



A Strategic Resource

PJSC Gazprom Financial Report 2018

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PJSC Gazprom Statutory Financial Statements for 2018

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Independent Auditor's Report (Translation from Russian original)

To the Shareholders of PJSC Gazprom

Opinion

We have audited the accompanying financial statements of PJSC Gazprom, which comprise the balance sheet as at 31 December 2018, statement of financial results, supplements to the balance sheet and the statement of financial results, including the statement of changes in equity and cash flow statement for the year then ended, and explanatory notes to the balance sheet and the statement of financial results.

In our opinion, the financial statements present fairly, in all material respects, the financial position of PJSC Gazprom as at 31 December 2018, its financial performance and its cash flows for the year then ended in accordance with Russian accounting standards.

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition

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

We assessed the consistency in the application of the revenue recognition accounting policy against various types of revenue and geographic segments. Our audit procedures with respect to the risk of material misstatement included, specifically, evaluation of the design of controls, assessment of the risk of fraud or error based on the expected assurance on internal control, as well as substantive procedures with respect to the sales transactions and procedures that involved obtaining accounts receivable confirmation letters from debtors as at the end of the reporting period. Based on the results of our audit procedures, we found the position of the management on the revenue recognition to be acceptable.

Information about the approaches to revenue recognition and the amounts of revenue is disclosed in Note 14 "Sales" to the financial statements.

Revaluation of fixed assets

We consider this area to be one of the most significant audit areas in view of the significant balances of fixed assets. PJSC Gazprom performs regular revaluation of fixed assets to ensure that the value of fixed assets at which they are recognised in accounting records and financial statements does not significantly differ from their current (replacement) cost. No revaluation of fixed assets was performed as at 31 December 2018 because of insignificant change in the current (replacement) cost identified during testing of the need for revaluation of fixed assets.

We engaged our valuation experts to make a conclusion on the assumptions and methodology applied to test the need for revaluation of fixed assets. Our audit procedures with respect to the testing of the need for revaluation of fixed assets included assessment of competency,

qualification, experience and objectivity of the management's experts, sample testing of the accuracy of the models and methods used for the testing. Based on the results of the audit procedures, we believe that the significant assumptions and methodology applied to test the need for revaluation of fixed assets are acceptable.

Information about revaluation of fixed assets is disclosed in Note 5 "Fixed assets" to the financial statements.

Measurement of doubtful receivables

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

Information about accounts receivable and doubtful debt provision is disclosed in Note 8 "Accounts receivable" to the financial statements.

Evaluation, recognition and disclosure of information about litigations

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

Information about liabilities in respect of litigations is disclosed in Note 19 "Estimated and contingent liabilities" to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report of PJSC Gazprom for 2018 and the Quarterly issuer's report for the first quarter of 2019, but does not include the financial statements and our auditor's report thereon. The Annual report of PJSC Gazprom for 2018 and the Quarterly issuer's report for the first quarter of 2019 are expected to be made available to us after the date of this auditor's report.

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

In connection with the audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

When we read the Annual report of PJSC Gazprom for 2018 and the Quarterly issuer's report for the first quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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



Date of the Independent Auditor's Report:
29 March 2019

Audited entity

Name:

PJSC Gazprom

Place of business:

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

Official registration:

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

Auditor

Name:

FBK, LLC

Place of business:

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

Official registration:

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

Membership in self-regulatory organisation of auditors:

Self-regulatory organization of auditors Association "Sodruzhestvo".

Number in the register of audit organisations registered

with the self-regulatory audit organisation:

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

Balance Sheet as at 31 December 2018

Company PJSC GAZPROM
 Taxpayer identification number
 Field of activity wholesale
 Legal form/property form
 Public Joint Stock Company
 Measurement unit: thousand of RUB
 Address 16 Nametkina St., Moscow, 117420

	Codes
Form on OKUD	0710001
Date (day, month, year)	31/12/2018
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22. 47/41
OKEI	384

Notes	Narrative	Line code	As at 31.12.2018	As at 31.12.2017	As at 31.12.2016
Assets					
I. Non-current assets					
1	Intangible assets, including:	1110	19,329,708	20,095,198	14,943,622
	intellectual property rights	1111	18,813,986	14,527,878	10,380,086
	other	1119	515,722	5,567,320	4,563,536
1	Results of research and development	1120	2,862,397	1,906,673	2,592,483
9	Intangible exploration assets	1130	118,119,725	118,272,580	118,447,844
9	Tangible exploration assets	1140	71,725,085	52,878,487	51,031,638
2	Fixed assets, including:	1150	7,864,189,945	7,824,129,524	7,882,970,562
	Fixed assets items, including:	1151	6,354,837,926	6,645,376,672	7,074,753,340
	land plots and natural resources	1152	3,484,372	1,911,750	1,636,604
	buildings, facilities, machinery and equipment	1153	6,242,783,407	6,536,456,484	6,964,137,222
	Capital investments in progress	1154	1,509,352,019	1,178,752,852	808,217,222
3	Financial investments, including:	1170	3,657,745,189	2,887,946,658	2,628,861,799
	investments in subsidiaries	1171	3,359,647,370	2,468,535,299	2,214,259,543
	investments in associates	1172	78,175,496	75,738,675	79,335,522
	investments in other entities	1173	203,435	168,710	245,711
	loans provided to companies for a period over 12 months	1174	181,328,968	156,305,980	105,566,573
	Deferred tax assets	1180	112,953,094	153,066,132	76,713,188
	Other non-current assets	1190	58,293,352	31,736,499	28,019,533
	Total Section I	1100	11,905,218,495	11,090,031,751	10,803,580,669

Notes	Narrative	Line code	As at 31.12.2018	As at 31.12.2017	As at 31.12.2016
Assets					
II. Current assets					
4	Inventories, including:	1210	515,373,228	542,457,497	488,887,199
	raw materials and other inventories	1211	10,855,567	5,336,117	4,986,831
	work in progress	1213	283,018,154	319,052,716	303,450,137
	finished goods and goods for resale	1214	215,189,424	213,316,883	176,336,296
	goods dispatched	1215	6,309,990	4,751,688	4,113,842
	Value-added tax on goods purchased	1220	50,573,798	48,044,300	70,158,352
5	Accounts receivable, including:	1230	2,120,688,193	1,740,091,831	1,759,887,954
	Accounts receivable (payments expected beyond 12 months after the reporting date), including:	1231	578,237,266	425,997,092	376,478,314
	buyers and customers	1232	5,217,521	7,473,909	13,181,622
	advances issued	1233	54,183	57,947	54,183
	other debtors	1234	572,965,562	418,465,236	363,242,509
	Accounts receivable (payments expected within 12 months after the reporting date), including:	1235	1,542,450,927	1,314,094,739	1,383,409,640
	buyers and customers	1236	779,789,157	619,979,457	686,122,308
	advances issued	1238	106,398,208	177,178,617	93,276,639
	other debtors	1239	656,263,562	516,936,665	604,010,693
3	Financial investments (except for cash equivalents), including:	1240	792,588,971	500,869,175	275,335,693
	loans provided to companies for a period less than 12 months	1241	142,839,066	211,844,503	175,249,890
	Cash and cash equivalents, including:	1250	349,740,207	461,670,121	451,992,484
	cash on hand	1251	27,362	20,358	25,184
	settlement accounts	1252	147,944,053	142,896,201	214,232,806
	foreign currency accounts	1253	199,361,562	148,827,627	235,975,248
	other cash and cash equivalents	1259	2,407,230	169,925,935	1,759,246
	Other current assets	1260	1,958,690	2,004,678	3,103,408
	Total Section II	1200	3,830,923,087	3,295,137,602	3,049,365,090
	Balance	1600	15,736,141,582	14,385,169,353	13,852,945,759

Notes	Narrative	Line code	As at 31.12.2018	As at 31.12.2017	As at 31.12.2016
	Equity and liabilities				
	III. Equity and reserves				
	Charter capital (joint capital, charter fund, contributions of partners)	1310	118,367,564	118,367,564	118,367,564
	Own shares buy-back	1320	-	-	-
	Revaluation of non-current assets	1340	5,863,916,166	5,880,965,685	5,885,950,326
	Additional paid-in capital (without revaluation)	1350	-	-	-
	Reserve capital	1360	8,636,001	8,636,001	8,636,001
	Retained earnings (loss)	1370	5,076,327,438	4,316,239,120	4,401,046,356
	Social government fund	1380	-	-	-
	Total Section III	1300	11,067,247,169	10,324,208,370	10,414,000,247
	IV. Non-current liabilities				
	Borrowings and bank loans, including:	1410	2,099,199,873	1,500,004,197	1,443,879,533
	bank loans due for repayment beyond 12 months	1411	677,990,869	384,081,643	245,528,212
	other borrowings due for repayment beyond 12 months	1412	1,421,209,004	1,115,922,554	1,198,351,321
	Deferred tax liabilities	1420	601,835,381	523,021,587	476,146,936
7	Estimated liabilities	1430	10,071,423	9,180,437	7,829,183
5	Other liabilities	1450	2,247,227	2,328,046	2,411,398
	Total Section IV	1400	2,713,353,904	2,034,534,267	1,930,267,050

Notes	Narrative	Line code	As at 31.12.2018	As at 31.12.2017	As at 31.12.2016
	V. Current liabilities				
	Borrowings and bank loans, including:	1510	831,626,466	929,199,235	662,360,662
	bank loans due for repayment within 12 months	1511	–	–	–
	other borrowings due for repayment within 12 months	1512	295,800,823	282,987,532	80,308,249
	current portion of long-term borrowings and bank loans	1513	535,825,643	646,211,703	582,052,413
5	Accounts payable, including:	1520	1,078,815,391	964,792,138	755,889,069
	suppliers and contractors	1521	709,775,210	650,097,013	588,032,679
	salaries payable	1522	824,192	646,597	373,397
	insurance contributions payable	1523	329,202	294,094	202,493
	taxes payable	1524	56,599,494	79,847,791	76,234,645
	other creditors, including:	1525	310,406,998	232,977,732	90,144,808
	advances from customers	1527	84,128,958	47,326,860	57,782,735
	other settlements	1528	226,278,040	185,650,872	32,362,073
	dividends payable to participants (shareholders)	1529	880,295	928,911	901,047
	Future periods income	1530	–	–	–
7	Estimated liabilities	1540	45,098,652	132,435,343	90,428,731
	Other liabilities	1550	–	–	–
	Total Section V	1500	1,955,540,509	2,026,426,716	1,508,678,462
	Balance	1700	15,736,141,582	14,385,169,353	13,852,945,759

Chief Executive Officer



(signature)

A.B. Miller

Chief Accountant



(signature)

E.A. Vasilieva

29 March 2019

Statement of Financial Results for 2018

Company PJSC GAZPROM	Form on OKUD	Codes
Taxpayer identification number	Date (day, month, year)	0710002
Field of activity wholesale	OKPO	31/12/2018
Legal form/property form	INN	00040778
Public Joint Stock Company	OKVED	7736050003
Measurement unit: thousand of RUB		46.71
	OKOPF/OKFS	1.22. 47/41
	OKEI	384

Notes	Narrative	Line code	For 2018	For 2017
	Sales			
	(less VAT, excise tax and similar mandatory payments)	2110	5,179,549,285	4,313,031,616
	including:			
	gas	2111	3,681,907,763	2,871,912,237
	leased assets	2112	797,585,163	826,028,567
	oil and gas refinery products	2113	296,595,283	235,591,232
	gas transportation services	2114	257,023,320	268,080,347
	gas condensate	2115	121,556,378	81,213,631
	other goods, products, works and services	2116	23,483,463	28,537,396
	gas storage services	2117	1,397,915	1,668,206
6	Cost of sales	2120	(2,618,406,690)	(2,542,931,768)
	including:			
	gas	2121	(1,263,428,862)	(1,165,772,115)
	leased assets	2122	(798,836,422)	(825,081,512)
	oil and gas refinery products	2123	(169,509,903)	(167,154,567)
	gas transportation services	2124	(268,297,250)	(279,909,493)
	gas condensate	2125	(88,957,653)	(71,154,490)
	other goods, products, works and services	2126	(28,591,815)	(32,985,998)
	gas storage services	2127	(784,785)	(873,593)
	Gross profit (loss)	2100	2,561,142,595	1,770,099,848
6	Selling expenses	2210	(1,430,858,563)	(1,294,388,315)
6	Administrative expenses	2220	(106,160,019)	(100,200,134)
	Profit (loss) from sales	2200	1,024,124,013	375,511,399
	Income from participation in other entities	2310	367,014,130	346,670,956
	Interest receivable	2320	61,209,361	70,088,367
	Interest payable	2330	(100,841,508)	(98,052,019)

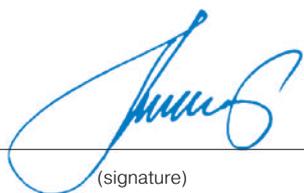
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Notes	Narrative	Line code	For 2018	For 2017
	Other income	2340	1,172,406,598	735,631,092
	Other expenses	2350	(1,325,825,460)	(1,231,453,694)
	Profit (loss) before taxation	2300	1,198,087,134	198,396,101
	Income tax, including:	2405	(149,821,039)	(131,083,893)
	current income tax	2410	(149,852,551)	(133,067,081)
	prior year income tax	2411	31,512	1,983,188
	including permanent tax liabilities (assets) from line 2405	2421	104,124,263	129,690,013
	Changes in deferred tax liabilities	2430	(83,326,209)	(46,958,694)
	Changes in deferred tax assets	2450	(38,138,150)	76,358,231
	Other	2460	1,702,260	(1,226,322)
	Reallocation of income tax within the CGT	2465	4,632,530	4,812,554
	Net profit (loss)	2400	933,136,526	100,297,977

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Notes	Narrative	Line code	For 2018	For 2017
	Result of revaluation of non-current assets not included to the net profit (loss) for the period	2510	–	–
	Results of other transactions not included to the net profit (loss) for the period	2520	241,978	238,088
	Cumulative financial result for the period	2500	933,378,504	100,536,065
	REFERENCE:			
	Basic earnings (loss) per share (RUB)	2900	39.42	4.24
	Diluted earnings (loss) per share	2910	–	–

Chief Executive Officer _____ A.B. Miller



(signature)

Chief Accountant _____ E.A. Vasilieva



(signature)

29 March 2019

Statement of Changes in Equity for 2018

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

	Codes
Form on OKUD	0710003
Date (day, month, year)	31/12/2018
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22. 47/41
OKEI	384

1. Changes in equity

Narrative	Line code	Charter capital	Own shares buy-back	Additional capital	Reserve capital	Retained earnings (loss)	Social government fund	Total
Equity as at 31 December 2016	3100	118,367,564	–	5,885,950,326	8,636,001	4,401,046,356	–	10,414,000,247
For 2017								
Increase in equity – total, including:	3210	–	–	–	–	100,536,065	–	100,536,065
net profit	3211	X	X	X	X	100,297,977	X	100,297,977
revaluation of assets	3212	X	X	–	X	–	–	–
income directly attributable to equity	3213	X	X	–	X	238,088	X	238,088
additional shares issue	3214	–	X	–	X	X	X	–
increase in share par value	3215	–	X	–	X	–	X	–
reorganisation of legal entity	3216	–	–	–	–	–	–	–
placement of buy-backed shares	3217	X	–	X	X	X	X	–
other	3219	–	–	–	–	–	X	–
Decrease in equity – total, including:	3220	–	–	–	–	(190,327,942)	–	(190,327,942)
loss	3221	X	X	X	X	–	X	–
revaluation of assets	3222	X	X	–	X	–	–	–
expenses directly attributable to equity	3223	X	X	X	X	–	–	–
decrease in share par value	3224	–	X	X	X	–	X	–
decrease in number of shares	3225	–	–	X	X	X	X	–
reorganisation of legal entity	3226	–	–	–	–	–	–	–
dividends	3227	X	X	X	X	(190,327,942)	X	(190,327,942)
other	3229	–	–	–	–	–	X	–

Narrative	Line code	Charter capital	Own shares buy-back	Additional capital	Reserve capital	Retained earnings (loss)	Social government fund	Total
Additional capital change	3230	X	X	(4,984,641)	X	4,984,641	X	-
Reserve capital change	3240	X	X	X	-	-	X	-
Equity as at 31 December 2017	3200	118,367,564	-	5,880,965,685	8,636,001	4,316,239,120	-	10,324,208,370
For 2018								
Increase in equity – total, including:	3310	-	-	-	-	933,378,504	-	933,378,504
net profit	3311	X	X	X	X	933,136,526	X	933,136,526
revaluation of assets	3312	X	X	-	X	X	-	-
income directly attributable to equity	3313	X	X	-	X	241,978	X	241,978
additional shares issue	3314	-	X	-	X	X	X	-
increase in share par value	3315	-	X	-	X	-	X	-
reorganisation of legal entity	3316	-	-	-	-	-	-	-
placement of buy-backed shares	3317	X	-	X	X	X	X	-
other	3319	-	-	-	-	-	X	-
Decrease in equity – total, including:	3320	-	-	(4,661)	-	(190,335,044)	-	(190,339,705)
loss	3321	X	X	X	X	-	X	-
revaluation of assets	3322	X	X	-	X	X	-	-
expenses directly attributable to equity	3323	X	X	X	X	-	-	-
decrease in share par value	3324	-	X	X	X	-	X	-
decrease in number of shares	3325	-	-	X	X	X	X	-
reorganisation of legal entity	3326	-	-	-	-	-	-	-
dividends	3327	X	X	X	X	(190,335,044)	X	(190,335,044)
other	3329	-	-	(4,661)	-	-	X	(4,661)
Additional capital change	3330	X	X	(17,044,858)	X	17,044,858	X	-
Reserve capital change	3340	X	X	X	-	-	X	-
Equity as at 31 December 2018	3300	118,367,564	-	5,863,916,166	8,636,001	5,076,327,438	-	11,067,247,169

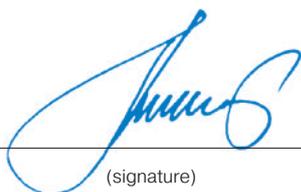
2. Restatements due to changes in accounting policies and correction of errors

Narrative	Line code	As at 31 December 2016	Change in equity for 2017		As at 31 December 2017
			From net profit (loss)	Due to other factors	
Equity – total before restatement	3400	10,414,000,247	100,297,977	(190,089,854)	10,324,208,370
restatement due to:					
changes in accounting policies	3410	–	–	–	–
correction of accounting errors	3420	–	–	–	–
after restatement	3500	10,414,000,247	100,297,977	(190,089,854)	10,324,208,370
including:					
Retained earnings (loss) before restatement	3401	4,401,046,356	100,297,977	(185,105,213)	4,316,239,120
restatement due to:					
changes in accounting policies	3411	–	–	–	–
correction of accounting errors	3421	–	–	–	–
after restatement	3501	4,401,046,356	100,297,977	(185,105,213)	4,316,239,120
Additional capital before restatement	3402	5,885,950,326	–	(4,984,641)	5,880,965,685
restatement due to:					
changes in accounting policies	3412	–	–	–	–
correction of accounting errors	3422	–	–	–	–
after restatement	3502	5,885,950,326	–	(4,984,641)	5,880,965,685
Reserve capital before restatement	3403	8,636,001	–	–	8,636,001
restatement due to:					
changes in accounting policies	3413	–	–	–	–
correction of accounting errors	3423	–	–	–	–
after restatement	3503	8,636,001	–	–	8,636,001
Own shares buy-back before restatement	3404	–	–	–	–
restatement due to:					
changes in accounting policies	3414	–	–	–	–
correction of accounting errors	3424	–	–	–	–
after restatement	3504	–	–	–	–
Social government fund before restatement	3405	–	–	–	–
restatement due to:					
changes in accounting policies	3415	–	–	–	–
correction of accounting errors	3425	–	–	–	–
after restatement	3505	–	–	–	–

3. Net assets

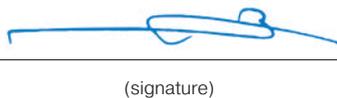
Narrative	Line code	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Net assets	3600	11,067,247,169	10,324,208,370	10,414,000,247

Chief Executive Officer _____


(signature)

A.B. Miller

Chief Accountant _____


(signature)

E.A. Vasilieva

29 March 2019

Cash Flow Statement for 2018

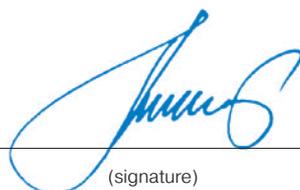
Narrative	Line code	For 2018	For 2017
Cash flows from operating activities			
Receipts — total, including:	4110	6,276,739,085	5,378,154,237
sales of products, goods, work and services	4111	5,782,659,142	4,875,429,260
rent payments, licence payments, royalties, commissions and other payments	4112	–	–
resale of financial investments	4113	–	–
other receipts	4119	494,079,943	502,724,977
Payments — total, including:	4120	(5,381,641,144)	(4,509,610,218)
to suppliers for raw materials, works, services	4121	(3,222,632,119)	(3,030,415,380)
wages and salaries	4122	(46,646,550)	(42,608,602)
interests on borrowings	4123	(103,720,787)	(99,506,161)
income tax	4124	(217,067,892)	(163,369,691)
other payments	4129	(1,791,573,796)	(1,173,710,384)
Net cash flows from operating activities	4100	895,097,941	868,544,019

	Codes
Form on OKUD	0710004
Date (day, month, year)	31/12/2018
OKPO	00040778
INN	7736050003
OKVED	46.71
OKOPF/OKFS	1.22. 47/41
OKEI	384

Narrative	Line code	For 2018	For 2017
Cash flows from investing activities			
Receipts – total, including:	4210	1,160,757,011	706,885,856
from sales of non-current assets (except for financial investments)	4211	8,770,965	5,951,466
from sales of shares of other entities (ownership interest)	4212	1,062,002	–
from return of loans issued, sales of debt securities (rights of claiming cash from third parties)	4213	744,859,075	369,403,661
dividends, interest on debt financial investments and receipts from participation in other entities	4214	354,428,505	331,314,197
from sales of exploration assets	4215	–	–
other receipts	4219	51,636,464	216,532
Payments – total, including:	4220	(2,166,884,803)	(1,677,224,818)
acquisition, construction, modernisation, reconstruction and preparation for the use of non-current assets	4221	(76,020,518)	(44,580,504)
acquisition of other entities shares (ownership interest)	4222	(142,379,327)	(215,961,839)
acquisition of debt securities (rights of claiming cash from third parties), issue of loans to third parties	4223	(1,169,619,490)	(606,337,879)
borrowing costs included in the cost of the investment asset	4224	–	–
construction/acquisition of exploration assets	4225	(34,457,278)	(27,731,204)
other payments	4229	(744,408,190)	(782,613,392)
Net cash flows from investing activities	4200	(1,006,127,792)	(970,338,962)
Cash flows from financing activities			
Receipts – total, including:	4310	776,806,918	749,666,618
borrowings and bank loans	4311	736,365,273	749,623,470
contributions of owners (participants)	4312	–	–
issue of shares, increase in ownership interest	4313	–	–
issue of bonds, promissory notes and other debt securities, etc.	4314	39,995,000	–
other receipts	4319	446,645	43,148

Narrative	Line code	For 2018	For 2017
Payments – total, including:	4320	(818,860,317)	(634,473,740)
to owners (participants) due to the fact of share buy-back or cessation of membership	4321	–	–
dividend payments or other distribution of profit to owners (participants)	4322	(186,870,622)	(186,827,990)
redemption (buy-back) of promissory notes and other debt securities, loan repayment	4323	(631,989,695)	(447,645,750)
other payments	4329	–	–
Net cash flows from financing activities	4300	(42,053,399)	115,192,878
Net cash flows for the reporting period	4400	(153,083,250)	13,397,935
Cash and cash equivalents at the beginning of the reporting period	4450	461,670,121	451,992,484
Cash and cash equivalents at the end of the reporting period	4500	349,740,207	461,670,121
Effect of changes in the Russian rouble exchange rate	4490	41,153,336	(3,720,298)

Chief Executive Officer _____



(signature)

A.B. Miller

Chief Accountant _____



(signature)

E.A. Vasilieva

29 March 2019

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

Form 0710005 p.1

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

1.1 The presence and movement of intangible assets

Narrative	Line code	Period	At the beginning of the year		Changes for the period				At the end of the period			
			Initial cost	Accumulated amortisation and impairment losses	Additions	Disposals	Amortisation charge	Impairment loss	Revaluation	Initial cost	Accumulated amortisation and impairment losses	
Intangible assets — total	5100	for 2018	19,861,866	(5,333,988)	8,268,611	(2,372,871)	138,673	(1,748,305)	—	—	25,757,606	(6,943,620)
	5110	for 2017	14,234,344	(3,854,258)	5,627,522	—	—	(1,479,730)	—	—	19,861,866	(5,333,988)
including:												
Intellectual property (exclusive rights to intellectual property)	5101	for 2018	19,861,866	(5,333,988)	8,268,611	(2,372,871)	138,673	(1,748,305)	—	—	25,757,606	(6,943,620)
	5111	for 2017	14,234,344	(3,854,258)	5,627,522	—	—	(1,479,730)	—	—	19,861,866	(5,333,988)
Goodwill	5102	for 2018	—	—	—	—	—	—	—	—	—	—
	5112	for 2017	—	—	—	—	—	—	—	—	—	—
Other	5104	for 2018	—	—	—	—	—	—	—	—	—	—
	5114	for 2017	—	—	—	—	—	—	—	—	—	—

1.2 The initial cost of intangible assets developed by the company

Narrative	Line code	As at 31 December 2017	As at 31 December 2018	As at 31 December 2016
Total	5120	19,846,765	25,739,724	14,221,235
including:				
Intellectual property (exclusive rights to intellectual property)	5121	19,846,765	25,739,724	14,221,235
Other	5129	—	—	—

1.3 Intangible assets fully amortised

Narrative	Line code	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Total	5130	2,128,779	1,942,235	1,658,213
including:				
Intellectual property (exclusive rights to intellectual property)	5131	2,128,779	1,942,235	1,658,213
Goodwill	5138	–	–	–
Other	5139	–	–	–

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

Narrative	Line code	Period	At the beginning of the year		Changes for the period		At the end of the period	
			Initial cost	Part of the cost recognised in expenses	Initial cost	Part of the cost recognised in expenses	Initial cost	Part of the cost recognised in expenses
Research and Development —	5140	for 2018	33,025,539	(31,118,866)	2,935,436	4,183,185	31,777,790	(29,102,212)
total	5150	for 2017	30,501,493	(27,913,180)	2,896,486	(372,440)	33,025,539	(31,118,866)

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

Narrative	Line code	Period	At the beginning of the year		Changes for the period		At the end of the period	
			Costs for the period	Written off to expenses (without positive results)	Costs for the period	Recognised as intangible assets or R&D	Costs for the period	Recognised as intangible assets or R&D
Costs of R&D in progress —	5160	for 2018	–	(14,008)	3,136,263	(2,935,436)	186,819	
total	5170	for 2017	4,170	(139,753)	3,032,069	(2,896,486)	–	
Acquisitions of intangible assets	5180	for 2018	5,567,320	(312)	3,385,907	(8,437,193)	515,722	
in progress — total	5190	for 2017	4,563,536	–	4,262,039	(3,258,255)	5,567,320	

2. Fixed assets

2.1 The presence and movement of fixed assets

Narrative	Line code	Period	At the beginning of the year		Changes for the period				At the end of the period		
			Initial cost	Accumulated depreciation	Additions	Disposals	Depreciation	Reclassification	Revaluation	Initial cost	Accumulated depreciation
					Initial cost	Accumulated depreciation	Initial cost	Accumulated depreciation	Initial cost	Accumulated depreciation	
Fixed assets (less income-bearing investments in tangible assets) — total including:											
	5200	for 2018	22,558,212,736	(15,912,836,064)	440,364,851	60,669,829	(687,374,122)	-	-	22,894,376,283	(16,539,540,357)
	5210	for 2017	22,298,820,519	(15,224,067,179)	293,080,273	28,052,765	(716,821,650)	-	-	22,558,212,736	(15,912,836,064)
Trunk pipelines											
	5201	for 2018	13,490,922,427	(10,131,049,404)	121,698,186	9,662,041	(323,353,916)	-	-	13,589,369,890	(10,444,741,279)
	5211	for 2017	13,406,596,368	(9,795,648,525)	90,385,976	5,519,303	(337,921,991)	(2,394)	1,809	13,490,922,427	(10,131,049,404)
Wells											
	5202	for 2018	1,661,600,257	(1,388,875,237)	30,400,553	7,353,652	(42,996,722)	1,059,107	(35,303)	1,705,302,946	(1,424,493,610)
	5212	for 2017	1,674,784,254	(1,349,933,869)	14,085,933	6,940,741	(45,884,072)	(75,051)	1,963	1,681,600,257	(1,388,875,237)
Machinery and equipment											
	5203	for 2018	3,426,084,992	(2,634,573,106)	138,174,315	33,301,632	(162,224,240)	(8)	8	3,518,534,944	(2,763,495,706)
	5213	for 2017	3,352,675,034	(2,477,185,902)	85,792,126	10,710,752	(168,092,603)	61,753	(5,353)	3,426,084,992	(2,634,573,106)
Buildings, roads and other production facilities											
	5204	for 2018	3,825,140,759	(1,732,794,204)	143,797,393	9,637,315	(155,801,166)	(1,059,107)	35,303	3,941,228,974	(1,878,922,752)
	5214	for 2017	3,791,836,596	(1,575,986,734)	100,699,128	4,394,313	(161,203,724)	15,338	1,941	3,825,140,759	(1,732,794,204)
Other fixed assets											
	5205	for 2018	134,464,301	(25,544,113)	6,294,404	715,189	(3,058,078)	(8)	(8)	139,941,529	(27,887,010)
	5215	for 2017	132,928,267	(22,312,149)	2,117,110	487,656	(3,719,260)	354	(360)	134,464,301	(25,544,113)
including land											
		for 2018	1,911,750	-	1,602,065	(29,443)	-	-	-	3,484,372	-
		for 2017	1,636,604	-	279,230	(4,084)	-	-	-	1,911,750	-
Included within income-bearing investments in tangible assets — total including:											
	5220	for 2018	-	-	-	-	-	-	-	-	-
	5230	for 2017	-	-	-	-	-	-	-	-	-
Trunk pipelines											
	5221	for 2018	-	-	-	-	-	-	-	-	-
	5231	for 2017	-	-	-	-	-	-	-	-	-
Wells											
	5222	for 2018	-	-	-	-	-	-	-	-	-
	5232	for 2017	-	-	-	-	-	-	-	-	-
Machinery and equipment											
	5223	for 2018	-	-	-	-	-	-	-	-	-
	5233	for 2017	-	-	-	-	-	-	-	-	-
Buildings, roads and other production facilities											
	5224	for 2018	-	-	-	-	-	-	-	-	-
	5234	for 2017	-	-	-	-	-	-	-	-	-
Other fixed assets											
	5225	for 2018	-	-	-	-	-	-	-	-	-
	5235	for 2017	-	-	-	-	-	-	-	-	-

2.2 Capital investments in progress

Narrative	Line code	Period	At the beginning of the year	Changes for the period			At the end of the period
				Written off	Recognised as fixed assets or increased costs	Other changes	
Construction and activity in progress on acquisition, modernisation etc. of fixed assets — total	5240	for 2018	1,178,752,852	(2,590,723)	(440,360,733)	(88,432,113)	1,509,352,019
	5250	for 2017	808,217,222	(10,255,699)	(293,080,273)	(58,940,540)	1,178,752,852
including:							
construction in progress	5241	for 2018	980,089,435	(2,046,415)	(440,360,733)	(10,902,226)	1,280,234,696
	5251	for 2017	628,872,279	(10,237,121)	(293,080,273)	(5,904,570)	980,089,435
equipment for installation	5242	for 2018	198,663,417	(644,308)	—	(77,528,887)	229,117,323
	5252	for 2017	179,344,943	(18,578)	—	(53,035,970)	198,663,417

