cost-efficient spending on purchasing goods, works, and services, and reduce PJSC Gazprom's costs
Corporate ethics	An online training course with regular tests for knowledge of ethics standards was developed for PJSC Gazprom's employees. A provision on regular tests was included in the Code of Corporate Ethics of PJSC Gazprom	Distance education for PJSC Gazprom's employees involving a final test starting from 2019  Development of corporate ethics in PJSC Gazprom and its controlled entities
Insider information protection	The List of Insider Information of PJSC Gazprom was extended	Further improvement of safeguards to protect insider information
Shareholder and investor relations	Targeted investor meetings were arranged for the independent directors Timur Kulibaev and Viktor Martynov  A road show on environmental protection, social policy and corporate governance was run	Further meetings of independent director with investors and road shows on environmental protection, social policy and corporate governance

The Company continues to enhance its corporate governance standards in line with recommendations of independent experts who conduct scheduled independent audits of PJSC Gazprom's corporate governance practice.

# PJSC Gazprom's Corporate Governance Model

The corporate governance model in place at PJSC Gazprom relies on Russian laws and the requirements of Russian stock exchanges applicable to issuers whose shares have been included in the first (top) level quotation list.

**Key principles underlying the Company's corporate governance are set forth in the Corporate Governance Code of PJSC Gazprom.**

PJSC Gazprom's corporate governance model ensures efficient corporate governance while protecting the interests of shareholders and maintaining the highest standards of disclosure. The model also implies the establishment and continuous operation of an efficient risk management and internal control system and provides for a clear division of roles and responsibilities and a performance assessment framework for each management body of PJSC Gazprom.

## Significant aspects of the Company's corporate governance model and practices

Priority of shareholder rights and interests	Informational transparency
Strategic decisions at PJSC Gazprom are made with due consideration of their impact on all shareholders	The Company consistently keeps its investors and shareholders informed of all key events and intentions. PJSC Gazprom fosters an ongoing dialogue with shareholders, diverse investor groups, and analysts
Strategic governance of the Company by the Board of Directors	Effective supervision over the executive bodies by the Board of Directors; accountability of management bodies to shareholders
	Balanced and efficient internal audit and risk management
	Division of roles and responsibilities in Company management



### General Shareholders Meeting

General Shareholders Meeting is the supreme management body of PJSC Gazprom and is held on an annual basis. Any General Shareholders Meeting other than the AGM shall be deemed extraordinary.

The voting power at General Shareholders Meetings is attributed to holders of the Company's ordinary shares. Any shareholder may participate in a General Shareholders Meeting in person or by proxy. A General Shareholders Meeting is duly constituted if attended by the shareholders holding in aggregate more than a half of voting shares.

**The Company intends to launch electronic voting at the General Shareholders Meeting in 2019.**

The responsibilities of the General Shareholders Meeting include, inter alia, amending the Articles of Association of PJSC Gazprom, approving Annual Reports and the Company's auditor, distributing profit, electing members to the Board of Directors and the Audit Commission, making decisions on reorganisation or liquidation of PJSC Gazprom and on increase or decrease of the Company's charter capital.

In the reporting year, PJSC Gazprom held its annual General Shareholders Meeting on 29 June 2018.

#### Annual General Shareholders Meeting held on 29 June 2018

- Held in person (in the form of joint attendance of shareholders to discuss agenda items and pass resolutions on matters put to vote).
- Location — Saint Petersburg.
- The quorum required to pass resolutions on all the agenda items was present.
- Resolutions were passed on the following agenda items.

The Meeting approved PJSC Gazprom Annual Report 2017, the Company's annual accounting (financial) statements for 2017, dividend amount (RUB 8.04 per share), the dividend record date — 19 July 2018, deadline to receive dividends for the nominee shareholders and trustees who are professional security traders recorded in the Register of Shareholders — 2 August 2018, and for the rest of the registered shareholders — 23 August 2018. Limited Liability Company Financial and Accounting Consultants was approved as PJSC Gazprom's auditor. Amendments to the Regulations on the General Shareholders Meeting of PJSC Gazprom were also approved.

The Meeting resolved to distribute PJSC Gazprom's profit for 2017, distribute the retained earnings of past years, and pay remuneration to members of PJSC Gazprom's Board of Directors and Audit Commission holding no public office in the amount stipulated by the Company's internal documents.

The Meeting elected a new Board of Directors and Audit Commission of PJSC Gazprom.

PJSC Gazprom held no extraordinary General Shareholders Meetings in 2018.

### Board of Directors

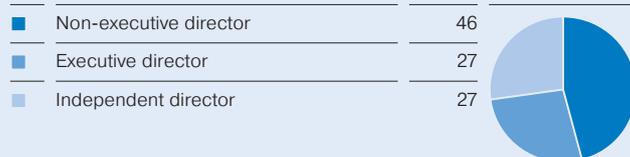
The Board of Directors is responsible for the general management of PJSC Gazprom's operations, excluding matters reserved to the General Shareholders Meeting.

The Company's Board of Directors is elected by the General Shareholders Meeting until the next Annual General Shareholders Meeting.

The Board of Directors determines the Company's business priorities, approves the annual budget and investment programmes, makes decisions on convening General Shareholders Meetings and setting up executive bodies of PJSC Gazprom, develops recommendations on per share dividend amounts, and resolves other matters reserved to the Board of Directors by the Articles of Association of PJSC Gazprom.

The Board of Directors of PJSC Gazprom has a well-balanced composition to ensure the performance of their tasks for the benefit of all shareholders and the Company as a whole.

#### Composition of the Board of Directors by status, %



The activities of PJSC Gazprom's Board of Directors are governed by the duly approved six-month activity plans. In 2018, the Board of Directors held a total of 53 meetings, including 13 meetings held in person and 40 meetings held in absentia. At these meetings, the Board of Directors passed 142 resolutions, including 51 resolutions in person and 91 resolutions in absentia.

For the full list of matters reviewed by PJSC Gazprom's Board of Directors in 2018 see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



#### Matters reviewed by PJSC Gazprom's Board of Directors in 2018, by line of business, %



## Board of Directors' report on PJSC Gazprom's development in priority business areas

In 2018, the activities of PJSC Gazprom's Board of Directors were aimed at creating the environment to maintain consistent performance and development of PJSC Gazprom as a global energy company, increasing PJSC Gazprom's capitalisation and improving the investment appeal, ensuring efficient control over asset management, investment and financial and business operations, improving the performance and transparency of internal governance mechanisms, enhancing internal controls and accountability of the Company's management bodies, and protecting shareholder rights.

PJSC Gazprom's Board of Directors passed key resolutions in the key business areas listed below.

### Strategic development

The Board of Directors approved PJSC Gazprom's Power Generation Strategy for 2018–2027. Ensuring steady profit growth while maintaining highly reliable power supply to consumers is the Company's key strategic goal. In particular, the Strategy provides for constructing new and upgrading existing generating capacity, and decommissioning low-performing facilities, as well as further improving operational efficiency, boosting technological development, using import substituting equipment, and diversifying the Group's power generating business by entering promising markets in Russia and abroad.

Following the review of PJSC Gazprom's strategic planning framework within Gazprom Group, the Board of Directors resolved to continue enhancing the strategic planning framework in line with international best practices. PJSC Gazprom's updated Long-Term Development Programme was approved at the same meeting.

In the reporting year, the Board of Directors approved new versions of the Investment Programme and the annual budget (financial plan) for 2018. The Investment Programme for 2018 was adjusted through increasing the actual expenditure to RUB 1,496.328 bn (or by RUB 217.498 bn compared to the Investment Programme approved in December 2017), in particular, due to increasing investments in PJSC Gazprom's priority projects in transportation and liquefaction of natural gas.

The Board of Directors reviewed and took into account the information on the progress of PJSC Gazprom's Innovative Development Programme until 2025, including the efficient use of funds allocated for research and development (R&D). The Board of Directors also noted the Company's focused and consistent efforts to increase innovation performance. The Innovative Development Programme until 2025 has proved to be an effective tool to determine the relevant key objectives and priorities, with its implementation making a significant contribution to PJSC Gazprom's sustainable development. The Board of Directors also reviewed the matters of enhancing the corporate intellectual property management framework, in particular, the information on the development of PJSC Gazprom's Patent Strategy until 2025 which will help streamline the Company's activities in legal protection of its engineering and technological solutions.

In 2018, the implementation of PJSC Gazprom's major investment projects was prominent on the agenda of the Board of Directors. Directors reviewed the implementation of the extensive Eastern Gas Programme and the construction of production facilities for gas supplies to domestic

consumers and to China, the implementation of strategically significant projects to develop Russia's UGSS in the west (launch of a gas production hub on the Yamal Peninsula, expansion of the Northern Gas Transmission Corridor), construction of the Nord Stream 2 and TurkStream trunk gas pipelines, and development of own natural gas liquefaction capacities (in particular, construction of an LNG production, storage, and shipping complex near the Portovaya compressor station). The Management Committee was instructed to continue implementing the Company's major investment projects.

The Board of Directors reviewed and took into account the information on the progress of the Programme for Expansion of Gas Infrastructure in Russian Regions which is carried out through annual programmes developed in line with general plans of gas supply and gas infrastructure development in each region. The plans consider current and potential gas demand, resource base, and alternative gas supply schemes, as well as energy saving initiatives.

The Board of Directors regularly reviewed the information on the Company's activities to promote the domestic NGV fuel market, as well as the NGV infrastructure readiness to provide fuel during the 2018 FIFA World Cup Russia™. The Company builds new compressed natural gas (CNG) filling stations and platforms with mobile gas filling stations, and installs CNG modules at its filling stations. The existing NGV fuel infrastructure is being renovated. Overhauls of 20 CNG filling stations were carried out as an additional measure to provide the venues of the World Cup with sufficient NGV infrastructure, with PJSC Gazprom allocating RUB 436.73 mm to this end in 2017–2018.

PJSC Gazprom's Board of Directors duly reviewed the prospects of the shale gas and LNG industry development across the globe, as well as respective opportunities and threats for the Company. It was noted that almost all shale gas was produced in the United States as before. At the same time, long-term production forecasts are still highly uncertain. China has witnessed an upward trend in shale gas production, although growth rates are considerably lower than expected. According to current estimates, Europe does not expect own commercial production of shale gas even in the long term. Taking into account PJSC Gazprom's significant conventional gas reserve life, shale gas production is not viable in the medium and long term. In the long term, the geography of LNG consuming countries will expand mainly due to new importers in Asia Pacific. Experts also estimate that China and the countries of Southern and Southeast Asia will replace traditional importers (Japan, Taiwan (China) and South Korea) as leaders among LNG importing countries. Russia has strong potential for becoming a global leader in the LNG industry. In particular, Gazprom continues dynamical development of LNG production in addition to pipeline gas supplies to the existing and prospective markets.

Following the review by PJSC Gazprom's Board of Directors of prospects for developing the LNG bunkering market and relevant initiatives (construction of an LNG production, storage, and shipping complex near the Portovaya compressor station, matters concerning the construction of an LNG plant near the Black Sea coast and in Russia's Far East, making a decision on the implementation of pilot project to launch an LNG bunker vessel), the Management Committee was instructed to continue developing infrastructure for LNG production and sale as a bunkering fuel.

### Board of Directors' report on PJSC Gazprom's development in priority business areas (continued)

#### Financial and business activity, investment activity, audit

Throughout 2018, PJSC Gazprom's Board of Directors paid close attention to ensuring control over investment and financial and business activities of Gazprom Group. This approach ensures PJSC Gazprom's quick response to the unfavourable changes in economic environment and sufficient flexibility in implementing all major projects. The Group's centralised procurement and its planning are associated with a significant economic effect. The Board of Directors reviews reports on the results of procurement activities on a quarterly basis. In 2018, there were no comments. PJSC Gazprom is committed to further improvement of approaches to cost optimisation based on relevant best practices. Following the meetings, PJSC Gazprom's Management Committee was instructed to continue implementing initiatives to optimise (reduce) the Group's costs.

PJSC Gazprom's current shareholder and investor relations were commended by the Board of Directors. During the meeting, it was noted that, in order to maintain a transparent and constructive dialogue, PJSC Gazprom promotes regular direct communication between the Company's management and analysts and investors in multiple formats, which has a positive effect on the evaluation of investments in PJSC Gazprom securities. The Company makes consistent efforts to diversify its investor base and sources of finance, in particular through expanding its presence in Asia Pacific financial markets. Following the meeting, the Chairman of PJSC Gazprom's Management Committee was instructed to continue enhancing PJSC Gazprom's shareholder and investor relations in 2018 and submit the relevant report to PJSC Gazprom's Board of Directors in Q2 2019.

#### Committees of the Board of Directors

The Committees' priorities are to conduct holistic previews of selected matters reserved to the Board of Directors of PJSC Gazprom and develop recommendations on resolutions for the Company's Board of Directors.

#### Audit Committee of the Board of Directors

In 2018, the Audit Committee of PJSC Gazprom's Board of Directors continued its work. The Committee reports to the Board of Directors and operates as set forth in the Regulations on the Board of Directors' Audit Committee of JSC Gazprom approved by Resolution of the Board of Directors of JSC Gazprom No. 2314 dated 25 February 2014 (Board of Directors' Minutes No. 934 dated 25 February 2014).

#### Composition of the Board of Directors' Audit Committee in 2018

- Committee Chairman:  
Viktor Martynov (Independent Director)
- Committee members:  
Mikhail Sereda, Vladimir Mau (Independent Director)

#### Corporate governance improvement and HR policy

Throughout 2018, the Board of Directors paid close attention to the HR policy and initiatives aimed at enhancing the effectiveness of corporate governance.

In particular, directors reviewed the information on the analysis of the Company's HR policy and incentive scheme efficiency, as well as the progress in KPI achievement by top managers of PJSC Gazprom and its subsidiaries. It was noted that the Company has in place a set of business processes designed to attract and retain best talent and develop their competencies. The Board of Directors received information on the functioning of the Continuous Vocational Education and Training System and the progress in building a talent pool from PJSC Gazprom's employees with high-level professional and managerial skills, who have completed respective training under corporate targeted programmes. The Board of Directors also took into account the information on the introduction of professional standards in the operations of PJSC Gazprom, its subsidiaries and entities.

During the discussion of corporate governance enhancement, it was noted that the functions of the Corporate Secretary were distributed among a number of PJSC Gazprom's dedicated business units, which proved to be an efficient approach.

The Board of Directors made multiple decisions on transaction approval and the management of the property and other assets of PJSC Gazprom and its subsidiaries.

In 2018, the Board of Directors reviewed and took into account the information on the assessment of the Board of Directors' and its committees' performance. The Company's Board of Directors and its committees were highly praised while no comments were made.

The Audit Committee of PJSC Gazprom's Board of Directors addressed the specific planned activities, meeting at least on a quarterly basis. In 2018, the Committee held nine meetings (all held in absentia). The most important matters discussed by the Committee in 2018 included OOO FBK's information on critical audit issues at PJSC Gazprom and its subsidiaries, along with the external auditor's reports on ensuring independence and on the effectiveness of external audit.

The key relevant recommendations made by the Committee to the Board of Directors concerned compliance and alignment with provisions of the Russian Corporate Governance Code.

For the full list of matters reviewed by the Audit Committee of PJSC Gazprom's Board of Directors in 2018 see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



The Audit Committee maintained close contact with the external auditor OOO FBK, the Audit Commission, and PJSC Gazprom's Department responsible for internal audit.

## Nomination and Remuneration Committee of the Board of Directors

In 2018, the Nomination and Remuneration Committee of PJSC Gazprom's Board of Directors continued its work. The Committee reports to the Board of Directors and operates as set forth in the Regulations on the Board of Directors' Nomination and Remuneration Committee of JSC Gazprom approved by Resolution of the Board of Directors of JSC Gazprom No. 2819 dated 30 September 2016 (Board of Directors' Minutes No. 1100 dated 30 September 2016).

### Composition of the Board of Directors' Nomination and Remuneration Committee in 2018

- Committee Chairman:  
Mikhail Sereda,
- Committee members:  
Vladimir Mau (Independent Director),  
Viktor Martynov (Independent Director).

In 2018, the Committee held nine meetings (all held in absentia). The Committee reviewed the following matters: election of members of PJSC Gazprom's Management Committee; approval of the Company's actual 2017 KPI values for the purposes of the annual bonus scheme for the management of PJSC Gazprom as well as target (planned), threshold, and maximum KPI values for 2018; remuneration of members of PJSC Gazprom's Board of Directors and Audit Commission; assessment of Directors' performance, etc.

For the full list of matters reviewed by the Nomination and Remuneration Committee of PJSC Gazprom's Board of Directors in 2018 see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



## Commission on Strengthening Financial Discipline for Domestic Gas Supplies

PJSC Gazprom's Board of Directors pays particular attention to strengthening financial discipline for gas supplies in the domestic market and measures taken to ensure repayment of overdue debt owed by consumers.

For additional coordination of efforts undertaken by PJSC Gazprom to improve the situation with regard to payments for gas deliveries, the Commission on Strengthening Financial Discipline for Domestic Gas Supplies operates on a permanent basis at PJSC Gazprom's Board of Directors. The Commission develops recommendations to the Board of Directors on PJSC Gazprom's policy on strengthening financial discipline for domestic gas supplies, improving coordination between the Company and the federal and regional executive authorities to increase financial discipline for domestic gas supplies, monitoring the debt owed by consumers in Russian regions and developing measures to reduce this debt, and improving the laws on consumer payments for supplied natural gas.

### Composition of the Board of Directors' Commission on Strengthening Financial Discipline for Domestic Gas Supplies of PJSC Gazprom in 2018

- Commission Chairman:  
Viktor Zubkov, Chairman of the Board of Directors of PJSC Gazprom
- Deputy Commission Chairman:  
Alexander Babakov, member of the Federation Council of the Federal Assembly of the Russian Federation
- Commission Members:  
Valery Golubev, Deputy Chairman of PJSC Gazprom's Management Committee,  
Nikolai Dubik, First Deputy Director General of Gazprom export,  
Nikolai Kruglikov, Head of the Secretariat of the Management Committee Administration (Commission Secretary)

In 2018, the Commission held four offsite meetings in Russian regions and one meeting in Moscow to discuss essential matters of strengthening financial discipline for gas supplies in the domestic market and certain Russian regions, as well as the outstanding debt for natural gas delivered by PJSC Gazprom.