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

Narrative	Line code	For 2018		For 2017
		Written off	Recognised as fixed assets or increased costs	
Increase in the cost of fixed assets as a result of completion, equipping, reconstruction — total	5260	9,405,181	—	4,951,929
including:				
Trunk pipelines	5261	5,040,320	—	957,349
Wells	5262	1,167,297	—	1,443,357
Machinery and equipment	5263	765,421	—	257,118
Buildings and roads	5264	306,500	—	1,328,209
Other fixed assets	5265	2,125,643	—	965,896
Reducing the cost of fixed assets as a result of partial liquidation — total	5270	(814,121)	—	(648,442)
including:				
Trunk pipelines	5271	(695,439)	—	(437,181)
Wells	5272	(30)	—	(48,417)
Machinery and equipment	5273	(116)	—	(452)
Buildings and roads	5274	(1,157)	—	(27,858)
Other fixed assets	5275	(117,379)	—	(34,534)

2.4 Other use of fixed assets

Narrative	Line code	As at 31 December 2018		As at 31 December 2017		As at 31 December 2016	
Leased-out on-balance fixed assets	5280		5,767,172,227		6,019,018,061		6,491,403,451
Leased-out off-balance fixed assets	5281		-		-		-
On-balance fixed assets received in lease	5282		-		-		-
Off-balance fixed assets received in lease	5283		135,441,474		120,205,278		105,230,226
Real estate actually used and in the process of state registration	5284		1,360,956,313		1,401,483,939		1,606,000,043
Fixed assets transferred to conservation	5285		127,079,513		138,930,009		106,660,439
Other use of fixed assets (pledged and others) including:	5286		-		-		-
pledged fixed assets	5287		-		-		-

3. Financial investments

3.1 The presence and movement of financial investments

Narrative	Line code	Period	At the beginning of the year		Changes for the period			At the end of the period											
			Initial cost	Accrued adjustment	Disposals	Additions	Other	The current market value (impairment loss)	Initial cost	Accrued adjustment									
											Initial cost	Accrued adjustment							
Long-term financial investments — total																			
	5301	for 2018	2,450,178,275	507,367,810	(583,996,566)	928,555,588		25,083,267	467,073,691	2,819,820,564	974,441,501								
	5311	for 2017	2,380,705,607	374,466,634	(222,968,214)	294,670,927		(2,230,045)	132,901,176	2,450,178,275	507,367,810								
	5302	for 2018	2,031,473,386	512,969,298	(347,058,717)	778,953,384		-	461,688,950	2,463,368,053	974,658,248								
	5312	for 2017	1,913,489,714	380,351,062	(4,114,762)	122,098,434		-	132,618,236	2,031,473,386	512,969,298								
Investments, including:																			
investments in subsidiaries	53021	for 2018	1,949,133,455	519,401,844	(306,943,679)	741,402,963		-	456,652,787	2,383,592,739	976,054,631								
	53121	for 2017	1,828,059,297	386,200,246	(5)	121,074,163		-	133,201,598	1,949,133,455	519,401,844								
investments in associates	53022	for 2018	82,171,067	(6,432,392)	(5,078,027)	2,478,686		-	5,036,162	79,571,726	(1,396,230)								
	53122	for 2017	85,184,553	(5,849,031)	(4,037,757)	1,024,271		-	(583,361)	82,171,067	(6,432,392)								
investments in other entities	53023	for 2018	168,864	(154)	(35,037,011)	35,071,735		-	1	203,588	(153)								
	53123	for 2017	245,864	(153)	(77,000)	-		-	(1)	168,864	(154)								

3.1 The presence and movement of financial investments (continued)

Narrative	Line code	Period	At the beginning of the year		Changes for the period			At the end of the period		
			Initial cost	Accrued adjustment	Additions	Disposals	Other	The current market value (impairment loss)	Initial cost	Accrued adjustment
Other long-term financial investments, including:	5303	for 2018	418,704,889	(5,601,488)	149,602,204	(236,937,849)	25,083,267	5,384,741	356,452,511	(216,747)
	5313	for 2017	467,215,893	(5,884,428)	172,572,493	(218,853,452)	(2,230,045)	282,940	418,704,889	(5,601,488)
loans provided to companies for a period over 12 months	53031	for 2018	190,122,089	(5,376,752)	149,133,489	(44,866,186)	23,455,452	5,376,752	317,844,844	—
	53131	for 2017	137,190,459	(5,376,752)	172,066,164	(117,974,334)	(1,160,200)	—	190,122,089	(5,376,752)
joint activity	53032	for 2018	38,325,764	(224,736)	468,715	(187,812)	—	7,989	38,606,667	(216,747)
	53132	for 2017	38,265,119	(507,676)	506,329	(445,684)	—	282,940	38,325,764	(224,736)
third party promissory notes	53033	for 2018	—	—	—	—	—	—	—	—
	53133	for 2017	—	—	—	—	—	—	—	—
long-term deposits	53034	for 2018	41,161,070	—	—	(42,787,885)	1,627,815	—	1,000	—
	53134	for 2017	142,230,915	—	—	(100,000,000)	(1,069,845)	—	41,161,070	—
bonds	53035	for 2018	—	—	—	—	—	—	—	—
	53135	for 2017	—	—	—	—	—	—	—	—
other	53036	for 2018	149,095,966	—	—	(149,095,966)	—	—	—	—
	53136	for 2017	149,529,400	—	—	(433,434)	—	—	149,095,966	—
Short-term financial investments — total	5305	for 2018	431,269,748	—	1,031,015,634	(663,885,732)	(142,175,555)	(152,000)	656,224,095	(152,000)
including:	5315	for 2017	149,025,251	—	460,921,995	(176,964,065)	(1,713,433)	—	431,269,748	—
loans provided to companies for a period less than 12 months	5306	for 2018	183,405,146	—	10,067,774	(20,700,043)	(166,297,687)	(152,000)	6,475,190	(152,000)
	5316	for 2017	149,002,756	—	83,821,988	(49,419,598)	—	—	183,405,146	—
other short-term financial investments, including:	5307	for 2018	247,864,602	—	1,020,947,860	(643,185,689)	24,122,132	—	649,748,905	—
	5317	for 2017	22,495	—	377,100,007	(127,544,467)	(1,713,433)	—	247,864,602	—
short-term deposits	53071	for 2018	247,842,107	—	1,018,074,830	(640,312,659)	24,122,132	—	649,726,410	—
	53171	for 2017	—	—	374,346,733	(124,791,193)	(1,713,433)	—	247,842,107	—
third party promissory notes	53072	for 2018	—	—	—	—	—	—	—	—
	53172	for 2017	—	—	—	—	—	—	—	—
bonds	53073	for 2018	—	—	—	—	—	—	—	—
	53173	for 2017	—	—	—	—	—	—	—	—
other	53074	for 2018	22,495	—	2,873,030	(2,873,030)	—	—	22,495	—
	53174	for 2017	22,495	—	2,753,274	(2,753,274)	—	—	22,495	—
Financial investments — total	5300	for 2018	2,881,448,023	507,367,810	1,959,571,222	(1,247,882,298)	(117,092,288)	466,921,691	3,476,044,659	974,289,501
	5310	for 2017	2,529,730,858	374,466,634	755,592,922	(399,932,279)	(3,943,478)	132,901,176	2,881,448,023	507,367,810

3.1.1 Current portion of long-term financial investments

Narrative	Line code	Period	At the beginning of the year			At the end of the period		
			Initial cost	Including current portion	Accrued adjustment	Initial cost	Including current portion	Accrued adjustment
Long-term financial investments — total	5301	for 2018	2,450,178,275	74,976,179	507,367,810	2,819,820,564	136,516,876	974,441,501
	5311	for 2017	2,380,705,607	131,687,194	374,466,634	2,450,178,275	74,976,179	507,367,810
	5302	for 2018	2,031,473,386	—	512,969,298	2,463,368,053	—	974,658,248
Investments, including:	5312	for 2017	1,913,489,714	—	380,351,062	2,031,473,386	—	512,969,298
investments in subsidiaries	53021	for 2018	1,949,133,455	—	519,401,844	2,388,592,739	—	976,054,631
	53121	for 2017	1,828,059,297	—	366,200,246	1,949,133,455	—	519,401,844
investments in associates	53022	for 2018	82,171,067	—	(6,432,392)	79,571,726	—	(1,396,230)
	53122	for 2017	85,184,553	—	(5,849,031)	82,171,067	—	(6,432,392)
investments in other entities	53023	for 2018	168,864	—	(154)	203,588	—	(153)
	53123	for 2017	245,864	—	(153)	168,864	—	(154)
Other long-term financial investments, including:	5303	for 2018	418,704,889	74,976,179	(5,601,488)	356,452,511	136,516,876	(216,747)
	5313	for 2017	467,215,893	131,687,194	(5,884,428)	418,704,889	74,976,179	(5,601,488)
loans provided to companies for a period over 12 months	53031	for 2018	190,122,089	33,816,109	(5,376,752)	317,844,844	136,515,876	—
	53131	for 2017	137,190,459	31,623,886	(5,376,752)	190,122,089	33,816,109	(5,376,752)
joint activity	53032	for 2018	38,325,764	—	(224,736)	38,606,667	—	(216,747)
	53132	for 2017	38,285,119	—	(507,676)	38,325,764	—	(224,736)
third party promissory notes	53033	for 2018	—	—	—	—	—	—
	53133	for 2017	—	—	—	—	—	—
long-term deposits	53034	for 2018	41,161,070	41,160,070	—	1,000	1,000	—
	53134	for 2017	142,230,915	100,000,000	—	41,161,070	41,160,070	—
bonds	53035	for 2018	—	—	—	—	—	—
	53135	for 2017	—	—	—	—	—	—
other	53036	for 2018	149,095,966	—	—	—	—	—
	53136	for 2017	149,529,400	63,308	—	149,095,966	—	—

3.2 Other use of financial investments

Narrative	Line code	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Long-term financial investments pledged — total	5320	139,300,044	139,237,227	49,539,630
including:				
investments	5321	139,300,044	139,237,227	49,539,630
investments in subsidiaries	53211	89,697,597	89,697,597	—
investments in associates	53212	49,602,447	49,539,630	49,539,630
investments in other entities	53213	—	—	—
other long-term financial investments	5322	—	—	—
third party promissory notes	53221	—	—	—
bonds	53222	—	—	—
other	53223	—	—	—
Long-term financial investments transferred to third parties (except sales) — total	5325	10,000	10,000	10,000
including:				
investments	5326	10,000	10,000	10,000
investments in subsidiaries	53261	10,000	10,000	10,000
investments in associates	53262	—	—	—
investments in other entities	53263	—	—	—
other long-term financial investments	5327	—	—	—
third party promissory notes	53271	—	—	—
bonds	53272	—	—	—
other	53273	—	—	—
Short-term financial investments pledged — total	5328	—	—	—
including:				
third party promissory notes	53281	—	—	—
bonds	53282	—	—	—
other	53283	—	—	—
Short-term financial investments transferred to third parties (except sales) — total	5329	—	—	—
including:				
third party promissory notes	53291	—	—	—
bonds	53292	—	—	—
other	53293	—	—	—

4. Inventory

4.1 The presence and movement of inventory

Narrative	Line code	Period	At the beginning of the year			Changes for the period			At the end of the period				
			Cost	Provision for impairment in value of inventory	Book value	Additions and expenses	Disposals	Provision for impairment	Impairment loss	Inventory turnover between groups (types)	Cost	Provision for impairment in value of inventory	Book value
Inventory — total	5400	for 2018	542,457,497	—	542,457,497	3,138,128,885	(3,165,213,154)	—	—	—	515,373,228	—	515,373,228
	5420	for 2017	488,887,199	—	488,887,199	2,940,080,152	(2,886,509,854)	—	—	—	542,457,497	—	542,457,497
including:													
raw materials and other inventories	5401	for 2018	5,336,117	—	5,336,117	205,079,734	(199,382,885)	—	(177,399)	—	10,855,567	—	10,855,567
	5421	for 2017	4,986,831	—	4,986,831	181,188,965	(180,701,159)	—	(138,520)	—	5,336,117	—	5,336,117
livestock	5402	for 2018	93	—	93	—	—	—	—	—	93	—	93
	5422	for 2017	93	—	93	—	—	—	—	—	93	—	93
work in progress	5403	for 2018	319,052,716	—	319,052,716	1,396,396,204	(535,395,736)	—	(897,035,030)	—	283,018,154	—	283,018,154
	5423	for 2017	303,450,137	—	303,450,137	1,310,775,542	(496,079,419)	—	(799,093,544)	—	319,052,716	—	319,052,716
finished goods and goods for resale	5404	for 2018	213,316,883	—	213,316,883	1,529,404,374	(692,303,742)	—	(835,228,091)	—	215,189,424	—	215,189,424
	5424	for 2017	176,336,296	—	176,336,296	1,446,213,393	(611,385,482)	—	(797,847,324)	—	213,316,883	—	213,316,883
goods dispatched	5405	for 2018	4,751,688	—	4,751,688	7,248,573	(1,738,130,791)	—	1,732,440,520	—	6,309,990	—	6,309,990
	5425	for 2017	4,113,842	—	4,113,842	1,902,252	(1,598,343,794)	—	1,597,079,388	—	4,751,688	—	4,751,688

5. Accounts receivable and accounts payable

5.1 The presence and movement of accounts receivable

Narrative	Line code	Period	At the beginning of the year			Changes for the period					At the end of the period			
			Recognised under the terms of the contract	Provision for doubtful debts	Additions	Disposals			Transfer from long-term to short-term (and vice versa)	Provision for doubtful debts	Recognised under the terms of the contract	Provision for doubtful debts		
						As a result of transactions	Interest, penalties and other charges due	Provision for doubtful debts					Settlement	Write off to financial result
Long-term accounts receivable — total	5501	for 2018	427,142,319	(1,145,227)	7,059,881	(236,011)	(9,198,926)	—	—	—	(165,194,009)	—	579,618,504	(1,381,238)
	5521	for 2017	377,684,316	(1,206,002)	145,151	—	(225,789)	—	—	60,775	(54,213,827)	—	427,142,319	(1,145,227)
including:														
buyers and customers	5502	for 2018	8,619,136	(1,145,227)	—	(236,011)	—	—	—	—	(2,364,824)	—	6,598,759	(1,381,238)
	5522	for 2017	14,387,624	(1,206,002)	—	—	—	—	—	60,775	(5,670,462)	—	8,619,136	(1,145,227)
advances issued	5503	for 2018	57,947	—	—	—	—	—	—	—	(3,764)	—	54,183	—
	5523	for 2017	54,183	—	5,684	—	—	—	—	—	(1,920)	—	57,947	—
other debtors	5504	for 2018	418,465,236	—	7,059,881	—	(9,198,926)	—	—	—	(162,825,421)	—	572,965,562	—
	5524	for 2017	363,242,509	—	145,151	—	(225,789)	—	—	—	(48,541,445)	—	418,465,236	—
Short-term accounts receivable — total	5510	for 2018	1,721,051,512	(406,956,773)	426,673,440	(172,529,180)	(12,695,302,258)	(255,924)	(161,188)	4,162,283	165,194,009	—	2,117,613,409	(575,162,482)
	5530	for 2017	1,901,660,277	(518,250,637)	461,298,287	(45,893,329)	(10,464,910,615)	(3,081)	(1,825)	157,185,368	54,213,827	—	1,721,051,512	(406,956,773)
including:														
buyers and customers	5511	for 2018	1,023,480,621	(403,501,164)	6,674,250,856	(166,433,660)	(6,354,239,783)	(37,518)	(120,710)	3,904,981	2,364,824	—	1,345,698,290	(565,909,193)
	5531	for 2017	1,201,121,033	(514,998,725)	5,307,846,524	(45,685,714)	(5,491,155,638)	(1)	(1,760)	157,181,515	5,670,462	—	1,023,480,621	(403,501,164)
advances issued	5512	for 2018	177,341,164	(162,547)	—	(127)	(242,075,339)	(1)	(38,397)	81,624	3,764	—	106,440,861	(42,653)
	5532	for 2017	93,435,352	(158,713)	—	(3,949)	(187,377,154)	(482)	(65)	50	1,920	—	177,341,164	(162,547)
outstanding participants' (shareholders') contributions to charter capital	5513	for 2018	—	—	—	—	—	—	—	—	—	—	—	—
	5533	for 2017	—	—	—	—	—	—	—	—	—	—	—	—
other debtors	5514	for 2018	520,229,727	(3,293,062)	426,673,440	(6,095,393)	(6,098,987,136)	(2,18,405)	(2,081)	175,678	162,825,421	—	665,474,258	(9,210,696)
	5534	for 2017	607,103,892	(3,093,199)	4,189,666,525	(203,666)	(4,786,377,823)	(2,599)	3,803	3,803	48,541,445	—	520,229,727	(3,293,062)
Accounts receivable — total	5500	for 2018	2,148,193,831	(408,102,000)	12,820,223,057	(172,765,191)	(12,704,501,184)	(255,924)	(161,188)	4,162,283	—	—	2,697,231,913	(576,543,720)
	5520	for 2017	2,279,344,593	(519,456,639)	461,443,438	(45,893,329)	(10,465,136,404)	(3,081)	(1,825)	157,246,143	—	—	2,148,193,831	(408,102,000)

5.2 Overdue accounts receivable

Narrative	Line code	As at 31 December 2018		As at 31 December 2017		As at 31 December 2016	
		Under a contract	Book value	Under a contract	Book value	Under a contract	Book value
Overdue receivables — total	5540	729,045,401	154,637,870	572,812,236	166,086,580	706,374,235	188,235,705
including:							
buyers and customers	5541	711,612,504	146,457,494	547,226,659	143,952,701	684,481,657	169,595,039
advances issued	5542	1,322,925	1,280,272	1,289,227	1,126,680	1,491,654	1,333,141
other debtors	5543	16,109,972	6,900,104	24,296,350	21,007,199	20,400,724	17,307,525

5.3 The presence and movement of accounts payable

Narrative	Line code	Period	At the beginning of the year	Changes for the period			Transfer from long-term to short-term (and vice versa)	At the end of the period
				As a result of transactions	Interest, penalties and other charges due	Disposals		
Long-term accounts payable — total	5551	for 2018	2,328,046	43,094	-	-	(123,913)	2,247,227
	5571	for 2017	2,411,398	40,561	-	-	(123,913)	2,328,046
including:								
suppliers and contractors	5552	for 2018	-	-	-	-	-	-
	5572	for 2017	-	-	-	-	-	-
promissory notes payable	5553	for 2018	-	-	-	-	-	-
	5573	for 2017	-	-	-	-	-	-
restructured taxes and insurance contributions payable	5554	for 2018	-	-	-	-	-	-
	5574	for 2017	-	-	-	-	-	-
advances from customers	5555	for 2018	-	-	-	-	-	-
	5575	for 2017	-	-	-	-	-	-
other creditors	5556	for 2018	2,328,046	43,094	-	-	(123,913)	2,247,227
	5576	for 2017	2,411,398	40,561	-	-	(123,913)	2,328,046

5.3 The presence and movement of accounts payable (continued)

Narrative	Line code	Period	At the beginning of the year	Changes for the period			Transfer from long-term to short-term (and vice versa)	At the end of the period
				Additions	Disposals	Write off to financial result		
				As a result of transactions	Interest, penalties and other charges due	Settlement		
Short-term accounts payable —	5560	for 2018	964,792,138	7,536,702,554	233,180,206	(7,655,977,105)	123,913	1,078,815,391
total	5580	for 2017	755,889,069	6,651,026,693	460,355,931	(6,902,570,757)	123,913	964,792,138
including:								
suppliers and contractors	5561	for 2018	650,097,013	4,453,451,982	650,023	(4,394,419,047)	—	709,775,210
	5581	for 2017	588,032,679	4,170,534,132	412,357	(4,108,850,353)	—	650,097,013
promissory notes payable	5562	for 2018	—	—	—	—	—	—
	5582	for 2017	—	—	—	—	—	—
salaries payable	5563	for 2018	646,597	59,010,915	—	(58,833,320)	—	824,192
	5583	for 2017	373,397	54,328,275	—	(54,055,075)	—	646,597
insurance contributions payable	5564	for 2018	294,094	12,358,012	20,295	(12,343,199)	—	329,202
	5584	for 2017	202,493	11,219,311	65	(11,127,775)	—	294,094
taxes payable	5565	for 2018	79,847,791	796,749,962	182,409	(820,180,668)	—	56,599,494
	5585	for 2017	76,234,645	889,067,179	222,049	(885,676,082)	—	79,847,791
advances from customers	5566	for 2018	47,326,860	1,108,050,276	—	(1,071,247,281)	—	84,128,958
	5586	for 2017	57,782,735	933,604,437	—	(944,059,870)	—	47,326,860
dividends payable to participants (shareholders)	5567	for 2018	928,911	—	190,335,044	(190,383,660)	—	880,295
	5587	for 2017	901,047	—	190,327,942	(190,300,078)	—	928,911
other creditors	5568	for 2018	185,650,872	1,107,081,407	41,992,435	(1,108,569,930)	123,913	226,278,040
	5588	for 2017	32,362,073	592,273,359	269,393,518	(708,501,524)	123,913	185,650,872
Accounts payable —	5550	for 2018	967,120,184	7,536,745,648	233,180,206	(7,655,977,105)	—	1,081,062,618
total	5570	for 2017	758,300,467	6,651,067,254	460,355,931	(6,902,570,757)	—	967,120,184

5.4 Overdue accounts payable

Narrative	Line code	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Overdue payables — total	5590	339,175,960	140,989,236	128,969,191
including:				
suppliers and contractors	5591	145,630,883	138,280,321	124,525,194
promissory notes payable	5592	—	—	—
advances from customers	5593	—	—	—
dividends payable to participants (shareholders)	5594	—	—	—
other creditors	5599	193,545,077	2,708,915	4,443,997

6. Cost of production

Narrative	Line code	For 2018	For 2017
Material costs	5610	1,939,824,593	1,855,451,786
Payroll expenses	5620	50,879,340	48,447,801
Social contributions	5630	11,054,837	10,438,900
Depreciation	5640	678,653,603	709,683,827
Other expenses	5650	205,555,928	199,559,802
Total by cost element	5660	2,885,968,301	2,823,582,116
Change in the balances			
Increase [-]:	5670		
finished goods	5671	(253,764,573)	(250,933,969)
other (except intrafirm turnover costs)	5672	(931,879,756)	(824,594,359)
Decrease [+]:	5680		
sale of finished products	5681	35,418,403	35,132,845
sale of goods for resale	5682	653,080,857	573,787,596
sale of goods dispatched	5683	1,730,567,478	1,596,148,567
Change in the balance of work in progress (increase [-]/decrease [+])	5690	36,034,562	(15,602,579)
Total expenses attributable to ordinary activities	5600	4,155,425,272	3,937,520,217

7. Estimated liabilities

Narrative	Line code	At the beginning of the year	Accrued	Used	Reversed	At the end of the period
Estimated liabilities — total	5700	141,615,780	38,731,254	(69,619,540)	(55,557,419)	55,170,075
onerous contracts	5702	—	—	—	—	—
liabilities related to the future restructuring	5703	—	—	—	—	—
given guarantee commitment	5704	—	—	—	—	—
legal proceedings	5705	913,966	36,545	(2,025)	(2,472)	946,014
other estimated liabilities, including:	5706	131,810,683	27,540,347	(59,332,212)	(55,427,815)	44,591,003
adjustments to gas prices		118,455,544	24,876,384	(55,517,447)	(54,514,374)	33,300,107
estimated asset retirement liability and liability to restore environment disturbed by mineral extraction		9,180,437	1,680,274	—	(789,288)	10,071,423
liabilities of paying remuneration based on performance results	5707	4,693,533	5,015,777	(4,574,365)	(125,159)	5,009,786
liabilities of vacation payment	5708	4,197,598	6,138,585	(5,710,938)	(1,973)	4,623,272
including repayment period up to 1 year		132,435,343	—	—	—	45,098,652

8. Security

Narrative	Line code	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Received — total	5800	17,045,539	59,244,674	7,533,251
including:				
promissory notes	5801	—	—	—
assets under pledge	5802	—	—	—
including:				
fixed assets	5803	—	—	—
securities and other financial investments	5804	—	—	—
other	5805	—	—	—
issued — total	5810	345,670,940	363,157,715	283,439,474
including:				
promissory notes	5811	—	—	—
assets under pledge	5812	183,261,771	139,237,227	49,539,630
including:				
fixed assets	5813	—	—	—
securities and other financial investments	5814	183,261,771	139,237,227	49,539,630
other	5815	—	—	—

9. Exploration assets

9.1 The presence and movement of exploration assets

Narrative	Line code	Period	At the beginning of the year			Changes for the period				At the end of the period			
			Initial cost	Accumulated depreciation/amortisation	Impairment loss	Additions	Disposals	Depreciation	Revaluation	Impairment loss	Initial cost	Accumulated depreciation/amortisation	Impairment loss
Intangible exploration assets	6010	for 2018	118,094,409	(106)	-	43,662	(181,913)	113	(28)	-	117,956,158	(21)	-
	6020	for 2017	118,241,917	-	-	4,307	(151,815)	-	(106)	-	118,094,409	(106)	-
including:													
licences	6011	for 2018	118,094,409	(106)	-	43,662	(181,913)	113	(28)	-	117,956,158	(21)	-
	6021	for 2017	118,241,917	-	-	4,307	(151,815)	-	(106)	-	118,094,409	(106)	-
other	6019	for 2018	-	-	-	-	-	-	-	-	-	-	-
		for 2017	-	-	-	-	-	-	-	-	-	-	-
Tangible exploration assets	6030	for 2018	2,111,036	-	-	4,794,874	-	-	-	-	6,905,910	-	-
	6040	for 2017	2,072,214	-	-	38,822	-	-	-	-	2,111,036	-	-
including:													
buildings and roads	6031	for 2018	-	-	-	-	-	-	-	-	-	-	-
	6041	for 2017	-	-	-	-	-	-	-	-	-	-	-
wells	6032	for 2018	2,111,036	-	-	4,794,874	-	-	-	-	6,905,910	-	-
	6042	for 2017	2,072,214	-	-	38,822	-	-	-	-	2,111,036	-	-
machinery and equipment	6033	for 2018	-	-	-	-	-	-	-	-	-	-	-
	6043	for 2017	-	-	-	-	-	-	-	-	-	-	-
other fixed assets	6039	for 2018	-	-	-	-	-	-	-	-	-	-	-
	6049	for 2017	-	-	-	-	-	-	-	-	-	-	-

9.2 Exploration expenses recognised as non-current assets

Narrative	Line code	Period	At the beginning of the year	Expenses for the period	Changes for the period			At the end of the period
					Written off	Recognised as tangible exploration assets or intangible exploration assets	Other changes	
Exploration expenses recognised as intangible exploration assets	6050	for 2018	178,277	28,973	—	(43,662)	—	163,588
	6060	for 2017	205,927	19,646	(42,989)	(4,307)	—	178,277
Exploration expenses recognised as tangible exploration assets	6070	for 2018	50,767,451	29,008,293	(10,161,695)	(4,794,874)	—	64,819,175
	6080	for 2017	48,959,424	22,727,305	(20,664,110)	(38,822)	(216,346)	50,767,451

Chief Executive Officer _____ A.B. Miller
(signature)

Chief Accountant _____ E.A. Vasiljeva
(signature)

29 March 2019

Explanatory Notes to the Balance Sheet and the Statement of Financial Results in the Statutory Financial Statements for 2018 (in thousand Russian Roubles, unless otherwise stated)

1. General information

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

The Company's registered address is: 16 Nametkina St., Moscow, 117420, Russian Federation and it has branches and representative offices engaged in business activities in the following cities: Algiers, Astana, Ashkhabad, Baku, Brussels, Dokha, Ekaterinburg, Kiev, Kishinev, Krasnodar, Moscow, Novy Urengoy, Beijing, Riga, Rio de Janeiro, Samara, St. Petersburg, Teheran, Tomsk, Khabarovsk and the Moscow Region.

As at 31 December 2018, 2017 and 2016 the Company employed 26,653, 26,178 and 25,550 people, respectively.

As at 31 December 2018 members of the Board of Directors of PJSC Gazprom included:

Zubkov, Viktor Alekseevich — Chairman of the Board of Directors

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

As at 31 December 2018 members of the Management Committee of PJSC Gazprom included:

Miller, Alexey Borisovich — Chairman of the Management Committee

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

As at 31 December 2018 members of the Audit Commission of PJSC Gazprom included:

Mironova, Margarita Ivanovna — Chairman of the Audit Commission

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

2. Significant accounting policies and basis of presentation

Basis of presentation

The financial statements have been prepared in accordance with the accounting and reporting rules applicable in the Russian Federation, specifically with Federal Law “On Accounting” dated 6 December 2011 No. 402-FZ, and the Regulations on Accounting and Reporting in the Russian Federation, approved by Order of the Ministry of Finance of the Russian Federation dated 29 July 1998 No. 34n, as well as the Accounting Policy Regulation approved by order of PJSC Gazprom of 29 December 2017 No. 924.

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

Assets, liabilities and transactions denominated in foreign currency

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

As at 31 December 2018 the official exchange rates of Russian Rouble to US dollar and euro were: RUB 69.4706 to USD 1 (31 December 2017 — RUB 57.6002, 31 December 2016 — RUB 60.6569) and RUB 79.4605 to EUR 1 (31 December 2017 — RUB 68.8668, 31 December 2016 — RUB 63.8111).

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

Current and non-current assets and liabilities

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

Research and development results

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

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

Intangible and tangible exploration assets

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

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

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

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

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

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

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

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

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

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

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

Fixed assets

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

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

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

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

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

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

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

Fixed assets are depreciated on a straight-line basis.

The following assets are not depreciated:

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

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

Capital investments in progress

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

Financial investments

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

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

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

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

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

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

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

Inventory

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

Work in progress

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

Selling and administrative expenses

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

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

Accounts receivable and accounts payable

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

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

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

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

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

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

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

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

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

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

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

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

Loans and borrowings received

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

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

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

As at 31 December 2018 the Russian Federation Central Bank's refinance rate is 7.75%.

Estimated liabilities

The Company recognises the following estimated liabilities:

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

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

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

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

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

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

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

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

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

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

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

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

Taxation

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

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

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

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

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

Revenue recognition

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

Segment information

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

3. Changes in accounting policies

No significant changes have been made to the Company's accounting policies for 2018 and 2019.

4. Adjustments to prior reporting period data

Certain data of columns "As at 31 December 2017" and "As at 31 December 2016" in the balance sheet and the statement of financial results for 2017 were adjusted due to the following events:

1. An update was made to the classification of funds used to make contributions to the charter capitals of subsidiaries if official registration of the respective amendments to incorporation documents was finalised after the reporting date (adjustment 1).
2. An update was made to the classification of expenses for maintenance of facilities (adjustment 2).
3. Income and expenses related to the adjustment of estimated liabilities due to changes in foreign exchange rates were netted (adjustment 3).

Adjustments to the 2016 and 2017 data in the financial statements for 2018:

Line code	Narrative	Unadjusted	Number of adjustment	Adjustment, RUB'000	Adjusted
2016 data adjustments					
Balance sheet					
1170	Financial investments, including:	2,627,861,799	1	1,000,000	2,628,861,799
1171	investments in subsidiaries	2,213,259,543	1	1,000,000	2,214,259,543
1230	Accounts receivable, including:	1,760,887,954	1	(1,000,000)	1,759,887,954
1235	Accounts receivable (payments expected within 12 months after the reporting date), including:	1,384,409,640	1	(1,000,000)	1,383,409,640
1239	other debtors	605,010,693	1	(1,000,000)	604,010,693
2017 data adjustments					
Balance sheet					
1170	Financial investments, including:	2,883,050,458	1	4,896,200	2,887,946,658
1171	investments in subsidiaries	2,463,639,099	1	4,896,200	2,468,535,299
1230	Accounts receivable, including:	1,744,988,031	1	(4,896,200)	1,740,091,831
1231	Accounts receivable (payments expected beyond 12 months after the reporting date), including:	430,378,092	1	(4,381,000)	425,997,092
1234	other debtors	422,846,236	1	(4,381,000)	418,465,236
1235	Accounts receivable (payments expected within 12 months after the reporting date), including:	1,314,609,939	1	(515,200)	1,314,094,739
1239	other debtors	517,451,865	1	(515,200)	516,936,665
Statement of financial results					
2120	Cost of sales	(2,546,878,828)	2	3,947,060	(2,542,931,768)
2126	other goods, products, works and services	(36,933,058)	2	3,947,060	(32,985,998)
2100	Gross profit (loss)	1,766,152,788	2	3,947,060	1,770,099,848
2220	Administrative expenses	(96,253,074)	2	(3,947,060)	(100,200,134)
2340	Other income	742,816,367	3	(7,185,275)	735,631,092
2350	Other expenses	(1,238,638,969)	3	7,185,275	(1,231,453,694)

5. Fixed assets

	Trunk pipelines	Wells	Machinery and equipment	Buildings	Other	Total
As at 31 December 2016						
Initial (replacement) cost	13,406,596,368	1,674,784,254	3,352,675,034	950,396,395	2,914,368,468	22,298,820,519
Accumulated depreciation	(9,798,648,525)	(1,349,933,869)	(2,477,185,902)	(437,495,512)	(1,160,803,371)	(15,224,067,179)
Net book value	3,607,947,843	324,850,385	875,489,132	512,900,883	1,753,565,097	7,074,753,340
As at 31 December 2017						
Initial (replacement) cost	13,490,922,427	1,681,600,257	3,426,084,992	963,565,126	2,996,039,934	22,558,212,736
Accumulated depreciation	(10,131,049,404)	(1,388,875,237)	(2,634,573,106)	(461,763,086)	(1,296,575,231)	(15,912,836,064)
Net book value	3,359,873,023	292,725,020	791,511,886	501,802,040	1,699,464,703	6,645,376,672
As at 31 December 2018						
Initial (replacement) cost	13,589,369,890	1,705,302,946	3,518,534,944	975,343,076	3,105,827,427	22,894,378,283
Accumulated depreciation	(10,444,741,279)	(1,424,493,610)	(2,763,495,706)	(486,148,186)	(1,420,661,576)	(16,539,540,357)
Net book value	3,144,628,611	280,809,336	755,039,238	489,194,890	1,685,165,851	6,354,837,926

Net book value of fixed assets leased out to subsidiaries amounted to RUB 5,674,688,558 thousand, RUB 5,932,637,112 thousand and RUB 6,341,297,875 thousand as at 31 December 2018, 2017 and 2016, respectively. As at 31 December 2018, 2017 and 2016 fixed assets included also property items that had been constructed and put into operation but were still to be registered amounted to RUB 1,360,956,313 thousand, RUB 1,401,483,939 thousand and RUB 1,606,000,043 thousand, respectively (net of accumulated depreciation in the amount of RUB 239,239,564 thousand, RUB 202,848,306 thousand and RUB 198,620,571 thousand, respectively). As at 31 December 2018 the following production infrastructure facilities represent the most significant real property assets, the title to which is undergoing registration: gas trunk pipeline Bovanenkovo — Ukhta 186.7 km — 526.7 km (1st line); gas trunk pipeline Bovanenkovo — Ukhta 860.5 km — 1074.0 km (1st line); gas trunk pipeline Bovanenkovo — Ukhta (2nd line), an underwater crossing through Baydaratskaya Bay (4th line); gas trunk pipeline Bovanenkovo — Ukhta (2nd line), an underwater crossing through Baydaratskaya Bay (3rd line); South European gas pipeline Pisarevka — Anapa 570 km — 768.5 km.

Revaluation of fixed assets

The Company revalued its fixed assets as at 31 December 2016. No revaluation of fixed assets was made as at 31 December 2017 and as at 31 December 2018 because of insignificant change in the current (replacement) cost.

	Trunk pipelines	Wells	Machinery and equipment	Buildings	Other	Total
As at 31 December 2016						
Revaluation surplus posted to additional capital	471,501,676	31,221,031	94,954,332	53,079,026	220,089,605	870,845,670
Revaluation surplus (in the part related to the revaluation write-down posted earlier to other income)	16,348	10,139	410,233	379,730	450,283	1,266,733
Revaluation write-down posted to other expenses	(62,846)	(175,790)	(2,140,030)	(39,205)	(2,920,233)	(5,338,104)
Revaluation write-down (in the part related to revaluation surplus posted earlier to additional capital)	(2,928,578)	(82,409)	(417,354)	(324,584)	(134,603)	(3,887,528)
Total revaluation of fixed assets at their current (replacement) cost	468,526,600	30,972,971	92,807,181	53,094,967	217,485,052	862,886,771

6. Financial investments

Long-term financial investments

Investments in subsidiaries and associates

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

“Investments in Subsidiaries” (balance sheet line 1171) are presented net of impairment provision of RUB 24,762,103 thousand, RUB 25,049,936 thousand and RUB 26,468,215 thousand as at 31 December 2018, 2017 and 2016, respectively.

“Investments in Associates” (balance sheet line 1172) are presented net of impairment provision of RUB 1,919,580 thousand, RUB 6,998,676 thousand and RUB 5,910,493 thousand as at 31 December 2018, 2017 and 2016, respectively.

Investments in other entities

“Investments in Other Entities” (balance sheet line 1173) are presented net of impairment provision of RUB 153 thousand as at 31 December 2018, RUB 154 thousand as at 31 December 2017 and RUB 153 thousand as at 31 December 2016.

Loans provided to companies for a period over 12 months

“Loans Provided to Companies for a Period over 12 Months” (balance sheet line 1174) include long-term loans of RUB 181,328,968 thousand, RUB 156,305,980 thousand and RUB 105,566,573 thousand as at 31 December 2018, 2017 and 2016, respectively.

Other long-term investments

Other long-term investments included within “Financial Investments” (balance sheet line 1170) are presented net of impairment provision of RUB 216,747 thousand, RUB 224,736 thousand, RUB 507,676 thousand as at 31 December 2018, 2017 and 2016, respectively. The provision relates to investments in joint activities.

	31 December		
	2018	2017	2016
Joint activities	38,389,920	38,101,028	37,757,443
including:			
development of oil and gas fields on continental shelf of the Socialist Republic of Vietnam (operator — JSC Gazprom zarubezhneftegaz)	34,396,898	33,928,183	33,421,854
development of a satellite communication system (operator — JSC Gazprom Space Systems)	3,345,047	3,345,047	3,345,047
Long-term deposits	–	–	42,229,915
Other	–	149,096,966	149,467,092
including:			
Investment in additional capital of South Stream Transport B.V.	–	149,095,966	149,095,966
South Pars (oil and gas field located in Iran)	–	–	370,126
Total	38,389,920	187,197,994	229,454,450

Long-term investments include securities of other entities, mainly investments in the shares of subsidiaries and associates and other entities, and investments in cooperatives of RUB 1,962,070,655 thousand, RUB 1,805,497,254 thousand and RUB 1,584,188,023 thousand as at 31 December 2018, 2017 and 2016, respectively, including foreign entities of RUB 329,249,018 thousand, RUB 629,041,998 thousand and RUB 538,454,079 thousand as at 31 December 2018, 2017 and 2016, respectively.

Additional information is provided in table forms 3.1 “The Presence and Movement of Financial Investments”, 3.1.1 “Current Portion of Long-Term Financial Investments” and 3.2 “Other Use of Financial Investments” of the Explanatory Notes to the Balance Sheet

6. Financial investments (continued)

and the Statement of Financial Results. In table form 3.1 “The Presence and Movement of Financial Investments” data are presented with regard to the current part of long-term investments.

7. Other non-current assets

As at 31 December 2018, 2017 and 2016 other non-current assets included long-term advances paid under the capital construction agreement in the amount of RUB 38,251,891 thousand, RUB 11,288,169 thousand and RUB 5,496,314 thousand, respectively, expenses of future periods under capital construction agreements in the amount of RUB 986,985 thousand, RUB 1,257,739 thousand and RUB 1,586,232 thousand as at 31 December 2018, 2017 and 2016, as well as the subsoil use licences of RUB 16,134,633 thousand, RUB 17,089,380 thousand, RUB 18,224,801 thousand as at 31 December 2018, 2017 and 2016, respectively.

8. Accounts receivable

Trade receivables

	31 December		
	2018	2017	2016
Accounts receivable for gas sold:	664,114,145	482,052,954	498,204,513
in Russia	238,271,696	248,478,966	278,559,637
outside Russia (net of doubtful debt provision of RUB 567,250,810 thousand, RUB 403,150,696 thousand and RUB 514,812,256 thousand as at 31 December 2018, 2017 and 2016, respectively), including:	425,842,449	233,573,988	219,644,876
to far abroad countries (net of doubtful debt provision of RUB 20,173,840 thousand, RUB 8,786,564 thousand and RUB 9,252,846 thousand as at 31 December 2018, 2017 and 2016, respectively)	396,598,503	207,344,131	186,646,663
Accounts receivable for property lease services (net of doubtful debt provision of RUB 14,109 thousand, RUB 1,417,996 thousand and RUB 1,292,767 thousand as at 31 December 2018, 2017 and 2016, respectively)	95,145,805	106,261,024	151,780,680
Accounts receivable for services related to arrangement of gas transportation	5,279,757	5,209,613	8,041,518
Accounts receivable for gas condensate and oil and gas refinery products sold (net of doubtful debt provision of RUB 65 thousand, RUB 65 thousand, RUB 65 thousand as at 31 December 2018, 2017 and 2016, respectively)	18,645,464	30,206,062	37,473,392
Other trade receivables (net of doubtful debt provision of RUB 25,387 thousand, RUB 77,634 thousand, and RUB 99,639 thousand as at 31 December 2018, 2017 and 2016, respectively)	<u>1,821,507</u>	<u>3,723,713</u>	<u>3,803,827</u>
Total	785,006,678	627,453,366	699,303,930

The accounts receivable recorded in the balance sheet line “Accounts Receivable from Buyers and Customers (payments expected within 12 months after the reporting date)” (line 1236) are presented net of a doubtful debt provision of RUB 565,909,133 thousand, RUB 403,501,164 thousand and RUB 514,998,725 thousand as at 31 December 2018, 2017 and 2016, respectively. The doubtful debt provisions were calculated net of a deferred excise in the amount of RUB 88,593 thousand, RUB 88,593 thousand and RUB 88,593 thousand as at 31 December 2018, 2017 and 2016, respectively. Deferred excise reduces the balance sheet line “Other Settlements” (line 1528).

The balance sheet line “Accounts Receivable from Buyers and Customers (payments expected beyond 12 months after the reporting date)” (line 1232) includes a non-current portion of the receivable due from LLC Gazprom gazenergoset that was restructured in 2016 in accordance with the debt restructuring agreement dated 12 February 2016 in the amount of RUB 5,181,042 thousand, RUB 6,771,963 thousand and RUB 11,411,683 thousand as at 31 December 2018, 2017 and 2016, respectively.

8. Accounts receivable (continued)

Advances receivable

The balance sheet line “Advances Issued” (line 1238) within accounts receivable payments for which are expected within 12 months after the reporting date includes advances paid under the agency contracts on the implementation of investment projects in the amount of RUB 102,216,840 thousand as at 31 December 2018, RUB 168,771,331 thousand as at 31 December 2017, and RUB 81,526,645 thousand as at 31 December 2016.

Other receivables

“Accounts Receivable from Other Debtors (payments expected beyond 12 months after the reporting date)” (balance sheet line 1234) include accounts receivable from LLC Gazprom neft shelf related to the payment of reimbursement under the agreement dated 31 October 2014 which provides for the withdrawal of PJSC Gazprom from the joint activities agreement in the amount of RUB 62,466,040 thousand as at 31 December 2018, RUB 82,078,064 thousand as at 31 December 2017 and 2016, respectively.

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

A long-term portion of accounts receivable from subsidiaries relates to amounts received for investment project financing and is presented in the balance sheet line “Accounts Receivable from Other Debtors (payments expected beyond 12 months after the reporting date)” (line 1234) in the amount of RUB 171,440,967 thousand, RUB 194,748,267 thousand and RUB 232,546,318 thousand as at 31 December 2018, 2017 and 2016, respectively.

A current portion of accounts receivable from subsidiaries relates to amounts received for investment project financing and is presented in the balance sheet line “Accounts Receivable from Other Debtors (payments expected within 12 months after the reporting date)” (line 1239) in the amount of RUB 131,591,108 thousand, RUB 152,686,519 thousand and RUB 204,618,225 thousand as at 31 December 2018, 2017 and 2016, respectively.

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

9. Cash and cash equivalents

The structure of cash and cash equivalents

	31 December		
	2018	2017	2016
Cash on hand	27,362	20,358	25,184
Cash on settlement accounts	147,944,053	142,896,201	214,232,806
Cash on foreign currency accounts	199,361,562	148,827,627	235,975,248
Cash on special bank accounts	2,381,080	169,909,980	1,738,436
Cash in transit	26,150	15,955	20,810
Total cash	349,740,207	461,670,121	451,992,484

Cash flows from operating activities recognised in line “Other Receipts” (line 4119) of the cash flow statement include on a net basis cash received from members of the consolidated group of taxpayers (CGT) (established in 2012) for the purpose of CGT income tax settlements in the amount of RUB 25,845,939 thousand and RUB 44,982,027 thousand in 2018 and 2017, respectively; advances received from buyers (customers) in the amount of RUB 23,810,012 thousand and RUB 16,274,087 thousand for 2018 and 2017, respectively; proceeds on a net basis from the payment of interest-free loans issued to subsidiaries in the amount of RUB 204,395,395 thousand and RUB 237,259,664 thousand for 2018 and 2017, respectively; net based indirect taxes related to operating activities that are presented within payments to suppliers and contractors

9. Cash and cash equivalents (continued)

and proceeds from buyers and customers in the amount of RUB 199,037,857 thousand and RUB 179,305,552 thousand for 2018 and 2017, respectively.

The line "Income Tax" (line 4124) includes a net based amount of the income tax attributable to the CGT in the amount of RUB 217,067,892 thousand and RUB 163,369,691 thousand for 2018 and 2017, respectively.

Cash flows from operating activities recognised in line "Other Payments" (line 4129) of the cash flow statement include contributions to subsidiaries' property in the amount of RUB 208,256,236 thousand and RUB 237,166,220 thousand for 2018 and 2017, respectively; interest-free loans issued to subsidiaries in the amount of RUB 481,020,250 thousand and RUB 126,933,339 thousand for 2018 and 2017, respectively; cash presented on a net basis used to pay customs duties in the amount of RUB 824,713,539 thousand and RUB 581,373,408 thousand for 2018 and 2017, respectively; advances made to suppliers (contractors) in the amount of RUB 1,698,392 thousand and RUB 4,135,432 thousand for 2018 and 2017, respectively; cash refunds to gas buyers due to adjusted gas prices in the amount of RUB 56,003,762 thousand in 2018 and RUB 28,403,206 thousand in 2017.

Cash flows from investing activities recognised in line "Other Receipts" (line 4219) of the cash flow statement include advances received from buyers (customers) in the amount of RUB 44,251,208 thousand and RUB 24,159 thousand for 2018 and 2017, respectively.

Payments in line "Other Payments" (line 4229) of the cash flow statement include on a net basis cash used to finance investment (agency) agreements in the amount of RUB 724,108,808 thousand and RUB 767,919,145 thousand for 2018 and 2017, respectively; net based indirect taxes related to investing activities that are presented within payments to suppliers and contractors and proceeds from buyers and customers amounted to RUB 17,975,418 thousand and RUB 11,816,986 thousand for 2018 and 2017, respectively.

10. Equity and reserves

Charter capital

The Company's charter capital amounts to RUB 118,367,564 thousand (23,673,513 thousand fully paid common shares with a nominal value of RUB 5 each) and it did not change in 2018.

In accordance with the decision of the general shareholders' meeting, final dividends on the Company's 2017 results were accrued in the amount of RUB 8.04 per one common share. Dividends paid amounted to RUB 190,005,139 thousand. Final dividends on the Company's 2016 results were accrued in the amount of RUB 8.0397 per one common share. Dividends paid amounted to RUB 190,041,808 thousand. Final dividends on the Company's 2015 results were accrued in the amount of RUB 7.89 per one common share. Dividends paid amounted to RUB 186,519,760 thousand.

Reserve capital

In 2018, 2017 and 2016 the Company did not make any contributions to the reserve fund from its net profit as the target limit of the fund was reached (7.3% of the charter capital).

11. Borrowings and loans

Bank loans

Lenders	Currency	Maturity	31 December		
			2018	2017	2016
Bank of China Limited ¹	Euro	2016–2021	114,817,269	138,992,332	128,788,525
Intesa Sanpaolo bank Luxembourg S.A.	Euro	2019–2023	95,704,875	–	–
JP Morgan Europe Limited ¹	Euro	2019–2023	87,728,983	–	–
JP Morgan Europe Limited ¹	Euro	2017–2022	79,509,501	68,912,807	–
China Construction Bank Corporation ¹	US dollars	2016–2020	61,150,510	75,698,833	92,626,940
Crédit Agricole CIB	Euro	2017–2022	56,070,419	48,595,092	–
UniCredit S.p.A.	Euro	2019–2025	55,932,676	–	–
UniCredit S.p.A.	Euro	2017–2022	55,676,582	27,573,578	–
Crédit Agricole CIB	Euro	2018–2023	47,782,247	–	–
JP Morgan Europe Limited ¹	Euro	2017–2020	42,415,662	55,141,188	–
Citibank EUROPE PLC ¹	Euro	2019–2023	33,792,054	–	–
Ing Bank, a branch of Ing-Diba AG	Euro	2018–2023	31,833,642	–	–
VTB Bank (Europe) SE	Euro	2017–2027	20,280,078	19,644,135	–
Deutsche Bank Luxembourg S.A.	Euro	2017–2022	15,943,348	13,817,775	–
BNP Paribas S.A. ¹	Euro	2016–2022	12,986,495	14,068,551	15,643,537
Citibank EUROPE PLC ¹	US dollars	2016–2021	6,402,883	7,420,405	10,042,189
UniCredit S.p.A.	Euro	2016–2019	3,672,175	9,547,800	14,744,782
Commerzbank AG	US dollars	2016–2035	3,260,191	2,482,937	2,401,484
Intesa Sanpaolo S.p.A.	Euro	2016–2019	1,705,279	4,433,349	6,847,842
JP Morgan Europe Limited ¹	US dollars	2016–2018	–	3,601,496	18,961,990
Total, including			826,664,869	489,930,278	290,057,289
Due within one year, including current portion of long-term loans			148,674,000	105,848,635	44,529,077

¹ Loans received from bank syndicates, named lender is the bank agent.

Total loans received in 2018 amounted to RUB 358,318,342 thousand, total loans and interest repaid in 2018 amounted to RUB 124,671,693 thousand (in 2017 total loans received amounted to RUB 259,149,340 thousand, total loans and interest repaid amounted to RUB 88,270,964 thousand and in 2016 total loans received amounted to RUB 152,558,600 thousand, total loans repaid amounted to RUB 74,573,747 thousand).

In 2016–2018, the Company used the credit facility of RUB 60,000,000 thousand that had been opened by Gazprombank (Joint Stock Company) in 2012 and was to be repaid in 2017. In 2017 this credit facility was extended to 2020. In 2016 and 2018 loans were not raised under this credit facility. In 2017 under this credit facility the Company raised and repaid a short-term loan in the amount of RUB 34,000,000 thousand at 8.5%.

In 2016–2018, the Company used the credit facilities of RUB 60,000,000 thousand and RUB 30,000,000 thousand that had been opened for the Company by PJSC Sberbank of Russia and PJSC Bank VTB in 2013, respectively, and were to be repaid in 2018. In 2018 these credit facilities were extended to 2023.

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

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

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

11. Borrowings and loans (continued)

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

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

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

In December 2017, the Company received a loan from UniCredit S.p.A. with the interest rate determined for each interest period at EURIBOR + 1.95% to be repaid in 2022. The first instalment in the amount of RUB 27,786,120 thousand was received in December 2017 and the second instalment in the amount of RUB 20,818,590 thousand was received in January 2018.

In June 2018, the Company received a loan from Crédit Agricole CIB in the amount of RUB 43,630,980 thousand with the interest rate determined for each interest period at EURIBOR + 1.60% to be repaid in 2023.

In August 2018, the Company received a loan from Ing Bank, a branch of Ing-Diba AG in the amount of RUB 31,870,600 thousand with the interest rate determined for each interest period at EURIBOR + 1.75% to be repaid in 2023.

In September 2018, the Company received a loan from UniCredit S.p.A. in the amount of RUB 54,852,910 thousand with the interest rate determined for each interest period at EURIBOR + 1.95% to be repaid in 2025.

In October 2018, the Company received a loan from JP Morgan Europe Limited in the amount of RUB 83,832,100 thousand with the interest rate determined for each interest period at EURIBOR + 1.60% to be repaid in 2023.

In October 2018, the Company received a loan from Intesa Sanpaolo bank Luxembourg S.A. in the amount of RUB 91,108,320 thousand with the interest rate determined for each interest period at EURIBOR + 1.75% to be repaid in 2023.

In December 2018, the Company received a loan from Citibank EUROPE PLC in the amount of RUB 32,204,843 thousand with the interest rate determined for each interest period at EURIBOR + 1.75% to be repaid in 2023.

In December 2018, the Company entered into a loan agreement with MUFG Bank, Ltd. for the amount of RUB 39,730,250 thousand with the interest rate determined for each interest period at EURIBOR + 1.60% to be repaid in 2023.

A fixed interest rate on long-term foreign currency loans was 8.868% in 2018, 2017 and 2016. In addition, LIBOR and EURIBOR rates were also used in 2016–2018.

The Company did not raise any short-term foreign currency loans in 2016–2018.

In 2016–2018, no long-term loans denominated in Russian Roubles were received.

In 2016, 2018, no short-term loans denominated in Russian Roubles were received.

Loans

Lenders	Currency	Maturity	31 December		
			2018	2017	2016
Gaz Capital S.A.	Euro	2024	217,995,928	119,810,113	–
Gazprom Sakhalin Holdings B.V.	US dollars	2019	168,924,671	176,317,264	265,703,391
Gaz Capital S.A.	US dollars	2022	163,191,615	135,307,162	142,487,577
Gaz Capital S.A.	US dollars	2019	159,039,913	131,864,858	138,862,599
Gaz Capital S.A.	Euro	2020	129,635,515	112,352,465	104,104,364
Gaz Capital S.A.	Euro	2021	98,552,611	85,413,544	79,143,103
Gaz Capital S.A.	US dollars	2037	89,211,539	73,968,017	77,893,316
Gaz Capital S.A.	US dollars	2034	84,622,301	70,162,939	73,886,312
Gaz Capital S.A.	Euro	2023	79,766,641	69,132,126	64,056,948

11. Borrowings and loans (continued)

Lenders	Currency	Maturity	31 December		
			2018	2017	2016
Gaz Capital S.A.	US dollars	2028	63,770,103	52,873,744	55,679,622
Gaz Capital S.A.	Euro	2026	60,762,791	–	–
Gaz Capital S.A.	US dollars	2020	56,438,302	46,794,722	49,278,003
Gaz Capital S.A.	Swiss francs	2023	53,562,984	–	–
Gaz Capital S.A.	US dollars	2027	52,805,037	43,782,272	–
Gaz Capital S.A.	US dollars	2021	42,779,996	35,470,203	37,352,519
Gaz Capital S.A.	Euro	2025	41,088,811	35,610,837	32,996,548
GazAsia Capital S.A.	Japanese yen	2028	40,963,211	–	–
Gaz Capital S.A.	Euro	2022	36,468,220	31,606,265	–
Gaz Capital S.A.	Swiss francs	2019	35,473,736	29,641,220	29,862,772
LLC Gazprom capital	Russian Roubles	2024	31,039,644	31,032,164	–
LLC Gazprom capital	Russian Roubles	2025	30,761,178	–	–
BO-22 series Russian bonds	Russian Roubles	2048	15,509,250	–	–
BO-23 series Russian bonds	Russian Roubles	2048	15,509,250	–	–
BO-19 series Russian bonds	Russian Roubles	2043	15,073,950	15,059,250	15,110,850
BO-20 series Russian bonds	Russian Roubles	2043	15,073,950	15,059,250	15,110,850
BO-7 series Russian bonds	Russian Roubles	2033	10,339,500	–	–
Gaz Capital S.A.	Euro	2018	–	219,979,610	203,830,305
Gaz Capital S.A.	US dollars	2018	–	64,507,181	67,930,417
Gaz Capital S.A.	Swiss francs	2018	–	29,572,847	29,793,888
Rosingaz Ltd.	Russian Roubles	2018	–	25,822,953	27,101,521
LLC Gazprom capital	Russian Roubles	2018	–	5,144,616	5,143,569
Gaz Capital S.A.	Euro	2017	–	–	157,395,103
Rosingaz Ltd.	Russian Roubles	2017	–	–	50,789,779
Gazprom Germania GmbH	Euro	2017	–	–	27,440,377
LLC Gazprom capital	Russian Roubles	2017	–	–	10,287,137
Loans as part of centralised management of Gazprom Group's cash flows	Russian Roubles	2019	276,554,919	251,307,449	31,391,426
Loans as part of centralised management of Gazprom Group's cash flows	US dollars	2019	17,174,040	1,114,914	2,532,155
Loans as part of centralised management of Gazprom Group's cash flows	Euro	2019	2,055,705	30,525,123	21,018,455
Loans as part of centralised management of Gazprom Group's cash flows	British Pound	2019	16,159	40,046	–
Total, including			2,104,161,470	1,939,273,154	1,816,182,906
due within one year, including current portion of long-term loans			682,952,466	823,350,600	617,831,585

Total loans received in 2018 amounted to RUB 2,040,700,182 thousand, total loans and interest repaid in 2018 amounted to RUB 2,233,692,040 thousand (total loans received in 2017 amounted to RUB 1,580,848,374 thousand, total loans and interest repaid amounted to RUB 1,549,255,191 thousand and total loans received in 2016 amounted to RUB 675,482,570 thousand, total loans repaid amounted to RUB 829,316,840 thousand).

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

11. Borrowings and loans (continued)

The loan agreement with Gazprom Sakhalin Holdings B.V. was effective in 2010–2018. In 2016, the Company raised a loan in the amount of RUB 3,347,229 thousand and repaid the principal amount and interest on the loan in the amount of RUB 84,703,521 thousand. In 2017, the Company raised a loan in the amount of RUB 78,058,047 thousand and repaid the principal amount and interest on the loan in the amount of RUB 158,669,403 thousand. In 2018, this loan was extended to 2019, the principal amount and interest on the loan in the amount of RUB 40,833,872 thousand were repaid. In 2018, the interest rate ranged from 1.69% to 3%, in 2017 the interest rate ranged from 1.69% to 2.07% and in 2016 it ranged from 1.71% to 3.60%.

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

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

In December 2016, the Company raised a long-term loan in the form of a revolving credit facility from Gazprom Germania GmbH maturing in December 2018. The first instalment in the amount of RUB 27,299,797 thousand was received in December 2016 with the interest rate determined at EURIBOR +1.07% to be repaid in 2017. In 2017 the instalment was fully repaid. The loan was not raised in 2018.

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

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

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

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

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

In February 2018, the Company raised four loans from LLC Gazprom capital in the amount of RUB 30,000,000 thousand maturing in 2025 at 7.35%.

In March 2018, the Company raised two loans from Gaz Capital S.A. related to the issue of loan participation notes of RUB 45,704 400 thousand maturing in 2023 at 1.45 % and RUB 53,426,025 thousand maturing in 2026 at 2.5%.

In July 2018, the Company raised three loans related to the issue of BO-7 series exchange-traded bonds of RUB 10,000,000 thousand maturing in 2033, BO-22 and BO-23 series exchange-traded bonds series of RUB 30,000,000 thousand maturing in 2048 at the interest rate of 8.10% set until 2025.

In November 2018, the Company raised a loan from Gaz Capital S.A. related to the issue of loan participation notes of RUB 75,535,800 thousand maturing in 2024 at 2.949%.

In December 2018, the Company raised a loan from GazAsia Capital S.A. related to the issue of loan participation notes of RUB 38,188,215 thousand maturing in 2028 at 1.01%.

In 2018, in order to centralise the management of Gazprom Group's cash flows, the Company raised Russian Rouble loans at the interest rate ranging from 0.00% to 10.05% maturing in 2019. Total loans received amounted to RUB 1,713,359,829 thousand, total loans and interest repaid amounted to RUB 1,692,073,518 thousand.

In 2018, in order to centralise the management of Gazprom Group's cash flows, the Company raised foreign currency loans at the interest rate ranging from 0.00% to 3.80625% maturing in 2019. Total loans received amounted to RUB 44,485,913 thousand, total loans and interest repaid amounted to RUB 62,543,070 thousand.

In 2018, no other Russian Rouble short-term loans were raised by the Company. Interest rate on other Russian Rouble short-term loans was 10.01% in 2017. In 2016 the interest rates ranged from 10.01% to 11.51%.

Interest rates on other Russian Rouble long-term loans ranged from 7.35% to 9.10% in 2018, from 7.65% to 10.01% in 2017 and from 1.50% to 11.51% in 2016.

11. Borrowings and loans (continued)

Interest rates on foreign currency long-term loans received from Gaz Capital S.A. related to the issue of loan participation notes ranged from 1.45% to 9.25% in 2018, from 2.15% to 9.25% in 2017 and from 2.65% to 9.25% in 2016.

Interest rates on other foreign currency long-term loans ranged from 1.01% to 3% in 2018, from 1.07% to 2.07% in 2017 and from 1.07% to 3.60% in 2016.

The loans (borrowings) not disbursed by the Company due to the lack of need amounted to RUB 113,994,321 thousand, RUB 76,498,135 thousand and RUB 70,580,402 thousand as at 31 December 2018, 2017 and 2016, respectively.

12. Taxation

Income tax

Income tax determined based on accounting profit (loss) and income tax statutory rates (20%, 13%, 0%) amounted to RUB 167,161,135 thousand (provisional income tax expense) and minus RUB 28,005,657 thousand (provisional income tax benefit) in 2018 and 2017, respectively. According to the Company's data, the current income tax was RUB 149,852,551 thousand and RUB 133,067,081 thousand in 2018 and 2017, respectively.

According to the amended tax returns submitted in 2018 for the period of 2015, the income tax decreased by RUB 18,245 thousand. According to the amended tax returns submitted in 2018 for the period of 2016, the income tax decreased by RUB 169,501 thousand. According to the amended 2017 tax return submitted in 2018, the income tax increase amounted to RUB 156,234 thousand. According to the amended 2015 tax return submitted in 2017, the income tax decrease amounted to RUB 784,995 thousand.