## Corporate Secretary

In line with Resolution of PJSC Gazprom's Board of Directors No. 2817 dated 30 September 2016, the responsibilities of the Corporate Secretary are distributed, to the extent recommended by the Russian Corporate Governance Code, among the following business units of PJSC Gazprom:

- Department of the Management Committee Administration (Yury Nosov)
  - Secretariat of the Management Committee Administration (Nikolai Kruglikov)
  - Department Directorate (Alexey Finikov)
  - Department Directorate Division (Maksim Babich)
- Heads of business units with Corporate Secretary functions report to the Board of Directors on the performance of these functions. They are appointed and removed from office by the Chairman of the Management Committee upon approval of PJSC Gazprom's Board of Directors.

### Key functions of the Corporate Secretary

- Ensuring PJSC Gazprom's communication with regulators, stock exchanges, the registrar, and other professional security traders on matters related, inter alia, to the security market development, share capital monitoring, depositary receipt programme support and development, and security issuance in new stock markets
- Involvement in the organisation of the General Shareholders Meeting
- Ensuring operation of the Board of Directors and its committees
- Involvement in the implementation of the information disclosure policy
- Communication with shareholders and investors
- Involvement in corporate governance enhancement
- Ensuring safekeeping of corporate documents
- Ensuring and monitoring the execution of procedures aimed at protecting shareholder rights
- Notifying the Board of Directors about detected violations of the law and internal documents when the Corporate Secretary is responsible for ensuring relevant compliance

For more details on the Corporate Secretary's responsibilities distribution across the Company's business units see PJSC Gazprom's website (information is available in Russian only) → [www.gazprom.ru](http://www.gazprom.ru)



The activities of PJSC Gazprom's business units performing Corporate Secretary functions are aimed at ensuring compliance with the applicable Russian laws and the Company's Articles of Association and internal documents, which guarantee the exercise of shareholder rights and legitimate interests. In 2018, the Corporate Secretary's functions were performed in full.

For more details on the functions of the Corporate Secretary at PJSC Gazprom see PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



### Executive Bodies

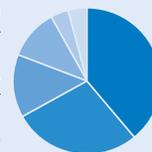
Day-to-day operations of PJSC Gazprom are managed by the Chairman of the Management Committee (sole executive body) and the Management Committee (collegial executive body). They are responsible for implementing resolutions passed by the General Shareholders Meeting and the Board of Directors and are accountable to them.

The Chairman and members of the Management Committee are elected by the Board of Directors for a five-year term. The matters reserved by PJSC Gazprom's Articles of Association to the Management Committee include drafting of the annual budget, investment programmes, future and current action plans, preparing reports, gas flow management, and monitoring Russia's Unified Gas Supply System.

In 2018, the Management Committee held a total of 18 meetings (11 meetings held in person and 7 meetings held in absentia). At these meetings, the Management Committee passed 46 resolutions, including 39 resolutions passed in person and 7 resolutions passed in absentia.

### Matters reviewed by PJSC Gazprom's Management Committee in 2018, by line of business, %

■ Corporate governance	39
■ Preview of business priorities, strategy, and budget of PJSC Gazprom	28
■ Reliable operation of the UGSS and consumer gas supplies	14
■ Forward-looking plans and key business activity programmes of PJSC Gazprom	11
■ PJSC Gazprom's internal regulations on matters reserved to the Management Committee	4
■ Other matters reserved to the Management Committee	4



### Audit Commission

The Audit Commission's authority is set forth in the Federal Law On Joint Stock Companies and PJSC Gazprom's Articles of Association. The Audit Commission operates under the Regulations on the Audit Commission of JSC Gazprom approved by the Resolution of JSC Gazprom's Annual General Shareholders Meeting (Minutes No. 1 dated 28 June 2013).

Key roles of the Audit Commission:

- Monitor the fair presentation of PJSC Gazprom's financial and accounting statements and other information on the Company's financial and business operations and condition of its assets
- Supervise statutory compliance of PJSC Gazprom's accounting practices and of submission of its financial statements and information to relevant authorities and shareholders
- Prepare proposals on enhancing the Company's asset management and other financial and business operations of PJSC Gazprom, mitigate financial and operating risks, and improve internal controls

The Audit Commission is accountable to the General Shareholders Meeting and coordinates its activities with the Audit Committee of the Board of Directors.

Following an audit of PJSC Gazprom's financial and business operations, the Audit Commission presented its opinion confirming the fairness of data in the Company's statements and other financial documents.

The Audit Commission of nine members is elected by the General Shareholders Meeting.

<b>Members of the Audit Commission elected by the General Shareholders Meeting on 29 June 2018</b>		
<b>Name</b>	<b>Year of birth</b>	<b>Position as at 31 December 2018</b>
Vadim Bikulov	1957	Deputy Department Head — Head of Directorate at Department of the Management Commission Administration, Secretary of the Audit Commission of PJSC Gazprom
Alexander Gladkov	1969	Department Director, the Russian Ministry of Energy
Margarita Mironova	1964	First Deputy Head of the Management Committee Administration — Head of Department of the Management Commission Administration, Chairwoman of the Audit Commission, PJSC Gazprom
Yury Nosov	1963	Deputy Head of the Management Committee Administration — Department Head, Executive Secretary of the Management Committee, PJSC Gazprom
Karen Oganyan	1974	Department Head, PJSC Gazprom
Alexandra Petrova	1990	Deputy Head of Division at the Directorate, Federal Agency for State Property Management
Sergey Platonov	1966	Deputy Department Director, the Russian Ministry of Finance
Oksana Tarasenko	1983	Deputy Minister of Economic Development of the Russian Federation
Tatiana Fisenko	1961	Department Director, the Russian Ministry of Energy

# Remuneration of Members of Management and Supervisory Bodies

## Documents defining remuneration of members of PJSC Gazprom's management and supervisory bodies

- Regulations on the Guidelines on Remuneration of the Board of Directors of JSC Gazprom (approved by Resolution of the Board of Directors No. 2523 dated 15 April 2015)
- Regulations on Remuneration of the Audit Commission of PJSC Gazprom (approved by Resolution of the Board of Directors No. 2641 dated 9 December 2015, as amended)
- Regulations on the Annual Bonus Scheme for the Management of PJSC Gazprom (approved by Resolution of JSC Gazprom's Board of Directors No. 927 dated 19 December 2006, as amended)
- Regulations on PJSC Gazprom's Key Performance Indicators (approved by Resolution of JSC Gazprom's Board of Directors No. 2435 dated 21 October 2014, as amended)

## Remuneration Scheme for Members of the Management Committee and Other Key Employees of PJSC Gazprom

Remuneration of members of PJSC Gazprom's Management Committee (including the Chairman of the Management Committee) and other executives of PJSC Gazprom (including the remuneration of executives who are also members of the Company's Board of Directors, which is not related to their serving on the Board of Directors) is determined by their employment agreements and is short-term. Remuneration for service on PJSC Gazprom's Management Committee is not provided.

Remuneration paid by PJSC Gazprom to its executives creates sufficient incentives for them to work efficiently while enabling the Company to engage and retain competent and qualified specialists. The Annual Bonus Scheme for the Management of PJSC Gazprom is an important component of the remuneration system for PJSC Gazprom's executives, including members of the Management Committee.

The Annual Bonus Scheme covers the executives of PJSC Gazprom and its key gas production, transportation, underground storage, processing, and sales subsidiaries.

Executives' annual bonus is linked to PJSC Gazprom's performance (achievement of corporate key performance indicators (KPIs)) and personal contribution of executives (achievement of individual targets).

### Corporate KPIs for 2018

KPI	Description	Weight in the reporting period bonus
Financial and economic KPIs		70%
Per unit costs in Production	Total costs of gas producing subsidiaries divided by total volume of gas, unstable gas condensate, and oil production	15%
Per unit costs in Transportation	Total costs of gas transportation subsidiaries divided by total transportation volume	15%
Reduction of operating costs (expenses)	Reduction of operating costs (expenses) in the reporting year	5%
Total shareholder return, TSR	Estimated shareholder's income for the reporting year from share price growth and dividend received	10%
ROE	Ratio of net income to average annual shareholders' equity	20%
Labour productivity	Total revenue from sales of products, proceeds from work done and services provided, revenue from sales of goods purchased for resale less expenses on purchase of such goods, divided by total man-hours worked by full-time employees and external part-time employees	5%
Industry-specific KPIs		30%
Gas sales by volume	PJSC Gazprom's gas sales by volume, including both its own gas and purchased gas, excluding sales to PJSC Gazprom's subsidiaries for own operational needs, as well as the volumes purchased and sold in far abroad countries	10%
Commissioning of priority production facilities	Completion of activities related to commissioning of priority production facilities (as per the approved list)	10%
Integrated innovation key performance indicator	Sum of scores reflecting the achievement of KPI targets, with application of weights allocated to each of the KPIs: <ul style="list-style-type: none"> <li>— Patents and licences obtained in the reporting year and during two preceding years</li> <li>— Technologies introduced based on R&amp;D results under the Innovative Development Programme in the reporting year</li> <li>— Reduction of relative rates of GHG emissions expressed as CO<sub>2</sub>-equivalent</li> <li>— Assessment of the quality of design/annual implementation of the Innovative Development Programme</li> </ul>	10%

The annual bonus payable to members of PJSC Gazprom's Management Committee (excluding the Chairman of the Management Committee) comprises two components — corporate (80%) and individual (20%). The corporate component is linked to PJSC Gazprom's performance, while the individual component is determined based on the achievement of individual targets. The annual bonus payable to the Chairman of the Management Committee only comprises the corporate component.

As per the Annual Bonus Scheme, remuneration is linked to the achievement of corporate KPIs. Planned and actual values of corporate KPIs are approved by PJSC Gazprom's Board of Directors on an annual basis.

To determine the amount of actual payments, a corporate correction factor reflecting the actual KPI achievement level is applied to the corporate and individual components of the annual bonus. If the KPIs are not achieved, the amount of the annual bonus is reduced, which establishes a link between the KPIs and the amount of remunerations, as well as executives' personal motivation to achieve the KPIs.

In 2018, PJSC Gazprom paid the annual bonus for 2017 taking into account the corporate correction factor of 111.04%.

For more details on calculating the progress against corporate KPIs in 2017, as well as the explanation of variance between target and actual KPI values see PJSC Gazprom Annual Report for 2017 → [www.gazprom.com](http://www.gazprom.com)



Members of PJSC Gazprom's executive bodies and other executives of the Company are also eligible for long-term post-employment payments. These payments comply with the applicable laws, PJSC Gazprom's local regulations, and the procedure which is applicable to all employees of the Company, and comprise private pension plans provided by Non-State Pension Fund GAZFOND, and one-off payments upon retirement made by PJSC Gazprom.

The Company also provides voluntary medical insurance.

### Remuneration for Service on a Management Body

Pursuant to the Regulations on the Board of Directors of PJSC Gazprom approved by the annual General Shareholders Meeting (Minutes No. 1 dated 30 June 2016) and PJSC Gazprom's Articles of Association, members of the Board of Directors, during the period of their service, may be remunerated and/or reimbursed for expenses incurred by them as members of the Board of Directors. The amount of remuneration and/or reimbursement is determined by the General Shareholders Meeting.

Members of the Board of Directors holding public or civil office receive no remuneration from PJSC Gazprom.

Approaches to determining the amount of remuneration to members of the Board of Directors are set forth by the Regulations on the Guidelines on Remuneration of the Board of Directors of JSC Gazprom (approved by Resolution of JSC Gazprom's Board of Directors No. 2523 dated 15 April 2015).

#### Remuneration of members of PJSC Gazprom's Board of Directors

- Fixed base remuneration for service on the Board of Directors
- Additional remuneration for additional responsibilities such as acting as Chairman of the Board of Directors, Deputy Chairman of the Board of Directors, or serving on committees of the Board of Directors
- Bonus component for achieving corporate key performance indicators (KPIs)

The Regulations also stipulate that the Board of Directors may recommend the General Shareholders Meeting not to pay remuneration to members of the Board of Directors or pay a lower remuneration calculated under the Regulations.

### Remuneration of Members of the Board of Directors and Members of the Management Committee

<b>Remuneration of members of PJSC Gazprom's Board of Directors, RUB thousand</b>			
	<b>2016</b>	<b>2017</b>	<b>2018</b>
Remuneration of members of PJSC Gazprom's Board of Directors* paid by PJSC Gazprom	321,547	370,339	346,971
including by type of remuneration:			
Remuneration for service on a management body	209,476	245,486	210,708
Salary	57,885	64,775	71,986
Bonuses	43,666	49,594	53,897
Commission fees	–	–	–
Other remuneration	10,520	10,484	10,380
Insurance premiums paid by PJSC Gazprom**	44,796	56,581	50,178
<b>Total</b>	<b>366,343</b>	<b>426,920</b>	<b>397,149</b>

\* The amounts are inclusive of personal income tax.

\*\* In line with Russian laws, PJSC Gazprom pays insurance premiums under mandatory pension insurance, mandatory social insurance in case of temporary disability or a maternity leave, mandatory medical insurance, and industrial accident and occupational disease insurance, which the Company calculates based on the amount of remuneration and other payments.

**Remuneration of members of the Board of Directors for service on a management body paid in 2018  
(Resolution No. 1 of the annual General Shareholders Meeting dated 29 June 2018, Minutes No. 1)**

Name	Position	Holding public or civil office	Remuneration paid, RUB	
			Total	Including additional remuneration for additional responsibilities serving on the Board of Directors, or serving on committees of the Board of Directors
Viktor Zubkov	Chairman of the Board of Directors	Holds no such office	30,073,060	5,782,500
Alexey Miller	Deputy Chairman of the Board of Directors	Holds no such office	29,109,310	4,818,750
Andrey Akimov	Member of the Board of Directors	Holds no such office	24,290,560	–
Timur Kulibaev	Member of the Board of Directors	Holds no such office	24,290,560	–
Denis Manturov	Member of the Board of Directors	Holds an office	–	–
Vitaly Markelov	Member of the Board of Directors	Holds no such office	24,290,560	–
Viktor Martynov	Member of the Board of Directors, Chairman of the Board of Directors' Audit Committee, member of the Board of Directors' Nomination and Remuneration Committee	Holds no such office	26,539,310	2,248,750
Vladimir Mau	Member of the Board of Directors, member of the Board of Directors' Nomination and Remuneration Committee, member of the Board of Directors' Audit Committee	Holds no such office	25,575,560	1,285,000
Alexander Novak	Member of the Board of Directors	Holds an office	–	–
Dmitry Patrushev	Member of the Board of Directors	Holds an office	–	–
Mikhail Sereda	Member of the Board of Directors, Chairman of the Board of Directors' Nomination and Remuneration Committee, member of the Board of Directors' Audit Committee	Holds no such office	26,539,310	2,248,750
<b>Total</b>			<b>210,708,230</b>	<b>16,383,750</b>

**Note.** The amounts are inclusive of personal income tax.

Minutes No. 1 of the annual General Shareholders Meeting dated 29 June 2018 are available on PJSC Gazprom's website (information is available in Russian only) → [www.gazprom.ru](http://www.gazprom.ru)



<b>Remuneration of members of PJSC Gazprom's Management Committee, RUB thousand</b>			
	2016	2017	2018
Remuneration of members of PJSC Gazprom's Management Committee paid by PJSC Gazprom***	2,448,926	2,445,656	2,551,450
including by type of remuneration:			
Remuneration for service on a management body	–	–	–
Salary	1,213,506	861,443	1,035,748
Bonuses (including the annual bonus)	1,176,159	1,532,323	1,475,344
Commission fees	–	–	–
Other remuneration (including short-term benefits related to healthcare)	59,261	51,890	40,358
Insurance premiums paid by PJSC Gazprom***	381,329	396,416	413,804
<b>Total</b>	<b>2,830,255</b>	<b>2,842,072</b>	<b>2,965,254</b>

\* The amounts are inclusive of personal income tax.

\*\* Income received by members of PJSC Gazprom's Board of Directors who are also members of PJSC Gazprom's Management Committee and full-time employees of the Company for service on the Board of Directors was accounted for in the income received by members of the Board of Directors. Other types of remuneration paid to such members of the Board of Directors and/or reimbursement for their expenses are included in the total remuneration and/or reimbursement for expenses of PJSC Gazprom's Management Committee.

\*\*\* In line with Russian laws, PJSC Gazprom pays insurance premiums under mandatory pension insurance, mandatory social insurance in case of temporary disability or a maternity leave, mandatory medical insurance, and industrial accident and occupational disease insurance, which the Company calculates based on the amount of remuneration and other payments.

**PJSC Gazprom's voluntary medical insurance premiums paid for members of the Management Committee and executives who are also members of the Company's Board of Directors, RUB thousand**

	2016	2017	2018
	6,914	12,781	12,420

In 2018, PJSC Gazprom transferred RUB 30,300 thousand to individual pension accounts of key management personnel under private pension agreements with Non-State Pension Fund GAZFOND.

From 2016 to 2018, PJSC Gazprom paid no reimbursement for expenses incurred by a member of a management body in connection with his/her duties to members of the Board of Directors and members of the Management Committee.

From 2016 to 2018, PJSC Gazprom did not provided any loans to members of the Board of Directors and members of the Management Committee.

**Remuneration of Members of the Audit Commission**

To calculate the remuneration of a member of the Audit Commission, the Company uses, inter alia, a personal contribution factor which reflects the member's attendance at the meetings of the Audit Commission and additional responsibilities as Chairman of the Audit Commission.

Members of the Audit Commission holding public or civil office receive no remuneration.