Permanent differences, which increase the taxable profit of the reporting year, amounted to RUB 649,852,084 thousand and RUB 697,843,382 thousand in 2018 and 2017, respectively. Permanent differences, which decrease the taxable profit, amounted to RUB 131,121,224 thousand and RUB 52,687,852 thousand in 2018 and 2017, respectively. In 2018, permanent differences increasing the taxable profit exceeded permanent differences decreasing the taxable profit by RUB 518,730,860 thousand. This resulted in the income tax amount calculated based on the taxable profit exceeding the provisional income tax expense by RUB 104,124,263 thousand. In 2017, permanent differences increasing the taxable profit exceeded permanent differences decreasing the taxable profit by RUB 645,155,530 thousand. This resulted in the income tax amount calculated based on the taxable profit exceeding the provisional income tax expense by RUB 129,690,013 thousand.

Deductible temporary differences amounted to RUB 324,396,013 thousand and RUB 533,713,371 thousand in 2018 and 2017, respectively; deductible temporary differences settled amounted to RUB 515,086,761 thousand and RUB 151,922,216 thousand in 2018 and 2017, respectively. In 2018, deductible temporary differences settled exceeded newly originated deductible temporary differences by RUB 190,690,748 thousand, which resulted in the decrease of the deferred tax asset by RUB 38,138,150 thousand. In 2017, newly originated deductible temporary differences exceeded deductible temporary differences settled by RUB 381,791,155 thousand, which resulted in the increase of the deferred tax asset by RUB 76,358,231 thousand.

In 2018, deductible temporary differences arose mainly due to the changes in estimated liabilities related to gas price adjustments, which resulted in the decrease in deductible temporary differences by RUB 85,155,437 thousand and the decrease in deferred tax assets by RUB 17,031,087 thousand.

In 2018, newly originated deductible temporary differences exceeded deductible temporary differences settled at the expense of the doubtful debt provision by RUB 165,172,815 thousand, which resulted in the increase of the deferred tax asset related to the doubtful debt provision by RUB 33,034,563 thousand.

In 2017, deductible temporary differences arose mainly due to the changes in the doubtful debt provision, which resulted in the increase in deductible temporary differences by RUB 63,011,901 thousand and the increase in deferred tax assets by RUB 12,602,380 thousand.

In 2018, deferred tax assets attributed to the decrease in the net profit and recorded in line "Other" (line 2460) of the statement of financial results amounted to RUB 1,974,888 thousand. In 2017, deferred tax assets attributed to the decrease in the net profit amounted to RUB 5,287 thousand.

12. Taxation (continued)

Taxable temporary differences amounted to RUB 558,619,126 thousand in 2018 and RUB 340,026,703 thousand in 2017. Taxable temporary differences settled amounted to RUB 142,279,355 thousand and RUB 105,216,525 thousand in 2018 and 2017, respectively. In 2018, newly originated taxable temporary differences exceeded taxable temporary differences settled by RUB 416,339,771 thousand, which resulted in the increase in the deferred tax liability by RUB 83,326,209 thousand. In 2017, newly originated taxable temporary differences exceeded taxable temporary differences settled by RUB 234,810,178 thousand, which resulted in the increase in the deferred tax liability by RUB 46,958,694 thousand.

Taxable temporary differences have arisen mainly due to the revaluation of securities, which resulted in the increase in the deferred tax liability by RUB 91,272,991 thousand in 2018 (in 2017 by RUB 26,356,663 thousand).

In 2018, deferred tax liabilities attributed to the increase in the net profit and recorded in line "Other" (line 2460) of the statement of financial results amounted to RUB 4,512,415 thousand. In 2017, deferred tax liabilities attributed to the increase in the net profit amounted to RUB 84,043 thousand.

The CGT was established in Gazprom Group from 1 January 2012. PJSC Gazprom is the responsible member of the CGT. The contract on creation of Gazprom Group CGT consisting of 56 members was registered with Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2 on 20 April 2012. In December 2012 an amendment to the contract on creation of Gazprom Group CGT was registered with Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2. In accordance with the amendment the number of CGT members was increased to 65 from 1 January 2013. In 2013 Supplement No. 2 of 26 November 2013 to the contract on creation of Gazprom Group CGT was registered with Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2. In accordance with the Supplement the number of CGT members was increased to 69 from 1 January 2014. In 2014 Supplement No. 3 of 26 November 2014 to the contract on creation of Gazprom Group CGT was registered with Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2. In accordance with the Supplement the number of CGT members was decreased to 65 from 1 January 2015. In 2015 Supplement No. 4 of 26 November 2015 to the contract on creation of Gazprom Group CGT was registered with Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2. In accordance with the Supplement the number of CGT members was increased to 67 from 1 January 2016. In 2017 Supplement No. 5 of 28 November 2017 to the contract on creation of Gazprom Group CGT was registered with Interregional Inspectorate of the Russian Federal Tax Service dealing with major taxpayers No. 2. In accordance with the Supplement the number of CGT members was decreased to 65 from 1 January 2018.

The income tax of CGT for 2018 and 2017 amounted to RUB 190,686,855 thousand and RUB 164,756,179 thousand, respectively.

Other taxes

VAT accrued upon dispatch (transfer) of goods (works, services, property rights) including VAT accrued upon receipt of payment, partial payment against forthcoming supplies of goods (works, services, property rights) and reversed amounts of previously accepted VAT with respect to payment, partial payment issued against forthcoming supplies of goods (works, services, property rights) totalled RUB 582,815,177 thousand and RUB 541,619,154 thousand for 2018 and 2017, respectively.

13. Accounts payable

As at 31 December 2018, 2017 and 2016 the balance sheet line "Advances from Customers" (line 1527) within accounts payable (payment expected within 12 months of the reporting date) includes advances of RUB 18,027,063 thousand, RUB 34,979,993 thousand and RUB 42,849,859 thousand, respectively, received by the Company from gas buyers under commission agreements between PJSC Gazprom and LLC Gazprom export in accordance with the terms and conditions of gas supply contracts.

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

13. Accounts payable (continued)

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

14. Sales

	2018	2017
Revenue from gas sales:		
in Russia	1,102,621,324	1,012,456,303
outside Russia, including:	2,579,286,439	1,859,455,934
to far abroad countries	2,268,043,665	1,593,880,506
	3,681,907,763	2,871,912,237
Revenue from leasing out assets	797,585,163	826,028,567
Revenue from sale of gas condensate and oil and gas refinery products	418,151,661	316,804,863
Revenue from sale of gas transportation services	257,023,320	268,080,347
Other	24,881,378	30,205,602
Total	5,179,549,285	4,313,031,616

Revenues from gas sales outside Russia include revenue from export gas sales through an agent as well. Revenues from sales of gas outside Russia in 2018 are reported on the basis of an upward adjustment in the amount of RUB 4,842,852 thousand with respect to gas supplies made in 2018, prices of which were revised in 2018. Revenues from sales of gas outside Russia in 2017 are reported on the basis of a downward adjustment in the amount of RUB 3,674,930 thousand with respect to gas supplies made in 2017, prices of which were revised in 2017.

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

	2018	2017
LLC Gazprom mezhregiongaz	913,412,071	830,441,973
Gazprom Marketing and Trading Ltd.	338,739,209	154,981,734

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

	2018	2017
Purchase cost of gas, including gas sold		
in Russia	647,841,962	585,110,921
outside Russia, including:	615,586,900	580,661,194
to far abroad countries	530,558,839	506,970,014
	1,263,428,862	1,165,772,115
Gas transportation costs, including gas sold		
in Russia	471,473,141	432,692,747
outside Russia, including:	941,085,744	846,713,636
to far abroad countries	863,969,735	768,138,047
	1,412,558,885	1,279,406,383
Cost of assets leasing out	798,836,422	825,081,512
Cost of purchased gas condensate, oil products and their refinery and transportation	276,507,047	252,805,720
Cost of gas transportation services	268,297,250	279,909,493
Cost of other sales	29,636,787	38,291,920
Total	4,049,265,253	3,841,267,143

16. Other income and expenses

	2018		2017	
	Income	Expenses	Income	Expenses
Exchange differences on foreign currency transactions	586,856,014	755,545,214	346,890,864	406,788,829
Market value revaluation of investments	456,364,954	42,934	132,288,141	–
Recognition/release of estimated liabilities related to gas price adjustments (Note 19)	54,514,374	24,876,384	7,114,897	68,624,463
Prior year profit (loss)	34,619,229	3,064,251	30,269,192	58,057,223
Investments impairment provision accrual/release	10,752,168	152,497	1,701,219	1,088,184
Sale of foreign currency	6,738,754	6,462,785	3,389,061	3,516,848
Doubtful debt provision accrual/release	4,162,283	172,765,191	157,246,143	45,893,329
Fines, penalties and forfeitures for breach of contract	771,427	11,410,943	44,770,881	272,943,017
Contributions to subsidiaries' property	–	208,256,236	–	237,166,220
Costs of mineral resources development	–	10,607,640	–	29,881,543
Charity expenses	–	35,020,389	–	27,296,706
Other	17,627,395	97,620,996	11,960,694	80,197,332
Total	1,172,406,598	1,325,825,460	735,631,092	1,231,453,694

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

In 2018, due to an increase in the share quotation of PJSC Gazprom neft, the Company recognised a gain of RUB 456,364,954 thousand from revaluation of investments at current market value as at 31 December 2018. Due to a decrease in the share quotation of JSC Latvijas Gaze, the Company recognised a loss in the amount of RUB 42,934 thousand from revaluation of investments at current market value as at 31 December 2018. Due to an increase in the share quotation of investees, the Company in 2017 recognised a gain in the amount of RUB 132,288,141 thousand from revaluation of investments at current market value as at 31 December 2017, including the shares of PJSC Gazprom neft in the amount of RUB 131,783,319 thousand and the shares of JSC Latvijas Gaze in the amount of RUB 504,822 thousand.

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

In 2018, the line "Prior Year Profit (Loss)" demonstrated a positive effect of gas price adjustment amounting to RUB 12,272,149 thousand. In 2017, the line "Prior Year Profit (Loss)" demonstrated a negative effect of gas price adjustment amounting to RUB 49,327,982 thousand. These adjustments relate to gas supplies of prior years for which price adjustments were agreed in 2018 and 2017, respectively.

The line "Contributions to Subsidiaries' Property" includes contributions paid into the property of subsidiaries under decisions adopted by the participant (the Company) in 2004–2018. As at 31 December 2018, 2017 and 2016, contributions in the subsidiaries' property that were to be made according to the taken decisions amounted to RUB 125,559,732 thousand, RUB 34,392,342 thousand and RUB 138,229,534 thousand, respectively.

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

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

The line "Other Expenses" includes pension contributions of RUB 1,923,127 thousand and RUB 1,967,665 thousand transferred to PJSC Gazprom's joint account in NPF Gazfond in 2018 and 2017, respectively. Non-state pensions shall be paid to employees of the Company when corresponding conditions are met.

17. Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the year by the weighted average number of common shares outstanding during the year. The weighted average number of shares outstanding during the year totalled 23,673,513 thousand for the years ended 31 December 2018, 2017 and 2016.

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

18. Related parties

Major 100% subsidiaries of PJSC Gazprom:

LLC Aviapredpriyatiye Gazprom avia	LLC Gazprom investproject
LLC Gaz-Oil	LLC Gazprom investholding
CJSC Gazprom Armenia	LLC Gazprom inform
LLC Gazprom VNIIGAZ	LLC Gazprom capital
LLC Gazprom gaznadzor	LLC Gazprom komplektatsiya
LLC Gazprom gazobezopasnost	LLC Gazprom Kyrgyzstan
LLC Gazprom geologorazvedka	LLC Gazprom mezhregiongaz
LLC Gazprom georesource	LLC Gazprom pererabotka
LLC Gazprom geotechnology	LLC Gazprom pitaniye
LLC Gazprom dobycha Irkutsk	LLC Gazprom proektirovaniye
LLC Gazprom dobycha Krasnodar	LLC Gazprom PHG
LLC Gazprom dobycha Kuznetsk	LLC Gazprom Russkaya
LLC Gazprom dobycha Nadym	LLC Gazprom svyaz
LLC Gazprom dobycha Noyabrsk	LLC Gazprom sotsinvest
LLC Gazprom dobycha Urengoy	LLC Gazprom SPG Vladivostok
LLC Gazprom dobycha shelf	LLC Gazprom SPG Saint-Petersburg
Yuzhno-Sakhalinsk	LLC Gazprom telecom
LLC Gazprom dobycha Yamburg	LLC Gazpromtrans
LLC Gazprom invest	OJSC Gazprom transgas Belarus
LLC Gazprom invest Vostok	LLC Gazprom transgaz Volgograd
LLC Gazprom transgaz Ekaterinburg	LLC Gazprom transgaz Ukhta
LLC Gazprom transgaz Kazan	LLC Gazprom transgaz Tchaikovsky
LLC Gazprom transgaz Krasnodar	LLC Gazprom transgaz Yugorsk
LLC Gazprom transgaz Makhachkala	LLC Gazprom flot
LLC Gazprom transgaz Moscow	LLC Gazprom tsentremont
LLC Gazprom transgaz Nizhny Novgorod	LLC Gazprom export
LLC Gazprom transgaz Samara	LLC Gazprom energo
LLC Gazprom transgaz Saint-Petersburg	LLC Gazprom energoholding
LLC Gazprom transgaz Saratov	LLC Novourengovskiy
LLC Gazprom transgaz Stavropol	gas chemical complex
LLC Gazprom transgaz Surgut	Nord Stream 2 AG
LLC Gazprom transgaz Tomsk	JSC Chechengazprom
LLC Gazprom transgaz Ufa	CJSC Yamalgazinvest

In November 2018, the Company acquired additional 5,248,471 common shares of CJSC Gazprom Armenia issued due to an increase in the charter capital for RUB 3,554,239 thousand.

In 2018, the Company made an additional contribution of RUB 19,415,900 thousand to the charter capital of LLC Gazprom energoholding. The increase in the charter capital was registered in June 2018 and February 2019.

In December 2018, the Company made an additional contribution of RUB 5,050,250 thousand to the charter capital of LLC Gaz-Oil. The increase in the charter capital was registered in February 2019.

In December 2018, the Company made an additional contribution of RUB 85,511,000 thousand to the charter capital of LLC Gazprom pererabotka. The change in the charter capital was registered in February 2019.

18. Related parties (continued)

In September 2018, the Company made an additional contribution to the charter capital of LLC Gazprom invest Vostok with property in the amount of RUB 35,027,133 thousand, as a result of which the Company's stake increased to 68.4577%. In December 2018, the Company acquired from LLC Factoring-Finance a 31.5423 % interest in the charter capital of LLC Gazprom invest Vostok for RUB 13,055,000 thousand, as a result of which the Company's stake increased to 100 %. As a result, the company was removed from the list of other major related parties and included in the list of major 100% subsidiaries.

Other major subsidiaries of PJSC Gazprom:

Company name	Share in the charter capital, %	Type of business	Location
LLC Achim Development	50.01%	Crude oil and associated gas production	Russia
JV OJSC Brestgazoapparat	51.0%	Manufacturing of household gas equipment	Belarus
OJSC Vostokgazprom	99.98%	Production, processing and sale of gas and gas condensate	Russia
JSC Gazprom Household Systems	99.99%	Manufacturing of household fuel utilisation equipment	Russia
LLC Gazpromviet	71.87199%	Exploration, oil and gas transportation and processing	Russia
PJSC Gazprom neft	95.68%	Oil production, processing and sale	Russia
LLC Gazprom torgservice	99.0%	Trading	Russia
OJSC Gazpromtrubinvest	99.87%	Manufacturing and sale of pipes	Russia
JSC Gazprom YRGM Development	75.0%	Sale of hydrocarbons	Russia
CJSC Gazprom YRGM Trading	75.0%	Gas production and sale, storage and transportation	Russia
JSC Daltransgaz	87.9999%	Gas transportation	Russia
OJSC Kamchatgazprom	92.25%	Production, processing and sale of gas and gas condensate	Russia
LLC Lazurnaya	99.69%	Hotel business	Russia
OJSC Severneftegazprom	40.0005%	Production, processing and sale of gas and gas condensate	Russia
JSC Tsentr-gaz	99.99%	Construction	Russia

In 2018, the Company made an additional contribution of RUB 883,030 thousand to the charter capital of LLC Gazpromviet. This resulted in the increase of the Company's stake in LLC Gazpromviet from 51.00% to 71.87199%.

In December 2018, the Company made an additional contribution of RUB 8,401,680 thousand to the charter capital of LLC Achim Development. The increase in the charter capital was registered in January 2019.

Major associates of PJSC Gazprom:

Company name	Share in the charter capital, %	Type of business	Location
OJSC Belgazprombank	49.8178 %	Banking	Belarus
Blue Stream Pipeline Company B.V.	50.0 %	Gas transportation	Netherlands
Gazprombank (Joint Stock Company)	29.76 % ¹	Banking	Russia
JSC Gaztransit	40.22 %	Construction, management and operation of industrial gas facilities	Ukraine
JSC EUROPOL GAZ	48.0 %	Gas transportation and sale	Poland
KazRosGas LLP	50.0 %	Gas transportation and sale	Kazakhstan
JSC Latvijas Gaze	34.0 %	Gas transportation and sale	Latvia
CJSC Leader	25.714 %	Trust management of NPF pension reserves, management of insurance companies and mutual funds	Russia
JSC Moldovagaz	50.0 %	Gas transportation and sale	Moldova

18. Related parties (continued)

Company name	Share in the charter capital, %	Type of business	Location
Nord Stream AG	51.0 %	Design, construction and operation of the North Stream pipeline section	Switzerland
CJSC Rosshelf	39.505 %	Gas production	Russia
South Stream Austria GmbH	50.0 %	Design, construction and operation of the South Stream pipeline section	Austria
South Stream Greece S.A.	50.0 %	Design, construction and operation of the South Stream pipeline section	Greece
South Stream Slovenia LLC	50.0 %	Design, construction and operation of the South Stream pipeline section	Slovenia
LLC Tsentrikasneftegaz	50.0 %	Exploration of oil and gas fields	Russia
JSC YugoRosGaz	50.0 %	Gas transportation and sale	Serbia

¹The share of voting stock is indicated.

In December 2018, the Company spent RUB 2,478,686 thousand to acquire additional 7,940,223,533 common shares of OJSC Belgazprombank. Share rights were registered in January 2019. This resulted in the increase of the Company's stake in OJSC Belgazprombank from 49.66% to 49.8178%.

Other major related parties

Bosphorus Gas Corporation A.S.	Gazprom Sakhalin Holdings B.V.
WIBG GmbH	LLC Gazprom sera
WIEH GmbH	LLC Gazprom szhizhenny gaz
WINGAS GmbH	Gazprom Holding Cooperatie U.A.
PJSC VNIPIgazdobycha	GAZPROM Switzerland AG
GASCADE Gastransport GmbH	Gazprom EP International B.V.
Gazprom Austria GmbH	JSC NPF GAZFOND (formerly NPF GAZFOND)
JSC Gazprom gazoraspredelenie	JSC Overgas Inc.
JSC Gazprom gazenergaset	PJSC OGK-2
GAZPROM Germania GmbH	OPAL Gastransport GmbH and Co. KG.
LLC Gazprom dobycha Astrakhan	CJSC Panrusgaz
LLC Gazprom dobycha Orenburg	PremiumGas S.p.A.
JSC Gazprom zarubezhneftegaz	CJSC Purgaz
(formerly CJSC Gazprom zarubezhneftegaz)	Rosingaz Ltd.
CJSC Gazprom invest Yug	South Stream Bulgaria A.D.
Gazprom Italia S.p.A.	South Stream Hungary Ltd.
Gazprom Marketing and Trading Ltd.	South Stream Serbia AG
LLC Gazprom neftekhim Salavat	South Stream Transport B.V.
LLC Gazprom nefte shelf	Sakhalin Energy Investment Company Ltd.
LLC Gazprom podzemremont Orenburg	JSC SOGAZ
LLC Gazprom podzemremont Urengoy	PJSC TGC-1
LLC Gazprom Resource Nortgaz	

As the Company ceased to participate in the charter capital of South Stream Transport B.V., it was removed from the list of major 100% subsidiaries and included in the list of other major related parties.

As the Company ceased to participate in the charter capitals of Gazprom Holding Cooperatie U.A., Gazprom EP International B.V., South Stream Serbia AG and Gazprom Sakhalin Holdings B.V., these companies were removed from the list of other major subsidiaries and included in the list of other major related parties.

As the Company ceased to participate in the charter capitals of South Stream Bulgaria A.D. and South Stream Hungary Ltd. these companies were removed from the list of major associates and included in the list of other major related parties.

18. Related parties (continued)

In December 2018, the Company received 446,025 common shares of JSC NPF GAZFOND for RUB 44,602 thousand issued as a result of the reorganisation of NPF GAZFOND by transforming into a joint-stock pension fund.

Related-party transactions

Figures for 2016 and 2017 are adjusted so as to follow the comparability principle of current and prior period accounting information concerning transactions with related parties.

PJSC Gazprom's transactions with major wholly owned subsidiaries

	2018	2017
Sale (net of VAT, excise, customs duties and similar payments):		
gas	1,253,263,363	1,148,165,807
leased assets	780,731,933	801,709,770
gas condensate and oil and gas refinery products	190,538,906	5,050,499
gas transportation services	7,721,737	3,315,837
Acquisition:		
gas transportation and storage services	1,186,118,712	1,173,825,732
gas	830,192,132	764,771,759
liquid hydrocarbons	98,247,697	87,298,779
liquid hydrocarbons refinery services	26,345,798	26,482,571

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

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

	31 December		
	2018	2017	2016
Accounts receivable	1,245,247,081	1,002,149,150	1,160,375,564
Accounts payable	552,216,303	439,587,933	377,707,330

Accounts receivable include outstanding interest-free loans given to the major wholly owned subsidiaries in the amount of RUB 532,162,968 thousand, RUB 131,620,261 thousand and RUB 241,967,475 thousand as at 31 December 2018, 2017 and 2016, respectively.

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

	31 December		
	2018	2017	2016
Loans due beyond 12 months of the reporting date	4,231,980	17,047,413	2,294,290
Loans due within 12 months of the reporting date	131,676,793	167,218,711	103,118,145

18. Related parties (continued)

Interest on loans that the Company granted to its major wholly owned subsidiaries was RUB 7,984,679 thousand, RUB 14,608,161 thousand and RUB 7,673,018 thousand in 2018, 2017 and 2016, respectively. The Company issued loans to its major wholly owned subsidiaries at the interest rates ranging from 6.00% to 16.16%, from 6.00% to 16.16% and from 8.27% to 16.16% in 2018, 2017 and 2016, respectively.

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

	31 December		
	2018	2017	2016
Loans due beyond 12 months of the reporting date	60,000,000	30,000,000	5,000,000
Loans due within 12 months of the reporting date	189,123,773	181,713,993	59,603,412

As at 31 December 2018, the Company had a debt on loans received from LLC Gazprom capital due beyond 12 months of the reporting date.

Interest on loans that the Company received from its major wholly owned subsidiaries was RUB 5,906,588 thousand, RUB 3,130,049 thousand and RUB 1,633,703 thousand in 2018, 2017 and 2016, respectively.

The Company received loans from its major wholly owned subsidiaries at the interest rates ranging from 0.00% to 9.26% in 2018, from 0.00% to 10.63% in 2017, and from 0.00% to 12.78% in 2016.

In 2018, the Company allocated cash of RUB 116,334,200 thousand for the increase of charter capitals of its major wholly owned subsidiaries (2017: RUB 213,896,005 thousand, 2016: RUB 26,115,760 thousand). These amounts included RUB 85,511,000 thousand to increase the charter capital of LLC Gazprom pererabotka (2017: RUB 112,132,869 thousand, 2016: RUB 14,598,000 thousand), RUB 0 thousand to increase the charter capital of Nord Stream 2 AG (2017: RUB 85,727,190 thousand, 2016: RUB 0 thousand), and RUB 911,784 thousand to increase the charter capital of LLC Gazprom Kyrgyzstan (2017: RUB 7,425,237 thousand, 2016: RUB 4,635,942 thousand).

In 2018, the Company made additional contributions to the charter capitals of its major wholly owned subsidiaries by way of non-monetary assets in the amount of RUB 511,139,025 thousand (2017: RUB 92,518 thousand, 2016: RUB 1,722,410 thousand).

Guarantees issued by the Company on behalf of its other major wholly owned subsidiaries totalled RUB 120,451,926 thousand, RUB 209,264,821 thousand and RUB 168,039,156 thousand as at 31 December 2018, 2017 and 2016, respectively.

Transactions with other major subsidiaries

	2018	2017
Sale (net of VAT, excise, customs duties and similar payments):		
gas transportation services	52,602,352	53,304,256
Acquisition:		
gas	126,653,000	113,635,728
gas condensate, oil and oil and gas refinery products	24,254,276	36,653,845

Prices of gas sold to other major subsidiaries were set up based on the contracts made between the parties and effective Price Lists named Internal Settlement (Wholesale) Prices of Gas and Internal Settlement Tariffs for Gas Transportation and Storage Services for PJSC Gazprom Entities as amended from time to time.

18. Related parties (continued)

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

	31 December		
	2018	2017	2016
Accounts receivable	106,081,150	46,905,199	1,042,907
Accounts payable	18,187,047	20,312,637	21,338,674

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

	31 December		
	2018	2017	2016
Loans due within 12 months of the reporting date	1,961,169	2,803,559	4,036,595

As at 31 December 2018, 2017 and 2016, loans due within 12 months of the reporting date are presented by the loans of RUB 1,004,590 thousand, RUB 1,896,905 thousand and RUB 3,129,941 thousand, respectively, given to JSC Daltransgaz.

Interest on loans that the Company granted to its other major subsidiaries was RUB 167,134 thousand, RUB 228,288 thousand and RUB 300,482 thousand in 2018, 2017 and 2016, respectively.

The Company granted loans to its other major subsidiaries at the interest rates ranging from 6.02% to 8.95% in 2018, and from 6.02% to 8.48% in 2017 and 2016.

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

	31 December		
	2018	2017	2016
Loans due within 12 months of the reporting date	1 931 498	1 428 004	–

Interest on loans that the Company received from its other major subsidiaries was RUB 139,624 thousand and RUB 78,367 thousand in 2018 and 2017, respectively.

The Company received loans from its other major subsidiaries at interest rates ranging from 7.81% to 9.71% in 2018, and from 7.99% to 9.80% in 2017.

In 2016, the Company did not receive loans from other major subsidiaries.

Transactions with major associates

	2018	2017
Sale (net of VAT, excise, customs duties and similar payments):		
gas	77,799,801	62,470,933
Acquisition:		
gas transportation and storage services, including through LLC Gazprom export acting as the commissioner	101,847,497	91,508,378
	97,398,288	87,094,374

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

18. Related parties (continued)

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

	31 December		
	2018	2017	2016
Accounts receivable	437,243,075	351,375,281	349,886,237
Accounts payable	10,360,492	9,030,201	8,260,585

As at 31 December 2018, 2017 and 2016 the doubtful debt provisions of RUB 408,674,201 thousand, RUB 318,531,962 thousand and RUB 321,711,205 thousand, respectively, were formed in respect to receivables from major associates.

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

	31 December		
	2018	2017	2016
Loans due beyond 12 months of the reporting date	2,478,686	4,957,373	4,957,373
Loans due within 12 months of the reporting date	3,985,204	3,945,203	3,890,869

As at 31 December 2018, 2017 and 2016, loans due beyond 12 months of the reporting date are presented by the debt of Belgazprombank, a joint Belarusian-Russian open joint-stock company.

As at 31 December 2018, 2017 and 2016, loans due within 12 months of the reporting date are presented by the debt of LLC TsentrKaspneftegaz.

Interest on loans given by the Company to its major associates was RUB 714,898 thousand, RUB 859,582 thousand and RUB 776,935 thousand in 2018, 2017 and 2016, respectively.

In 2018, the Company granted loans to its major associates at the interest rates ranging from 8.25% to 8.27% (2017: from 8.25% to 11.50%, 2016: from 8.25% to 11.50%).

Deposits placed with Gazprombank (Joint Stock Company) totalled RUB 649,726,410 thousand, RUB 289,002,177 thousand and RUB 142,229,915 thousand as at 31 December 2018, 2017 and 2016, respectively.

	31 December		
	2018	2017	2016
Deposits due beyond 12 months of the reporting date	–	–	42,229,915
Deposits due within 12 months of the reporting date	649,726,410	289,002,177	100,000,000

No loans were raised from the major associates in 2018, 2017 and 2016.

No borrowings were raised from the major associates in 2018 and 2016.

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

Guarantees issued by the Company on behalf of its major associates amounted to RUB 49,539,630 thousand as at 31 December 2018, 2017 and 2016.

18. Related parties (continued)

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

Line code	Narrative	For reporting period	including, major subsidiaries and associates	For the same period of the prior year	including, major subsidiaries and associates
Cash flows from operating activities					
4110	Receipts — total, including:	6,276,739,085	2,632,353,235	5,378,154,237	2,444,160,181
4111	sales of products, goods, work and services	5,782,659,142	2,388,611,522	4,875,429,260	2,152,607,201
4112	rent payments, licence payments, royalties, commissions and other payments	–	–	–	–
4113	resale of financial investments	–	–	–	–
4119	other receipts	494,079,943	243,741,713	502,724,977	291,552,980
4120	Payments — total, including:	(5,381,641,144)	(3,106,067,933)	(4,509,610,218)	(2,684,304,731)
4121	to suppliers for raw materials, works, services	(3,222,632,119)	(2,451,013,291)	(3,030,415,380)	(2,314,224,279)
4122	wages and salaries	(46,646,550)	–	(42,608,602)	–
4123	interests on borrowings	(103,720,787)	(5,186,980)	(99,506,161)	(2,493,153)
4124	income tax	(217,067,892)	–	(163,369,691)	–
4129	other payments	(1,791,573,796)	(649,867,662)	(1,173,710,384)	(367,587,299)
4100	Net cash flows from operating activities	895,097,941	(473,714,698)	868,544,019	(240,144,550)
Cash flows from investing activities					
4210	Receipts — total, including:	1,160,757,011	1,000,987,351	706,885,856	426,832,195
4211	from sales of non-current assets (except for financial investments)	8,770,965	7,709,827	5,951,466	426,710
4212	from sales of shares of other entities (ownership interest)	1,062,002	–	–	–
4213	from return of loans issued, sales of debt securities (rights of claiming cash from third parties)	744,859,075	688,334,045	369,403,661	227,145,443
4214	dividends, interest on debt financial investments and receipts from participation in other entities	354,428,505	255,663,465	331,314,197	199,128,347
4219	other receipts	51,636,464	49,280,014	216,532	131,695

18. Related parties (continued)

Line code	Narrative	For reporting period	including, major subsidiaries and associates	For the same period of the prior year	including, major subsidiaries and associates
4220	Payments – total, including:	(2,166,884,803)	(2,022,995,345)	(1,677,224,818)	(1,481,615,266)
4221	acquisition, construction, modernisation, reconstruction and preparation for the use of non-current assets	(76,020,518)	(17,396,465)	(44,580,504)	(22,740,496)
4222	acquisition of other entities shares (ownership interest)	(142,379,327)	(128,097,596)	(215,961,839)	(213,896,006)
4223	acquisition of debt securities (rights of claiming cash from third parties), issue of loans to third parties	(1,169,619,490)	(1,125,704,012)	(606,337,879)	(454,358,958)
4224	borrowing costs included in the cost of the investment asset	–	–	–	–
4225	construction/acquisition of exploration assets	(34,457,278)	(34,328,154)	(27,731,204)	(27,694,554)
4229	other payments	(744,408,190)	(717,469,118)	(782,613,392)	(762,925,252)
4200	Net cash flows from investing activities	(1,006,127,792)	(1,022,007,994)	(970,338,962)	(1,054,783,071)
Cash flows from financing activities					
4310	Receipts – total, including:	776,806,918	93,014,566	749,666,618	157,999,897
4311	borrowings and bank loans	736,365,273	93,014,566	749,623,470	157,999,897
4312	contributions of owners (participants)	–	–	–	–
4313	issue of shares, increase in ownership interest	–	–	–	–
4314	issue of bonds, promissory notes and other debt securities, etc.	39,995,000	–	–	–
4319	other receipts	446,645	–	43,148	–
4320	Payments – total, including:	(818,860,317)	(60,327,755)	(634,473,740)	(12,733,065)
4321	to owners (participants) due to the fact of share buy-back or cessation of membership	–	–	–	–
4322	dividend payments or other distribution of profit to owners (participants)	(186,870,622)	–	(186,827,990)	–
4323	redemption (buy-back) of promissory notes and other debt securities, loan repayment	(631,989,695)	(60,327,755)	(447,645,750)	(12,733,065)
4329	other payments	–	–	–	–
4300	Net cash flows from financing activities	(42,053,399)	32,686,811	115,192,878	145,266,832
4400	Net cash flows for the reporting period	(153,083,250)	(1,463,035,881)	13,397,935	(1,149,660,789)

18. Related parties (continued)

Transactions with other major related parties

	2018	2017
Sale (net of VAT, excise, customs duties and similar payments)		
gas	846,893,673	524,060,049
gas condensate, oil and oil and gas refinery products	133,681,449	259,271,008
gas transportation services leased assets	19,421,973	24,436,267
leased assets	14,053,151	20,933,199
Acquisition:		
gas	226,546,297	226,840,728
gas transportation and storage services, including	34,021,424	23,815,642
through LLC Gazprom export acting as the commissioner	33,998,443	23,795,766
liquid hydrocarbons	80,750,586	53,779,689
liquid hydrocarbons refinery services	10,130,863	15,606,962

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

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

	31 December		
	2018	2017	2016
Accounts receivable	347,099,744	197,262,436	269,580,437
Accounts payable	51,019,221	49,127,867	62,465,455

As at 31 December 2018, doubtful debt provision was formed for accounts receivable from other major related parties in the amount of RUB 7,307,002 thousand. As at 31 December 2017, doubtful debt provision was formed for accounts receivable from other major related parties in the amount of RUB 6,058,459 thousand.

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

	31 December		
	2018	2017	2016
Loans due beyond 12 months of the reporting date	174,618,302	129,701,194	93,714,910
Loans due within 12 months of the reporting date	4,851,704	–	44,088,611

As at 31 December 2018 and 2017, loans due beyond 12 months are represented by the debt of South Stream Transport B.V. of RUB 159,318,302 thousand and RUB 100,201,194 thousand, respectively. As at 31 December 2016, loans due beyond 12 months are represented by the debt of Gazprom EP International B.V. Loans due within 12 months are represented by the debt of South Stream Transport B.V. as at 31 December 2018 and the debt of PJSC OGK-2 of RUB 32,100,000 thousand as at 31 December 2016.

Interest on loans that the Company granted to its other major related parties in 2018 amounted to RUB 6,069,798 thousand (2017: RUB 4,290,542 thousand, 2016: RUB 7,435,679 thousand).

In 2018 the Company granted loans to its other major related parties at interest rates ranging from 1.13% to 8.47% (2017: from 1.13% to 10.50%, 2016: from 3.19% to 10.50%).

18. Related parties (continued)

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

	31 December		
	2018	2017	2016
Loans due within 12 months of the reporting date	223,796,529	297,992,848	375,273,951

As at 31 December 2018, 2017 and 2016, loans due within 12 months are represented basically by the loan payable to Gazprom Sakhalin Holdings B.V. in the amount of RUB 168,924,671 thousand, RUB 176,317,264 thousand and RUB 265,703,391 thousand, respectively.

Interest on loans that the Company received from other major related parties was RUB 5,516,443 thousand, RUB 7,657,611 thousand and RUB 17,228,553 thousand in 2018, 2017 and 2016, respectively, including interest on the loan received from Gazprom Sakhalin Holdings B.V. amounting to RUB 3,878,648 thousand, RUB 3,366,105 thousand and RUB 8,967,880 thousand in 2018, 2017 and 2016, respectively.

Interest on loans that the Company received from its other major related parties varied from 0% to 9.79% in 2018, from 0.00% to 10.01% in 2017 and from 0.00% to 11.51% in 2016.

Guarantees issued by the Company on behalf of its other major related parties totalled RUB 11,160,054 thousand, RUB 9,748,740 thousand and RUB 10,787,980 thousand as at 31 December 2018, 2017 and 2016, respectively.

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

	2018	2017
Cash inflow, including:	1,363,645,024	1,513,941,209
from operating activities	1,221,485,938	1,069,070,738
from financing activities	30,329,858	172,600,241
from investing activities	111,829,228	272,270,230
Cash outflow, including:	570,587,062	744,622,585
from operating activities	382,824,665	363,465,998
from financing activities	134,238,017	239,603,791
from investing activities	53,524,380	141,552,796

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

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

Remuneration to key management personnel

Short-term compensation of key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom), including salary, bonuses and remuneration for membership in the management bodies of the Company, amounted to RUB 3,362,403 thousand, RUB 3,268,992 thousand and RUB 3,196,598 thousand for the years ended 31 December 2018, 2017 and 2016, respectively. Such amounts include personal income tax and insurance contributions. Government employees, who are members of the Board of Directors, do not receive any remuneration from the Company. Remuneration of members of the Board of Directors shall be approved by the annual meeting of shareholders. Compensation of key management personnel (other than remuneration of the Board of Directors) is determined by the terms of employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to the Russian legislation, the Company makes contributions for compulsory pension coverage, compulsory social insurance against temporary disability and maternity, compulsory medical insurance, insurance against accidents at work and occupational diseases

18. Related parties (continued)

calculated on the basis of salaries and other payments to employees, including the key management personnel.

The Company also provided medical insurance for its key management personnel. Voluntary medical insurance contributions amounted to RUB 12,420 thousand, RUB 12,781 thousand and RUB 6,914 thousand in 2018, 2017 and 2016, respectively.

In 2018, the Company made contributions under non-state pension agreements with JSC NPF GAZFOND to individual retirement accounts of its key management personnel totalling RUB 30,300 thousand.

19. Estimated and contingent liabilities

Estimated liabilities

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

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

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

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

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

The Company recognises estimated liabilities with respect to the removal of the infrastructure facilities and soil remediation of the Kirinskoye gas and condensate field, the Kovyktinskoye gas and condensate field, the Chayandinskoye oil, gas and condensate field, the Chikanskoye gas and condensate field, as well as estimated liabilities with respect to removal of the infrastructure facilities of the Kirinskoye prospective area. The amount of estimated liabilities was recalculated using the discount rate as at the end of each reporting period during 2018.

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

Pension liabilities

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

19. Estimated and contingent liabilities (continued)

Estimated liabilities related to gas and other products price adjustments

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

The estimated liabilities related to gas price adjustments of RUB 33,300,107 thousand, RUB 118,455,544 thousand and RUB 81,437,436 thousand as at 31 December 2018, 2017 and 2016, respectively, do not include any potential adjustment of customs duties accrued earlier.

Contingencies

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

	31 December		
	2018	2017	2016
Guarantees issued on behalf of the following entities:			
Nord Stream 2 AG	89,697,597	89,697,597	–
JSC Gazprom Space Systems	58,663,443	51,004,886	48,166,909
Nord Stream AG	49,539,630	49,539,630	49,539,630
LLC Stroygazconsulting	41,500,000	41,500,000	–
LLC Novourengovskiy gas chemical complex	19,312,266	109,650,620	151,940,736
LLC Gazprom export	11,442,063	9,916,604	9,188,599
LLC Gazprom neft shelf	11,160,054	9,748,740	10,787,980
Blackrock Capital Investments Ltd.	–	1,572,216	4,967,513
JSC NIPIgazpererabotka	11,133,949	470,496	–
LLC Gazprom pererabotka Blagoveshchensk	6,337,755	–	–
LLC Amur TPP	2,517,184	–	–
LLC Gazprom investproject	–	–	6,909,821
PJSC Gazprom avtomatizatsiya	–	–	1,930,000
Other	342,455	56,926	8,286
Total	301,646,396	363,157,715	283,439,474

The Company pledged the following assets as guarantees:

	31 December		
	2018	2017	2016
Shares of JSC EUROPOL GAZ	44,024,544	–	–
Total	44 024,544	–	–

In January 2007, the Company issued guarantees for the liabilities of LLC Gazprom neft shelf to Blueward Shipping Company Ltd. and Nostalgic Moon Shipping Company Ltd. under shipping agreements. The guarantees will be valid for 25 years after the vessels are transferred to LLC Gazprom neft shelf. As at 31 December 2018, 2017 and 2016 the guarantees totalled RUB 11,160,054 thousand, RUB 9,748,740 thousand and RUB 10,787,980 thousand, respectively.

In 2006, the Company issued guarantees to Asset Repackaging Trust Five B.V. registered in the Netherlands, for Blackrock Capital Investments Limited registered in Ireland in respect to the issued bonds maturing in June 2018. The bonds were issued to raise financing for construction of a transit gas pipeline in the territory of Poland to be carried out by JSC EUROPOL GAZ. As at 31 December 2017 and 2016, the guarantee amounted to RUB 1,572,216 thousand and RUB 4,967,513 thousand, respectively. In June 2018, as Blackrock Capital Investments Ltd. had fulfilled its payment obligations related to bonds, the guarantee agreement was terminated.

19. Estimated and contingent liabilities (continued)

In April 2010, the Company pledged the shares of Nord Stream AG to Societe Generale Bank for the period until December 2027 to secure the obligations of Nord Stream AG under the project financing agreement. The guarantee amounted to RUB 49,539,630 thousand as at 31 December 2018, 2017 and 2016.

In May 2010, the Company issued a guarantee valid till October 2023 to Bank BNP Paribas S.A. as a security of the loan granted to JSC Gazprom Space Systems. As at 31 December 2018, 2017 and 2016, the guarantee amounted to RUB 7,064,394 thousand, RUB 8,100,845 thousand and RUB 8,410,609 thousand, respectively.

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

In September 2013, the Company issued a guarantee valid till September 2018 to Bank of America Securities Ltd. as a security of the loan granted to JSC Gazprom Space Systems. As at 31 December 2017 and 2016, the guarantee amounted to RUB 8,801,191 thousand and RUB 9,362,026 thousand, respectively. In July 2018, JSC Gazprom Space Systems discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

In October 2013, the Company issued a guarantee valid till October 2018 to Bank of America Securities Ltd. as a security of the loan granted to LLC Novourengovskiy gas chemical complex. As at 31 December 2017 and 2016, the guarantee amounted to RUB 17,695,639 thousand and RUB 18,586,920 thousand, respectively. In October 2018, LLC Novourengovskiy gas chemical complex discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

In December 2013, the Company issued a guarantee valid till December 2018 to UniCredit Bank Austria AG as a security of the loan granted to LLC Novourengovskiy gas chemical complex. As at 31 December 2017 and 2016, the guarantee amounted to RUB 11,773,797 thousand and RUB 12,366,748 thousand, respectively. In December 2018, LLC Novourengovskiy gas chemical complex discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

In January 2014, the Company issued a guarantee valid till December 2018 to PJSC Sberbank of Russia as a security of the loan granted to LLC Novourengovskiy gas chemical complex. As at 31 December 2017 and 2016, the guarantee amounted to RUB 8,830,347 thousand and RUB 9,275,061 thousand, respectively. In December 2018, LLC Novourengovskiy gas chemical complex discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

In September 2014, the Company issued a guarantee valid till September 2019 to UniCredit Bank Austria AG as a security of the loan granted to JSC Gazprom Space Systems. As at 31 December 2017 and 2016, the guarantee amounted to RUB 4,316,605 thousand and RUB 3,999,911 thousand, respectively. In June 2018, JSC Gazprom Space Systems discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

In September 2015, the Company issued a guarantee valid till July 2021 to PJSC Sberbank of Russia as a security of the loan granted to LLC Novourengovskiy gas chemical complex. As at 31 December 2017 and 2016, the guarantee amounted to RUB 44,614,104 thousand and RUB 46,869,838 thousand, respectively. In June 2018, LLC Novourengovskiy gas chemical complex discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

In September 2015, the Company issued a guarantee valid till September 2023 to PJSC Sberbank of Russia as a security of the loan granted to LLC Novourengovskiy gas chemical complex. As at 31 December 2018, 2017 and 2016, the guarantee amounted to RUB 19,312,266 thousand, RUB 16,736,733 thousand and RUB 15,508,422 thousand, respectively.

In October 2015, the Company issued a guarantee valid till October 2020 to PJSC Bank VTB as a security of the loan granted to JSC Gazprom Space Systems. As at 31 December 2017

19. Estimated and contingent liabilities (continued)

and 2016, the guarantee amounted to RUB 5,484,012 thousand and RUB 6,771,413 thousand, respectively. In May 2018, JSC Gazprom Space Systems discharged its loan obligations, and the guarantee agreement was, therefore, terminated.

In June 2016, the Company issued a guarantee valid till June 2021 to UniCredit Bank Austria AG to secure the loan issued to JSC Gazprom Space Systems. As at 31 December 2018, 2017 and 2016, the guarantee amounted to RUB 21,567,744 thousand, RUB 24,302,233 thousand and RUB 19,622,950 thousand, respectively.

In August 2017, the Company pledged the shares of Nord Stream 2 AG to GLAS Trustees Limited for the period until December 2038 to secure the obligations of Nord Stream 2 AG under the project financing agreement. The guarantee amounted to RUB 89,697,597 thousand as at 31 December 2018 and 2017.

In March and December 2017, the Company issued guarantees to Linde AG to secure payment obligations of JSC NIPIgazpererabotka. As at 31 December 2018, obligations secured with these guarantee amounted to RUB 11,133,949 thousand, as at 31 December 2017 — RUB 470,496 thousand.

In December 2017, the Company issued a guarantee valid till June 2028 to Gazprombank (Joint Stock Company) to secure the loan provided to LLC Stroygazconsulting. The guarantee issued amounted to RUB 41,500,000 thousand as at 31 December 2018 and 31 December 2017. As obligations of LLC Stroygazconsulting under the loan agreement were discharged, the guarantee agreement was terminated in January 2019.

In May 2018, the Company issued a guarantee valid till November 2023 to PJSC Sberbank of Russia as a security of the loan granted to JSC Gazprom Space Systems. As at 31 December 2018, the guarantee amounted to RUB 30,031,305 thousand.

In June 2018, the Company pledged shares of JSC EUROPOL GAZ to LLC Gazprom export to secure its obligations under a share purchase agreement. The pledge is valid until ownership of shares is transferred to LLC Gazprom export. As at 31 December 2018, the pledge value of shares amounted to RUB 44,024,544 thousand.

In December 2018, the Company issued a guarantee valid till December 2021 to UniCredit S.p.A. as a security of the loan granted to LLC Gazprom pererabotka Blagoveshchensk. As at 31 December 2018, the guarantee amounted to RUB 6,337,755 thousand.

In December 2018, the Company issued a guarantee valid till November 2030 to Gazprombank (Joint Stock Company) to secure the loan provided to LLC Amur TPP. As at 31 December 2018, the guarantee amounted to RUB 2,517,184 thousand.

In January 2019, the Company issued a guarantee valid till June 2028 to Gazprombank (Joint Stock Company) to secure the loan provided to LLC MK-1. The guarantee amounted to RUB 95,891,000 thousand.

Based on the Company's estimates, there are no third party liability secured by PJSC Gazprom's guarantee with any significant risk of default as at 31 December 2018, 2017 and 2016. The Company, therefore, did not record estimated liabilities for the issued guarantees as of 31 December 2018, 2017 and 2016.

Legal proceedings

On 22 January 2016, the Antimonopoly Committee of Ukraine decided to impose a fine on PJSC Gazprom in the amount of UAH 85,966 million (about USD 3.37 billion) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed an appeal with the Kiev Commercial Court challenging the decision by the Antimonopoly Committee of Ukraine. In April 2017 the Antimonopoly Committee of Ukraine filed a demand with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of UAH 171,932 million (about USD 6.4 billion). On 12 May 2017, PJSC Gazprom was served via its Kiev-based representative office Orders of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover the amount of UAH 189,125 million (at the exchange rate as of 31 December 2018 — RUB 474,148 million), including an execution fee of UAH 17,193 million (at the exchange rate as of 31 December 2018 — RUB 43,104 million). PJSC Gazprom was later served via its Kiev-based representative office Orders of the Department of the State Executive Service of the Ministry of Justice of Ukraine on seizure of the accounts of the Kiev-based representative office of PJSC Gazprom, dividends due to PJSC Gazprom from the participation in JSC Gaztransit,

19. Estimated and contingent liabilities (continued)

the shares of JSC Gaztransit owned by PJSC Gazprom, the shares of PJSC YUZHNIIGIPROGAZ Institute, a participation stake in LLC Gazprom sbyt Ukraine and LLC International Consortium for the Ukrainian Gas Transmission System Management and Development. The shares of PJSC YUZHNIIGIPROGAZ Institute with a nominal value of UAH 651,500 (estimated value — UAH 6,241,386) were sold on 22 August 2018 in a forced sale auction. On 26 October 2018 pursuant to the the UNCITRAL Arbitration Rules PJSC Gazprom commenced an arbitration against Ukraine to protect its investments in Ukraine due to the fact that Ukraine represented by the Antimonopoly Committee of Ukraine had imposed a groundless and unfair fine on PJSC Gazprom, which means that it violated PJSC Gazprom's rights guaranteed by the Agreement between the Government of the Russian Federation and the Cabinet of Ministers of Ukraine on the Encouragement and Mutual Protection of Investments dated 27 November 1998. The procedural schedule was not compiled as at 31 December 2018.

On 28 February 2018 the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, rejected a request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the European Union to the Contract. The Arbitration Institute rejected a request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under Contract No. TKGU to PJSC Ukrtransgaz or to another TSO. The Arbitration Institute satisfied the demand of NJSC Naftogaz of Ukraine to oblige Gazprom to pay USD 4,673 million for having provided less gas for transit to European consumers than stipulated in the Contract. With consideration for the amount awarded to PJSC Gazprom under the supply contract, the Arbitration Institute set off counterclaims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million to NJSC Naftogaz of Ukraine. In March 2018, PJSC Gazprom filed with the Court of Appeal a petition to challenge stated final award of 28 February 2018 and to annul it partially.

On 29 May 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking actions to enforce the arbitration award in Switzerland. On 5 June 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking similar actions in the Netherlands.

On 22 June 2018 PJSC Gazprom received an order of the High Court of Justice (the United Kingdom) dated 18 June 2018 for the seizure of PJSC Gazprom's assets in the United Kingdom as requested by NJSC Naftogaz of Ukraine as part of its efforts to enforce the above mentioned arbitration award and the decision of the court of first instance dated 8 June 2018 on the enforcement of this decision. On 13 September 2018 the High Court of England and Wales cancelled its order dated 18 June 2018 to seize PJSC Gazprom's assets in England and Wales.

On 20 April 2018 PJSC Gazprom filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration seeking amendment or termination of contracts with NJSC Naftogaz of Ukraine for gas supply and gas transit through the territory of Ukraine in order to restore the balance between contractual obligations and eliminate disproportions in terms of the parties' contractual liabilities. On 22 May 2018, NJSC Naftogaz of Ukraine filed counter-claims in respect of the gas supply and transit contracts. On 10 July 2018, NJSC Naftogaz of Ukraine filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration for changing of the tariff for gas transit through Ukraine starting from 18 March 2018 and for enforced recovery from PJSC Gazprom of USD 11.58 billion for the period from 18 March 2018 until the expiration date of the effective gas transit contract (until 31 December 2019). PJSC Gazprom filed a response to this request for arbitration. On 6 September 2018, the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, decided to consolidate these proceedings. A new arbitration panel was formed on 28 December 2018. The hearings in the case are scheduled for April-May 2021.

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

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and frequent change. As of 31 December 2018, the management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency and customs positions will be sustained.

19. Estimated and contingent liabilities (continued)

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

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

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

20. Subsequent events

After 31 December 2018, there have been no events that have affected or may affect the financial position, cash flows or financial performance of the Company, other than those disclosed in other sections hereof.

21. Business risks

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

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

22. Information on production innovations and upgrade

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

Chief Executive Officer _____ A.B. Miller
(signature)

Chief Accountant _____ E.A. Vasilieva
(signature)

29 March 2019

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Independent Auditor's Report (Translation from Russian original)

To the Shareholders and the Board of Directors of PJSC Gazprom

Opinion

We have audited the accompanying consolidated financial statements of Public Joint Stock Company Gazprom ("PJSC Gazprom") and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Key Audit Matters

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

Revenue recognition

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

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

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

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

Impairment of property, plant and equipment

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

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

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

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

Allowance for expected credit losses in respect of accounts receivable

One of high-risk audit areas is the evaluation of sufficiency of the allowance for expected credit losses in respect of accounts receivable. Due to the need to exercise professional judgment and make estimates to calculate the allowance for expected credit losses and the material amount of accounts receivable, we consider this area to be one of the most significant audit areas.

Our audit procedures included the assessment of the methodology used to calculate expected credit losses that had been developed by the Group in accordance with IFRS 9 Financial Instruments to estimate the allowance for expected credit losses. We assessed the assumptions and professional judgments applied by the Group's management to estimate the allowance on a collective and individual basis. We paid special attention to critical assessment of the information used by the Group to assess the risk of default based on inputs and the information about current conditions and forecasts of future economic conditions.

Based on the results of the audit procedures performed, we considered the main assumptions applied by the management to estimate the expected credit losses to be acceptable and well in line with the current expectations about expected credit losses.

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

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

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

Gazprom Group is a party to a number of significant litigations, including litigations with NJSC Naftogaz of Ukraine. Procedures we performed included analysis of the decisions made in respect of legal proceedings with NJSC Naftogaz of Ukraine, discussions of these and other significant matters with the Group's staff responsible for providing judicial and legal support to the Group in its activities, evaluation and testing of terms underlying the recognition of liabilities, as well as the evaluation of disclosures for sufficiency and completeness. Based on the results of the procedures performed, we considered the estimates and approaches applied by the management, including the disclosures made, to be consistent and acceptable.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report of PJSC Gazprom for 2018 and the Quarterly issuer's report of PJSC Gazprom for the second quarter of 2019, but does not include the consolidated financial statements and our auditor's report thereon. The Annual Report of PJSC Gazprom for 2018 and the Quarterly issuer's report of PJSC Gazprom for the second quarter of 2019 are expected to be made available to us after the date of this auditor's report.

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

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

When we read the Annual report of PJSC Gazprom for 2018 and the Quarterly issuer's report of PJSC Gazprom for the second quarter of 2019, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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

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

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

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

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

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

President of FBK, LLC

Engagement partner



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

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

Date of the Independent Auditor's Report:
24 April 2019

Audited entity

Name:

Public Joint Stock Company Gazprom (PJSC Gazprom).

Address of the legal entity within its location:

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

Official registration:

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

Auditor

Name:

FBK, LLC.

Address of the legal entity within its location:

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

Official registration:

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

Membership in self-regulatory organization of auditors:

Member of Self-regulatory organization of auditors Association "Sodruzhestvo". Principal number of registration entry in the register of auditors and audit organizations of the self-regulatory organization of auditors 11506030481.

Consolidated Balance Sheet as of 31 December 2018 (in millions of Russian Rubles)

Notes	31 December		
	2018	2017	
Assets			
Current assets			
8	Cash and cash equivalents	849,419	869,007
9	Short-term financial assets	26,859	31,057
10	Accounts receivable and prepayments	1,222,735	1,122,724
11	Inventories	909,677	772,314
	VAT recoverable	150,425	119,881
12	Other current assets	1,053,115	554,283
		4,212,230	3,469,266
Non-current assets			
13	Property, plant and equipment	13,809,434	12,545,079
14	Goodwill	108,097	105,469
15	Investments in associates and joint ventures	1,097,446	867,445
16	Long-term accounts receivable and prepayments	636,305	669,286
17	Long-term financial assets	416,666	268,432
12	Other non-current assets	530,262	313,793
		16,598,210	14,769,504
	Total assets	20,810,440	18,238,770
Liabilities and equity			
Current liabilities			
18	Accounts payable and provisions	1,522,101	1,378,182
	Current profit tax payable	34,708	59,922
19	Taxes other than on profit and fees payable	347,825	276,607
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	569,061	874,805
		2,473,695	2,589,516

**Consolidated Balance Sheet
as of 31 December 2018
(in millions of Russian Rubles)**

Notes	31 December		
	2018	2017	
Non-current liabilities			
21	Long-term borrowings, promissory notes	3,294,761	2,391,713
24	Provisions	406,322	469,453
22	Deferred tax liabilities	748,751	699,413
	Other non-current liabilities	110,758	73,194
		4,560,592	3,633,773
	Total liabilities	7,034,287	6,223,289
Equity			
25	Share capital	325,194	325,194
25	Treasury shares	(235,919)	(235,919)
25	Retained earnings and other reserves	13,210,734	11,539,811
		13,300,009	11,629,086
33	Non-controlling interest	476,144	386,395
	Total equity	13,776,153	12,015,481
	Total liabilities and equity	20,810,440	18,238,770

A.B. Miller
Chairman of the Management Committee

24 April 2019

E.A. Vasilieva
Chief Accountant

24 April 2019

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2018 (in millions of Russian Rubles)

Notes	Year ended 31 December		
	2018	2017	
26	Sales	8,224,177	6,546,143
	Net gain (loss) from trading activity	18,015	(16,352)
27	Operating expenses	(6,181,191)	(5,697,056)
27	(Impairment loss) reversal of impairment loss on financial assets	(130,971)	38,670
	Operating profit	1,930,030	871,405
28	Finance income	503,091	426,705
28	Finance expense	(813,042)	(407,044)
15	Share of profit of associates and joint ventures	232,483	126,940
	Profit before profit tax	1,852,562	1,018,006
	Current profit tax expense	(278,233)	(241,817)
	Deferred profit tax expense	(45,333)	(9,310)
22	Profit tax	(323,566)	(251,127)
	Profit for the year	1,528,996	766,879
	Other comprehensive income (loss):		
	Items that will not be reclassified to profit or loss:		
17	Gain (loss) arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	148,963	(30,404)
24	Remeasurement of provision for post-employment benefits	19,854	(5,064)
	Total other comprehensive income (loss) that will not be reclassified to profit or loss	168,817	(35,468)
	Items that may be reclassified subsequently to profit or loss:		
15	Share of other comprehensive income of associates and joint ventures	13,923	2,967
	Translation differences	222,221	23,290
	Gain from hedging operations, net of tax	10,082	13,601
	Total other comprehensive income that may be reclassified subsequently to profit or loss	246,226	39,858
	Total other comprehensive income for the year, net of tax	415,043	4,390
	Comprehensive income for the year	1,944,039	771,269

**Consolidated Statement of Comprehensive Income
for the Year Ended 31 December 2018
(in millions of Russian Rubles)**

Notes	Year ended 31 December		
	2018	2017	
Profit for the year attributable to:			
	Owners of PJSC Gazprom	1,456,270	714,302
33	Non-controlling interest	<u>72,726</u>	<u>52,577</u>
		1,528,996	766,879
Comprehensive income for the year attributable to:			
	Owners of PJSC Gazprom	1,858,486	710,840
	Non-controlling interest	<u>85,553</u>	<u>60,429</u>
		1,944,039	771,269
30	Basic and diluted earnings per share attributable to the owners of PJSC Gazprom (in Russian Rubles)	65.89	32.32

A.B. Miller
Chairman of the Management Committee

24 April 2019

E.A. Vasilieva
Chief Accountant

24 April 2019

Consolidated Statement of Cash Flows for the Year Ended 31 December 2018 (in millions of Russian Rubles)

Notes	Year ended 31 December	
	2018	2017
	Cash flows from operating activities	
31	1,617,384	1,187,022
	Cash flows from investing activities	
	(1,639,474)	(1,405,780)
28	(134,886)	(127,159)
	22,099	18,788
	(2,252)	(16)
	(48,267)	(97,238)
	85,744	75,547
	12,255	(13,673)
	128,622	87,197
	–	559
	1,054	–
	(5,726)	(2,586)
	43,131	100,000
	(80,018)	(3,770)
	(1,617,718)	(1,368,131)
	Cash flows from financing activities	
37	1,239,745	933,987
37	(1,138,451)	(592,056)
37	57,717	74,576
37	(53,492)	(40,035)
37	(188,313)	(191,875)
28, 37	(38,288)	(34,296)
	(289)	(885)
	22,358	–
	2,943	528
	(96,070)	149,944
	76,816	3,444
	(19,588)	(27,721)
8	869,007	896,728
8	849,419	869,007



A.B. Miller
Chairman of the Management Committee

24 April 2019



E.A. Vasilieva
Chief Accountant

24 April 2019

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018 (in millions of Russian Rubles)

Notes	Equity attributable to the owners of PJSC Gazprom							
	Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity	
	Balance as of 31 December 2016	22.1	325,194	(235,919)	11,005,256	11,094,531	347,308	11,441,839
33	Profit for the year	–	–	–	714,302	714,302	52,577	766,879
	Other comprehensive income (loss):							
33	Loss arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	–	–	–	(30,397)	(30,397)	(7)	(30,404)
24, 33	Remeasurement of provision for post-employment benefits	–	–	–	(4,982)	(4,982)	(82)	(5,064)
	Share of other comprehensive income of associates and joint ventures	–	–	–	2,967	2,967	–	2,967
33	Translation differences	–	–	–	16,145	16,145	7,145	23,290
33	Gain from hedging operations, net of tax	–	–	–	12,805	12,805	796	13,601
	Comprehensive income for the year ended 31 December 2017	–	–	–	710,840	710,840	60,429	771,269
33	Change in non-controlling interest in subsidiaries	–	–	–	1,413	1,413	(2,963)	(1,550)
25	Return of social assets to the balance of governmental authorities	–	–	–	(18)	(18)	–	(18)
33	Dividends declared	–	–	–	(177,680)	(177,680)	(18,379)	(196,059)
	Balance as of 31 December 2017	22.1	325,194	(235,919)	11,539,811	11,629,086	386,395	12,015,481
5	Effect of changes in accounting policies	–	–	–	(13,086)	(13,086)	(140)	(13,226)
	Balance as of 1 January 2018 (restated)	22.1	325,194	(235,919)	11,526,725	11,616,000	386,255	12,002,255
33	Profit for the year	–	–	–	1,456,270	1,456,270	72,726	1,528,996
	Other comprehensive income (loss):							
33	Gain (loss) arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	–	–	–	149,580	149,580	(617)	148,963
24, 33	Remeasurement of provision for post-employment benefits	–	–	–	19,732	19,732	122	19,854
	Share of other comprehensive income of associates and joint ventures	–	–	–	13,923	13,923	–	13,923
33	Translation differences	–	–	–	209,531	209,531	12,690	222,221
33	Gain from hedging operations, net of tax	–	–	–	9,450	9,450	632	10,082
	Comprehensive income for the year ended 31 December 2018	–	–	–	1,858,486	1,858,486	85,553	1,944,039

**Consolidated Statement of Changes in Equity
for the Year Ended 31 December 2018
(in millions of Russian Rubles)**

Notes	Equity attributable to the owners of PJSC Gazprom							
	Number of shares outstanding (billions)	Share capital	Treasury shares	Retained earnings and other reserves	Total	Non-controlling interest	Total equity	
33	Change in non-controlling interest in subsidiaries	-	-	-	3,260	3,260	19,471	22,731
25	Return of social assets to the balance of governmental authorities	-	-	-	(50)	(50)	-	(50)
33	Dividends declared	-	-	-	(177,687)	(177,687)	(15,135)	(192,822)
	Balance as of 31 December 2018	22.1	325,194	(235,919)	13,210,734	13,300,009	476,144	13,776,153



A.B. Miller
Chairman of the Management Committee

24 April 2019



E.A. Vasilieva
Chief Accountant

24 April 2019

Notes to the Consolidated Financial Statements

31 December 2018

(in millions of Russian Rubles)

1. General information

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

The Group is involved in the following activities:

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

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

The average number of employees during 2018 and 2017 was 462 thousand persons and 463 thousand persons, respectively.