**Remuneration of members of PJSC Gazprom's Audit Commission for service on a financial and operating performance control body paid in 2018**

Name	Position	Holding public or civil office	Remuneration paid, RUB
Margarita Mironova	Chairwoman of the Commission	Holds no such office	5,072,433
Alexander Gladkov	Member of the Commission	Holds an office	–
Yury Nosov	Member of the Commission	Holds no such office	3,901,872
Karen Oganyan	Member of the Commission	Holds no such office	3,901,872
Alexandra Petrova	Member of the Commission	Holds an office	–
Sergey Platonov	Member of the Commission	Holds an office	–
Oksana Tarasenko	Member of the Commission	Holds an office	–
Tatiana Fisenko	Member of the Commission	Holds an office	–
Vadim Bikulov	Member of the Commission (Secretary)	Holds no such office	3,901,872
<b>Total</b>			<b>16,778,049</b>

**Note.** The amounts are inclusive of personal income tax.

# Liability Insurance of Directors, Officers, and the Company

PJSC Gazprom insures the liability of its directors (excluding directors holding public office), officers, and the Company. A liability insurance policy is a standard practice used by international companies, a mandatory condition for listing shares on western stock exchanges, and an important tool to boost the Company's image among investors. The policy terms remained the same as in 2017.

The insurance coverage under the current liability insurance policy is in line with PJSC Gazprom's needs and Russian and international insurance standards in terms of risk coverage and indemnity limits.

---

## Liability insurance programme for directors, officers, and the Company in 2018

---

Insurance coverage	USD 100 mm
Insurance premium	USD 900 thousand
Persons insured	Members of the Company's Board of Directors (excluding directors who hold public office) and Management Committee, as well as heads of PJSC Gazprom's Departments who are not members of the Company's Management Committee
Risks insured	<ul style="list-style-type: none"><li>— Risk of third-party claims against the insured for losses arising from unintentional errors made by the insured in their management roles</li><li>— Risk of third-party claims against PJSC Gazprom for losses arising from unintentional errors made by the insured in their management roles: claims related to PJSC Gazprom's securities; claims initially made against the insured</li></ul>

# Shareholdings of Members of the Board of Directors and Management Committee and Transactions with PJSC Gazprom Shares

As at 31 December 2018, members of the Board of Directors, members of the Management Committee, and the Chairman of the Management Committee had a 0.012036% stake in PJSC Gazprom (direct ownership).

The Employee Equity Sharing Plan for the Management aims to provide an extra financial incentive for PJSC Gazprom's management to support PJSC Gazprom share performance. The Programme is aimed to better align the interests of the Company's shareholders and management by linking the Programme participants' extra income to PJSC Gazprom share price growth.

PJSC Gazprom's executives holding positions of department heads or higher, and the management of subsidiaries engaged in core operations are eligible to participate in the Programme. In 2018, 70 executives were eligible to participate in the Programme.

## Terms of the Employee Equity Sharing Plan for the Management of PJSC Gazprom (set out in the Regulations on the Employee Equity Sharing Plan for the Management of PJSC Gazprom approved by Resolution of JSC Gazprom's Board of Directors No. 2105 dated 26 December 2012, as amended)

- Executives hold Company shares
- Executives can acquire shares at their own cost or with loans granted by AO Gazprombank as part of the Programme
- AO Gazprombank also provides depositary and broker services under the Programme

## Direct ownership of PJSC Gazprom shares by members of the Board of Directors, members of the Management Committee, and the Chairman of the Management Committee as at 31 December 2018

Name	Position	Shareholding in PJSC Gazprom, %
Members of the Board of Directors		
Viktor Zubkov	Chairman of the Board of Directors	—
Alexey Miller	Deputy Chairman of the Board of Directors, Chairman of the Management Committee	0.000958
Andrey Akimov	Member of the Board of Directors	—
Timur Kulibaev	Member of the Board of Directors	—
Denis Manturov	Member of the Board of Directors	—
Vitaly Markelov	Member of the Board of Directors, member of the Management Committee	0.006203
Viktor Martynov	Member of the Board of Directors, Chairman of the Board of Directors' Audit Committee, member of the Board of Directors' Nomination and Remuneration Committee	—
Vladimir Mau	Member of the Board of Directors, member of the Board of Directors' Audit Committee, member of the Board of Directors' Nomination and Remuneration Committee	—
Alexander Novak	Member of the Board of Directors	—
Dmitry Patrushev	Member of the Board of Directors	0.001013
Mikhail Sereda	Member of the Board of Directors, Chairman of the Board of Directors' Nomination and Remuneration Committee, member of the Board of Directors' Audit Committee	0.000232

**Shareholdings of Members of the Board of Directors  
and Management Committee and Transactions  
with PJSC Gazprom Shares**

**Direct ownership of PJSC Gazprom shares by members of the Board of Directors, members of the Management Committee,  
and the Chairman of the Management Committee as at 31 December 2018 (continued)**

<b>Name</b>	<b>Position</b>	<b>Shareholding in PJSC Gazprom, %</b>
Members of the Management Committee**		
Elena Vasilieva	Deputy Chairwoman of the Management Committee — Chief Accountant	0.000281
Valery Golubev	Deputy Chairman of the Management Committee	0.000232
Andrey Kruglov	Deputy Chairman of the Management Committee	0.000735
Alexander Medvedev	Deputy Chairman of the Management Committee	0.000232
Mikhail Putin	Deputy Chairman of the Management Committee	0.000313
Sergey Khomyakov	Deputy Chairman of the Management Committee	0.000232
Oleg Aksyutin	Member of the Management Committee, Head of Department	0.000218
Vladimir Markov	Member of the Management Committee, Head of Department	0.000148
Elena Mikhailova	Member of the Management Committee, Head of Department	0.000217
Vyacheslav Mikhaleiko	Member of the Management Committee, Head of Department	0.000424
Sergey Prozorov	Member of the Management Committee, Head of Department	0.000148
Kirill Seleznev	Member of the Management Committee, Head of Department	0.000148
Igor Fyodorov	Member of the Management Committee, Head of Department	0.000154
Vsevolod Cherepanov	Member of the Management Committee, Head of Department	0.000148

\* For shareholdings of executive directors see the Members of the Board of Directors section of this table.

**Transactions with PJSC Gazprom shares by members of PJSC Gazprom's Board of Directors and Management Committee in 2018**

<b>Name</b>	<b>Transaction date</b>	<b>Transaction type</b>	<b>Number of ordinary registered shares of PJSC Gazprom involved in the transaction</b>
Viktor Zubkov	25 January 2018	Disposal	180,180
Elena Mikhailova	27 June 2018	Purchase	7,210

Internal audit assists in achieving PJSC Gazprom's goals through applying a holistic consistent approach to assessment and improvement of risk management, control, and corporate governance processes.

To improve the internal audit function and in accordance with Directive of the Russian Government for persons representing interests of the Russian Federation No. 3984p-P13 dated 24 June 2015, the Company developed and approved the Regulations on Internal Audit of PJSC Gazprom in 2015 (Resolution of the Board of Directors No. 2621 dated 6 November 2015).

These Regulations determine the goals, objectives, status, powers, and liability of the Department responsible for internal audits at PJSC Gazprom, as well as the scope of internal audit.

Pursuant to the Regulations, the internal audit in the Company is organised by the relevant Department, a business unit of PJSC Gazprom, and by internal audit units — in PJSC Gazprom's subsidiaries and entities.

The key priority of the Department is to provide the Board of Directors (through the Audit Committee of the Board of Directors) and management of PJSC Gazprom with independent and unbiased assurances and advice as to the improvement of the Company's operations.

## Internal audit system



→ Subordination  
 → Accountability

The Department is administratively accountable to the Chairman of PJSC Gazprom's Management Committee within the Management Committee Administration and functionally accountable to the Board of Directors (through the Board of Directors' Audit Committee). Head of the Department is appointed and removed from office by the Chairman of the Company's Management Committee upon recommendation of the Deputy Chairman of the Management Committee — Head of the Administration of PJSC Gazprom's Management Committee, as approved by the Board of Directors (through the Board of Directors' Audit Committee).

The Department's organisation is coordinated with the Audit Committee and approved by the Chairman of the Management Committee. The Department consists of three Directorates.

Activities of the Department are governed by PJSC Gazprom's Regulations on Internal Audit, the Internal Auditors' Code of Ethics (approved by Resolution of the Board of Directors No. 1956 dated 14 March 2012), JSC Gazprom's Internal Audit Development Concept (approved by the Board of Directors' Audit Committee on 25 June 2015), Regulations on the Department (approved by the Board of Directors' Audit Committee and PJSC Gazprom's Order No. 419 dated 23 June 2016, as amended by Order of PJSC Gazprom No. 163 dated 22 March 2017), International Standards for the Professional Practice of Internal Auditing, and internal auditing guidelines of the Federal Agency for State Property Management.

PJSC Gazprom's internal audit meets the corporate governance principles set out in the Russian Corporate Governance Code (recommendations 263–273).

The Department arranges and conducts internal audits of PJSC Gazprom's business units, subsidiaries and entities in accordance with the established procedure and Russian and international best practices for internal audit. The Department conducted its 2018 audits to identify risks and assess the performance for the Company's significant business segments and processes based on:

- achievement by the auditees of their objectives
- efficiency and effectiveness of operations
- protection of assets
- compliance of operations with the terms and conditions of contracts, legal requirements, and in-house regulations.

Results of internal audits conducted by the Department are used to develop and submit proposals to PJSC Gazprom's management on elimination of violations, irregularities, and root causes. Based on the proposals made by the Department, the Chairman of the Management Committee gives instructions to PJSC Gazprom's business units, subsidiaries and entities, aimed at improving PJSC Gazprom's performance. The Department monitors the execution of such instructions.

In December 2015, an external assessment was carried out and the opinion was issued on the compliance of PJSC Gazprom's internal audit function with the Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing.

The Department also has in place and implements an Internal Audit Quality Programme covering all aspects of internal audit. The Programme was updated in 2018.

The internal audit function conducts annual performance assessments (self-assessments) with results reported to the Audit Committee of the Board of Directors.

In 2018, the following internal audit matters were reviewed at the meetings of the Board of Directors' Audit Committee:

- Report on the performance of PJSC Gazprom's Department of the Management Committee Administration in 2017
- Reviewing amendments to the Regulations on Internal Audit of PJSC Gazprom
- Amending the 2018 Activity Plan of PJSC Gazprom's Department of the Management Committee Administration
- Draft 2019 Activity Plan of PJSC Gazprom's Department of the Management Committee Administration

The 2019 Internal Audit Plan was approved by the order of PJSC Gazprom.

PJSC Gazprom selects its auditor by a public tender in accordance with the applicable Russian laws. Assessment of potential auditors is one of the main duties of the Audit Committee of PJSC Gazprom's Board of Directors.

OOO FBK won the public tender for the service contract to audit PJSC Gazprom's accounting (financial) statements, Gazprom Group's consolidated accounting statements, and Gazprom Group's consolidated IFRS financial statements for 2018, and was approved as auditor by the annual General Shareholders Meeting of PJSC Gazprom on 29 June 2018. The contract price offered by the winner was RUB 195,000,000 (exclusive of VAT) and was approved by Resolution of the Board of Directors No. 3113 dated 16 May 2018.

OOO FBK provided other audit-related services to PJSC Gazprom outside the audit contract. In 2018, a fee of RUB 44,284,438.44 (inclusive of VAT) was paid for other audit-related services.

---

**Bid assessment criteria for entering into an audit service contract**

---

Price criterion	—	Contract price
Non-price criteria	—	Quality profile of the service to be procured Bidder qualification, including the track record in auditing accounting (financial) statements, consolidated accounting statements, and consolidated IFRS financial statements, as well as availability of the bidder's personnel with a certain qualification level

## Risk Management and Internal Control System

PJSC Gazprom has developed a cutting-edge risk management and internal control system based on relevant global best practice, which contributes to efficient business process management across the Group entities and helps achieve corporate goals.

PJSC Gazprom acknowledges that its operations are exposed to uncertainties such as risks, and implements measures to provide adequate assurance that the goals set for PJSC Gazprom by its management bodies are achieved.

The Company has developed an effective RMICS which helps promptly identify, assess, and respond to, potential events, circumstances, and internal and external factors that may influence the achievement of goals.

---

### Key documents of PJSC Gazprom regulating risk management and internal control

---

- PJSC Gazprom's Risk Management and Internal Control Policy (approved by Resolution of PJSC Gazprom's Board of Directors No. 3195 dated 25 December 2018 to comply with Russian statutory requirements) specifying the key principles and approaches to the organisation of the risk management and internal control system (RMICS), the powers of its participants, as well as its components, goals, and objectives
- Documents establishing approaches to managing certain risk groups (approved by PJSC Gazprom's orders):
  - Regulations on Credit Risk Management at PJSC Gazprom and its Subsidiaries and Entities
  - Regulations on Foreign Exchange Risk Management at Gazprom Group
  - Regulations on Interest Risk Management at Gazprom Group
  - Regulations on Liquidity Risk Management at Gazprom Group
  - Regulations on Operational Risk Management at Gazprom Group

**PJSC Gazprom's risk management and internal control system complies with the corporate governance principles set forth in the Russian Corporate Governance Code.**

RMICS is an integral part of PJSC Gazprom's corporate governance and is embedded into the planning and project management systems, and occupational health and safety management programmes. RMICS covers all operations of PJSC Gazprom and Gazprom Group entities, as well as all management levels, business segments, and risks across PJSC Gazprom and Gazprom Group entities.

---

**Key RMICS participants**

RMICS participants include PJSC Gazprom's Board of Directors, the Audit Committee of PJSC Gazprom's Board of Directors, PJSC Gazprom's Management Committee, Chairman of PJSC Gazprom's Management Committee, the risk management and internal control unit within PJSC Gazprom's Management Committee Administration, PJSC Gazprom's business units, and Gazprom Group entities.

PJSC Gazprom's business units and Gazprom Group entities responsible for developing, implementing and monitoring risk management activities and internal controls, act as risk owners. Risk coordinators help risk owners coordinate their activities in multiple areas of risk management.

PJSC Gazprom's risk management and internal control unit develops and provides methodological support for pursuing its unified risk management and internal control policy.

PJSC Gazprom's business units and Gazprom Group entities are engaged in risk identification and assessment, and implementation of risk management activities on an ongoing basis.

---

**Principles of RMICS organisation and operation**

The organization and operation of the RMICS are carried out with the following principles:

- Consistency (integration)
- Comprehensiveness
- Alignment (with goals)
- Reasonable assurance
- Agility and development
- Relevance and availability of resources
- Continuity (of operation)
- Interaction and collective decision-making
- Accountability
- Separation of duties
- Assessment of results
- Streamlined structure and promptness
- Single regulatory framework
- Economic feasibility
- Three lines of defence

Risk management and internal control provides for continuous functioning of the system's components.

**Interfaces between RMICS' components**



1	Creating the internal control environment implies building a single RMICS infrastructure, ensuring continuity of risk management processes and internal control procedures, and developing a risk management and internal control culture.	6	6. Selection of risk response options based on the determination of the risk level materiality and risk manageability.
2	Goal-setting at PJSC Gazprom and Gazprom Group entities, which is indispensable for risk identification and assessment, and further determination of internal control procedures.	7	Implementation of internal control procedures in accordance with the local regulations of PJSC Gazprom and Gazprom Group entities.
3	Risk identification. Identification of risks as internal/external events which may happen in the future and produce a negative (threats) or positive (opportunities) effect on the achievement of the goals of PJSC Gazprom and Gazprom Group entities.	8	Monitoring of risks and the status of risk management initiatives, and control over timely and efficient implementation of such initiatives, as well as monitoring of internal control procedures.
4	Risk assessment comprising the analysis of identified risks, opportunities and implications to ensure further risk management and the implementation of internal control procedures.	9	Information sharing as part of the RMICS ensures the completeness, timeliness, fairness and accuracy of such information, its proper addressing, optimal form and scope, and compliance with confidentiality requirements.
5	Risk response aimed at maintaining risks within the risk tolerance levels through the implementation of risk management initiatives considering the selected response option (combination of options).	10	The local regulations of both PJSC Gazprom and Gazprom Group entities (based on the former) determine RMICS performance monitoring and assessment, which are carried out through self-assessments and internal and external assessments.

In 2018, PJSC Gazprom and its subsidiaries and entities implemented risk management and internal control initiatives in the following key focus areas:

- Improvement of the legal framework and guidelines, and development of RMICS local regulations at PJSC Gazprom, its subsidiaries and entities
- Organisation and coordination of activities aimed at introducing and improving risk management systems at subsidiaries and entities of PJSC Gazprom

- Improvement and formalisation of the process to gather and consolidate information on risks, prepare and submit regular risk reports
  - Activities aimed at automating risk management
  - Professional training in risk management and internal control for employees of PJSC Gazprom and its subsidiaries and entities
- Further activities in these areas have been scheduled for 2019.