2. Economic environment in the Russian Federation

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

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

The official Russian Ruble (“RUB”) to US Dollar (“USD”) foreign exchange rate as determined by the Central Bank of the Russian Federation was as follows:

- as of 31 December 2018 — 69.4706;
- as of 31 December 2017 — 57.6002 (as of 31 December 2016 — 60.6569).

The official RUB to Euro (“EUR”) foreign exchange rate as determined by the Central Bank of the Russian Federation was as follows:

- as of 31 December 2018 — 79.4605;
- as of 31 December 2017 — 68.8668 (as of 31 December 2016 — 63.8111).

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

3. Basis of presentation

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

The consolidated financial statements of the Group are prepared under the historical cost convention except for certain financial assets and liabilities presented at the fair value (Note 38). The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented in these consolidated financial statements, unless otherwise stated.

4. Scope of consolidation

As described in Note 5, the consolidated financial statements include consolidated subsidiaries, associates, joint ventures and operations of the Group. There were no significant changes in the Group's structure in 2018 and 2017.

5. Summary of significant accounting policies

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

5.1 Consolidation of subsidiaries, associates and joint arrangements

Subsidiaries

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

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

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

The acquisition method of accounting is used to account for the acquisition of subsidiaries, including entities under common control. The cost of an acquisition is measured at the fair value of the assets transferred, shares issued and liabilities incurred or assumed at the date of acquisition. Acquisition-related costs are expensed as incurred. The acquisition date is a date when a business combination is achieved, and when a business combination is achieved in stages the acquisition date is a date of each share purchase.

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

Goodwill and non-controlling interest

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

Non-controlling interest represents that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly, through subsidiaries, by the parent. The Group treats transactions with non-controlling interest as transactions with equity owners of the Group. In accordance with IFRS 3 Business Combinations,

5. Summary of significant accounting policies (continued)

the acquirer recognises the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the acquisition date, and any non-controlling interest in the acquiree is stated at the non-controlling interest in the net fair value of those items.

Joint arrangements

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

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

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

Associates

Associates are entities over which the Group has significant influence and that are neither a subsidiary nor an interest in a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. Associates are accounted for using the equity method. The Group's share of its associates' post-acquisition profit or loss is recognised in the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless there is an evidence of the impairment of the asset transferred.

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

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

5.2 Financial instruments

5.2.1 Classification and measurement of financial assets

The Group classifies financial assets into three measurement categories: those measured subsequently at amortised cost, those measured subsequently at fair value with changes recognised in other comprehensive income, and those measured subsequently at fair value with changes recognised in profit or loss.

Financial assets measured subsequently at amortised cost

Such category of financial assets includes assets held to obtain contractual cash flows and it is expected that they will result in cash flows being solely payments of principal and interest.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any allowance for expected credit losses.

5. Summary of significant accounting policies (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Group estimates expected cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss over the relevant period.

This category of financial assets of the Group mainly includes cash and cash equivalents, restricted cash, deposits, accounts receivable, including loans receivable.

Cash and cash equivalents and restricted cash

Cash comprises cash on hand and bank balances. Cash equivalents comprise short-term financial assets which are readily convertible to cash and have an original maturity of three months or less. Restricted cash includes cash and cash equivalents which are restricted to withdrawal under financing and other agreements or under banking regulations. Restricted cash are excluded from cash and cash equivalents in the consolidated statement of cash flows.

Accounts receivable

Accounts receivable, including loans receivable, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Accounts receivable are carried at amortised cost using the effective interest method.

Financial assets measured subsequently at fair value with changes recognised through other comprehensive income

Such category of financial assets includes debt-type assets held within business models whose objective is achieved by both collecting contractual cash flows and selling financial assets and it is expected that they will result in cash flows being solely payments of principal and interest.

Gain or loss associated with this category of financial assets are recognised in other comprehensive income, except for impairment gain or loss, interest income and foreign exchange gain and loss, which are recognised in profit or loss. When a financial asset is disposed of, cumulative previous gains or losses that have been recognised in other comprehensive income are reclassified from equity to profit or loss in the consolidated statement of comprehensive income. Interest income from these financial assets is calculated using the effective interest method and included in financial income.

The Group's management can make an irrevocable decision to recognise changes in the fair value of equity instruments in other comprehensive income if the instrument is not held for trading. The Group's management has made a decision to recognise changes in the fair value of the majority of equity instruments in other comprehensive income as such instruments are considered to be long-term strategic investments which are not expected to be sold in the short and medium term. Other comprehensive income or loss from changes in the fair value of such instruments shall not be subsequently reclassified to profit or loss in the consolidated statement of comprehensive income.

This category of financial assets of the Group mainly includes equity instruments for which the Group has made a decision to recognise changes in their fair value in other comprehensive income.

Financial assets measured subsequently at fair value with changes recognised through profit or loss

Financial assets that do not meet the criteria of recognition as financial assets measured at amortised cost or measured at fair value through other comprehensive income are measured at fair value through profit or loss.

Such financial assets of the Group mainly include derivative financial instruments and financial instruments held for trading, as well as some equity instruments for which the Group has not made a decision to recognise changes in their fair value in other comprehensive income.

5. Summary of significant accounting policies (continued)

Impairment of financial assets

The Group applies the expected credit loss model to financial assets measured at amortised cost and at fair value through other comprehensive income, except for investments in equity instruments, and to contract assets.

The allowance for expected credit losses for a financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition.

At each balance sheet date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. If, at the reporting date, the credit risk on a financial asset has not increased significantly since initial recognition, the allowance for expected credit losses for that financial asset is measured at an amount equal to 12-month expected credit losses.

For trade accounts receivable or contract assets, whether they contain a significant financing component or not, measurement based on lifetime expected credit losses is applied.

The accrual (reversal) of the allowance for expected credit losses for financial assets is recognised in the consolidated statement of comprehensive income within impairment loss (reversal of impairment loss) on financial assets.

5.2.2 Classification and measurement of financial liabilities

The Group classifies all financial liabilities as measured subsequently at amortised cost, except for:

- financial liabilities measured at fair value through profit or loss;
- financial guarantee contracts;
- contingent consideration recognised in a business combination for which IFRS 3 Business Combinations is applied. Such contingent consideration is measured subsequently at fair value with changes recognised in profit or loss.

Financial liabilities of the Group measured at amortised cost mainly include borrowings and accounts payable.

Financial liabilities of the Group measured at fair value through profit or loss mainly include derivative financial instruments. The Group does not choose to classify any financial liabilities as measured at fair value through profit or loss.

Borrowings

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value. After initial recognition financial guarantee contracts are measured at the higher of the allowance for expected credit losses and the amount initially recognised less total income recognised in accordance with IFRS 15 Revenue from Contracts with Customers.

Financial guarantee contracts of the Group mainly include guarantees issued and independent guarantees provided.

5.2.3 Derivative financial instruments

The Group uses a variety of derivative financial instruments, including forward and foreign currency, commodities and securities option contracts. The derivative financial instruments are recognised in the consolidated financial statements at fair value. Gain or loss from change in the fair value of the derivative financial instruments is recognised in profit or loss of the consolidated statement of comprehensive income in the period in which it raised.

5. Summary of significant accounting policies (continued)

The fair value of the derivative financial instruments is determined using market information and valuation techniques based on prevailing market interest rates for similar financial instruments.

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

Some of these contracts can be settled net in accordance with IFRS 9 Financial Instruments, because a contract to buy / sell a commodity is settled within a short period for the purpose of generating profit from short-term fluctuations in price or dealer's margin. Such contracts are, therefore, concluded not for the purpose of the receipt or delivery of a non-financial asset in accordance with the Group's expected purchase, sale or usage requirements. Consequently, such contracts to buy or sell a non-financial item are regulated by IFRS 9 Financial Instruments and are recognised as derivative financial instruments at fair value, with changes in fair value recognised in "Derivatives (gain) loss" within operating expenses of the consolidated statement of comprehensive income.

5.2.4 Hedge accounting

The Group applies hedge accounting policy for those derivatives that are designated as a hedging instrument according to IFRS 9 Financial Instruments. The Group applies the cash flow hedge to manage variability in cash flows that results from fluctuations in foreign exchange rates attributable to highly probable forecast transactions.

A qualifying hedging instrument is designated in its entirety as a hedging instrument.

The effective portion of fair value changes of hedging instrument is recognised in other comprehensive income. Any remaining gains or losses on the hedging instrument that are hedge ineffectiveness are immediately recognised in profit or loss.

The effective portion of hedging is reclassified from equity to profit or loss as a reclassification adjustment in the same period during which the hedged expected future cash flows affect profit or loss. However, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered is immediately reclassified into profit or loss as a reclassification adjustment.

If the hedging instrument expires or is sold or the instrument no longer meets the criteria for hedge accounting, the cumulative gain and loss that has been recognised in equity remains in equity until the forecast transaction occurs. If the forecast transaction on hedging instrument is no longer expected to occur, any related cumulative gain or loss on the hedging instrument that has been recognised in equity is immediately reclassified to profit or loss.

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

5.3 Fair value

Fair value is a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of accounts receivable in the consolidated financial statements is measured by discounting the value of future cash flows at the current market rate of interest for similar borrowings at the reporting date.

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

The fair value of publicly quoted financial instruments in the consolidated financial statements is measured based on market value at the last trading price on the reporting date.

5.4 Value added tax

In the Russian Federation the value added tax ("VAT") at a standard rate of 18 % is payable on the difference between output VAT on sales of goods and services and recoverable input VAT charged by suppliers. From January 1, 2019, the VAT rate increased to 20 %. Output VAT

5. Summary of significant accounting policies (continued)

is charged on the earliest of the dates: either the date of the shipment of goods (works, services) or the date of advance payment received. Input VAT could be recovered when purchased goods (works, services) are accounted for and other necessary requirements provided by the tax legislation are met.

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

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

5.5 Mineral extraction tax

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

The amendments to the Russian Tax Code concerning the MET formula for gas condensate and natural fuel gas came into force as of 1 July 2014, having replaced fixed MET rates.

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

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

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

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

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

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

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

MET is included in operating expenses.

5.6 Customs duties

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

According to the Federal Law No.239-FZ dated 3 December 2012, starting from 1 April 2013 under the Resolution of the Government of the Russian Federation No.276 dated 29 March 2013

5. Summary of significant accounting policies (continued)

export customs duty calculation methodology for oil and oil products was established based on which the Ministry of Economic Development of the Russian Federation determines export customs duty rates for the following calendar month.

Revenues are recognised net of the amount of customs duties.

5.7 Excise tax

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

Within the Group's activities, excise tax is imposed on the transfers of excisable refined oil products produced at the Group's refineries from customer-supplied raw materials to the Group companies owning the product. The Group considers the excise tax on refining of oil products produced from customer-supplied raw materials as an operating expenses. These taxes are not netted with sales of refined oil products presented in the consolidated statement of comprehensive income.

5.8 Inventories

Inventories are valued at the lower of net realisable value and cost. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overhead but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses and completion costs.

5.9 Property, plant and equipment

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

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

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

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

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

5. Summary of significant accounting policies (continued)

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

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

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

The return to a governmental authority of state social assets (such as rest houses, housing, schools and medical facilities) retained by the Group at privatisation is recorded only upon the termination of operating responsibility for the social assets. The Group does not possess ownership rights for the assets, but records them on its consolidated balance sheet up to the return to a governmental authority because the Group controls the benefits which are expected to flow from the use of the assets and bears all associated operational and custody risks. These disposals are considered to be shareholder transactions because they represent a return of assets for the benefit of governmental authorities, as contemplated in the original privatisation arrangements. Consequently, such disposals are accounted for as a reduction directly in equity.

5.10 Impairment of non-current non-financial assets

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

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

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

5.11 Deferred tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred tax assets and liabilities are recorded for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deferred tax asset will be realised or if it can be offset against existing deferred tax liabilities. Deferred tax assets and liabilities are measured

5. Summary of significant accounting policies (continued)

at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or enactment of which in the foreseeable future was reliably known as of the reporting date. Deferred tax is recorded for all temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

5.12 Foreign currency transactions

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in the Russian Rubles, which are the presentation currency of the Group's consolidated financial statements.

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

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

There are currency control rules relating to conversion the Russian Rubles into other currencies. The Russian Ruble is not freely convertible currency in most countries outside of the Russian Federation.

5.13 Provisions

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

5.14 Equity

Treasury shares

The cost of acquisition of the shares of PJSC Gazprom by the Group entities, including any attributable transaction costs is deducted from total equity until they are re-sold. When such shares are subsequently sold, any consideration received net of profit tax is included in equity. Treasury shares are recorded at weighted average cost. Gain (loss) arising from treasury shares transactions is recognised in the consolidated statement of changes in equity, net of associated costs including tax payments.

Dividends

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

5. Summary of significant accounting policies (continued)

5.15 Revenue recognition

Revenue from contracts with customers is measured at the fair value of the consideration received or receivable. Revenue is recognised when (or as) the entity satisfies a performance obligation by transfer of the promised good or service (i.e. the asset) to the customer. The asset is transferred when (or as) the customer obtains control over such an asset. The moment of control transfer varies depending on the terms of the contract with customer.

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

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

Net gain (loss) from trading activity

Contracts to buy or sell commodities, including gas, electric power and other commodities, entered into at the European liquid trading platforms for the purpose of generating profit from short-term fluctuations in price rather than out of the Group's expected purchase, sale or usage requirements are recognised at fair value. These contracts are considered as derivative financial instruments and regulated by IFRS 9 Financial Instruments for valuation as well as for information disclosure purposes. Income and expenses which arise at the moment of contract fulfilment are recognised on a net basis in profit or loss in the line "Net gain (loss) from trading activity" of the consolidated statement of comprehensive income.

5.16 Interest

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

5.17 Research and development

Research expenditures are recognised as expenses as incurred. Development expenditures are recognised as intangible assets (within other non-current assets) if only future economic benefits are expected to flow from such expenditures. Other development expenditures are recognised as an expense as incurred. However, development expenditures previously recognised as expenses are not recognised as assets in subsequent periods, even if the asset recognition criteria are subsequently met.

5.18 Employee benefits

Pension and other post-employment benefits

The Group operates post-employment and other employee benefits system which is recorded as defined benefit plan in the consolidated financial statements under IAS 19 Employee Benefits. Defined benefit plan covers the majority of employees of the Group. The cost of providing pension benefits is recognised using the projected unit credit method. The cost of providing pension benefits is accrued and charged to staff costs within operating expenses of the consolidated

5. Summary of significant accounting policies (continued)

statement of comprehensive income as a provision for post-employment benefits, reflecting the cost of benefits as they are earned over the service lives of employees.

The provision for post-employment benefits is measured at the present value of the projected cash outflows using interest rates of government securities, which have the terms to maturity approximating the terms of the related liabilities.

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

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

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

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

Social expenses

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

5.19 Recent accounting pronouncements

Application of New Standards

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

Application of IFRS 9 Financial Instruments from 1 January 2018 did not have a significant effect on the consolidated financial statements of the Group. The Group applied IFRS 9 Financial Instruments retrospectively and used an option not to restate prior periods in respect of new requirements. The effect of applying IFRS 9 Financial Instruments was recognised in the opening balance of retained earnings and other reserves and non-controlling interest in the consolidated statement of changes in equity of the Group as of 1 January 2018.

	1 January 2018
Impairment loss on financial assets measured at amortised cost, net of tax	(2,696)
Revaluation of financial assets measured at fair value with changes recognised through profit or loss	1,015
Decrease in the cost of investment in associate Gazprombank (Joint-stock Company)	(11,545)
Total decrease in equity	(13,226)

5. Summary of significant accounting policies (continued)

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

Except for the requirement for more detailed disclosure of revenue by geographic segments (see Note 26), application from 1 January 2018 of IFRS 15 Revenue from Contracts with Customers did not have a significant effect on the consolidated financial statements of the Group. Therefore, comparative data and opening balance of retained earnings and other reserves and non-controlling interest as of 1 January 2018 have not been restated.

Application of Interpretations and Amendments to Standards

A number of interpretations and amendments to current standards became effective after 1 January 2018:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) provides requirements for recognising a non-monetary asset or a non-monetary obligation arising as a result of committing or receiving prepayment until the recognition of the related asset, income or expense.
- The amendments to IFRS 2 Share-based Payment (issued in June 2016). These amendments clarify accounting for a modification to the terms and conditions of a share-based payment and for withholding tax obligations on share-based payment transactions.
- The amendments to IAS 40 Investment Property (issued in December 2016). These amendments clarify the criteria for the transfer of objects in the category or from the category of investment property.

The Group has reviewed these interpretations and amendments to standards while preparing the consolidated financial statements. The interpretations and amendments to standards have no significant impact on the Group's consolidated financial statements.

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

Certain new standards, interpretations and amendments to standards have been issued that are mandatory for the annual periods beginning on or after 1 January 2019. In particular, the Group has not early adopted following standards, interpretations and amendments to standards:

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The standard replaces IAS 17 Leases and establishes a general accounting model for all types of lease agreements in the statement of financial position which is consistent to applicable principles of the financial lease accounting. Lessees are required to recognise assets and liabilities under lease agreements except cases specifically mentioned. Insignificant changes in the applicable accounting required IAS 17 Leases are implemented for lessors. The Group will apply the retrospective approach, which means that the cumulative effect of initially applying IFRS 16 Leases will be recognised at the date of initial application, i.e. 1 January 2019, without restatement of the comparative information. According to preliminary estimates of the Group's management, the recognition of financial lease liabilities will be approximately RUB 232 billion and the non-current assets in the form of right-of-use assets will be approximately RUB 217 billion as at 1 January 2019. This amount may be adjusted if the judgments and estimates made by the Group's management are updated.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued in June 2017 and effective for annual periods beginning on or after 1 January 2019) provides requirements in respect of recognising and measuring of a tax liability or a tax asset when there is uncertainty over income tax treatments.
- The amendments to IAS 28 Investments in Associates and Joint Ventures (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify that long-term interests in an associate or joint venture that form a part of the net investments in the associate or joint venture should be accounted in accordance with IFRS 9 Financial Instruments.
- The amendments to IFRS 9 Financial Instruments (issued in October 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments enable to measure at amortised cost some prepayable financial assets with negative compensation.

5. Summary of significant accounting policies (continued)

- The amendments to IAS 23 Borrowing Costs (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify which borrowing costs are eligible for capitalisation in particular circumstances.
- The amendments to IFRS 3 Business Combinations and IFRS 11 Joint Arrangements (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify how obtaining control (or joint control) of a business that is a joint operation should be accounted if the entity already holds an interest in that business.
- The amendments to IAS 12 Income Taxes (issued in December 2017 and effective for annual periods beginning on or after 1 January 2019). These amendments clarify income tax consequences of payments on instruments classified as equity.
- The amendments to IAS 19 Employee Benefits (issued in February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs.
- The amendments to IFRS 3 Business Combinations (issued in October 2018 and effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of a business and simplify assessment of whether an acquired set of activities and assets is a group of assets rather than a business.

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

6. Critical judgements and estimates in applying accounting policies

The preparation of consolidated financial statements requires management to make estimates and assumptions that may affect the reported amount of assets and liabilities as well as information in notes to the consolidated financial statements. Management also makes certain judgements in the process of applying the accounting policies. These estimates and judgements are continually analysed based on historical experience and other information, including forecasts and expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from specified estimates, and management's estimates can be revised in the future, either negatively or positively, depending upon the outcome of changes in expectations based on the facts surrounding each estimate.

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

6.1 Consolidation of subsidiaries

Management's judgements are involved in the assessment of control and the method of accounting of various investments in subsidiaries in the Group's consolidated financial statements taking into account voting rights and contractual arrangements with other shareholders.

6.2 Tax legislation

Tax, currency and customs legislation of the Russian Federation is subject to varying interpretations (see Note 36).

Profit tax liabilities are determined by management in accordance with the current tax legislation. Liabilities for penalties, interest and taxes other than profit tax are recognised based on management's best estimate of the expenditure required to settle tax obligations at the balance sheet date.

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

6.3 Assumptions to determine amount of allowances

Loss allowance for expected credit losses of accounts receivable

An allowance for expected credit losses of accounts receivable is based on the Group's management's assessment of expected credit losses for the accounts receivable lifetime. Credit losses are the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. If there is deterioration in any major customer's creditworthiness or actual defaults are higher or lower than the estimates, the actual results could differ from these estimates. The accruals (and reversals) of allowance for expected credit losses of accounts receivable may be material (see Notes 10, 16).

Impairment of property, plant and equipment and goodwill

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

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

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

Change in impairment allowance of property, plant and equipment and goodwill is disclosed in Notes 13, 14 and 27.

Accounting for impairment

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

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

6.4 Decommissioning and site restoration costs

Decommissioning and site restoration costs that may occur at the end of the operating life of certain Group's production facilities are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The cost is depreciated through profit or loss of the consolidated statement of comprehensive income on a straight-line basis over the asset's productive life.

Changes in the measurement of an existing decommissioning and site restoration provision that result from changes in the estimated timing or amount of cash outflows, or from changes in the discount rate adjust the cost of the related asset in the current period. IFRSs prescribe the recording of provisions for these costs.

Estimating the amounts and timing of those obligations that should be recorded requires significant judgement. This judgement is based on cost and engineering studies using currently

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

available technology and is based on current environmental regulations. Provisions for decommissioning and site restoration are subject to change because of change in laws and regulations, and their interpretation.

6.5 Useful lives of Property, plant and equipment

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

Were the estimated useful lives to decrease by 10 % or increase by 10 % from Group's management estimates, the impact on depreciation for the year ended 31 December 2018 would be an increase by RUB 71,491 million or a decrease by RUB 58,493 million (2017: increase by RUB 66,851 million or a decrease by RUB 54,696 million).

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

6.6 Fair value estimation for financial instruments

The fair value of energy trading contracts, commodity futures and swaps is based on market data received on measurement date (Level 1 in accordance with the fair value hierarchy). Customary valuation models are used to value financial instruments which are not traded in active markets. The fair value is calculated based on inputs that are observable either directly or indirectly (Level 2 in accordance with the fair value hierarchy).

Contracts not based on observable market data belong to Level 3 in accordance with the fair value hierarchy. Management's best estimates based on models internally developed by the Group are used for the valuation of these instruments. Where the valuation technique employed incorporates significant input data for which market information is not available, such as long-term price assumptions, contracts have been categorised as Level 3 in accordance with the fair value hierarchy (see Note 38).

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

6.7 Fair value estimation for acquisitions

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

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

6.8 Accounting for pension plan assets and liabilities

Pension plan liabilities are estimated using actuarial techniques and assumptions (see Note 24). Actual results may differ from the estimates, and the Group's estimates can be revised in the future based on changes in economic and financial conditions. In addition, certain pension plan assets related to JSC NPF GAZFOND are recorded using the fair value estimation techniques. Management makes judgements with respect to the selection of valuation models applied,

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

the amount and timing of cash flows and other assumptions including discount rate. The recognition of pension plan assets is limited to the estimated present value of future benefits which are available to the Group in relation to this plan. These future benefits are determined using actuarial techniques and assumptions. The impact of the limitation of the net pension plan asset in accordance with IAS 19 Employee Benefits is disclosed in Note 24. The value of pension plan assets and the limitations are subject to revision in the future.

6.9 Joint arrangements

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

7. Segment information

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

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

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

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

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

The inter-segment sales mainly consist of the following operations:

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

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

The Governing bodies of the Group assess the performance, assets and liabilities of the reportable segments including on the basis of the internal financial information. The effects of certain significant transactions and events, such as business acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the internal financial information of the Group to the corresponding data presented in the consolidated financial statements are reviewed by the Governing bodies on a central basis and not allocated to the reportable segments. Financial income and expense are not allocated to the reportable segments.

7. Segment information (continued)

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
Year ended 31 December 2018									
Sales of segments	1,017,044	1,173,837	4,568,746	58,675	1,528,932	2,187,170	522,095	363,993	11,420,492
Inter-segment sales	990,737	948,164	291,382	54,211	793,979	7,398	–	–	3,085,871
External sales	26,307	225,673	4,277,364	4,464	734,953	2,179,772	522,095	363,993	8,334,621
Financial result of segments	3,106	49,423	807,214	5,533	390,663	180,863	53,010	37,111	1,526,923
Depreciation	180,753	495,814	16,760	28,873	131,352	39,542	62,642	42,934	998,670
Share of profit of associates and joint ventures	9,226	24,975	707	–	151,422	4,046	65	42,042	232,483
Year ended 31 December 2017									
Sales of segments	989,961	1,163,097	3,585,422	56,250	1,176,672	1,695,205	503,819	372,225	9,542,651
Inter-segment sales	965,839	928,036	268,957	51,997	636,714	8,115	–	–	2,859,658
External sales	24,122	235,061	3,316,465	4,253	539,958	1,687,090	503,819	372,225	6,682,993
Financial result of segments	43,920	55,068	(27,885)	5,565	265,308	76,073	49,925	51,268	519,242
Depreciation	192,460	513,940	18,126	27,104	117,071	48,555	48,435	38,329	1,004,020
Share of profit of associates and joint ventures	6,525	20,120	1,907	180	85,911	2,905	116	9,276	126,940

Segments' Production of gas and Distribution of gas sales compose gas sales, segment's Gas storage sales are included in other sales.

The reconciliation of reportable segments' financial result to profit before profit tax in the consolidated statement of comprehensive income is provided below.

Notes	Year ended 31 December	
	2018	2017
Financial result of reportable segments	1,489,812	467,974
Financial result of other segments	37,111	51,268
Total financial result of segments	1,526,923	519,242
Difference in depreciation ¹	350,677	390,860
Expenses associated with provision for post-employment benefits	123,421	(8,967)
28 Net finance (expense) income	(309,951)	19,661
15 Share of profit of associates and joint ventures	232,483	126,940
27 Derivatives (loss) gain	(1,849)	18,344
Other	(69,142)	(48,074)
Total profit before profit tax in the consolidated statement of comprehensive income	1,852,562	1,018,006

¹ The difference in depreciation mainly relates to adjustments of property, plant and equipment under Russian statutory accounting to comply with IFRS, such as reversal of revaluation of property, plant and equipment recorded under Russian statutory accounting or adjustments related to operating of the Group in hyperinflation which is not recorded under Russian statutory accounting.

7. Segment information (continued)

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

	Year ended 31 December	
	2018	2017
External sales of reportable segments	7,970,628	6,310,768
External sales of other segments	363,993	372,225
Total external sales of segments	8,334,621	6,682,993
Differences in external sales ¹	(110,444)	(136,850)
Total sales in the consolidated statement of comprehensive income	8,224,177	6,546,143

¹ The differences in external sales relate to adjustments of external sales under Russian statutory accounting to comply with IFRS, such as elimination of sales of materials to subcontractors and other adjustments.

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

	Production of gas	Transportation	Distribution of gas	Gas storage	Production of crude oil and gas condensate	Refining	Electric and heat energy generation and sales	All other segments	Total
As of 31 December 2018									
Assets of segments	2,743,944	7,023,399	1,719,640	393,700	2,898,071	2,059,715	911,036	1,428,467	19,177,972
Investments in associates and joint ventures	25,211	200,307	21,476	2	570,760	20,714	1,517	257,459	1,097,446
Capital expenditures ¹	308,007	640,063	39,078	19,391	257,932	309,417	72,907	149,089	1,795,884
As of 31 December 2017									
Assets of segments	2,677,231	6,721,549	1,669,202	347,929	2,516,019	1,715,485	868,933	1,131,509	17,647,857
Investments in associates and joint ventures	25,706	155,054	19,198	2	465,544	21,534	1,422	178,985	867,445
Capital expenditures ²	216,450	498,550	51,675	37,694	330,424	225,240	58,110	86,457	1,504,600

¹ Capital expenditures for the year ended 31 December 2018.

² Capital expenditures for the year ended 31 December 2017.

7. Segment information (continued)

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

Notes	31 December	
	2018	2017
Assets of reportable segments	17,749,505	16,516,348
Assets of other segments	1,428,467	1,131,509
Total assets of segments	19,177,972	17,647,857
Difference in property, plant and equipment, net ¹	(1,602,553)	(1,967,878)
13 Borrowing costs capitalised	808,251	714,392
8 Cash and cash equivalents	849,419	869,007
9 Short-term financial assets	26,859	31,057
VAT recoverable	150,425	119,881
12 Other current assets	1,053,115	554,283
17 Long-term financial assets	416,666	268,432
14 Goodwill	108,097	105,469
12 Other non-current assets	530,262	313,793
Inter-segment assets	(956,216)	(742,369)
Other	248,143	324,846
Total assets in the consolidated balance sheet	20,810,440	18,238,770

¹ The difference in property, plant and equipment relates to adjustments of property, plant and equipment under Russian statutory accounting to comply with IFRS, such as reversal of revaluation of property, plant and equipment recorded under Russian statutory accounting or adjustments related to operating of the Group in hyperinflation which is not recorded under Russian statutory accounting.

Segment liabilities mainly comprise accounts payable arising in the course of operating activities. Current profit tax payable, deferred tax liabilities, long-term provisions (except for provision for decommissioning and site restoration), long-term and short-term borrowings, including current portion of long-term borrowings, short-term and long-term promissory notes payable and other non-current liabilities are not allocated to the reportable segments and managed on a central basis.

Liabilities of segments are provided in the table below.

	31 December	
	2018	2017
Distribution of gas	905,778	841,706
Refining	546,611	337,170
Production of gas	314,613	329,521
Transportation	305,569	306,235
Production of crude oil and gas condensate	216,553	217,805
Electric and heat energy generation and sales	96,869	82,315
Gas storage	25,250	24,416
All other segments	325,644	287,748
Total liabilities of segments	2,736,887	2,426,916

7. Segment information (continued)

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

Notes	31 December	
	2018	2017
Liabilities of reportable segments	2,411,243	2,139,168
Liabilities of other segments	325,644	287,748
Total liabilities of segments	2,736,887	2,426,916
Current profit tax payable	34,708	59,922
20 Short-term borrowings, promissory notes and current portion of long-term borrowings	569,061	874,805
21 Long-term borrowings, promissory notes	3,294,761	2,391,713
24 Long-term provisions (except for provision for decommissioning and site restoration)	239,523	266,837
22 Deferred tax liabilities	748,751	699,413
Other non-current liabilities	110,758	73,194
Dividends	7,586	5,099
Inter-segment liabilities	(956,216)	(742,369)
Other	248,468	167,759
Total liabilities in the consolidated balance sheet	7,034,287	6,223,289

8. Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and term deposits with the original maturity of three months or less.

	31 December	
	2018	2017
Cash on hand and bank balances payable on demand	531,432	508,585
Term deposits with original maturity of three months or less	317,987	360,422
Total cash and cash equivalents	849,419	869,007

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

	31 December	
	2018	2017
Cash on hand	823	1,015
External credit investment rating	189,112	113,522
External credit non-investment rating	482,717	579,989
No external credit rating	176,767	174,481
Total cash and cash equivalents	849,419	869,007

The sovereign credit rating of the Russian Federation published by Standard & Poor's is BBB- as of 31 December 2018 and BB+ as of 31 December 2017 respectively, the outlook is changed from positive to stable.

9. Short-term financial assets

	31 December	
	2018	2017
Financial assets measured at fair value with changes recognised through profit or loss:	26,827	30,964
Bonds	25,868	30,758
Equity securities	959	206
Financial assets measured at fair value with changes recognised through other comprehensive income:	32	93
Promissory notes	32	93
Total short-term financial assets	26,859	31,057

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

	31 December	
	2018	2017
Investment rating	12,724	18,217
Non-investment rating	5,254	7,340
No external credit rating	7,922	5,294
	25,900	30,851

10. Accounts receivable and prepayments

	31 December	
	2018	2017
Financial assets		
Trade accounts receivable	912,109	758,150
Other accounts receivable	159,494	136,980
Loans receivable	70,891	149,302
	1,142,494	1,044,432
Non-financial assets		
Advances paid and prepayments	80,241	78,292
Total accounts receivable and prepayments	1,222,735	1,122,724

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

Trade accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 957,770 million and RUB 752,629 million as of 31 December 2018 and 31 December 2017, respectively.

Accounts receivable due from NJSC Naftogaz Ukraine in relation to gas sales are RUB nil million as of 31 December 2018 and 31 December 2017 net of allowance for expected credit losses in the amount of RUB 147,241 million and RUB 80,231 million as of 31 December 2018 and 31 December 2017, respectively.

Loans receivable are presented net of allowance for expected credit losses in the amount of RUB 10,801 million and RUB 8,534 million as of 31 December 2018 and 31 December 2017, respectively.

Other accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 24,461 million and RUB 20,815 million as of 31 December 2018 and 31 December 2017, respectively.

Advances paid and prepayments are presented net of impairment allowance in the amount of RUB 12,314 million and RUB 12,542 million as of 31 December 2018 and 31 December 2017, respectively.

10. Accounts receivable and prepayments (continued)

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

	31 December	
	2018	2017
Short-term trade accounts receivable neither past due nor credit-impaired	796,358	654,381
Short-term trade accounts receivable past due and for which allowance for expected credit losses was accrued	996,425	768,010
Amount of allowance for expected credit losses of trade accounts receivable	(957,770)	(752,629)
Short-term trade accounts receivable past due but not credit-impaired	<u>77,096</u>	<u>88,388</u>
Total short-term trade accounts receivable	912,109	758,150

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

	31 December	
	2018	2017
Europe and other countries gas, crude oil, gas condensate and refined products trade accounts receivable	458,990	376,543
Domestic gas, crude oil, gas condensate and refined products trade accounts receivable	191,250	158,288
Former Soviet Union countries (excluding the Russian Federation) gas, crude oil, gas condensate and refined products trade accounts receivable	7,422	9,346
Electricity and heat trade accounts receivable	76,434	54,671
Gas transportation services trade accounts receivable	4,906	4,087
Other trade accounts receivable	<u>57,356</u>	<u>51,446</u>
Total trade accounts receivable neither past due nor credit-impaired	796,358	654,381

As of 31 December 2018 and 31 December 2017 credit-impaired accounts receivable mainly relate to gas sales to certain Russian regions and Former Soviet Union countries. In management's view the accounts receivable will be settled. The ageing analysis from the due date of these accounts receivable is as follows:

Ageing from the due date	Gross book value 31 December		Allowance for expected credit losses 31 December		Net book value 31 December	
	2018	2017	2018	2017	2018	2017
up to 6 months	105,661	66,292	(80,059)	(59,403)	25,602	6,889
from 6 to 12 months	84,552	64,832	(76,384)	(60,384)	8,168	4,448
from 1 to 3 years	214,674	193,191	(209,864)	(189,842)	4,810	3,349
more than 3 years	<u>591,538</u>	<u>443,695</u>	<u>(591,463)</u>	<u>(443,000)</u>	<u>75</u>	<u>695</u>
	996,425	768,010	(957,770)	(752,629)	38,655	15,381

10. Accounts receivable and prepayments (continued)

Change in the Group's allowance for expected credit losses of trade and other accounts receivable is as follows:

	Trade receivables Year ended 31 December		Other receivables Year ended 31 December	
	2018	2017	2018	2017
Allowance for expected credit losses of accounts receivable at the beginning of the year	752,629	831,164	20,815	16,950
Effect of changes in accounting policies	1,990	–	55	–
Accrual of allowance for expected credit losses of accounts receivable ¹	143,365	106,714	18,880	13,307
Write-off of accounts receivable during the year ²	(7,463)	(5,192)	(2,481)	(1,444)
Reversal of previously accrued allowance for expected credit losses of accounts receivable ¹	(17,537)	(150,683)	(12,960)	(7,983)
Reclassification to other lines	(6,287)	(5,649)	–	–
Foreign exchange rate differences	<u>91,073</u>	<u>(23,725)</u>	<u>153</u>	<u>(15)</u>
Allowance for expected credit losses of accounts receivable at the end of the year	957,770	752,629	24,462	20,815

¹ The accrual and release of allowance for expected credit losses of trade and other accounts receivable have been included in the line "(Impairment loss) reversal of impairment loss on financial assets" in the consolidated statement of comprehensive income.

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

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

Ageing from the due date	31 December	
	2018	2017
up to 6 months	63,078	63,172
from 6 to 12 months	6,790	9,771
from 1 to 3 years	4,382	7,968
more than 3 years	<u>2,846</u>	<u>7,477</u>
	77,096	88,388

11. Inventories

	31 December	
	2018	2017
Gas in pipelines and storages	502,051	475,233
Materials and supplies (net of allowance for obsolescence of RUB 4,251 million and RUB 3,789 million as of 31 December 2018 and 31 December 2017, respectively)	166,994	157,348
Goods for resale (net of allowance for obsolescence of RUB 1,321 million and RUB 1,185 million as of 31 December 2018 and 31 December 2017, respectively)	113,537	31,280
Crude oil and refined products	127,095	108,453
Total inventories	909,677	772,314

12. Other current and non-current assets

Other current assets are provided in the table below.

Notes	31 December	
	2018	2017
Short-term deposits	796,140	327,969
Prepaid VAT	119,208	150,511
38 Derivative financial instruments	107,868	55,202
Prepaid profit tax	6,117	6,271
Other	23,782	14,330
Total other current assets	1,053,115	554,283

Other non-current assets are provided in the table below.

Notes	31 December	
	2018	2017
24 Net pension plan assets	140,878	27,173
Intangible assets	52,753	52,174
VAT recoverable related to assets under construction	41,905	36,681
38 Derivative financial instruments	37,393	19,575
Long-term deposits	1,432	1,559
Other	255,901	176,631
Total other non-current assets	530,262	313,793

13. Property, plant and equipment

Notes	Pipelines	Wells	Machinery and equipment	Buildings and roads	Production licenses	Social assets	Assets under construction	Total
As of 31 December 2016								
Cost	3,751,874	1,739,940	4,600,603	3,625,398	611,652	95,229	2,577,846	17,002,542
Accumulated depreciation	(1,423,186)	(640,698)	(1,989,356)	(1,161,461)	(244,259)	(40,835)	–	(5,499,795)
Net book value as of 31 December 2016	2,328,688	1,099,242	2,611,247	2,463,937	367,393	54,394	2,577,846	11,502,747
Depreciation	(86,950)	(72,397)	(296,922)	(132,112)	(10,775)	(2,501)	–	(601,657)
Additions	16	58,892	67,759	11,452	8,725	743	1,540,299	1,687,886
Translation differences	(1,250)	(5,115)	5,924	4,986	(3,705)	14	21,539	22,393
Transfers	104,836	132,050	288,560	169,521	23	1,323	(696,313)	–
Disposals	(714)	(3,038)	(24,162)	(10,809)	(6,313)	(518)	(43,428)	(88,982)
27 Change in impairment allowance	–	30,998	5,257	–	1,385	–	(14,948)	22,692
Net book value as of 31 December 2017	2,344,626	1,240,632	2,657,663	2,506,975	356,733	53,455	3,384,995	12,545,079
As of 31 December 2017								
Cost	3,854,762	1,953,727	4,943,941	3,800,548	611,767	96,791	3,384,995	18,646,531
Accumulated depreciation	(1,510,136)	(713,095)	(2,286,278)	(1,293,573)	(255,034)	(43,336)	–	(6,101,452)
Net book value as of 31 December 2017	2,344,626	1,240,632	2,657,663	2,506,975	356,733	53,455	3,384,995	12,545,079
Depreciation	(86,640)	(88,444)	(319,657)	(134,655)	(11,570)	(2,457)	–	(643,423)
Additions	123	5,992	14,947	3,879	2,200	–	1,924,151	1,951,292
Translation differences	3,902	43,728	24,056	17,147	7,924	160	98,735	195,652
Transfers	147,077	153,073	478,514	304,787	3,268	3,207	(1,089,926)	–
Disposals	(3,335)	(50,280)	(39,181)	(71,477)	(4,668)	(11,184)	(37,633)	(217,758)
27 Change in impairment allowance	(72)	(16,621)	(11,179)	2,304	(723)	–	4,883	(21,408)
Net book value as of 31 December 2018	2,405,681	1,288,080	2,805,163	2,628,960	353,164	43,181	4,285,205	13,809,434
As of 31 December 2018								
Cost	4,001,928	2,097,022	5,366,693	4,047,684	629,180	88,479	4,285,205	20,516,191
Accumulated depreciation	(1,596,247)	(808,942)	(2,561,530)	(1,418,724)	(276,016)	(45,298)	–	(6,706,757)
Net book value as of 31 December 2018	2,405,681	1,288,080	2,805,163	2,628,960	353,164	43,181	4,285,205	13,809,434

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

Operating property, plant and equipment are presented net of impairment allowance of RUB 214,222 million and RUB 181,792 million as of 31 December 2018 and 31 December 2017, respectively.

As of 31 December 2018 and 31 December 2017 the Group conducted impairment tests of assets assessing where the carrying amount of cash-generating units is compared with the recoverable amount of the respective cash-generating unit for possible accrual or release of previously recognised impairment losses.

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

The recoverable amount of cash-generating units has been determined on the basis of the values in use of such assets. The values in use of each cash-generating units have been calculated by the Group as the present values of forecasted future cash flows discounted using

13. Property, plant and equipment (continued)

the rates derived from the weighted average cost of capital of the Group, as adjusted, where applicable, to take into account any specific risks of business operations related to the cash-generating units.

The Group applied discount rates ranging from 5.38 % to 13.00 % and from 10.66 % to 12.42 % as of 31 December 2018 and 31 December 2017, respectively. Cash flows were forecasted based on actual operating results, business plans and long-term development program. The cash flow forecast covered periods commensurate with expected useful lives of the respective assets. The Group used estimated growth rates to extrapolate cash flows beyond the period, for which the Group usually prepares its budgets.

As of 31 December 2018 based on the result of the impairment test the Group recognised an impairment allowance in the amount of RUB 26,291 million for the following cash generating units:

- exploration and production of oil;
- gas storage outside the Russian Federation;
- electric and heat energy generation and sales.

As of 31 December 2017 the Group recognised an impairment release in the amount of RUB 37,640 million mainly related to assets used in production of oil.

As of 31 December 2018 and 31 December 2017 the test did not reveal any impairment of the cash-generating units relating to production and refining of gas.

Assets under construction are presented net of allowance for impairment of RUB 191,326 million and RUB 189,252 million as of 31 December 2018 and 31 December 2017, respectively. Impairment allowance of assets under construction primarily relate to assets for which it is not yet probable that there will be future economic benefits.

Social assets (rest houses, housing, schools and medical facilities) included in the property, plant and equipment which were vested to the Group at privatisation have a net book value of RUB 69 million and RUB 148 million as of 31 December 2018 and 31 December 2017, respectively.

Included in additions above are capitalised borrowing costs of RUB 182,351 million and RUB 152,628 million for the years ended 31 December 2018 and 31 December 2017, respectively. Capitalisation rates of 6.21 % and 6.18 % were used representing the weighted average borrowing cost including exchange differences on foreign currency borrowings for the years ended 31 December 2018 and 31 December 2017, respectively. Capitalisation rate excluding exchange losses on foreign currency borrowings was 5.76 % for the years ended 31 December 2018 and 31 December 2017, respectively.

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

	Year ended 31 December	
	2018	2017
Exploration and evaluation assets at the beginning of the year	281,157	298,488
Additions	57,248	49,008
Translation differences	7,556	(1,006)
Reclassification	(2,886)	(35,632)
Disposals	(23,397) ¹	(29,701) ²
Exploration and evaluation assets at the end of the year	319,678	281,157

¹ Including impairment allowance in the amount of RUB 215 million.

² Including impairment allowance in the amount of RUB 6,041 million.

14. Goodwill

Change in goodwill occurred as a result of subsidiaries acquisition is presented in the table below.

	Year ended 31 December	
	2018	2017
Goodwill at the beginning of the year	105,469	105,330
Additions	–	187
Translation differences	2,629	(46)
Disposals	(1)	(2)
Goodwill at the end of the year	108,097	105,469

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

	31 December	
	2018	2017
Gas production, transportation and distribution	44,115	44,104
Production of crude oil and gas condensate	35,469	32,852
Electric and heat energy generation and sales	28,513	28,513
Total goodwill	108,097	105,469

As of 31 December 2018 and 31 December 2017 the Group did not identify any indicators for recognising an impairment loss in relation to goodwill.

15. Investments in associates and joint ventures

Notes			Carrying value as of 31 December		Share of profit (loss) of associates and joint ventures for the year ended 31 December	
			2018	2017	2018	2017
34, 37	Sakhalin Energy Investment Company Ltd.	Associate	196,679	169,242	64,071	43,846
34, 37	Gazprombank (Joint-stock Company) and its subsidiaries ¹	Associate	166,218	145,603	13,126	9,473
34	PJSC NGK Slavneft and its subsidiaries	Joint venture	152,495	140,548	11,882	7,122
34	JSC Arcticgas ²	Joint venture	146,246	105,157	40,451	19,861
34, 37	Nord Stream AG	Joint venture	100,138	79,288	17,547	14,867
34	WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	Associate	55,867	45,436	6,694	5,552
34	JSC Achimgaz	Joint venture	37,310	33,509	13,399	8,768
34	JSC Messoykhaneftegaz	Joint venture	36,837	17,965	28,172	9,976
34	JSC EUROPOL GAZ	Associate	33,894	29,588	734	(506)
	JSC NPF GAZFOND ³	Associate	28,861	–	28,861	–
	Wintershall AG	Associate	18,026	15,645	(4)	256
34	KazRosGas LLP	Joint venture	11,758	9,435	464	1,544
34	Wintershall Noordzee B.V.	Joint venture	8,125	6,532	383	207
34	CJSC Northgas	Joint venture	7,986	12,786	3,700	3,434
34	JSC Latvijas Gaze and its subsidiaries ⁴	Associate	4,027	3,439	635	580
	Other (net of allowance for investments impairment of RUB 26,092 million and RUB 21,795 million as of 31 December 2018 and 31 December 2017, respectively)		92,979	53,272	2,368	1,960
			1,097,446	867,445	232,483	126,940

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

² In January 2018 LLC Yamal razvitie and its subsidiary LLC SeverEnergy were reorganised in the form of the merger with JSC Arcticgas (a former subsidiary of LLC SeverEnergy). As of 31 December 2017 the investment in this line in the amount of RUB 105,157 million includes investments in LLC Yamal razvitie and its subsidiaries.

³ In December 2018 the Group as one of the founder of NPF GAZFOND become owner of 31 % of ordinary registered shares of JSC NPF GAZFOND established as a result of reorganisation of NPF GAZFOND from a non-profit organisation to a joint-stock company. The Group's share in JSC NPF GAZFOND voting shares was 42 %. As a result of that transaction a lump-sum income in the amount of RUB 28,861 million was recognised.

⁴ To complete the liberalisation process of the Latvian gas market shareholders of JSC Latvijas Gaze at the foundation meeting on 22 November 2017 made a decision to reorganise the company by dismemberance of JSC Gaso, a 100 % subsidiary, to which natural gas distribution business was transferred.

Changes in the carrying amount of investment in associates and joint ventures are as follows:

	Year ended 31 December	
	2018	2017
Investments in associates and joint ventures at the beginning of the year	867,445	730,149
Share of profit of associates and joint ventures	232,483	126,940
Distributions from associates and joint ventures	(124,662)	(88,105)
Share of other comprehensive income of associates and joint ventures	13,923	2,967
Translation differences	68,454	4,831
Other acquisitions and disposals	39,803	90,663
Investments in associates and joint ventures at the end of the year	1,097,446	867,445

15. Investments in associates and joint ventures (continued)

The estimated fair values of the Group's investments in associates and joint ventures which are based on published price quotations are as follows:

	31 December	
	2018	2017
JSC Latvijas Gaze	11,046	9,349

Significant associates and joint ventures

	Country of primary operations	Country of incorporation	Nature of operations	Ownership interest as of 31 December	
				2018	2017
JSC Arcticgas	Russia	Russia	Production of oil and petroleum gas	50	50
JSC Achimgaz	Russia	Russia	Exploration and production of gas and gas condensate	50	50
WIGA Transport Beteiligungs-GmbH & Co. KG	Germany	Germany	Gas transportation	50	50
Wintershall AG	Libya	Germany	Production of oil and gas sales	49	49
Gaz Project Development Central Asia AG	Uzbekistan	Switzerland	Gas production	50	50
Gazprombank (Joint-stock Company) ¹	Russia	Russia	Banking	48	48
JSC NPF GAZFOND ¹	Russia	Russia	Non-state pension provision	42	–
JSC EUROPOL GAZ	Poland	Poland	Transportation and gas sales	48	48
KazRosGas LLP	Kazakhstan	Kazakhstan	Gas processing and sales of gas and refined products	50	50
JSC Latvijas Gaze	Latvia	Latvia	Sale and distribution of gas	34	34
JSC Messoyakhaneftegas	Russia	Russia	Production of oil and petroleum gas	50	50
JSV Moldovagaz	Moldova	Moldova	Transportation and gas sales	50	50
Nord Stream AG ²	Russia, Germany	Switzerland	Gas transportation	51	51
CJSC Northgas	Russia	Russia	Production and sales of gas and gas condensate	50	50
Panrusgas Co.	Hungary	Hungary	Gas sales	40	40
Prometheus Gas S.A.	Greece	Greece	Gas sales, construction	50	50
Sakhalin Energy Investment Company Ltd.	Russia	Bermuda Islands	Production of oil, LNG	50	50
PJSC NGK Slavneft	Russia	Russia	Production, processing and sales of oil	50	50
Bosphorus Gaz Corporation A.S. ²	Turkey	Turkey	Gas sales	–	71

¹ Share in voting shares.

² Investment in the companies is accounted under the equity method of accounting, as the Group did not obtain control due to its corporate governance structure.

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

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

This financial information may be different from the financial statements of the associate and joint venture prepared and presented in accordance with IFRS due to adjustments required in application of equity method of accounting, such as fair value adjustments on identifiable assets and liabilities at the date of acquisition and adjustments on differences in accounting policies.

15. Investments in associates and joint ventures (continued)

	PJSC NGK Slavneft and its subsidiaries	Gazprombank (Joint-stock Company) and its subsidiaries ¹	Sakhalin Energy Investment Company Ltd.
As of and for the year ended 31 December 2018			
Cash and cash equivalents	3,448	1,049,343	32,675
Other current assets (excluding cash and cash equivalents)	89,057	4,648,318	156,895
Other non-current assets	459,041	740,041	913,361
Total assets	551,546	6,437,702	1,102,931
Current financial liabilities (excluding trade payables)	1,991	4,913,146	103,463
Other current liabilities (including trade payables)	60,520	127,054	142,865
Non-current financial liabilities	126,151	861,842	155,143
Other non-current liabilities	58,301	13,301	308,104
Total liabilities	246,963	5,915,343	709,575
Net assets (including non-controlling interest)	304,583	522,359	393,356
Ownership interest	50 %	48 %	50 %
Carrying value of investment	152,495	166,218	196,679
Revenue	314,332	287,415	392,816
Depreciation	(45,022)	(44,972)	(119,098)
Interest income	368	373,482	3,685
Interest expense	(5,276)	(234,801)	(13,590)
Profit tax expense	(7,682)	(13,521)	(81,586)
Profit for the year	24,926	41,086	128,142
Other comprehensive income for the year	137	3,496	986
Comprehensive income for the year	25,063	44,582	129,128
Dividends received from associates and joint ventures	–	(3,086)	(74,433)
As of and for the year ended 31 December 2017			
Cash and cash equivalents	4,153	649,428	38,868
Other current assets (excluding cash and cash equivalents)	54,479	1,295,049	76,715
Other non-current assets	430,466	3,495,187	828,551
Total assets	489,098	5,439,664	944,134
Current financial liabilities (excluding trade payables)	10,359	4,050,693	61,963
Other current liabilities (including trade payables)	53,924	132,921	93,983
Non-current financial liabilities	88,198	748,068	166,083
Other non-current liabilities	58,323	25,561	283,620
Total liabilities	210,804	4,957,243	605,649
Net assets (including non-controlling interest)	278,294	482,421	338,485
Ownership interest	50 %	48 %	50 %
Carrying value of investment	140,548	145,603	169,242
Revenue	241,253	244,194	314,932
Depreciation	(44,453)	(42,011)	(114,681)
Interest income	988	365,335	1,682
Interest expense	(4,578)	(233,818)	(11,330)
Profit tax expense	(4,429)	(9,343)	(46,210)
Profit for the year	15,179	35,493	87,692
Other comprehensive income for the year	59	1,757	1,382
Comprehensive income for the year	15,238	37,250	89,074
Dividends received from associates and joint ventures	–	(3,398)	(51,221)

¹ The amount of revenue of Gazprombank (Joint-stock Company) and its subsidiaries includes revenue of media business, machinery business and other non-banking companies.

15. Investments in associates and joint ventures (continued)

	Assets	Liabilities	Revenues	Profit (loss)
As of and for the year ended				
31 December 2018				
Nord Stream AG	489,723	293,372	79,469	34,405
JSC Arcticgas	439,148	168,497	195,581	81,823
JSC NPF GAZFOND	427,516	358,003	–	14,616
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	321,523	188,493	76,008	13,780
JSC Messoyakhaneftegas	202,430	129,175	125,521	56,344
JSC Achimgaz	93,125	18,504	41,217	26,798
Wintershall AG	78,622	53,527	11,561	(8)
JSC EUROPOL GAZ	72,453	1,843	15,752	1,490
Wintershall Noordzee B.V.	54,408	39,943	14,643	765
CJSC Northgas	46,496	29,589	23,337	7,399
KazRosGas LLP	27,622	4,106	44,347	1,825
JSC Latvijas Gaze and its subsidiaries	25,210	8,067	26,095	1,865
As of and for the year ended				
31 December 2017				
Nord Stream AG	437,421	281,955	71,008	29,150
JSC Arcticgas	401,450	212,622	147,204	42,365
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	252,107	155,126	46,519	11,789
JSC Messoyakhaneftegas	171,124	135,612	61,030	19,952
JSC Achimgaz	78,206	11,188	31,027	17,536
Wintershall AG	67,904	44,818	10,066	522
JSC EUROPOL GAZ	64,993	3,353	13,865	(1,051)
CJSC Northgas	58,730	32,221	23,079	6,868
Wintershall Noordzee B.V.	50,550	38,271	9,858	414
KazRosGas LLP	30,824	11,953	43,548	3,087
JSC Latvijas Gaze and its subsidiaries	19,638	6,338	21,050	1,706

16. Long-term accounts receivable and prepayments

	31 December	
	2018	2017
Financial assets		
Long-term accounts receivable	151,131	158,333
	151,131	158,333
Non-financial assets		
Long-term prepayments	20,991	25,561
Advances for assets under construction	464,183	485,392
	485,174	510,953
Total long-term accounts receivable and prepayments	636,305	669,286

16. Long-term accounts receivable and prepayments (continued)

Long-term accounts receivable are presented net of allowance for expected credit losses in the amount of RUB 12,031 million and RUB 8,810 million as of 31 December 2018 and 31 December 2017, respectively. Prepayments and advances paid for assets under construction are presented net of impairment allowance in the amount of RUB 7,868 million and RUB 7,508 million as of 31 December 2018 and 31 December 2017, respectively.

As of 31 December 2018 and 31 December 2017 long-term accounts receivable and prepayments with carrying value RUB 172,122 million and RUB 183,894 million have an estimated fair value RUB 149,766 million and RUB 181,218 million, respectively.

	31 December	
	2018	2017
Long-term accounts receivable neither past due nor credit-impaired	172,101	180,520
Long-term accounts receivable past due and for which allowance for expected credit losses was accrued	12,040	8,819
Allowance for expected credit losses of long-term accounts receivable	(12,031)	(8,810)
Long-term accounts receivable past due but not credit-impaired	12	3,365
Total long-term accounts receivable and prepayments	172,122	183,894

	31 December	
	2018	2017
Loans receivable	59,983	81,892
Long-term trade accounts receivable	40,525	11,243
Other long-term accounts receivable ¹	71,593	87,385
Total long-term accounts receivable neither past due not credit-impaired	172,101	180,520

¹ Other long-term accounts receivable includes prepayments in the amount of RUB 20,991 million and RUB 25,561 million as of 31 December 2018 and 31 December 2017, respectively.

Management experience indicates that long-term loans to other entities granted mainly for capital construction purposes are of strong credit quality.

Movement of the Group's allowance for expected credit losses of long-term accounts receivable is presented in the table below.

	Year ended 31 December	
	2018	2017
Allowance for expected credit losses of accounts receivable at the beginning of the year	8,810	5,837
Effect of changes in accounting policies	569	–
Accrual of allowance for expected credit losses of accounts receivable ¹	3,405	3,010
Reversal of previously accrued allowance for expected credit losses of accounts receivable ¹	(819)	(33)
Foreign exchange rate differences	66	(4)
Allowance for expected credit losses of accounts receivable at the end of the year	12,031	8,810

¹ The accrual and release of allowance for expected credit losses of long-term accounts receivable have been included in the line "(Impairment loss) reversal of impairment loss on financial assets" in the consolidated statement of comprehensive income.

17. Long-term financial assets

	31 December	
	2018	2017
Financial assets measured at fair value with changes recognised through profit or loss:	2,131	797
Equity securities	2,131	797
Financial assets measured at fair value with changes recognised through other comprehensive income:	414,535	267,635
Equity securities ¹	414,273	267,386
Promissory notes	262	249
Total long-term financial assets	416,666	268,432

¹ As of 31 December 2018 and 31 December 2017 equity securities measured at fair value with changes recognised through other comprehensive income include PJSC NOVATEK shares in the amount of RUB 360,336 million and RUB 210,010 million, respectively.

Long-term financial assets are shown net of allowance for expected credit losses of RUB 35 million and RUB 32 million as of 31 December 2018 and 31 December 2017, respectively.

Long-term financial assets measured at fair value with changes recognised through other comprehensive income include promissory notes on Group companies' balances which are assessed by management as of high credit quality.

Movement in long-term financial assets is presented in the table below.

	Year ended 31 December	
	2018	2017
Long-term financial assets at the beginning of the year	268,432	294,345
Increase (decrease) in fair value of long-term financial assets	148,963	(30,404)
Acquisition of long-term financial assets	1,387	5,691
Disposal of long-term financial assets	(2,113)	(2,096)
(Accrual) release of allowance for expected credit losses of long-term financial assets	(3)	896
Long-term financial assets at the end of the year	416,666	268,432

As of the reporting date the maximum exposure to credit risk for this category of assets equals to the fair value of the promissory notes classified as financial assets measured at fair value with changes recognised through other comprehensive income. Fair value of financial assets measured at fair value with changes recognised through other comprehensive income mainly has been determined using the quoted market prices (see Note 38).

18. Accounts payable and provisions

Notes	31 December	
	2018	2017
Financial liabilities		
Accounts payable for acquisition of property, plant and equipment	319,660	354,857
Trade accounts payable	473,027	353,179
38 Derivative financial instruments	99,490	64,342
Other accounts payable ¹	<u>463,672</u>	<u>455,585</u>
	1,355,849	1,227,963
Non-financial liabilities		
Advances received	164,167	148,324
Accruals and deferred income	<u>2,085</u>	<u>1,895</u>
	<u>166,252</u>	<u>150,219</u>
Total accounts payable and provisions	1,522,101	1,378,182

¹ As of 31 December 2018 and 31 December 2017 other accounts payable include RUB 33,228 million and RUB 111,607 million of accruals for probable price adjustments related to natural gas deliveries made from 2013 to 2018, respectively.

Fair values of these liabilities approximate the carrying values.

19. Taxes other than on profit and fees payable

	31 December	
	2018	2017
VAT	151,936	103,698
MET	114,078	96,320
Property tax	37,301	35,240
Excise tax	21,227	21,432
Other taxes	<u>23,283</u>	<u>19,917</u>
Total taxes and fees payable	347,825	276,607

20. Short-term borrowings, promissory notes and current portion of long-term borrowings

	31 December	
	2018	2017
Short-term borrowings and promissory notes:		
Borrowings and promissory notes denominated in Russian Rubles	66,839	74,374
Foreign currency denominated borrowings	<u>8,052</u>	<u>11,807</u>
	74,891	86,181
Current portion of long-term borrowings (see Note 21)	<u>494,170</u>	<u>788,624</u>
Total short-term borrowings, promissory notes and current portion of long-term borrowings	569,061	874,805

20. Short-term borrowings, promissory notes and current portion of long-term borrowings (continued)

The weighted average effective interest rates at the balance sheet date were as follows:

	31 December	
	2018	2017
Fixed rate short-term borrowings denominated in Russian Rubles	7.95 %	8.82 %
Fixed rate foreign currency denominated short-term borrowings	7.83 %	7.47 %
Variable rate short-term borrowings denominated in Russian Rubles	9.75 %	9.72 %
Variable rate foreign currency denominated short-term borrowings	3.48 %	3.05 %

Fair values of these liabilities approximate the carrying values.