## Key Risk Factors

<b>Strategic and country risks</b>		
<b>Risk</b>	<b>Description</b>	<b>Risk management/mitigation</b>
Risks related to the global economy	An unfavourable economic environment can cause a slowdown in energy demand and drive the cost of borrowed capital	To ensure growth of revenue from energy sales, PJSC Gazprom considers various markets and sales channels, and expands the uses of natural gas. To maintain its financial stability, PJSC Gazprom optimises leverage
European gas market risks	The EU pursues a policy of diversifying its gas supply sources and increasing the share of natural gas exchange trade, which affects PJSC Gazprom as one of the main suppliers of natural gas to the EU countries	To minimise the risk of lower supply levels, a set of initiatives continues to be implemented to both build new infrastructure and bolster demand for natural gas, as well as strengthen PJSC Gazprom's position in the sectors with a potential for extra supplies
Political risk	Starting from 2014, Russia is under sanctions imposed by the EU, the United States, and other countries	PJSC Gazprom pursues a policy of ensuring technological independence
Natural gas transit risks	Gas transmission via transit countries is associated with the risks of the counterparties defaulting on their transit obligations as well as the uncertainty regarding future transit contract terms, which may affect Gazprom Group's performance of its obligations under gas supply contracts	A number of measures are taken to diversify export routes, expand underground gas storage capacity abroad, and develop LNG trade
Russian regulatory risks for the gas industry	PJSC Gazprom's operations are regulated by Federal Law No. 147-FZ On Natural Monopolies, dated 17 August 1995	PJSC Gazprom is consistently engaged in a dialogue with government authorities to improve the pricing policy; objective supporting cases are prepared to inform decision-making by PJSC Gazprom's Board of Directors
Unconventional gas development risks	Shale gas appeals mostly to countries with limited conventional gas reserves and resources; however, the risk that these countries will reduce gas imports in the mid-term is assessed as insignificant	PJSC Gazprom continuously monitors the evolution of the shale gas industry and developments in other unconventional hydrocarbons industries around the world. The monitoring results, including the economics of unconventional gas production and its potential as a competition to PJSC Gazprom in its existing or prospective markets, are reviewed by the Company's management bodies on a regular basis, which enables PJSC Gazprom to efficiently implement its marketing policy in respective regions taking into account various mechanisms of gas sales
Renewable energy risks	Renewable energy output can be expected to grow in some countries, which may squeeze gas consumption in these markets	The use of natural gas, inter alia, for power generation offers consumers economic, technological, and environmental benefits, which, PJSC Gazprom believes, will support natural gas as a common energy source. In most cases, renewable power generation supplements power generation from other sources and may entail certain risks for the natural gas market if renewable energy is subsidised at national and/or supranational levels

<b>Customs, currency, and tax regulation risks</b>		
<b>Risk</b>	<b>Description</b>	<b>Risk management/mitigation</b>
Risk of changes in the Russian currency regulation and tax legislation	Currency regulation and tax legislation risks persist, along with the risk of a heavier tax burden on companies operating in the fuel and energy sector. Changes in the Russian currency regulation and tax legislation, as well as tax legislation changes in the countries in which Gazprom Group has a presence may affect the operations of PJSC Gazprom and Gazprom Group's entities	Changes in currency and tax laws are regularly monitored. PJSC Gazprom liaises with government authorities to ensure timely adjustment of its operations in line with changes in Russian and international laws
Risks related to changes in Russian rules on customs control and duties	Customs authorities may introduce additional customs requirements if the rules of customs control and export duty payment are amended	PJSC Gazprom complies with the requirements of customs laws while communicating with government authorities
<b>Financial risks</b>		
<b>Risk</b>	<b>Description</b>	<b>Risk management/mitigation</b>
Foreign exchange and inflation rate risks	Potential cash flow reduction due to adverse change in foreign exchange rates. High exchange rate volatility coupled with income and expenses denominated in different currencies affect PJSC Gazprom's performance. The current inflation rate has no significant influence on PJSC Gazprom's financial position	PJSC Gazprom ensures the optimal ratio of assets and liabilities denominated in foreign currency, calculates earnings considering the foreign exchange risk, and forecasts exchange rates to develop a forecast balance. To minimise losses from exchange rate volatility, PJSC Gazprom hedges its foreign exchange and interest rate risks
Credit and liquidity risks	Delayed or incomplete discharge of contractual obligations by some counterparties entails risks for PJSC Gazprom's operations	Relations with credit institutions are subject to the limits per credit institution which are revised on a regular basis and reflect, inter alia, the calculated credit rating. Counterparty credit quality is assessed, measures to reduce risks in case of low credit ratings are taken, and discharge of contractual obligations by counterparties is monitored
<b>Market risks</b>		
<b>Risk</b>	<b>Description</b>	<b>Risk management/mitigation</b>
Market risks	If energy prices drop and/or remain flat for a long time, resulting risks may lead to a decline in revenues. There are also volume risks associated with a certain flexibility that buyers have in terms of gas offtake	Contract terms and conditions are adjusted, or new contracts are concluded, and approved types of transactions, financial instruments and counterparties are determined

<b>PJSC Gazprom's operating risks</b>		
<b>Risk</b>	<b>Description</b>	<b>Risk management/mitigation</b>
Risks of early termination and suspension of subsoil licences	Non-compliance with the licence agreements exposes PJSC Gazprom to risks of early termination or suspension of subsoil licences for the survey, exploration, and production of hydrocarbons	Regular monitoring, control of compliance with licence requirements, and timely amendment of licence agreements minimise the likelihood of licence revocation and suspension
Risks of failure to reach peak gas withdrawal capacity at UGSFs	Failure to reach necessary gas supply volumes in the context of steep increase in gas consumption	UGSFs are tested to confirm their maximum daily deliverability
Risk of power outages at UGSS facilities	Internal and external factors may lead to power outages at UGSS facilities	PJSC Gazprom implements comprehensive programmes to enhance reliability of power supply facilities, insure equipment, and create reserves to cover potential losses
Risks related to occupational health and industrial safety	PJSC Gazprom's sustainability and performance depend on the efficiency of its occupational health and industrial safety practices	PJSC Gazprom has in place a Unified Occupational Health and Safety Management System which forms part of PJSC Gazprom's integrated management system and was developed and adopted to manage occupational health and industrial safety risks and meet the objectives and commitments under the Occupational Health, Industrial and Fire Safety Policy
Cost risks	Increased prices for equipment, technical devices, spare parts, as well as works and services, which form the actual cost of capital construction projects, constitute one of the most significant investment risks	Entering into contracts for the performance of works (provision of services, supply of inventory) with a fixed price, and relevant monitoring during the execution of contracts help reduce the cost risks of investment activities
Facilities risks	The key operations, including hydrocarbon production, transportation, processing/refining, and storage, carry process and engineering, natural and climatic risks, as well as risks of adverse actions by personnel or third parties	The Unified Gas Supply System (UGSS) ensures reliable gas supplies. Stable operation of the system is achieved by implementing advanced and innovative diagnostic methods, carrying out timely overhaul and maintenance, revamping and upgrading existing facilities. Insurance coverage is provided to protect the property interests of Gazprom Group's subsidiaries, which includes property insurance (including offshore facilities), business interruption insurance and liability insurance for construction, repair, and operation of production facilities
Hydrocarbon reserve estimation risks	PJSC Gazprom's strategic and financial goals depend on hydrocarbon reserves. Thus, inaccurate reserve estimation bears potential risks for PJSC Gazprom's operations	Reserve estimation procedures have been developed and are implemented, including in accordance with international standards. The Company's reserves estimated under Russian reserves classification standards are recorded in its books after the annual review and approval by the State Reserves Commission of the Russian Ministry of Natural Resources
Environmental risks	The key operations, including hydrocarbon production, transportation, refining/processing, and storage, carry environmental risks (risks of environmental pollution, non-compliance with environmental regulations) that may lead to legal, financial, and reputational implications	<p>PJSC Gazprom implements a unified environmental policy, programmes, and initiatives to reduce its environmental footprint, takes out voluntary environmental liability insurance, introduces best available innovative technology for mitigating the environmental impact.</p> <p>The Company has developed and operates an efficient environmental management system combining environmental controls of both PJSC Gazprom and Gazprom Group's entities. Efforts taken by PJSC Gazprom help maintain high levels of environmental risk manageability</p>

## Documents regulating procurement procedures at PJSC Gazprom and its subsidiaries

- Federal Law No. 223-FZ On Procurement of Goods, Works, and Services by Certain Types of Legal Entities, dated 18 July 2011 (the "Federal Law On Procurement")
- A new version of the Regulations on the Procurement of Goods, Works, and Services by PJSC Gazprom and Gazprom Group Companies (approved by Resolution of PJSC Gazprom's Board of Directors No. 3168 dated 19 October 2018) developed in line with the changes in the Federal Law On Procurement and effective from 2 November 2018 (the "new version of the Regulations on Procurement"). Prior to 1 November 2018, the version approved by Resolution of JSC Gazprom's Board of Directors No. 1969 dated 19 April 2012, as amended, was effective (the "Regulations on Procurement No. 1969 dated 19 April 2012")

Gazprom Group runs an effective vertically integrated procurement system.

The procurement system is a part of PJSC Gazprom's in-house tool providing for end-to-end (from drafting capex programmes and budgets to monitoring contract execution) cost management within a single separate centre (business unit), PJSC Gazprom's Corporate Cost Management Department.

## Procurement principles followed by Gazprom Group

Creating conditions for timely and full supply to Gazprom Group of goods, works and services, and identification of a supplier (contractor, service provider)	Ensuring safe operation of hazardous UGSS facilities	Procurement transparency
Equality, fairness, non-discrimination, no unreasonable and restrictive business practices towards bidders	Targeted and cost-efficient spending, and implementation of measures to reduce the Customer's costs	No restriction of access to bidding
Fostering competition between bidders	Ensuring the balance of costs related to organising and conducting competitive procurement and expected economic benefits	

Procurement by PJSC Gazprom and its subsidiaries is public, transparent, standardised, and straightforward to the maximum possible extent.

**In 2018, significant changes in the Russian legislation on procurement became effective.**

## PJSC Gazprom's cost-cutting tools

- Detailed breakdown, cost benchmarking (breakdown and benchmarking by type of cost, comparing by year and region, determining unit costs)
- Process optimisation (expenditure proposal and prioritisation within budget limits)
- Improving the process efficiency (standard costing based on historical benchmarks, assessing the fairness of prices offered during the procurement process vs unit costs)

In line with the Federal Law On Procurement, information on procurement, including procurement plans, notices and competitive procurement documentation, minutes, information on signed contracts and their execution, information on the number and total price of contracts signed as a result of procurement procedures are published in the Unified Information System of public procurement of goods, works, and services for state and municipal needs ([www.zakupki.gov.ru](http://www.zakupki.gov.ru)). Except for the information access to which is legally restricted, the above mentioned information is available to the general public.

### Changes in the Russian legislation on procurement which came into force in 2018 and are material for Gazprom Group

- Definitions were given to “competitive” and “non-competitive” procurement. Requirements to competitive procurement, including online, as well as procurement methods and procedures were established.
- New rules concerning description of procurement items were introduced.
  - It is prohibited to specify trademarks, service marks, business names, patents, utility models, registered designs, country of origin, and requirements to the item leading to unreasonable restriction of the number of bidders, except for the cases when it is indispensable for the most clear and precise description of the item to be procured.
  - When including a trademark in procurement documents, the option of equivalent product supply should be indicated. Main exceptions are: incompatibility with other goods of other trademarks when it is necessary to ensure the compatibility of procured items with the goods used by the customer; procurement of spare parts and expendables in line with the technical documentation for the machines and equipment used by the customer.
- Procurement from related parties (in line with the Tax Code of the Russian Federation) was removed from the Federal Law On Procurement. The list of parties related to PJSC Gazprom was approved as part of the new version of the Regulations on Procurement.
- Competitive procurement from small and medium-sized enterprises (SMEs) may be carried out online via a limited number of methods (tender, auction, request for proposal, and request for quotation), with strict procedures established for all stages of such procurement. Following procurement procedures, contracts with SMEs are only signed online through the electronic platform.

### Procurement methods used by Gazprom Group

Until 1 November 2018

(in line with the Regulations on Procurement No. 1969 dated 19 April 2012)

- I Competitive procurement
  - Through public bidding — tender, auction
  - Without public bidding — request for proposal
- II Procurement from a sole supplier

Until 1 November 2018

(in line with the Regulations on Procurement No. 1969 dated 19 April 2012)

- I Competitive procurement
  - Bidding — tender, auction, request for proposal, request for quotation
  - **Competitive selection which is not considered bidding**
- II Non-competitive procurement
  - **Marketing research**
  - **Procurement through the Trading Portal**
  - **Non-alternative procurement**
  - **Procurement through participation in bidding**
  - Procurement from a sole supplier (contractor, service provider)

■ New methods of competitive and non-competitive procurement

### The share of online procurement in the total value of competitive procurement by PJSC Gazprom and its subsidiaries

2016		97.0
2017		98.7
2018		99.3

**The share of online procurement in the total value of competitive procurement by PJSC Gazprom and its subsidiaries exceeded 99% in 2018.**

### Total price of contracts awarded by PJSC Gazprom and its subsidiaries through a competitive procurement process, RUB bn

2016	2017	2018
792,0	427,9	584,1
(more than 18 thousand contracts)	(more than 15 thousand contracts)	(more than 18 thousand contracts)

### Savings by PJSC Gazprom and its subsidiaries following a competitive procurement process, RUB bn

2016		30.4
2017		20.3
2018		22.1

**Note.** Savings are defined as the difference between the initial (maximum) and final contract prices including the cost of the procurement process.

To maintain procurement business processes, PJSC Gazprom uses the proprietary Automated Electronic Procurement System (AEPS, [www.zakupki.gazprom.ru](http://www.zakupki.gazprom.ru)) covering the entire procurement cycle from planning to signing and executing a contract.

Gazprom Group's online procurement is arranged through the Electronic Trading Platform of Gazprombank (ETP-GPB) (Gazprom Group Procurement section at [https://etpgpb.ru/pao\\_gazprom/](https://etpgpb.ru/pao_gazprom/)) integrated with the UIS and the AEPS. ETP-GPB is included in the list of electronic platform operators complying with the requirements set out in the Federal Law On Procurement, including requirements to procurements accessible to SMEs.

The Regulations on Procurement provides for PJSC Gazprom's pre-qualification process to compile a Register of Gazprom Group's potential bidders. As part of the pre-qualification process, Gazprom Group's Central Procurement Office monitors participating entities on a quarterly basis, in particular, to assess instances of deadline violation, change of price, lower quality of work, negative references. As at 1 February 2019, 2,052 entities took part in the pre-qualification process, including 553 SMEs (22.1%).

#### Number of entities — participants of the pre-qualification system

As at 1 February 2017	As at 1 February 2018	As at 1 February 2019
1,478	2,056	2,502

#### Number of SMEs included in the Register of Gazprom Group's potential bidders

	As at 1 February 2017	As at 1 February 2018	As at 1 February 2019
Total	316	451	530
including SMEs	128	179	292

# 55%

#### the share of SMEs among entities included in the Register of Gazprom Group's potential bidders as at 1 February 2019

In the process of procurement, PJSC Gazprom and its subsidiaries apply all available tools to optimise the initial price of procured goods (works, services) before the bidding procedures (standard costing, actual contract prices, consolidated unit costs, market situation review) and use all methods to reduce the price during the bidding procedure, which are not in conflict with the laws of the Russian Federation (extending the proposal submission period to involve more bidders, bargaining on price bids).

**By Q4 2018, PJSC Gazprom's efforts to optimise the price of large-diameter pipes resulted in a 40% reduction in the purchase price of steel pipes without coating vs Q1 2017.**

In case of procurement from a sole supplier, prior to signing a contract, Gazprom Group's Central Procurement Office and PJSC Gazprom's Budget Committee review the price rationale of contracts and additional agreements and typically identify an opportunity to reduce the price by 10%–20%.

#### Analysis of the contract price rationale by PJSC Gazprom's Budget Committee

	2016	2017	2018
Initial prices, RUB bn	271	541	430
Identified potential to reduce the price, RUB bn	58	81	83
Reduction percentage, % of initial prices	21%	15%	19%

To optimise costs at the stage of contract execution, the Company uses the banking support mechanism which was first applied by PJSC Gazprom and AO Gazprombank in 2017 for inventory supply contracts. In line with this mechanism, the inventory supply chain is reduced to the maximum of two links, supplier and manufacturer (manufacturer's sole official dealer).

#### Effect from the use of banking support of the execution of inventory supply contracts

- Removing unreasonable intermediaries ensures that payments to direct manufacturers for the supplied goods are made timely and in full.
- Tax risks due to a counterparty engaging economically inefficient co-contractors (sub-suppliers or sub-sub-suppliers), including unscrupulous ones, were reduced.
- The analysis of AO Gazprombank's reports on changes in prices submitted to PJSC Gazprom, which are prepared based on contracts and primary documents provided to the Bank by inventory suppliers, allows the Central Procurement Office to set justified initial (maximum) inventory prices when preparing for procurement, as well as increase the efficiency of Gazprom Group's overall cost reduction initiatives.

From the beginning of 2018, 940 inventory supply contracts have been transferred to AO Gazprombank for banking support.

# RUB 2.4 bn

#### the effect from the use of banking support of the execution of inventory supply contracts since the adoption of this mechanism

In 2018, the successful application of banking support of the execution of inventory supply contracts was expanded to the procurement of works and services.

**Enhancing access for small and medium-sized enterprises (SMEs) to PJSC Gazprom’s procurement opportunities**

Pursuant to resolutions issued by the Russian Government, PJSC Gazprom implements a number of activities to enhance SMEs’ access to the procurement process of PJSC Gazprom.

- 1 A List of Goods, Works, and Services to be procured by PJSC Gazprom from SMEs was developed, approved, and published in the UIS.
- 2 PJSC Gazprom’s Procurement Plan designates procurement opportunities accessible exclusively to SMEs.
- 3 Draft plans for procurement by PJSC Gazprom and individual Gazprom Group’s companies of goods, works, and services (including innovative and high-tech products) set forth by Russian Government Decree No. 2258-r dated 6 November 2015 are duly agreed with Russian Small and Medium Business Corporation to ensure compliance with the applicable Russian laws providing for involvement of SMEs in procurement, including allocation of the SME quota in the procurement plan.
- 4 PJSC Gazprom involves innovative SMEs under its Innovative Development Programme until 2025
  - PJSC Gazprom runs its Pilot SME Partnership Programme under which an SME Partner Register has been created and is maintained on PJSC Gazprom’s official website
  - To roll out innovative SME products and review innovative proposals coming from individuals and legal entities, the Company operates a One-Stop System ([www.oknogazprom.ru](http://www.oknogazprom.ru)), managing the whole process of submitting innovative proposals to be used in PJSC Gazprom’s operations, from submission to the final decision
  - Workshops are held on PJSC Gazprom’s relations with innovative SME providers

In 2018, PJSC Gazprom’s procurements from SMEs determined pursuant to Resolution of the Russian Government No. 1352 On Specifics of Participation of Small and Medium-Sized Enterprises in the Procurement of Goods, Works, and Services by Certain Types of Legal Entities, dated 11 December 2014 (including the amounts paid) accounted for 32.5% of the aggregate annual contract values, including 23.5 % from procurements accessible exclusively to SMEs. PJSC Gazprom complies with the targets for the share of procurement from SMEs set by the Russian Government.

In 2018, the aggregate value of contracts signed by Gazprom Group with SMEs included in the Unified Register of Small and Medium-Sized Enterprises (<https://ofd.nalog.ru>) amounted to RUB 231.6 bn, including 6.5 thousand contracts worth over RUB 105 bn through competitive procurements accessible exclusively to SMEs. SMEs (13,108 enterprises) accounted for 60% of the total number of Gazprom Group’s suppliers of goods, works, and services contracted in 2018.

PJSC Gazprom Annual Report 2018 on procurement of goods, works, and services by certain types of legal entities from SMEs has been duly published in the Unified Information System (information is available in Russian only) → [www.zakupki.gov.ru](http://www.zakupki.gov.ru)



PJSC Gazprom’s official website (information is available in Russian only) → [www.gazprom.ru](http://www.gazprom.ru)



The list of goods, works, and services procured by PJSC Gazprom from SMEs has been published in the Unified Information System (information is available in Russian only) → [www.zakupki.gov.ru](http://www.zakupki.gov.ru)



PJSC Gazprom’s Pilot SME Partnership Programme is available on PJSC Gazprom’s official website (information is available in Russian only) → [www.gazprom.ru](http://www.gazprom.ru)



For more details on the One-Stop System see PJSC Gazprom’s website (information is available in Russian only) → [www.oknogazprom.ru](http://www.oknogazprom.ru)



For more details on the procurement system at PJSC Gazprom and its subsidiaries see [Gazprom Group’s Sustainability Reports](#) published on an annual basis

# Ensuring Compliance of Operations with Legal Requirements

Legal support of PJSC Gazprom's operations is inextricably linked to relevant legal regulation and is focused on the Company's objectives:

- Achieving efficient financial and business performance
- Ensuring the completeness, timeliness, and fairness of all types of accounting and reporting at PJSC Gazprom, as well as other information to be disclosed under applicable laws
- Complying with applicable laws
- Preventing and countering corruption
- Protecting PJSC Gazprom's assets (including data assets)

Legal regulation is exercised in accordance with the Constitution of the Russian Federation, Federal Law No. 69-FZ On Gas Supply in the Russian Federation, dated 31 March 1999; Federal Law No. 116-FZ On Industrial Safety of Hazardous Production Facilities, dated 21 July 1997; Federal Law No. 7-FZ On Environmental Protection, dated 10 January 2002; Federal Law No. 174-FZ On Ecological Expertise, dated 23 November 1995; Federal Law No. 256-FZ On Safety of the Fuel and Energy Complex, dated 21 July 2011, and other federal laws and regulations of the Russian Federation, as well as international laws, treaties and agreements.

Legal support of PJSC Gazprom's operations is exercised by the Board of Directors, the Board of Directors' Audit Committee, the Audit Commission, executive bodies (the Management Committee and Chairman of the Management Committee), the Company's business units in line with their tasks and functions.

The Company has a special focus on compliance with anti-corruption regulations and countering the unlawful use of insider information and market manipulation.

## Anti-Corruption Efforts

PJSC Gazprom has developed and adheres to the anti-corruption framework while effective local regulations adopted as part of anti-corruption measures help foster negative sentiment towards corrupt conduct, prevent or resolve conflicts of interest, and prevent unlawful behaviour.

---

### Russian anti-corruption statutory regulations guiding PJSC Gazprom

---

- Federal Law No. 273-FZ On Combatting Corruption, dated 25 December 2008
- Federal Law No. 79-FZ On Prohibiting Certain Categories of Persons from Opening and Keeping Bank Accounts (Deposits), Keeping Cash and Securities with Foreign Banks Outside the Russian Federation, and Possessing and/or Using Foreign Financial Instruments, dated 7 May 2013
- Federal Law No. 230 On Control over Expenditures of Public Officials and Other Persons to Match Their Income, dated 3 December 2012
- Presidential Decree No. 557 On Approving the List of Positions within the Federal Public Service Requiring Disclosure by Federal Public Servants of Information on Their Income, Property, and Property Liabilities, as well as on Income, Property, and Property Liabilities of Their Spouses and Underage Children, dated 18 May 2009
- Presidential Decree No. 378 On the National Plan to Combat Corruption for 2018–2020, dated 29 June 2018

---

### International anti-corruption regulations PJSC Gazprom has committed to

---

- United Nations Convention against Corruption (ratified by Federal Law No. 40-FZ dated 8 March 2006)
- United Nations Convention against Transnational Organized Crime (ratified by Federal Law No. 26-FZ dated 26 April 2004)
- Criminal Law Convention on Corruption of the Council of Europe and non-member states (ratified by Federal Law No. 125-FZ dated 25 July 2006)

PJSC Gazprom's anti-corruption practices comply with the main international and Russian regulations.

#### Set of PJSC Gazprom's anti-corruption documents

Documents approved by the Board of Directors of PJSC Gazprom:

- PJSC Gazprom's primary anti-corruption document is its Anti-Corruption Policy
- Regulations on the Internal Control System of PJSC Gazprom

Documents approved by instructions and orders of PJSC Gazprom:

- Regulations on the Corporate Ethics Commission of JSC Gazprom
- Regulations on the Hotline for Fighting Fraud, Corruption, and Embezzlement at Gazprom Group
- Procedure for a Conflict of Interest Disclosure and Conflict of Interest Resolution
- Procedure for reporting offences with signs of corruption committed by employees, counterparties or third parties, which have become known to an employee, and for dealing with allegations of corruption
- Procedure for reporting cases when an employee is incited to commit offences, and for reviewing such reports
- Procedure for protecting whistle blowers who have reported offences relevant to the Company's operations

#### Compliance with corporate ethics

PJSC Gazprom has adopted its Corporate Code of Ethics developed with due account for Russian and international corporate governance best practices. The document details PJSC Gazprom's corporate values and determines the fundamental rules of business conduct stemming from such values, which rule out any conflicts of interest or corrupt practices and impose restrictions, in particular, on nepotism, employee engagement with PJSC Gazprom's competitors, their serving on elected government bodies, and acceptance of gifts. Most of PJSC Gazprom's subsidiaries have developed and adopted similar documents based on the Code.

The Code specifies the procedure to be followed by the Company's employees in the event of a conflict of interest, declares zero tolerance for corrupt conduct, affirms environmental responsibility and non-discriminatory principles, establishes implementation and supervision practices on compliance with corporate ethics standards.

#### Employee penalties for non-compliance with the Code of Corporate Ethics of PJSC Gazprom

- Social condemnation
- Public censure
- Forfeiture of bonuses (in line with internal documents)
- disciplinary sanctions (if there are signs of a disciplinary offence)

The Code's provisions are mandatory for PJSC Gazprom's employees, including all members of the Management Committee and the Board of Directors who are PJSC Gazprom's employees or employees of the Company-controlled corporate entities. The Code's provisions are not mandatory for employees of PJSC Gazprom's affiliates which are not under the Company's control, and employees of PJSC Gazprom's counterparties.

**In 2018, a provision on regular tests for employees' knowledge of corporate ethics standards was added to the Code of Corporate Ethics of PJSC Gazprom.**

In 2018, a provision on regular tests for employees' knowledge of corporate ethics standards was added to the Code of Corporate Ethics of PJSC Gazprom; an online training course Corporate Ethics at PJSC Gazprom based on the Code provisions was developed as part of distance education for employees.

The permanent Corporate Ethics Commission of PJSC Gazprom is responsible for supervising compliance with the Code's requirements and provisions. Most of PJSC Gazprom's subsidiaries and associates have similar commissions in place.

## Corporate Ethics Commission's performance in 2018

### Focus areas

Reviewing reports on an ongoing basis as required by the applicable Russian laws with the involvement of dedicated business units and subsidiaries, if required

Revealing the signs of a conflict of interest in sole executive bodies of entities controlled by PJSC Gazprom, and making recommendations on preventing and/or mitigating possible negative effects of identified conflicts of interest

Arranging annual activities to ensure that the Company's management, including employees who are members of PJSC Gazprom's Board of Directors and Management Committee, sign written commitments to comply with the Code provisions in the prescribed form

### Performance highlights

The Commission received several reports from individuals, including two reports from employees of subsidiaries. All the reports received by the Commission have been reviewed

In 2018, the Commission took relevant measures covering 270 companies and entities controlled by PJSC Gazprom

All relevant managers of PJSC Gazprom have signed and submitted to the Commission for safekeeping written commitments to comply with the Code

The Commission's performance is reported to the Chairman of PJSC Gazprom's Management Committee on an annual basis. The Chairman of PJSC Gazprom's Management Committee may impose sanctions stipulated by the Code at his own initiative or at the Commission's suggestion, or at the initiative of the violator's immediate superior.

PJSC Gazprom and its subsidiaries organise awareness days to communicate to their employees the effective rules of business, including anti-corruption corporate ethics. Subsidiaries gather and consolidate information on measures taken to comply with the requirements and restrictions established by codes of corporate ethics.

### Preventing and revealing corrupt practices

PJSC Gazprom's management is consistently focused on improving its procedures for preventing and revealing corrupt practices in Gazprom Group.

During the year, the Company also worked on regulations determining the lists of position of PJSC Gazprom's administration employees participating in anti-corruption efforts. The management of PJSC Gazprom's branches, subsidiaries and entities will have to prepare similar lists and organise training for employees included in the list.

PJSC Gazprom's Corporate Security Service and corporate security departments of the Company's subsidiaries prevent and reveal corrupt practices as prescribed by Russian laws and regulations of PJSC Gazprom. This work relies on an ongoing cooperation with departments responsible for internal audit, corporate cost management, asset management and corporate relations, and with law enforcement agencies of the Russian Federation.

Since November 2014, PJSC Gazprom has operated a Hotline to report incidents of perceived fraud, corruption, and embezzlement in Gazprom Group. Similar arrangements are in place at several PJSC Gazprom's key subsidiaries. Employees of PJSC Gazprom's Corporate Security Service and corporate security departments of the Company's subsidiaries review the received information (via digital communication channels, telephone or post, as well as reports made in person), including anonymous, to reveal preconditions for, and instances of, corruption at Gazprom Group.

During 2018, the Company's Corporate Security Service received over 200 reports to the Hotline. Following the investigation of these reports the Service has not identified any instances of corruption as defined by Article 1 of Federal Law No. 273-FZ On Combating Corruption, dated 25 December 2008.

Hotline contact information is available on PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



The Company has a framework for preventing and avoiding bad procurement practices.

**Anti-corruption framework for preventing and avoiding bad procurement practices**

- Anti-corruption clauses of procurement contracts provide for disclosing counterparties' ultimate beneficiaries.
- The annual procurement plan is publicly available.
- A dedicated collegial body, the Tender Committee, is established to summarise the competitive bidding and marketing research results. Gazprom Group closely monitors the membership of the Tender Committee to avoid any conflict of interest. Members of the Tender Committee who have vested interests in the procurement process results or are bidders' employees or management shall withdraw (with a corresponding entry made in the minutes) and abstain from voting on the matter. Votes of the interested Tender Committee members are not taken into account when counting the votes following the procurement procedure. The Tender Committee's decisions on the procurement results are guided by the principles of fair, equal, and objective treatment of the bidders based on the bid assessment and comparison criteria set out in the tender documentation (quotation request notice).
- Corporate entities and officers engaged in arranging and conducting procurements bear administrative liability for violating the procedure for procuring goods, works, and services, as prescribed by Article 7.32.3 of the Russian Federation Code of Administrative Offences.
- In order to protect the rights of bidders to challenge the actions of the customer (organiser) pursuant to the Federal Law on procurement, the Provisions on Procurement provide for a 10-day period during which no contract may be awarded following a tender.
- Bidders have the right and opportunity to propose to PJSC Gazprom (including anonymously) improvements to bidding procedures, comments and complaints regarding actions/omission of customers, organisers, and/or their officers, inform about unreasonable requirements to procurement items, suppliers (service providers), deadlines, and terms of delivery of goods (performing work, rendering services) in the tender documentation, as well as about other unreasonable restrictions of competition during the procurement process. The feedback form for potential bidders is available in the Tenders section of PJSC Gazprom's official website.

Corporate security departments of the Company's subsidiaries and entities send quarterly reports on corruption prevention progress and revealed cases of possible corrupt practices to PJSC Gazprom's Corporate Security Service and inform the Service of decisions made following the investigation of such cases.

The Anti-Corruption Policy of PJSC Gazprom is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



**Countering the Unlawful Use of Insider Information and Market Manipulation**

Under Russian statutory requirements, PJSC Gazprom counters the unlawful use of insider information, has the rules regulating access to its insider information and protection of confidentiality of such information, and determines the framework of monitoring compliance with the relevant laws.

PJSC Gazprom has a business unit responsible for compliance with insider laws and regulations.

**Duties of the business unit responsible for insider information**

- Monitors changes in the laws on countering the unlawful use of insider information and market manipulation
- Updates the Company's local regulations
- Updates relevant sections of PJSC Gazprom's website
- Updates insider lists
- Communicates with regulators such as the Bank of Russia and exchanges; updated insider lists are sent to the market operators at their request
- Informs insiders, including PJSC Gazprom's employees, of the applicable legal requirements on a regular basis; Information for Insiders, which is updated in line with changes in legislation and/or PJSC Gazprom's local regulations, is sent to the persons included in PJSC Gazprom's insider list
- Monitors compliance with the laws on countering the unlawful use of insider information

**In line with changes in the Russian legislation in 2018, the List of Insider Information of PJSC Gazprom was extended.**

In 2018, PJSC Gazprom and its employees fully complied with the laws on countering the unlawful use of insider information.

The List of Insider Information of PJSC Gazprom is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



PJSC Gazprom's key principle in shareholder relations is to provide equal rights and efficiently protect the interests of all security holders. The Company takes further steps to enhance its corporate governance practice, increase transparency, and maintain a constructive dialogue with the investment community.

## Shareholding Structure

PJSC Gazprom's charter capital is RUB 118,367,564,500 divided into 23,673,512,900 ordinary shares with a par value of RUB 5 each. State registration number of the issue is 1-02-00028-A. The state registration date is 30 December 1998. The Company has no preferred shares.

### PJSC Gazprom's shareholding structure, %

Name	As at 31 December 2017	As at 31 December 2018
The Russian Federation represented by the Federal Agency for State Property Management	38.37	38.37
AO ROSNEFTEGAZ*	10.97	10.97
AO Rosgazifikatsiya*	0.89	0.89
ADR holders**	25.20	24.13
Other registered holders	24.57	25.64

\* As at 31 December 2017 and 31 December 2018, the cumulative share in PJSC Gazprom directly or indirectly controlled by the Russian Federation totals 50.23% and is owned through the full ownership of AO ROSNEFTEGAZ which also holds a 74.55% stake in AO Rosgazifikatsiya.

\*\* The Bank of New York Mellon issued ADRs on PJSC Gazprom shares.

As the major shareholder of PJSC Gazprom, the Russian Federation holds a more than 50% controlling stake (including direct and indirect ownership) in PJSC Gazprom. The Russian Federation does not have a special right to manage PJSC Gazprom's affairs (a "golden share").

The Memorandum of Intent of the Russian Federation as the Major Shareholder of PJSC Gazprom regarding PJSC Gazprom shares is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



According to the Memorandum of Intent of the Russian Federation as the Major Shareholder of PJSC Gazprom regarding, the Planned Forecast (Programme) for the Privatisation of Federal Property and the 2017–2019 Federal Property Privatisation Guidelines (approved by Decree of the Russian Government No. 227-r dated 8 February 2017), there are no plans to dispose of any PJSC Gazprom shares owned by the federal government. In 2018, PJSC Gazprom received no information on any special agreements between PJSC Gazprom's shareholders.

# 464,969

shareholders

the number of shareholders included in the list of persons entitled to participate in PJSC Gazprom's annual General Shareholders Meeting in 2018

**Information on PJSC Gazprom shares owned by PJSC Gazprom and its subsidiaries**

As at 31 December 2018, there were no PJSC Gazprom shares the title to which was transferred to the Company. At the same time, as at the said date, PJSC Gazprom’s subsidiaries held 934 million ordinary shares of PJSC Gazprom, including American depository receipts (ADRs) representing 639 million ordinary shares of PJSC Gazprom, which in total represents 6.6% of the total number of ordinary shares of PJSC Gazprom.

**Stock Market and Capitalisation**

PJSC Gazprom shares are included in the first (top) level quotation list of the Moscow Exchange and PAO Saint Petersburg Exchange.

In October 1996, the Company listed depository receipts on the London Stock Exchange (LSE). The ADRs certifying the rights to PJSC Gazprom ordinary shares under foreign law were issued by The Bank of New York Mellon as depository bank. An ADR stands for two PJSC Gazprom shares. ADRs on PJSC Gazprom shares are traded on the London, Berlin, and Frankfurt exchanges, the Moscow Exchange, the US OTC market, and on the Singapore OTC market among qualified institutional buyers (QIBs). The LSE accounts for the bulk of trade in PJSC Gazprom ADRs. PJSC Gazprom explores opportunities to expand on Asia Pacific exchanges.

46%

**PJSC Gazprom shares in free float as at 31 December 2018 (according to the Moscow Exchange)**

In 2018, PJSC Gazprom’s market capitalisation increased by 17.6% year-on-year in rouble equivalent; as at 31 December 2018, its capitalisation stood at RUB 3.6 tn, the equivalent of USD 52.3 bn. MOEX Russia Index increased by 12.3% over the same period. The rise in PJSC Gazprom’s capitalisation was mostly driven by a record-high increase in production volumes and export volumes to Europe in 2018. Also, gas prices in Europe went up considerably in the reporting period following oil prices, which enabled analysts and investors to raise their free cash flow expectations, and consequently, the expected dividend rate for the reporting period.

**PJSC Gazprom share price growth in 2018, and increase in MOEX Russia Index over the same period.**

**PJSC Gazprom’s market capitalisation in 2018, USD bn**



**Note.** Market capitalisation is calculated as the daily rouble-denominated closing price on the Moscow Exchange multiplied by the total number of PJSC Gazprom shares issued.

The total shareholder return was 0.242 in 2018, due to an increase in the market value of the Company shares.

PJSC Gazprom shares are on the list of underlying securities for stock indices, including MSCI Russia, MSCI Emerging Markets, FTSE Russia IOB, STOXX All Europe 100, as well as indices of leading Russian stock exchanges.

**Main indices of Russian exchanges which include the stock of PJSC Gazprom**

Index	PJSC Gazprom’s share index weight as at 31 December 2018
MOEX Russia Index	12.62
RTS Index	12.62
MICEX Oil and Gas Index	14.22

**PJSC Gazprom ordinary share price performance and daily trading volumes on the Moscow Exchange in 2018**



**PJSC Gazprom ADR price performance and daily trading volumes on the LSE in 2018**



## Dividend Policy

In developing its recommendations for PJSC Gazprom's General Shareholders Meeting on profit distribution, including dividend payouts, the Board of Directors seeks to ensure high financial stability of PJSC Gazprom and the implementation of its long-term development strategy, as well as protect the rights of, and increase returns for, shareholders of PJSC Gazprom both through dividend payouts and increased market capitalisation of the Company.

The Company's full dividend history is available on PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



### PJSC Gazprom's dividend history in 2009–2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018*
Dividend per share, RUB	2.39	3.85	8.97	5.99	7.20	7.20	7.89	8.0397	8.04	16.61
Dividend payout ratio, share of PJSC Gazprom's net profit under RAS (parent company), %	9	25	24	25	27	90	46	46	190	42
Dividend payout ratio, share of Gazprom Group's IFRS profit attributable to the owners of PJSC Gazprom, %	7	9	16	12	15	107	24	20	27	27
PJSC Gazprom's dividend yield**, %	1.3	2.0	5.2	4.2	5.2	5.5	5.8	5.2	6.2	10.8

\* Recommended dividend shown for 2018.

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

### PJSC Gazprom's dividends paid in 2018 for 2017 as at 31 December 2018

	Accrued, RUB thousand	Paid, RUB thousand	Unpaid, RUB thousand*	Unpaid to accrued, %
Total	190,335,044	190,005,139	329,905	0.17
including dividends on shares:				
held by the Russian Federation represented by the Federal Agency for State Property Management	73,037,986	73,037,986	–	–
held by individuals and corporate entities whose rights to shares are accounted for in the register	27,100,385	26,916,208	184,177	0.68
held by individuals and corporate entities whose rights to shares are accounted for by the depository maintaining a nominee holder account in the issuer's register**	90,196,521	90,050,945	145,576	0.16
held by unidentified persons	152	–	152	100.00

\* No dividend payouts were made to individuals or corporate entities who had failed to provide clear payout details as per clauses 8 and 9 of Article 42 of Federal Law No. 208-FZ On Joint-Stock Companies, dated 26 December 1995. Dividends accrued on shares held by unidentified persons are paid out as soon as the title to securities is established.

\*\* PJSC Gazprom paid RUB 90,196,521 thousand in dividends to nominee holders on 2 August 2018 in execution of the Annual General Shareholders Meeting resolutions on dividend payouts based on PJSC Gazprom's 2017 results, which was held on 29 June 2018. As at 31 December 2018, the amount of dividends nominee holders failed to transfer as prescribed by the securities laws of the Russian Federation for reasons beyond their control (clause 8 and clause 9, Article 42 of Federal Law No. 208-FZ dated 26 December 1995) totalled RUB 145,576 thousand.

**PJSC Gazprom's dividends paid in 2018 for 2014–2016, RUB thousand**

Shareholder category	Unpaid as at 1 January 2018	Paid in 2018	Reinstated in 2018 as retained earnings upon expiry of the limitation period	Unpaid as at 1 January 2018
Corporate entities*	4,110	–	1,167	2,943
Individuals*	541,222	34,449	157,661	349,112
Nominee holders**	383,214	102,094	83,051	198,069
Holders unidentified as at the time of accrual***	365	–	99	266
Total	928,911	136,543	241,978	550,390

\* No dividend payouts were made to individuals or corporate entities who had failed to provide clear and required payout details as per Federal Law No. 208-FZ On Joint-Stock Companies dated 26 December 1995.

\*\* The nominee holders who failed to transfer dividends as prescribed by the securities laws of the Russian Federation for reasons beyond their control (clause 8 and clause 9, Article 42 of Federal Law No. 208-FZ dated 26 December 1995).

\*\*\* Dividends accrued on shares held by unidentified persons are paid out as soon as the title to securities is established.

Since 2015, PJSC Gazprom has been paying per share dividend in rouble equivalent not lower than the level achieved in the previous year.

# 2.8<sub>x</sub>

### **Increase in dividends on PJSC Gazprom shares compared to those paid for 2012**

For 2018, PJSC Gazprom's Board of Directors recommended to distribute record-high dividends of RUB 16.61 per share. Dividend payouts will total RUB 393.2 bn.

**After commissioning of major capex projects in 2019, the higher free cash flow will support further dividend increase if the macroeconomic environment remains positive.**

Therefore, dividends on PJSC Gazprom shares recommended for distribution for 2018 will amount to 27% of Gazprom Group's IFRS profit for the year attributable to the owners of PJSC Gazprom and will exceed the 2017 dividends by 2.1x.

In the coming years, decisions on the dividend rate will be based on annual analysis of the international oil and gas markets and the situation on the financial markets, and will depend on whether net profit is backed by free cash flow. PJSC Gazprom expects that with the macroeconomic environment remaining positive, after the commissioning of major capex projects, higher free cash flow will enable the Company to further increase dividends.

## Credit Ratings

Credit ratings assigned to PJSC Gazprom by Standard & Poor's and Fitch, are comparable with sovereign foreign currency ratings of the Russian Federation, while Moody's rating is one notch above the sovereign rating.

In 2018, Standard & Poor's and Moody's upgraded their credit ratings for the Company, while the rating assigned by Fitch remained unchanged. In early 2019, Moody's upgraded PJSC Gazprom's credit rating again.

### Credit ratings of PJSC Gazprom

Rating agency	Long-term foreign currency rating	Rating date
Standard & Poor's	BBB- (stable outlook)	27 February 2018
Fitch Ratings	BBB- (positive outlook)	25 September 2018
Moody's	Baa2 (stable outlook)	12 February 2019
Dagong	AAA (stable outlook)	30 October 2018
ACRA	AAA (stable outlook)	31 January 2019

For more details on PJSC Gazprom's credit ratings see PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



## Bond Issues

PJSC Gazprom raises funds in the international capital markets through the EMTN (Euro Medium Term Note) Programme. Also, in 2018, PJSC Gazprom closed a deal to issue yen-denominated bonds guaranteed by Japan Bank for International Cooperation (JBIC). Additionally, the Company places rouble bonds.

The EMTN Programme is a revolving multi-currency credit line for up to USD 40 bn (the maximum outstanding principal amount).

As at 31 December 2018, there were 22 Eurobond issues outstanding for the total amount of USD 10.05 bn, EUR 5.75 bn, CHF 2.25 bn, and GBP 1.35 bn. The issuer is Gaz Capital S.A. (Luxembourg), a special-purpose vehicle.

The JBIC-guaranteed JPY 65 bn bond issue has a maturity of 10 years and a 1.01% coupon rate. The issuer is Gaz Capital S.A. (Luxembourg), a special-purpose vehicle.

PJSC Gazprom's foreign currency-denominated bonds are historically purchased by a wide range of investors with different country and institutional backgrounds.

### PJSC Gazprom's outstanding Eurobond issues placed under the EMTN Programme as at 31 December 2018

Size	Placement date	Maturity date	Coupon, %	ISIN
USD 1.2 bn	28.04.2004	28.04.2034	8.625	XS0191754729
USD 1.3 bn	07.03.2007	07.03.2022	6.51	XS0290580595
USD 1.25 bn	16.08.2007	16.08.2037	7.288	XS0316524130
USD 2.25 bn	23.04.2009	23.04.2019	9.25	XS0424860947
USD 0.6 bn	23.11.2011	23.01.2021	5.999	XS0708813810
USD 1.0 bn	19.07.2012	19.07.2022	4.95	XS0805570354
USD 0.8 bn	06.02.2013	06.02.2020	3.85	XS0885733153
USD 0.9 bn	06.02.2013	06.02.2028	4.95	XS0885736925
EUR 1.0 bn	21.03.2013	20.03.2020	3.389	XS0906946008
EUR 0.5 bn	21.03.2013	21.03.2025	4.364	XS0906949523
GBP 0.5 bn	25.09.2013	25.09.2020	5.338	XS0974126186
CHF 0.5 bn	25.10.2013	25.10.2019	2.85	CH0226274261
EUR 0.75 bn	26.02.2014	26.02.2021	3.6	XS1038646078
EUR 1.0 bn	17.11.2016	17.11.2023	3.125	XS1521039054
CHF 0.5 bn	30.11.2016	30.11.2021	2.75	CH0346828400
USD 0.75 bn	23.03.2017	23.03.2027	4.95	XS1585190389

**PJSC Gazprom's rouble bonds outstanding as at 31 December 2018 (continued)**

Size	Placement date	Maturity date	Coupon, %	ISIN
GBP 0.85 bn	06.04.2017	06.04.2024	4.25	XS1592279522
CHF 0.5 bn	19.07.2017	19.07.2022	2.25	CH0374882816
EUR 0.75 bn	22.11.2017	22.11.2024	2.25	XS1721463500
CHF 0.75 bn	06.03.2018	06.03.2023	1.45	CH0404311711
EUR 0.75 bn	21.03.2018	21.03.2026	2.5	XS1795409082
EUR 1.0 bn	16.11.2018	24.01.2024	2.949	XS1911645049

**PJSC Gazprom's rouble bonds outstanding as at 31 December 2018**

Size, RUB bn	Placement date	Maturity date	Callability	Coupon, %	Registration number	Issuer
15.0	27.11.2013	21.10.2043	If the coupon rate reaches or exceeds 10%	Calculated by issuer with formula*	4B02-19-00028-A	PJSC Gazprom
15.0	27.11.2013	21.10.2043	If the coupon rate reaches or exceeds 10%	Calculated by issuer with formula*	4B02-20-00028-A	PJSC Gazprom
15.0	15.02.2017	03.02.2027	07.02.2024	8.9	4B02-05-36400-R	OOO Gazprom capital**
15.0	15.02.2017	03.02.2027	07.02.2024	8.9	4B02-06-36400-R	OOO Gazprom capital**
5.0	27.02.2018	15.02.2028	18.02.2025	7.15	4B02-01-36400-R	OOO Gazprom capital**
5.0	27.02.2018	15.02.2028	18.02.2025	7.15	4B02-02-36400-R	OOO Gazprom capital**
10.0	27.02.2018	15.02.2028	18.02.2025	7.15	4B02-03-36400-R	OOO Gazprom capital**
10.0	27.02.2018	15.02.2028	18.02.2025	7.15	4B02-04-36400-R	OOO Gazprom capital**
10.0	31.07.2018	12.07.2033	22.07.2025	8.1***	4B02-07-00028-A	PJSC Gazprom
15.0	31.07.2018	23.06.2048	22.07.2025	8.1***	4B02-22-00028-A	PJSC Gazprom
15.0	31.07.2018	23.06.2048	22.07.2025	8.1***	4B02-23-00028-A	PJSC Gazprom

\*  $K_i = (CPI - 100\%) + 1\%$ , where:

$K_i$  means the interest rate for the  $i$ th coupon period, but not less than 0.01% per annum

CPI means the consumer price index calculated for the Russian Federation and expressed as percentage year-on-year.

\*\* Special-purpose subsidiary for raising funds in the Russian financial market.

\*\*\* The interest rate is for the 1st to 14th coupon period. Starting from the 15th coupon period, the interest rate is determined according to paragraph 9.3 of the Resolution on Securities Issue.

For more details on PJSC Gazprom's bond issues see PJSC Gazprom's website  
→ [www.gazprom.com](http://www.gazprom.com)



## Shareholder and Investor Relations

PJSC Gazprom's securities are among the most liquid financial instruments in the Russian market. The Company's investor base comprises several thousand institutional investors, including major foreign investors, such as investment funds, pension funds, banks, and insurance companies, as well as private investors. Investors based in the United States, the UK, and mainland Europe remain the largest minority holders of PJSC Gazprom shares and ADRs.

### Geography of institutional investors in PJSC Gazprom shares and ADRs as at 31 December 2018, %



Source: NASDAQ

The Company fosters an ongoing dialogue with the investment community. Investment analysts and investors are engaged regularly through a range of formats.

# 170

### The number of managers and analysts from leading global investment funds and credit institutions who attended Gazprom's Investor Day in 2018

PJSC Gazprom promotes regular direct communication between the Company's management and analysts and investors, including through conference calls, road shows, or site visits to the Group's production facilities. Representatives of PJSC Gazprom and its subsidiaries and entities have regular meetings with investors and are frequent speakers at national and global conferences held by leading investment banks.

**Investors commended the possibility of a dialogue with PJSC Gazprom's independent directors, noting the importance of holding such meetings on a regular basis.**

The Company also runs road shows in the regions with the highest concentrations of existing and potential investors.

### Meetings of independent members of the Board of Directors with representatives of the investment community

Meeting date	Meeting location	Independent Director attending the meetings	Matters discussed at the meetings
28 August 2018	Moscow	Timur Kulibaev	PJSC Gazprom's strategy, activities of the Board of Directors, key projects, budgeting, debt management, ways to increase the Company's capitalisation, dividend policy
4–7 December 2018	Frankfurt, Stockholm	Viktor Martynov	PJSC Gazprom's strategy, activities of the Board of Directors, environmental issues and corporate governance, review of the key projects, the Company's investment programme, prospects for increasing dividend payouts

### 2018 highlights in shareholder and investor relations

Date	Event
February	Investor Day in London (6 February) and New York (8 February)
30 March	Publication of PJSC Gazprom's 2017 RAS Financial Statements
26 April	Publication of the 2017 Annual Financial Report under FSA requirements, including the 2017 IFRS Financial Statements
27 April	Conference call with investors on Gazprom Group's 2017 IFRS Financial Statements
30 May	Publication of Gazprom Group's Q1 2018 IFRS Financial Statements, a conference call with investors on the Financial Statements
May–June	Press briefings of PJSC Gazprom's top management on the 2017 results and key areas of the Company's development
6 June	Publication of PJSC Gazprom draft Annual Report 2017
29 June	PJSC Gazprom's annual General Shareholders Meeting

**Meetings of independent members of the Board of Directors with representatives of the investment community (continued)**

Date	Event
3–6 July	Investor and analyst visits to Gazprom Group's production facilities
19 July	Record date for PJSC Gazprom's dividend based on PJSC Gazprom's 2017 results
29 August	Publication of Gazprom Group's Q2 2018 IFRS Financial Statements
31 August	Conference call with investors on Gazprom Group's Q2 2018 IFRS Financial Statements
5 October	Speech by Alexey Miller, Chairman of PJSC Gazprom's Management Committee, at the St Petersburg International Gas Forum
30 November	Publication of Gazprom Group's Q3 2018 IFRS Financial Statements
3 December	Conference call with investors on Gazprom Group's Q3 2018 IFRS Financial Statements
17 December	Meeting of the Coordinating Committee for Shareholder and Investor Relations

Largest Russian and foreign investment banks publish regular analyst reports on PJSC Gazprom shares. As at the end of 2018, all analysts recommended to “buy” (“over-weight”) or “hold” (“neutral”).

**Guidance for PJSC Gazprom shares in 2018**

Company	Guidance, end of 2017	Guidance, end of 2018	Change
OOO BCS	Hold	Buy	Upgrade
OOO IC Veles Capital	Under review	Hold	–
AO VTB Capital	Buy	Hold	Downgrade
ATON	Buy	Buy	No adjustments
AO Gazprombank	Over-weight	Over-weight	No adjustments
SOVA Capital Limited (Otkritie Capital)	Hold	Buy	Upgrade
PAO BANK URALSIB	Buy	Buy	No adjustments
Bank of America Merrill Lynch	Neutral	Hold	No adjustments
Citigroup	Buy	Buy	No adjustments
Credit Suisse	Under-weight	Termination of coverage	–
Deutsche Bank	Buy	Buy	No adjustments
Goldman Sachs	Hold	Buy	Upgrade
HSBC	Hold	Buy	Upgrade
J.P. Morgan	Over-weight	Neutral	Downgrade
Morgan Stanley	Sell	Buy	Upgrade
Raiffeisen Bank	Hold	Buy	Upgrade
Renaissance Capital	Hold	Buy	Upgrade
Sberbank CIB	Buy	Buy	No adjustments
UBS	Hold	Hold	No adjustments
WOOD & Company	Buy	Buy	No adjustments

Contact details of investment analysts regularly covering PJSC Gazprom are available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



PJSC Gazprom intends to further streamline its relations with existing and potential investors and shareholders to develop a meaningful dialogue with the investment community, increase the Company's capitalisation, and reduce the cost of new borrowings.

# Appendices

**Major and Interested Party Transactions 212**

**Disposal of Non-core Assets  
by PJSC Gazprom and Subsidiaries 213**

**Implementation of Presidential and Governmental  
Directives and Instructions 214**

**Energy Consumption by PJSC Gazprom  
and its Actual Cost 220**

**Additional Information for the Annual Report available  
on PJSC Gazprom's Corporate Website 221**

**Gazprom Group's Operating and Marketing  
Geography 222**

**Glossary 226**

**Contacts 230**

# Major and Interested Party Transactions

In 2018, PJSC Gazprom closed no transactions treated as major transactions under the applicable laws of the Russian Federation.

For details of transactions closed by Gazprom in the reporting year and treated as interested party transactions under the applicable laws of the Russian Federation see the Report on PJSC Gazprom's Interested Party Transactions in 2018 approved by Resolution of PJSC Gazprom's Board of Directors No. 3277 dated 21 May 2019 and available on the web pages used by PJSC Gazprom for information disclosure: [www.gazprom.com](http://www.gazprom.com) and [www.e-disclosure.ru](http://www.e-disclosure.ru).

---

The Report on PJSC Gazprom's Interested Party Transactions in 2018 is available on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



---

The Report on PJSC Gazprom's Interested Party Transactions in 2018 is available on PJSC Gazprom's page on the website of Interfax – Centre for Corporate Information Disclosure (information is available in Russian only) → [www.e-disclosure.ru](http://www.e-disclosure.ru)



# Disposal of Non-core Assets by PJSC Gazprom and Subsidiaries

Actual proceeds from non-core asset disposal by PJSC Gazprom and its subsidiaries in 2018 totalled RUB 18.21 bn (excluding intra-group transactions — RUB 6.36 bn), including:

- those owned by PJSC Gazprom — RUB 12.28 bn (excluding intra-group transactions — RUB 0.91 bn)
- those owned by PJSC Gazprom's subsidiaries — RUB 5.93 bn (excluding intra-group transactions — RUB 5.45 bn).

# Implementation of Presidential and Governmental Directives and Instructions

## Disclosure of Information on Ownership Structures, including Beneficiaries, by Counterparties under Existing Contracts

(Instruction of Prime Minister of the Russian Federation Vladimir Putin No. VP-P13-9308 dated 28 December 2011 and Instruction of Deputy Prime Minister of the Russian Federation Igor Sechin No. IS-P13-80 dated 12 January 2012)

From 1 January 2018 through 31 December 2018, PJSC Gazprom informed the Russian Ministry of Energy, Federal Tax Service and Federal Service for Financial Monitoring (Rosinfomonitoring) of:

- 87,491 existing contracts (with 4,550 contracts signed by PJSC Gazprom and 82,941 contracts signed by subsidiaries or associates directly and/or indirectly controlled by PJSC Gazprom by more than 50%)
- changes in the ownership structure and/or executive bodies of PJSC Gazprom's counterparties
- changes in the ownership structure and/or executive bodies of the counterparties of subsidiaries and associates directly and/or indirectly controlled by PJSC Gazprom by more than 50% in total.

## On Establishing Engineering Units and R&D Centres on Russky Island (Vladivostok)

(List of Instructions of President of the Russian Federation Vladimir Putin No. Pr-1849 dated 10 October 2018 issued following the 2017 Eastern Economic Forum, which was held on from 11 to 13 September 2018)

A number of initiatives is being implemented to provide engineering capabilities for offshore hydrocarbon production and natural gas liquefaction projects carried out by Gazprom Group in the Russian Far East.

- A decision is pending on details of establishing a dedicated engineering unit, the Far Eastern branch of OOO Gazprom 335, on Russky Island, as well as the phased approach to its development, including objectives, primary activity, technical and economic parameters, etc.
- The Company is now collaborating with Far Eastern Federal University (FEFU), including on permanently setting up the Far Eastern branch of OOO Gazprom 335 on property leased from FEFU.
- Taking into account the need for FEFU to comply with corporate procedures established by Russian laws for federal state autonomous higher education institutions, the considerable time taken by the procedures and the lack of accommodation options on Russky Island, and aiming to absolutely ensure the launch of the Far Eastern branch of OOO Gazprom 335 in 2019, a decision has been taken that at the initial stage, employees of the newly created structural unit will be accommodated on the inland part of Vladivostok (the site has been found and the lease contract approved).

### Charitable Funds and Sponsorship Support

(Instruction of President of the Russian Federation Vladimir Putin No. Pr-250 dated 9 February 2018 on providing RUB 150 mm financial support to build a block of flats for rehousing families from ramshackle homes in the Elshanka village, the Saratov Region)

In 2018, PJSC Gazprom channelled RUB 75 mm under a donation agreement to build a block of flats with integrated and attached premises located at 2 Moskovskoye Shosse, Saratov, Saratov Region, for rehousing families from ramshackle homes in the Elshanka village in Saratov's Leninsky District. The remaining funds will be donated according to schedule, in 2019.

(Instruction of President of the Russian Federation Vladimir Putin No. Pr-529 on providing EUR 10 mm financial support to Dinamo Riga in the 2017/2018 season and upcoming years for the hockey club to participate in the Kontinental Hockey League Championship, dated 20 March 2017)

In pursuance of the instruction, two Gazprom Group companies (OOO Gazprom export and JSC Latvijas Gaze) channelled EUR 10.7 mm in sponsorship support to the hockey club in 2018.

(Instruction of President of the Russian Federation Vladimir Putin No. Pr-1991 on providing financial support to organise and hold a round-the-world polar expedition in 2018 as part of the World Oceanic International Flight, dated 27 September 2017)

In the reporting year, PJSC Gazprom channelled RUB 96.8 mm under a donation agreement to organise and hold a round-the-world polar expedition in summer 2018 as part of the World Oceanic International Flight featuring Oleg Atkov, Pilot-Cosmonaut of the USSR and Hero of the Soviet Union, and Valery Tokarev, Pilot-Cosmonaut of the Russian Federation and Hero of the Russian Federation.

(Instruction of President of the Russian Federation Vladimir Putin No. Pr-1066 on providing support to the Russian Olympic Committee in preparing for the 2022 Olympics; the amount of financial support is expected to remain at the same level, dated 21 June 2018)

In pursuance of the instruction, PJSC Gazprom signed sponsorship agreements with the Russian Olympic Committee (ROC) to support events, projects, and programmes implemented by ROC for the Russian Olympic team and Olympic delegation to get proper training and support and participate in the Olympic Games, the Youth Olympic Games, the European Games, and the European Youth Olympic Festivals, as well as to support activities under the programmes aiming to promote elite and amateur sports. Payments under the agreements are made in 2018–2019 according to schedule, the amount of financial support remained at the same level.

(Instruction of Prime Minister of the Russian Federation Dmitry Medvedev No. DM-P12-2800r on a project to build a fitness facility in Ivanovo, dated 16 May 2018)

In 2018, the project to build a fitness facility with an ice rink and a swimming pool in Ivanovo was included in the Gazprom for Children Programme. The facility is expected to be commissioned in Q4 2021.

### **Procurement Standards for Certain Types of Goods, Works, and Services**

(Russian Government Directives No. 2793p-P13 dated 19 April 2016 approved by First Deputy Prime Minister of the Russian Federation Igor Shuvalov)

The Board of Directors of PJSC Gazprom passed Resolution No. 2770 dated 29 June 2016 comprising the instructions outlined in the directives.

For Order of PJSC Gazprom No. 7 dated 10 January 2019 outlining procurement standards for certain types of goods (works, services) see PJSC Gazprom's website: ([http://www.gazprom.ru/f/posts/21/053269/prikaz\\_10.01.2019.pdf](http://www.gazprom.ru/f/posts/21/053269/prikaz_10.01.2019.pdf)). Procurement standards are used in planning PJSC Gazprom's procurement procedures. The progress of PJSC Gazprom's procurement is monitored, including in terms of compliance with the approved procurement plan and the respective procurement standards for goods, works, and services to cater for PJSC Gazprom's needs, as well as in terms of compliance of the purpose of goods, works, and services procured by PJSC Gazprom with the activities outlined in the Articles of Association. Furthermore, the adjustment (update) of procurement standards for goods, works, and services to cater for PJSC Gazprom's needs, is carried out.

### **Adjustment of Strategic Planning Documents in the Russian Federation**

(Instruction of President of the Russian Federation Vladimir Putin No. Pr-2699, dated 25 December 2017, sub-paragraph d, paragraph 1)

As part of a Working Group of the Ministry of Energy of the Russian Federation, PJSC Gazprom, jointly with relevant ministries, authorities, and organisations, took part in the efforts to update the Energy Security Doctrine of the Russian Federation. The draft Energy Security Doctrine of the Russian Federation was approved at the meeting of the Security Council of the Russian Federation chaired by President of the Russian Federation Vladimir Putin on 29 November 2018.

### **Introduction of Professional Standards into the Activities of PJSC Gazprom, Its Subsidiaries and Entities**

(Russian Government Directives No. 5119p-P13 dated 14 July 2016 approved by First Deputy Prime Minister of the Russian Federation Igor Shuvalov)

Pursuant to Resolution of the Board of Directors of PJSC Gazprom No. 2802 dated 7 September 2016 on the introduction of professional standards into the activities of PJSC Gazprom, its subsidiaries and entities, Alexey Miller, Chairman of PJSC Gazprom's Management Committee, was instructed to introduce professional standards into the activities of PJSC Gazprom, its subsidiaries and entities through approving and executing respective plans and reviewing this matter at least once every six months at the meetings of the Board of Directors of PJSC Gazprom.

In pursuance of this resolution, the 2017–2019 Action Plan to introduce professional standards into the activities of PJSC Gazprom, its subsidiaries and entities was approved.

Taking into account the requirements of the Action Plan, the development and introduction of professional standards into the activities of PJSC Gazprom are carried out in line with annual plans. The results of these efforts are reviewed once every six months at the meetings of the Board of Directors of PJSC Gazprom.

### **Procurement of High-tech Products for Civilian use from Defence Industry Organisations**

(Minutes of the Defence Conference on Diversifying the Manufacturing of High-Tech Products for Civilian Use by Defence Industry Organisations No. RD-P22-2500, dated 27 April 2018)

PJSC Gazprom prepared and submitted to the Russian Ministry of Industry and Trade its proposals to create a mechanism for financing a consolidated order of Mi-171A2 helicopters for offshore operations by companies operating in the fuel and energy sector.

### Gas Infrastructure Expansion and Gas Supply to Regions

(Instruction of President of the Russian Federation Vladimir Putin No. Pr-1900 to ensure gas supplies in the Lyubimov microdistrict in the right-bank area of Berezniki with the Usolye (Pyskor) gas distribution station, dated 2 October 2016)

In 2018, the Lyubimov gas distribution station was commissioned.

(Instruction of President of the Russian Federation Vladimir Putin No. Pr-1112 to include the construction of a branch to Kirillov — Belozersk — Lipin Bor — Vytegra (the Vologda Region) — Pudozh (the Republic of Karelia) in PJSC Gazprom's Investment Programme, dated 15 May 2014)

The branch to Kirillov — Belozersk — Lipin Bor — Vytegra (the Vologda Region) was included in PJSC Gazprom's 2019 Investment Programme.

### Pricing in the Russian Gas Market

(Instruction of President of the Russian Federation Vladimir Putin No. Pr-68 dated 16 January 2018; Instruction of Deputy Prime Minister of the Russian Federation Dmitry Kozak No. DK-P9-4434 dated 19 July 2018; Instruction of Prime Minister of the Russian Federation Dmitry Medvedev No. DM-P9-5068r dated 20 July 2018; Minutes of meeting at the office of Deputy Prime Minister of the Russian Federation Dmitry Kozak and Deputy Prime Minister of the Russian Federation — Presidential Plenipotentiary Envoy to the Far Eastern Federal District Yury Trutnev No. DK-P9-213pr dated 28 October 2018)

In pursuance of the instruction to cancel government price regulation for the natural gas sold to produce methanol for exports, the Government of the Russian Federation adopted Resolution No. 1282 on certain matters of gas sales in the Russian Federation dated 29 October 2018 which cancels government price regulation for natural gas sold to produce methanol for exports.

(Instruction of Deputy Prime Minister of the Russian Federation — Presidential Plenipotentiary Envoy to the Far Eastern Federal District Yury Trutnev No. YuT-P9-58 dated 12 January 2018; Minutes of meetings at the Ministry of Energy of the Russian Federation No. 05-6pr dated 26 January 2018 and No. 05-34pr dated 9 May 2018)

In pursuance of the instruction to cancel government price regulation for the natural gas sold to produce refined gas products and gas chemical products for exports, jointly with gas chemical companies and federal executive authorities, an aligned stance on pricing principles was developed to further elaborate the respective draft resolution of the Government of the Russian Federation.

(Instruction of President of the Russian Federation Vladimir Putin No. Pr-2699 dated 8 December 2017; Instruction of Deputy Prime Minister of the Russian Federation Dmitry Kozak No. DK-P9-3486 dated 19 June 2018)

In pursuance of the instruction to cancel government price regulation for the natural gas produced with the use of liquefaction and/or regasification technology from the gas produced by PJSC Gazprom and its affiliates, owners of regional gas supply systems and supplied to other than household consumers, the Government of the Russian Federation adopted Resolution No. 1442 dated 30 November 2018 to amend certain decrees of the Russian Government on gas price regulation to cancel price regulation for the natural gas supplied to industrial consumers using liquefaction and/or regasification technology.

## Implementation of Programmes to dispose of PJSC Gazprom's Non-core Assets

(sub-paragraph c, paragraph 2 of Decree of the President of the Russian Federation Vladimir Putin No. 596 dated 7 May 2012)

In pursuance of sub-paragraph c, paragraph 2 of Decree of the President of the Russian Federation No. 596 dated 7 May 2012, PJSC Gazprom consistently promotes the optimisation and disposal of non-core assets.

In pursuance of Russian Government Directives No. 4863p-P13 dated 7 July 2016, to enhance efforts aimed at further optimisation and disposal of non-core assets, PJSC Gazprom's Board of Directors passed Resolution No. 2810 dated 27 September 2016 approving the Programme for the Disposal of PJSC Gazprom's Non-Core Assets.

In pursuance of the Russian Government Directives No. 6604p-P13 dated 18 September 2017, PJSC Gazprom's Board of Directors passed Resolution No. 3066 dated 16 January 2018 approving the new version of the Programme to align it with the Guidelines for Identifying and Disposal of Non-Core Instruction Assets approved by Russian Government Decree No. 894r dated 10 May 2017.

In 2018, PJSC Gazprom was disposing of non-core assets as part of this Programme, Action Plan for the Disposal of PJSC Gazprom's Non-Core Assets for 2018 (versions approved by resolutions of the Board of Directors No. 3052 dated 19 December 2017 and No. 3184 dated 20 November 2018) as well as the Register of Gazprom's Non-Core Assets (versions approved by resolutions of the Board of Directors No. 3052 dated 19 December 2017, No. 3184 dated 20 November 2018, and No. 3204 dated 28 December 2018).

The Register comprises three sections: Long-Term Financial Investments (stock, shares), Real Property, and Movable Property.

The information on PJSC Gazprom's non-core assets subject to disposal and included in the Register of Gazprom's Non-Core Assets contains, among other things: the asset list, quantity; information on each non-core asset — asset description, type of activity associated with the asset, its book (depreciated) value, initial selling price (equal to its market value as assessed by an independent valuator), method of sale (primarily a public sale process), and encumbrances.

The approval of the Programme, Register, and Plan was disclosed by PJSC Gazprom in the manner prescribed by the law by publishing appropriate open access information on its website. The Programme and Register are also available on a dedicated website for Gazprom Group's non-core asset disposal [www.gazpromnoncoreassets.ru](http://www.gazpromnoncoreassets.ru), the link to which is available on PJSC Gazprom's website in the Asset Disposal section.

In 2018, in pursuance of the Russian Government Directives and under the Programme for the Disposal of PJSC Gazprom's Non-Core Assets, the Board of Directors reviewed and took into account quarterly reports on the disposal of PJSC Gazprom's non-core assets (resolutions of the Board of Directors No. 3100 dated 8 May 2018, No. 3121 dated 1 June 2018, No. 3150 dated 22 August 2018, and No. 3184 dated 20 November 2018).

The actual cost of sale of PJSC Gazprom's non-core assets disposed of in 2018 under the said Programme, Action Plan for the Disposal of PJSC Gazprom's Non-Core Assets for 2018, and Register of PJSC Gazprom's Non-Core Assets was RUB 269,949.03 thousand (inclusive of VAT). Pre-sale preparation and disposal of non-core assets resulted in the actual cost of sale exceeding the book value by RUB 108,401.38 thousand.

### Implementation of the Programme, Action Plan, and Register of PJSC Gazprom's Non-Core Assets in 2018

No.	Asset	Inventory number (if applicable)	Asset balance sheet item containing the asset as at the reporting date prior to the asset disposal
1	Land plot at Pushkinskoye household, Bolshoe Boldino, Bolsheboldinsky District, Nizhny Novgorod Region	–	1210
2	Sanatorium building under construction at Pugacheva St., Zelenogradsk, Kaliningrad Region	–	1150
3	Stables at Morozovka Park Hotel, Lyalovo, Solnechnogorsk District, Moscow Region	249606–249608	1150
4	Real estate object "Canteen, shop, bar" at Morozovka Park Hotel, Lyalovo, Solnechnogorsk District, Moscow Region	249992, 250057, 249347	1150
5	OOO Engineering (1%)	–	1173
6	Movable property (motor vehicles and special-purpose machinery, equipment, and other)	362 inventory items	1150
Total for 2018			

Balance sheet item (analytics included), containing asset disposal income and expense (91.1xxx/91.2xxx)	Book value of asset, RUB thousand	Actual cost of sale, RUB thousand (inclusive of VAT)	Actual cost of sale vs book value, RUB thousand	Reason for difference between the actual cost of sale and book value
903910/414900 625300/901910	46,737.00	47,237.00	500.00	Results of pre-sale preparation and disposal of assets
915100/083152 624900/912300	86,666.66	78,168.84	-8,497.82	The asset disposed following a competitive procedure with the initial selling price equal to its market value
911110/914101	3.92	1,180.00	1,176.08	Results of pre-sale preparation and disposal of assets
911110/914101	1,628.15	5,462.45	3,834.30	Results of pre-sale preparation and disposal of assets
911906/914706	9,680.00	1.50	-9,678.50	The asset disposed by auction at a price no less than its market value
911110/914101	16,831.92	137,899.24	121,067.32	Results of pre-sale preparation and disposal of assets
	161,547.65	269,949.03	108,401.38	

# Energy Consumption by PJSC Gazprom and its Actual Cost

Energy resource	2016	2017	2018
Natural gas			
mmcm	5.6	5.8	6.5
RUB mm (inclusive of VAT)	35.9	37.4	43.5
Electricity			
thousand MWh	61.3	58.8	64.1
RUB mm (inclusive of VAT)	292.4	315.0	357.9
Heat			
thousand Gcal	81.4	78.3	77.5
RUB mm (inclusive of VAT)	139.0	143.8	158.8
Motor gasoline			
mm litres	1.5	0.9	1.4
RUB mm (inclusive of VAT)	52.7	33.9	56.4
Diesel fuel			
mm litres	0.8	0.6	1.1
RUB mm (inclusive of VAT)	25.8	20.4	43.2

**Note.** The reported data are for facilities managed by PJSC Gazprom. Power consumption by facilities placed under third parties' management is not taken into consideration. PJSC Gazprom consumes no other energy resources in significant quantities.

# Additional Information for the Annual Report available on PJSC Gazprom's Corporate Website

**Meetings of PJSC Gazprom's Board of Directors in 2018**

**Meetings of the Audit Committee of PJSC Gazprom's Board of Directors in 2018**

**Meetings of the Nomination and Remuneration Committee of PJSC Gazprom's Board of Directors in 2018**

**Debt Recovery Litigations pending as at 31 December 2018**

**List of Entities in which PJSC Gazprom holds Shares (Interest) as at 31 December 2018**

---

Information on PJSC Gazprom's website → [www.gazprom.com](http://www.gazprom.com)



# Gazprom Group's Operating and Marketing Geography

Countries		Operations										Marketing						
		Hydrocarbons prospecting and exploration	Gas and gas condensate production	Oil production	Gas transportation	Gas underground storage	Gas distribution	Gas processing	Oil refining	Production of electricity and heat	Oil and gas chemical production	Trunk pipeline gas sales	Sales of refined hydrocarbon products	Oil and gas condensate sales	LNG sales	Gas sales to end consumers	Electricity and heat sales	Product sales through the gasoline, CNG filling, gas filling and multi-fuel filling stations
FSU	Russia	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Azerbaijan	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-	-
	Armenia	-	-	-	■	■	■	-	-	■	-	■	■	-	-	■	■	■
	Belarus	-	-	-	■	■	-	-	■	-	-	■	■	■	-	■	■	■
	Georgia	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-
	Kazakhstan	■	-	-	-	-	-	-	-	-	■	■	■	■	■	-	-	■
	Kyrgyzstan	-	-	-	■	-	■	-	-	-	-	■	■	-	-	■	-	■
	Latvia	-	-	-	-	■	-	-	-	-	-	■	■	-	■	-	-	-
	Lithuania	-	-	-	-	-	-	-	-	-	-	■	■	-	■	-	-	-
	Moldova	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-
	Tajikistan	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	■
	Turkmenistan	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Uzbekistan	■	■	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-
	Ukraine	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-
	Estonia	-	-	-	-	-	-	-	-	-	-	■	■	■	■	-	-	-
	South Ossetia	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-	-
Europe	Austria	-	-	-	-	■	-	-	-	-	■	■	-	-	■	-	-	
	Albania	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-	
	Belgium	-	-	-	-	-	-	-	-	-	■	■	■	-	■	-	-	
	Bulgaria	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	■	
	Bosnia and Herzegovina	■	-	-	-	-	-	-	-	-	■	■	-	-	-	■	■	
	United Kingdom	■	■	-	-	-	-	-	-	-	■	■	■	-	■	■	-	
	Hungary	-	-	-	-	-	-	-	-	-	■	■	-	-	■	-	-	
	Germany	-	-	-	-	■	-	-	-	-	■	■	■	-	■	■	■	
	Greece	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-	-	
	Denmark	-	-	■	-	-	-	-	-	-	■	■	■	-	-	-	-	
	Ireland	-	-	-	-	-	-	-	-	-	-	■	-	-	■	-	-	
	Iceland	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-	
	Spain	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-	
	Italy	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-	-	

Countries		Operations										Marketing						
		Hydrocarbons prospecting and exploration	Gas and gas condensate production	Oil production	Gas transportation	Gas underground storage	Gas distribution	Gas processing	Oil refining	Production of electricity and heat	Oil and gas chemical production	Trunk pipeline gas sales	Sales of refined hydrocarbon products	Oil and gas condensate sales	LNG sales	Gas sales to end consumers	Electricity and heat sales	Product sales through the gasoline, CNG filling, gas filling and multi-fuel filling stations
Europe	Cyprus	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Liechtenstein	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Luxembourg	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Macedonia	-	-	-	-	-	-	-	-	-	-	■	■	-	-	■	-	-
	Malta	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Netherlands	■	■	-	-	-	-	-	-	-	-	■	■	■	-	■	■	-
	Norway	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	■	-
	Poland	-	-	-	-	-	-	-	-	-	-	■	■	-	■	-	-	■
	Portugal	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-
	Romania	■	-	-	-	-	■	-	-	-	-	■	■	■	-	■	■	■
	Serbia	■	■	■	-	■	-	-	■	■	-	■	■	■	-	■	■	■
	Slovakia	-	-	-	-	-	-	-	-	-	-	■	■	-	-	■	-	-
	Slovenia	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	■	-
	Turkey	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-
	Finland	-	-	-	-	-	-	-	-	-	-	■	■	■	■	-	■	-
	France	-	-	-	-	-	-	-	-	-	-	■	■	■	-	■	-	-
	Croatia	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-	-
	Montenegro	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Czech Republic	-	-	-	-	■	-	-	-	-	-	■	■	-	■	■	-	■
	Switzerland	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	-
Sweden	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	
Africa	Algeria	■	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-	-
	Angola	-	-	■	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Benin	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	The Gambia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Ghana	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Guinea	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Guinea-Bissau	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	DRC	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Egypt	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Cameroon	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Côte d'Ivoire	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Liberia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Libya	■	■	■	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Mauritius	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Mauritania	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Morocco	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Mozambique	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-

Countries		Operations										Marketing						
		Hydrocarbons prospecting and exploration	Gas and gas condensate production	Oil production	Gas transportation	Gas underground storage	Gas distribution	Gas processing	Oil refining	Production of electricity and heat	Oil and gas chemical production	Trunk pipeline gas sales	Sales of refined hydrocarbon products	Oil and gas condensate sales	LNG sales	Gas sales to end consumers	Electricity and heat sales	Product sales through the gasoline, CNG filling, gas filling and multi-fuel filling stations
Africa	Nigeria	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Seychelles	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Senegal	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Sierra Leone	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Tanzania	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Togo	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Tunisia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Uganda	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Equatorial Guinea	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Ethiopia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Near and Middle East	South Africa	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Afghanistan	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Israel	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Jordan	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Iraq	■	■	■	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Yemen	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Qatar	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Kuwait	-	-	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-
	Lebanon	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	UAE	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Asia-Pacific	Oman	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Pakistan	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Saudi Arabia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Australia	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-
	Bangladesh	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Vietnam	■	■	-	-	-	-	-	-	-	-	■	■	■	-	-	-	-
	India	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
	Indonesia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Cambodia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	China	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
	Malaysia	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-
	Marshall Islands	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Myanmar	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Nepal	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	South Korea	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
Singapore	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	
Thailand	-	-	-	-	-	-	-	-	-	-	-	■	■	-	-	-	-	
Taiwan (China)	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-	

Countries		Operations										Marketing						
		Hydrocarbons prospecting and exploration	Gas and gas condensate production	Oil production	Gas transportation	Gas underground storage	Gas distribution	Gas processing	Oil refining	Production of electricity and heat	Oil and gas chemical production	Trunk pipeline gas sales	Sales of refined hydrocarbon products	Oil and gas condensate sales	LNG sales	Gas sales to end consumers	Electricity and heat sales	Product sales through the gasoline, CNG filling, gas filling and multi-fuel filling stations
Asia-Pacific	Philippines	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Japan	-	-	-	-	-	-	-	-	-	-	-	■	■	■	-	-	-
North America	Canada	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Mexico	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	United States	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Central and South America	Argentina	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Bolivia	■	■	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Brazil	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Guyana	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Guatemala	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Honduras	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Colombia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Costa Rica	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Nicaragua	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Panama	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Paraguay	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Peru	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	El Salvador	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Uruguay	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Chile	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Ecuador	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
Other countries	Dominican Republic	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Jamaica	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Maldives	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Mongolia	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-
	Saint Vincent and the Grenadines	-	-	-	-	-	-	-	-	-	-	-	■	-	-	-	-	-

Name	Definition
A	ADR of PJSC Gazprom
	American Depositary Receipt issued for PJSC Gazprom shares
	APG
	Associated petroleum gas
	Asia Pacific
	The Asia-Pacific region, which includes countries of mainland Asia, America and Pacific Ocean Area
B	Brent
	Benchmark grade of crude oil produced in the North Sea
C	Central Asia
	Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan
	CGTU
	Comprehensive gas treatment unit
	CHPP
	Combined heat and power plant
	CIS
	The Commonwealth of Independent States
	CNG
	Compressed natural gas
	CS
	Compressor station
E	EMS
	Environmental Management System
	EU
	European Union
	European far abroad countries
	25 EU countries (excluding Latvia, Lithuania, and Estonia), such non-EU countries as Turkey, Norway, and Switzerland, and the Balkan states of Albania, Bosnia and Herzegovina, Macedonia, and Serbia
F	Far abroad countries
	Foreign countries other than FSU countries, comprising the geographic segment Europe and other countries as defined in PJSC Gazprom's IFRS consolidated financial statements
	FSU countries
	Former Soviet Union republics, except for the Russian Federation
G	GCF
	Gas condensate field
	GHG
	Greenhouse gases
	GPP
	Gas and/or condensate processing plant
	GPU
	Gas pumping unit
	GRES
	State district power station
	GRF
	Gas recovery factor
	GTS
	Gas transportation system
I	IFRS
	International Financial Reporting Standards
	ISO 14001
	International Organisation for Standardisation, the international environmental management standard
	ISO 9001
	International Organisation for Standardisation, the international quality management standard
K	KPIs
	Key Performance Indicators
L	LNG
	Liquefied natural gas
	LPG
	Liquefied petroleum gas
M	MET
	Mineral extraction tax
N	NGV fuel
	Natural gas vehicle fuel
O	OGCF
	Oil and gas condensate field
	OHSAS 18001:2007
	Occupational Health and Safety Management Systems, the international standard for occupational health and safety management systems
P	PBs
	Performance benchmarks
	PRMS
	Petroleum Resources Management System, an international standard for hydrocarbon reserve classification and reporting

Name	Definition
R R&D	Research and Development
RAS	Russian Accounting Standards
S SME	Small and medium enterprises
SPS	Subsea production system
SPTs	Strategic Performance Targets
T The Eastern Gas Programme	The programme of building an integrated gas production, transportation, and supply system in Eastern Siberia and the Far East, taking into account potential gas exports to China and other Asia-Pacific countries, approved by Order of the Ministry of Economic Development of the Russian Federation No. 340 dated 3 September 2007
toe	Tonne of oil equivalent
TPP	Thermal power plant
U UGSF	Underground gas storage facility
UGSS	Unified Gas Supply System of Russia
UIS	Unified Information System of public procurement of goods, works, and services for state and municipal needs
UOHSMS	Unified Occupational Health and Safety Management System
USD	United States (US) dollars
V VAT	Value added tax

#### Units of Measurement and Conversion Table

Name	Definition	Conversion ratios
cu m of gas	A cubic metre of natural gas measured at 1 Pa pressure and 20°C, with a calorific value of 8,850 kcal per cu m	1,000 cu m of gas = 6.49 barrels of oil equivalent = 0.80 tonnes of oil equivalent
BTU	British thermal unit	1 mm BTU = 0.028 mcm of LNG = 0.021 tonnes of LNG
tonne of oil	Tonne of oil	= 7,33 barrels of oil = 7,33 barrels of oil equivalent = 1 tonne of oil equivalent
tonne of gas condensate	Tonne of gas condensate	= 8,18 barrels of gas condensate = 8,18 barrels of oil equivalent = 1 tonne of oil equivalent

#### Conventions

Sign	Meaning
–	Not observed
0,0	Value less than 0.05

#### List of Foreign Companies Mentioned in the Report

Full name	Short name	Country
ZAO Gazprom Armenia	–	Armenia
(OsOO Gazprom Kyrgyzstan)	–	Kyrgyzstan
OAO Gazprom transgaz Belarus	–	Belarus
JSC National Company KazMunayGas	–	Kazakhstan
JSC Uzbekneftegaz	–	Uzbekistan
Bangladesh Gas Fields Company Ltd.	BAPEX	Bangladesh
Bank of America Corporation	–	USA
BASF SE	BASF	Germany
Bloomberg L.P.	Bloomberg	USA

**List of Foreign Companies Mentioned in the Report (continued)**

Full name	Short name	Country
Blue Stream Pipeline Company B.V.	Blue Stream	The Netherlands
BP p.l.c.	BP	United Kingdom
China National Petroleum Corporation	CNPC	PRC
Citigroup Inc.	Citigroup	USA
Credit Suisse Group AG	Credit Suisse	Switzerland
Dagong Global Credit Rating Company Limited	Dagong	PRC
DeGolyer and MacNaughton	–	USA
DEPA SA	DEPA	Greece
Deutsche Bank AG	Deutsche Bank	Germany
Edison Spa	Edison	Italy
ENGIE S.A.	ENGIE	France
Eni SpA	Eni	Italy
Equinor ASA	Equinor	Norway
Exxon Mobil Corporation	Exxon Mobil	USA
Fitch Ratings	–	USA
GAIL (India) Limited	GAIL	India
GazAsia Capital S.A.	–	Luxembourg
Gaz Capital S.A.	–	Luxembourg
Gazprom Marketing and Trading Singapore Pte. Ltd.	Gazprom Marketing & Trading Singapore	Singapore
Gazprom NGV Europe GmbH	Gazprom NGV Europe	Germany
GAZPROM Schweiz AG	GAZPROM Schweiz	Switzerland
HSBC Holdings plc	HSBC	United Kingdom
International Business Machines Corporation	IBM	USA
IHS Markit Ltd.	IHS Markit	United Kingdom
Japanese Bank for International Cooperation	JBIC	Japan
JP Morgan Chase & Co	JP Morgan	USA
Moody's Investors Service	Moody's	USA
Morgan Stanley International Limited	Morgan Stanley	USA
Mubadala Petroleum	–	UAE
Naftna Industrija Srbije a.d.	NIS	Serbia
Nord Stream AG	Nord Stream	Switzerland
OMV Aktiengesellschaft	OMV	Austria
Otkritie Capital International Limited	Otkritie Capital	United Kingdom
Perenco Cameroon S.A.	Perenco Cameroon	Cameroon
PetroVietnam Gas Corporation	PV Gas	Vietnam
PetroChina Company Limited	PetroChina	PRC
Qatar Petroleum	–	Qatar
Raiffeisen Bank International AG	Raiffeisen Bank	Austria
Repsol S.A.	Repsol	Spain
Royal Dutch Shell plc.	Shell	United Kingdom
Sakhalin Energy Investment Company Ltd.	Sakhalin Energy	Bermuda
S&P Global Platts	–	United Kingdom
State Oil Company of Azerbaijan Republic	SOCAR	Azerbaijan
Siemens AG	Siemens	Germany
Sonatrach Group	Sonatrach	Algeria

**List of Foreign Companies Mentioned in the Report (continued)**

Full name	Short name	Country
Societe Nationale des Hydrocarbures	–	Cameroon
Standard & Poor's	–	USA
The Bank of New York Mellon	–	USA
The Goldman Sachs Group, Inc.	Goldman Sachs	USA
TOTAL S.A.	Total	France
TurAKim Gaz Tasima A.S.	–	Turkey
UBS Group AG	UBS	Switzerland
Wintershall AG	–	Germany
Wintershall Holding GmbH	Wintershall Holding	Germany
Wintershall Noordzee B.V.	Wintershall Noordzee	The Netherlands
WIROM GAS S.A.	–	Romania
Wood & Company Financial Services, a.s.	Wood & Company	Czech Republic
Yacimientos Petroliferos Fiscales Bolivianos	YPFB	Bolivia
Yamal Trade Pte. Ltd.	Yamal Trade	Singapore
YPF S.A.	YPF	Argentina

# Contacts

## Full Name

Public Joint Stock Company Gazprom

## Abbreviated Name

PJSC Gazprom

## Location

Moscow, Russian Federation

## Address

16 Nametkina St., GSP-7, Moscow,  
117997, Russian Federation

Postal address:

BOX 1255, Saint Petersburg,  
190900, Russia

Delivery address:

156 Moskovsky Av., Bld. A, Saint Petersburg,  
196105, Russian Federation

Phone:

+7 495 719 3001

Fax:

+7 495 719 8333

+7 812 413 7333

## Website

[www.gazprom.com](http://www.gazprom.com)

## E-mail

[gazprom@gazprom.ru](mailto:gazprom@gazprom.ru)

## Certificate of Entry into the Unified State Register of Legal Entities

by the Moscow Department of the Ministry of Taxation  
dated 2 August 2002  
OGRN 1027700070518

## Taxpayer Personal Identification Number (INN)

7736050003

## Contact for Shareholders

+7 812 609 7657

(for shareholders of PJSC Gazprom)

## Contact for Investors

Phone:

+7 812 609 4129

Fax:

+7 812 609 4334

E-mail:

[ir@gazprom.ru](mailto:ir@gazprom.ru)

## Auditor

Limited Liability Company

Financial and Accounting Consultants (OOO FBK)

OOO FBK is a member of the self-regulated organisation  
of auditors Auditor Association Sodruzhestvo

Location:

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

Phone:

+7 495 737 5353

Website:

[www.fbk.ru](http://www.fbk.ru)

## Registrar

Joint Stock Company Specialised Registrar —

Register Keeper for Gas Industry Shareholders (AO DRAGa)

Location:

71/32 Novocheryomushkinskaya St., Moscow,  
117420, Russian Federation

Phone:

+7 495 719 4044

Fax:

+7 495 719 4585

Website:

[www.draga.ru](http://www.draga.ru)



This Annual Report is approved  
by PJSC Gazprom's  
annual General Shareholders Meeting  
(Minutes No. 1 dated 2 July 2019),  
pre-approved  
by Resolution of PJSC Gazprom's  
Board of Directors  
No. 3271 dated 21 May 2019  
(Minutes No. 1254 dated 21 May 2019).

Chairman of PJSC Gazprom's  
Management Committee  
A.B. Miller



Chief Accountant  
of PJSC Gazprom  
E.A. Vasilieva