21. Long-term borrowings, promissory notes

	Currency	Final maturity	31 December	
			2018	2017
Long-term borrowings, promissory notes payable to:				
Loan participation notes issued in April 2009 ¹	US Dollar	2019	159,040	131,865
Bank of China Limited, London branch	Euro	2021	113,580	137,186
Loan participation notes issued in September 2012 ²	US Dollar	2022	105,485	87,461
Loan participation notes issued in November 2013 ²	US Dollar	2023	104,779	86,875
Intesa Sanpaolo Bank Luxembourg S.A.	Euro	2023	94,883	–
Loan participation notes issued in March 2007 ¹	US Dollar	2022	92,174	76,424
Loan participation notes issued in August 2007 ¹	US Dollar	2037	89,212	73,968
J.P. Morgan Europe Limited ³	Euro	2023	87,087	–
Loan participation notes issued in April 2004 ¹	US Dollar	2034	84,622	70,163
Loan participation notes issued in March 2013 ¹	Euro	2020	81,578	70,702
Loan participation notes issued in November 2016 ¹	Euro	2023	79,268	68,530
Loan participation notes issued in November 2018 ¹	Euro	2024	79,045	–
J.P. Morgan Europe Limited ³	Euro	2022	78,987	68,256
Loan participation notes issued in April 2017 ^{1,4}	British Pound Sterling	2024	78,028	67,474
Loan participation notes issued in July 2012 ¹	US Dollar	2022	71,018	58,883
Loan participation notes issued in February 2013 ¹	US Dollar	2028	63,770	52,874
Loan participation notes issued in February 2014 ¹	Euro	2021	61,412	53,224
China Construction Bank Corporation, Beijing branch ³	US Dollar	2020	61,151	75,699
Loan participation notes issued in March 2018 ¹	Euro	2026	60,239	–
Loan participation notes issued in November 2017 ¹	Euro	2024	59,243	51,194
Loan participation notes issued in February 2013 ¹	US Dollar	2020	56,438	46,795
Credit Agricole CIB	Euro	2022	55,722	48,138
UniCredit S.p.A.	Euro	2025	55,427	–
UniCredit S.p.A.	Euro	2022	55,329	27,135
Loan participation notes issued in March 2018 ¹	Swiss Franc	2023	53,161	–
Loan participation notes issued in March 2017 ¹	US Dollar	2027	52,340	43,261
Loan participation notes issued in September 2013 ^{1,4}	British Pound Sterling	2020	48,058	41,651
Credit Agricole CIB	Euro	2023	47,467	–
Loan participation notes issued in November 2011 ¹	US Dollar	2021	42,780	35,470

21. Long-term borrowings, promissory notes (continued)

	Currency	Final maturity	31 December	
			2018	2017
J.P. Morgan Europe Limited ³	Euro	2020	42,007	54,522
Loan participation notes issued in March 2013 ¹	Euro	2025	41,089	35,611
Loan issued in December 2018 ⁵	Japanese yen	2028	40,411	–
Loan participation notes issued in November 2016 ^{1,4}	Swiss Franc	2021	36,943	31,923
Loan participation notes issued in July 2017 ^{1,4}	Swiss Franc	2022	36,207	31,272
Loan participation notes issued in October 2013 ¹	Swiss Franc	2019	35,474	29,641
Citibank Europ plc ³	Euro	2023	33,537	–
ING Bank, a branch of ING-DiBa AG	Euro	2023	31,611	–
PJSC Sberbank	Euro	2023	29,861	–
AO "ALFA-BANK"	US Dollar	2021	27,803	23,052
Wintershall Nederland Transport and Trading B.V. ⁶	Euro	2035	26,978	20,555
Uniper Gas Transportation and Finance B.V. ⁶	Euro	2035	26,978	20,555
OMV Gas Marketing Trading & Finance B.V. ⁶	Euro	2035	26,975	20,554
Shell Exploration and Production (LXXI) B.V. ⁶	Euro	2035	26,975	20,554
Engie Energy Management Holding Switzerland AG ⁶	Euro	2035	26,975	20,554
Wintershall Nederland Transport and Trading B.V. ⁶	Euro	2019	26,245	3,119
OMV Gas Marketing Trading & Finance B.V. ⁶	Euro	2019	26,245	3,119
Shell Exploration and Production (LXXI) B.V. ⁶	Euro	2019	26,245	3,119
Uniper Gas Transportation and Finance B.V. ⁶	Euro	2019	26,245	3,119
Engie Energy Management Holding Switzerland AG ⁶	Euro	2019	26,243	3,119
Russian bonds issued in March 2018 ²	Russian Ruble	2024	25,538	–
Russian bonds issued in October 2017 ²	Russian Ruble	2022	25,376	25,371
Gazprombank (Joint-stock Company)	US Dollar	2019	25,009	20,736
Gazprombank (Joint-stock Company)	US Dollar	2019	22,925	19,008
UniCredit Bank Austria AG	Euro	2021	21,254	23,908
VTB Bank (Europe) SE	Euro	2027	20,276	19,640
PJSC Sberbank	Euro	2022	19,149	15,736
PJSC Sberbank	Euro	2020	19,143	16,591
Mizuho Bank Ltd. ³	US Dollar	2019	17,339	53,130
Deutsche Bank Luxembourg S.A.	Euro	2022	15,943	13,818
Russian bonds issued in July 2018 ⁷	Russian Ruble	2048	15,509	–
Russian bonds issued in July 2018 ⁷	Russian Ruble	2048	15,509	–
Russian bonds issued in February 2017 ⁸	Russian Ruble	2027	15,505	15,501
Russian bonds issued in February 2017 ⁸	Russian Ruble	2027	15,505	15,501
Russian bonds issued in August 2017 ²	Russian Ruble	2024	15,482	15,476
Russian bonds issued in April 2017 ²	Russian Ruble	2022	15,282	15,276
BANK ROSSIYA	Russian Ruble	2022	15,281	15,012
Russian bonds issued in November 2013 ⁷	Russian Ruble	2043	15,074	15,059
Russian bonds issued in November 2013 ⁷	Russian Ruble	2043	15,074	15,059
Gazprombank (Joint-stock Company)	Russian Ruble	2025	15,000	15,001
Gazprombank (Joint-stock Company)	Russian Ruble	2021	15,000	–
BNP Paribas S.A. ³	Euro	2022	12,986	14,069
Russian bonds issued in July 2018 ⁷	Russian Ruble	2033	10,340	–
Russian bonds issued in August 2016 ²	Russian Ruble	2046	10,322	10,319

21. Long-term borrowings, promissory notes (continued)

	Currency	Final maturity	31 December	
			2018	2017
Russian bonds issued in February 2011 ²	Russian Ruble	2021	10,319	10,371
Russian bonds issued in February 2018 ⁸	Russian Ruble	2028	10,245	–
Russian bonds issued in February 2018 ⁸	Russian Ruble	2028	10,245	–
Russian bonds issued in June 2016 ²	Russian Ruble	2046	10,067	10,064
Russian bonds issued in December 2017 ²	Russian Ruble	2024	10,023	10,021
AO "ALFA-BANK"	Russian Ruble	2023	10,007	–
Gazprombank (Joint-stock Company)	US Dollar	2019	585	17,856
Russian bonds issued in April 2009 ²	Russian Ruble	2019	118	10,184
Loan participation notes issued in October 2007 ¹	Euro	2018	–	87,456
Loan participation notes issued in October 2015 ¹	Euro	2018	–	69,539
Loan participation notes issued in April 2008 ¹	US Dollar	2018	–	64,507
Loan participation notes issued in July 2013 ¹	Euro	2018	–	62,985
Loan participation notes issued in April 2013 ²	Euro	2018	–	52,684
PJSC Sberbank	US Dollar	2018	–	43,776
Loan participation notes issued in March 2016 ¹	Swiss Franc	2018	–	29,438
Bank of America Securities Limited	US Dollar	2018	–	17,453
Russian bonds issued in March 2016 ²	Russian Ruble	2018	–	15,427
UniCredit Bank Austria AG	US Dollar	2018	–	11,526
Commerzbank International S.A.	US Dollar	2018	–	11,522
Russian bonds issued in March 2016 ²	Russian Ruble	2018	–	10,303
Gazprombank (Joint-stock Company)	Russian Ruble	2018	–	10,000
Gazprombank (Joint-stock Company)	Russian Ruble	2018	–	10,000
Other long-term borrowings, promissory notes	Various	Various	521,131	473,398
Total long-term borrowings, promissory notes			3,788,931	3,180,337
Less: current portion of long-term borrowings			(494,170)	(788,624)
			3,294,761	2,391,713

¹ Issuer of these bonds is Gaz Capital S.A. Bonds were issued under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

² Issuer of these bonds is PJSC Gazprom Neft.

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

⁴ According to the signed agreements between the bond issuer Gas Capital S.A. and the banks, settlements for the bonds are made in Euro (up to achieve of a coefficient based on the ratio of currency exchange rates set in the agreements).

⁵ Issuer of these bonds is GazAsia Capital S.A.

⁶ Borrowings were obtained for financing of the Nord Stream-2 project.

⁷ Issuer of these bonds is PJSC Gazprom.

⁸ Issuer of these bonds is Gazprom capital LLC.

	31 December	
	2018	2017
Long-term borrowings and promissory notes		
denominated in Russian Rubles (including current portion of RUB 46,611 million and RUB 142,484 million as of 31 December 2018 and 31 December 2017, respectively)	694,548	558,509
denominated in foreign currency (including current portion of RUB 447,559 million and RUB 646,140 million as of 31 December 2018 and 31 December 2017, respectively)	3,094,383	2,621,828
	3,788,931	3,180,337

The analysis of due for repayment of long-term borrowings and promissory notes is presented in the table below.

21. Long-term borrowings, promissory notes (continued)

Due for repayment of long-term borrowings, promissory notes	31 December	
	2018	2017
between one and two years	607,775	481,070
between two and five years	1,654,576	1,087,239
after five years	1,032,410	823,404
	3,294,761	2,391,713

Long-term liabilities include fixed rate borrowings with a carrying value of RUB 2,709,599 million and RUB 2,355,672 million and fair value of RUB 2,831,050 million and RUB 2,605,734 million as of 31 December 2018 and 31 December 2017, respectively.

All other long-term borrowings have variable interest rates generally linked to LIBOR and EURIBOR. Their carrying value is RUB 1,079,332 million and RUB 824,665 million and fair value is RUB 1,082,539 million and RUB 837,266 million as of 31 December 2018 and 31 December 2017, respectively.

The weighted average effective interest rates at the balance sheet date were as follows:

	31 December	
	2018	2017
Fixed rate long-term borrowings denominated in Russian Rubles	8.08 %	8.81 %
Fixed rate foreign currency denominated long-term borrowings	5.38 %	5.59 %
Variable rate long-term borrowings denominated in Russian Rubles	7.20 %	6.51 %
Variable rate foreign currency denominated long-term borrowings	2.46 %	3.28 %

As of 31 December 2018 and 31 December 2017 according to the agreements signed within the framework of financing the Nord Stream-2 project with Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V., 100 % of shares of Nord Stream 2 AG held by PJSC Gazprom were pledged until a full settlement of the secured obligations.

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom in July 2018 due in 2048 the issuer can execute the right of early redemption in July 2025.

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom in July 2018 due in 2048 the issuer can execute the right of early redemption in July 2025.

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom in July 2018 due in 2033 the issuer can execute the right of early redemption in July 2025.

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by Gazprom capital LLC in February 2018 due in 2028 the issuer can execute the right of early redemption in February 2025.

Under the terms of the Russian bonds with the nominal value of RUB 30,000 million issued by Gazprom capital LLC in February 2017 due in 2027 the issuer can execute the right of early redemption in February 2024.

Under the terms of the Russian bonds with the nominal value of RUB 15,000 million issued by PJSC Gazprom Neft in August 2016 due in 2046 bondholders can execute the right of early redemption in August 2021 at par, including interest accrued.

Under the terms of the Russian bonds with the nominal value of RUB 10,000 million issued by PJSC Gazprom Neft in June 2016 due in 2046 bondholders can execute the right of early redemption in June 2019 at par, including interest accrued.

22. Profit tax (continued)

current profit tax by the corresponding amount which did not have influence on profit for the year ended 31 December 2017.

Effective 1 January 2012, 55 major Russian subsidiaries of PJSC Gazprom formed a consolidated group of taxpayers ("CGT") with PJSC Gazprom acting as the responsible tax payer. Starting from 1 January 2013 the membership was expanded to 65 participants. Starting from 1 January 2014, the list of participants was 69. Starting from 1 January 2015 the number of participants was reduced to 65. Starting from 1 January 2016, the list of participants has been expanded to 67. In 2017, the number of participants did not change compared to 2016. Starting from 1 January 2018 the number of participants was reduced to 65. In accordance with the Russian tax legislation, tax deductible losses can be offset against taxable profits among the companies within the CGT to the extent that profit or loss is recognised for tax purposes in the reporting year and, thus, is included into the tax base of the CGT. Tax assets recognised on losses prior to the formation of the CGT are written off.

23. Derivative financial instruments

The Group has outstanding commodity contracts measured at fair value. The fair value of derivatives is based on market quotes on measurement date or calculation using an agreed price formula.

Where appropriate, in order to manage currency risk the Group uses foreign currency derivatives.

The following table provides an analysis of the Group's position and fair value of derivatives outstanding as of the end of the reporting year. Fair values of derivatives are reflected at their gross value included in other assets and other liabilities in the consolidated balance sheet.

Fair value	31 December	
	2018	2017
Assets		
Commodity contracts	141,767	73,273
Foreign currency derivatives and currency and interest rate swaps	3,494	1,504
	145,261	74,777
Liabilities		
Commodity contracts	134,800	58,181
Foreign currency derivatives and currency and interest rate swaps	3,052	20,680
Other derivatives	16,133	13,188
	153,985	92,049

Derivative financial instruments are mainly denominated in US dollars, Euros and British Pounds Sterling.

24. Provisions

	31 December	
	2018	2017
Provision for post-employment benefits	226,585	258,132
Provision for decommissioning and site restoration costs	166,799	202,616
Other	12,938	8,705
Total provisions	406,322	469,453

24. Provisions (continued)

Provision for decommissioning and site restoration costs changed mainly due to revised liquidation dates and an increase in discount rate from 8.47 % to 8.93 % as of 31 December 2017 and 31 December 2018, respectively.

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

The amount of benefits depends on the period of the employees' service (years of service), salary level at retirement, predetermined fixed amount or the combination of these factors.

Principal actuarial assumptions used:

	31 December	
	2018	2017
Discount rate (nominal)	8.8 %	7.6 %
Future salary and pension increases (nominal)	5.0 %	5.0 %
Average expected retirement age, years	women 58, men 62	women 55, men 58
Turnover ratio	age-related probability of resignation curve, 3.8 % on average	

Weighted-average duration of obligations is 11.6 years.

The assumptions related to life expectancy at expected retirement age were 16.3 years for 62 year old men and 25.8 years for 58 year old women in 2018. The assumptions related to life expectancy at expected retirement age were 19.3 years for 58 year old men and 28.5 years for 55 year old women in 2017.

Net liabilities or assets related to post-employment benefits recognised in the consolidated balance sheet are presented below.

	31 December 2018		31 December 2017	
	Pension plan provided through JSC NPF GAZFOND	Other post-employment benefits	Pension plan provided through JSC NPF GAZFOND	Other post-employment benefits
Present value of obligations	(332,493)	(226,585)	(422,641)	(258,132)
Fair value of plan assets	473,371	—	449,814	—
Total net assets (liabilities)	140,878	(226,585)	27,173	(258,132)

The net pension plan assets related to benefits provided through JSC NPF GAZFOND in the amount of RUB 140,878 million and RUB 27,173 million as of 31 December 2018 and 31 December 2017, respectively, are included within other non-current assets in the consolidated balance sheet (see Note 12).

Changes in the present value of the defined benefit plan obligations and fair value of pension plan assets for the years ended 31 December 2018 and 31 December 2017 are presented below.

24. Provisions (continued)

	Provision for pension plan provided through JSC NPF GAZFOND	Fair value of plan assets	Net (assets) liabilities	Provision for other post-employment benefits
As of 31 December 2017	422,641	(449,814)	(27,173)	258,132
Current service cost	14,148	–	14,148	12,019
Past service cost	(94,678)	–	(94,678)	(27,499)
Interest expense (income)	32,115	(34,391)	(2,276)	19,349
Total expenses included in staff costs within operating expenses (see Note 27)	(48,415)	(34,391)	(82,806)	3,869
Remeasurement of provision for post-employment benefits:				
Actuarial gains arising from changes in financial assumptions	(33,408)	–	(33,408)	(27,657)
Actuarial (gains) losses arising from changes in demographic assumptions	(91)	–	(91)	34
Actuarial losses — experience adjustments	7,372	–	7,372	17,030
Expense on plan assets excluding amounts included in interest expense	–	16,243	16,243	–
Translation differences	–	–	–	623
Total included in other comprehensive income	(26,127)	16,243	(9,884)	(9,970)
Benefits paid	(15,606)	15,606	–	(25,446)
Employer's contributions	–	(21,015)	(21,015)	–
As of 31 December 2018	332,493	(473,371)	(140,878)	226,585
	Provision for pension plan provided through JSC NPF GAZFOND	Fair value of plan assets	Net (assets) liabilities	Provision for other post-employment benefits
As of 31 December 2016	372,845	(393,344)	(20,499)	236,852
Current service cost	14,966	–	14,966	12,703
Past service cost	1,878	–	1,878	1,134
Interest expense (income)	31,678	(33,641)	(1,963)	19,804
Total expenses included in staff costs within operating expenses (see Note 27)	48,522	(33,641)	14,881	33,641
Remeasurement of provision for post-employment benefits:				
Actuarial gains arising from changes in financial assumptions	(4,384)	–	(4,384)	(2,996)
Actuarial (gains) losses arising from changes in demographic assumptions	(339)	–	(339)	72
Actuarial losses — experience adjustments	19,996	–	19,996	10,467
Return on plan assets excluding amounts included in interest expense	–	(17,972)	(17,972)	–
Translation differences	–	–	–	220
Total included in other comprehensive loss	15,273	(17,972)	(2,699)	7,763
Benefits paid	(13,999)	13,999	–	(20,124)
Employer's contributions	–	(18,856)	(18,856)	–
As of 31 December 2017	422,641	(449,814)	(27,173)	258,132

24. Provisions (continued)

The major categories of plan assets allocation broken down by fair value and percentage of total plan assets are presented below.

	31 December 2018		31 December 2017	
	Fair value	Percent in plan assets	Fair value	Percent in plan assets
Quoted plan assets, including:	223,912	47.3 %	231,468	51.5 %
Mutual funds	63,931	13.5 %	60,610	13.5 %
Bonds	136,582	28.9 %	108,236	24.1 %
Shares	23,399	4.9 %	62,622	13.9 %
Unquoted plan assets, including:	249,459	52.7 %	218,346	48.5 %
Shares	177,325	37.5 %	177,016	39.3 %
Deposits	18,600	3.9 %	18,843	4.2 %
Mutual funds	9,708	2.0 %	18,400	4.1 %
Other assets	43,826	9.3 %	4,087	0.9 %
Total plan assets	473,371	100 %	449,814	100 %

The amount of ordinary shares of PJSC Gazprom included in the fair value of plan assets comprises RUB nil million and RUB 32,490 million as of 31 December 2018 and 31 December 2017, respectively.

Unquoted equities within pension plan assets are mostly represented by shares of Gazprom-bank (Joint-stock Company), which are measured at fair value (Level 2 in accordance with the fair value hierarchy) using market approach valuation techniques based on available market data.

For the years ended 31 December 2018 and 31 December 2017 actual return on pension plan assets was a gain of RUB 18,148 million and RUB 51,613 million, respectively, primarily caused by the change in the fair value of assets.

The sensitivity analysis of the present value of defined benefit plan obligations to changes in the principal actuarial assumptions as of 31 December 2018 is presented below.

	Increase (decrease) of obligation	Increase (decrease) of obligation, %
Mortality rates lower by 20 %	21,068	3.8 %
Mortality rates higher by 20 %	(17,769)	(3.2 %)
Discount rate lower by 1 pp	49,306	9.0 %
Discount rate higher by 1 pp	(41,833)	(7.6 %)
Benefit growth lower by 1 pp	(43,910)	(8.0 %)
Benefit growth higher by 1 pp	51,065	9.3 %
Staff turnover lower by 1 pp for all ages	24,793	4.5 %
Staff turnover higher by 1 pp for all ages	(21,329)	(3.9 %)
Retirement ages lower by 1 year	19,952	3.6 %
Retirement ages higher by 1 year	(19,754)	(3.6 %)

The Group expects to contribute RUB 45,100 million to the defined benefit plans in 2019.

Pension plan parameters and related risks

As a rule, the above benefits are indexed in line with inflation rate or salary growth for benefits that depend on salary level and are exposed to inflation risk.

In addition to the inflation risk, the pension plans of the Group are exposed to mortality risks and longevity risks.

25. Equity

Share capital

Share capital authorised, issued and paid totals RUB 325,194 million as of 31 December 2018 and 31 December 2017 and consists of 23.7 billion ordinary shares, each with a par value of 5 Russian Rubles.

Dividends

In 2018 PJSC Gazprom declared and paid dividends in the nominal amount of 8.04 Russian Rubles per share based on the results for the year ended 31 December 2017. In 2017 PJSC Gazprom declared and paid dividends in the nominal amount of 8.04 Russian Rubles per share based on the results for the year ended 31 December 2016.

Treasury shares

As of 31 December 2018 and 31 December 2017 subsidiaries of PJSC Gazprom held 1,573 million ordinary shares of PJSC Gazprom including American depositary receipts in the amount of 639 million PJSC Gazprom's ordinary shares, which are accounted for as treasury shares.

In June 2017 the Group pledged American depositary receipts as security of liabilities in the amount of 506 million PJSC Gazprom's ordinary shares. On 1 November 2018 the pledge was terminated due to the repayment of liabilities secured by the pledge.

The shares including American depositary receipts held by PJSC Gazprom's subsidiaries represent 6.6 % of the total number of PJSC Gazprom's shares as of 31 December 2018 and 31 December 2017.

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

Retained earnings and other reserves

Included in retained earnings and other reserves are the effects of the cumulative restatement of the consolidated financial statements to the equivalent purchasing power of the Russian Ruble as of 31 December 2002, when the economy of the Russian Federation ceased to be hyperinflationary under IAS 29 Financial Reporting in Hyperinflationary Economies. Also, retained earnings and other reserves include translation differences arising on the translation of the net assets of foreign subsidiaries, associates and joint arrangements in the amount of RUB 843,598 million and RUB 634,067 million as of 31 December 2018 and 31 December 2017, respectively.

Retained earnings and other reserves include a statutory fund for social assets, created in accordance with Russian legislation at the time of privatisation. From time to time, the Group negotiates to return certain of social assets to the balance of local governmental authorities and this process may continue in the future. Social assets with a net book value of RUB 18 million and RUB 50 million have been transferred to governmental authorities in 2017 and 2018, respectively. Cost of assets transferred has been recorded as a reduction of retained earnings and other reserves.

The current year net profit calculated in accordance with Russian statutory accounting and presented in the statutory financial statements of PJSC Gazprom is available for distribution in accordance with the legislation of the Russian Federation. For the year ended 31 December 2018 the statutory net profit of PJSC Gazprom was RUB 933,137 million. However, the legislation and other statutory laws and regulations dealing with profit distribution are open to different legal interpretations and accordingly management of PJSC Gazprom believes at present it would not be appropriate to disclose any amounts that are available for the distributable profits and reserves in these consolidated financial statements.

26. Sales

	Year ended 31 December	
	2018	2017
Gas sales gross of excise tax and customs duties:		
Russian Federation	954,493	875,685
Former Soviet Union (excluding Russian Federation)	389,217	323,037
Europe and other countries	3,770,291	2,823,939
	5,114,001	4,022,661
Customs duties	(804,987)	(581,109)
Excise tax	(54,681)	(51,873)
Retroactive gas price adjustments ¹	49,338	(49,092)
Total gas sales	4,303,671	3,340,587
Sales of refined products:		
Russian Federation	1,394,137	1,115,125
Former Soviet Union (excluding Russian Federation)	144,658	117,635
Europe and other countries	640,977	454,330
Total sales of refined products	2,179,772	1,687,090
Sales of crude oil and gas condensate:		
Russian Federation	64,645	71,434
Former Soviet Union (excluding Russian Federation)	38,748	29,770
Europe and other countries	631,560	438,754
Total sales of crude oil and gas condensate	734,953	539,958
Electric and heat energy sales:		
Russian Federation	501,362	487,283
Former Soviet Union (excluding Russian Federation)	5,090	2,937
Europe and other countries	15,643	13,599
Total electric and heat energy sales	522,095	503,819
Gas transportation sales:		
Russian Federation	220,488	229,395
Former Soviet Union (excluding Russian Federation)	2,758	2,433
Europe and other countries	2,427	3,233
Total gas transportation sales	225,673	235,061
Other sales:		
Russian Federation	210,149	199,506
Former Soviet Union (excluding Russian Federation)	8,064	6,212
Europe and other countries	39,800	33,910
Total other sales	258,013	239,628
Total sales	8,224,177	6,546,143

¹ The effect of retroactive gas price adjustments relate to gas deliveries in previous years for which a price adjustment has been agreed or is in the process of negotiation. The effect of gas price adjustments, including corresponding impact on profit tax, is recorded in the consolidated financial statements when they become probable and a reliable estimate of the amounts can be made. The effects of retroactive gas price adjustments for the years ended 31 December 2018 and 31 December 2017 were recorded as the increase of sales by RUB 49,338 million and the decrease of sales by RUB 49,092 million, respectively.

The effects increasing sales were due to recognition of adjustments increasing gas prices for the past periods and due to reverse of related accruals following agreements reached prior to the issuance of the respective consolidated financial statements.

The effects decreasing sales were due to increase in related accruals following agreements reached prior to the issuance of the respective consolidated financial statements. The effect arising from retroactive gas price adjustments for the year ended 31 December 2017 included amount of adjustment related to the gas supply contract with NJSC Naftogaz Ukraine reflected in accordance with the court decision (see Note 36).

Prepayments received from customers as of the beginning of the corresponding period were recognised within sales in the amount of RUB 92,253 million and RUB 67,454 million for the years ended 31 December 2018 and 31 December 2017, respectively.

27. Operating expenses

	Year ended 31 December	
	2018	2017
Taxes other than on profit	1,498,278	1,246,059
Purchased gas and oil	1,468,885	1,236,201
Transit of gas, oil and refined products	650,829	593,327
Depreciation	647,993	613,160
Staff costs	600,812	682,060
Materials	264,190	261,642
Cost of goods for resale, including refined products	249,911	207,689
Repairs and maintenance	137,821	154,785
Electricity and heating expenses	114,465	109,485
Social expenses	42,789	34,461
Rental expenses	37,177	37,723
Insurance expenses	32,628	30,491
Transportation services	24,544	27,253
Impairment loss (reversal of impairment loss) on non-financial assets	21,743	(16,252)
Processing services	18,961	16,261
Research and development expenses	13,591	16,175
Derivatives loss (gain)	1,849	(18,344)
Foreign exchange rate differences on operating items	(28,029)	(14,487)
Other	427,990	610,005
	6,226,427	5,827,694
Change in balances of finished goods, work in progress and other effects	(45,236)	(130,638)
Total operating expenses	6,181,191	5,697,056

Taxes other than on profit consist of:

	Year ended 31 December	
	2018	2017
MET	1,163,882	915,228
Property tax	162,928	154,639
Excise tax	157,113	162,140
Other taxes	14,355	14,052
Total taxes other than on profit	1,498,278	1,246,059

Gas purchase expenses included within purchased gas and oil amounted to RUB 976,849 million and RUB 873,866 million for the years ended 31 December 2018 and 31 December 2017, respectively.

Staff costs include RUB 78,937 million of income and RUB 48,522 million of expenses for provision for post-employment benefits for the years ended 31 December 2018 and 31 December 2017, respectively (see Note 24).

27. Operating expenses (continued)

The impairment loss (reversal of impairment loss) on assets is presented below.

Notes	Year ended 31 December	
	2018	2017
10, 16		
Impairment loss (reversal of impairment loss) on trade accounts receivable	125,828	(43,969)
Impairment loss on other accounts receivable and loans receivable	5,143	5,299
Total impairment loss (reversal of impairment loss) on financial assets	130,971	(38,670)
13		
Impairment loss (reversal of impairment loss) on property, plant and equipment and assets under construction	21,408	(22,692)
Impairment loss on advances paid and prepayments	482	621
Impairment loss on investments in associates and joint ventures	306	3,562
(Reversal of impairment loss) impairment loss on other assets	(453)	2,257
Total impairment loss (reversal of impairment loss) on non-financial assets	21,743	(16,252)

28. Finance income and expense

	Year ended 31 December	
	2018	2017
Foreign exchange gain	430,439	342,984
Interest income	72,652	83,721
Total finance income	503,091	426,705
Foreign exchange loss	762,664	353,712
Interest expense	50,378	53,332
Total finance expense	813,042	407,044

Total interest paid amounted to RUB 173,174 million and RUB 161,455 million for the years ended 31 December 2018 and 31 December 2017, respectively.

Foreign exchange gain and loss for the years ended 31 December 2018 and 31 December 2017 were recognised as a result of change in the Euro and US Dollar exchange rates against to the Russian Ruble. Gain and loss primarily relate to revaluation of borrowings denominated in a foreign currency.

29. Reconciliation of profit, disclosed in Consolidated Statement of Financial Results, prepared in accordance with Russian statutory accounting (RSA) to profit disclosed in IFRS Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2018	2017
RSA profit for the year per consolidated statutory accounts	1,056,004	82,118
Effect of IFRS adjustments:		
Differences in depreciation of property, plant and equipment and intangible assets	409,273	451,406
Borrowing costs capitalised	155,107	135,556
Reversal of goodwill amortisation	62,896	63,083
Classification of (gain) loss arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	(148,963)	30,404
Impairment loss on assets and changes in provisions, including provision for post-employment benefits	45,701	15,049
Differences in property, plant and equipment disposal	(1,316)	7,272
Difference in share of profit of associates and joint ventures	(20,945)	(3,451)
Write-off of research and development expenses capitalised for RSA purposes	(3,727)	(2,480)
Other	(25,034)	(12,078)
IFRS profit for the year	1,528,996	766,879

30. Basic and diluted earnings per share attributable to the owners of PJSC Gazprom

Earnings per share attributable to the owners of PJSC Gazprom have been calculated by dividing the profit for the year attributable to the owners of PJSC Gazprom by the weighted average number of ordinary shares outstanding, excluding the weighted average number of ordinary shares purchased by the Group and held as treasury shares (see Note 25).

There were 22.1 billion of weighted average number of ordinary shares outstanding, excluding the weighted average number of treasury shares, for the years ended 31 December 2018 and 31 December 2017.

There are no dilutive financial instruments outstanding in the Group.

31. Net cash from operating activities

Notes	Year ended 31 December	
	2018	2017
	1,852,562	1,018,006
Profit before profit tax		
Adjustments to profit before profit tax		
27 Depreciation	647,993	613,160
28 Net finance expense (income)	309,951	(19,661)
15 Share of profit of associates and joint ventures	(232,483)	(126,940)
27 Impairment loss (reversal of impairment loss) on assets and change in provision for post-employment benefits	73,777	(6,400)
27 Derivatives loss (gain)	1,849	(18,344)
Other	17,674	(1,682)
Total effect of adjustments	818,761	440,133
Cash flows from operating activities before working capital changes	2,671,323	1,458,139
Increase in non-current assets	(11,307)	(6,973)
Increase in non-current liabilities	2,371	4,056
	2,662,387	1,455,222
Changes in working capital:		
(Increase) decrease in accounts receivable and prepayments	(244,707)	33,989
Increase in inventories	(137,799)	(51,996)
Increase in other current assets	(526,057)	(207,558)
Increase in accounts payable, excluding interest, dividends and capital construction	94,669	161,325
Settlements on taxes and fees payable (other than profit tax)	69,864	43,190
Decrease (increase) in financial assets	3,759	(19,601)
Total effect of working capital changes	(740,271)	(40,651)
Profit tax paid	(304,732)	(227,549)
Net cash from operating activities	1,617,384	1,187,022

31. Net cash from operating activities (continued)

The following taxes and other similar payments were paid in cash during 2017 and 2018:

	Year ended 31 December	
	2018	2017
MET	1,146,040	883,895
Customs duties	931,762	664,191
Profit tax	304,732	227,549
Excise tax	270,651	256,205
VAT	167,800	127,580
Property tax	158,905	149,236
Insurance contributions	137,057	126,307
Personal income tax	74,021	67,879
Other taxes	50,015	31,611
Total taxes paid	3,240,983	2,534,453

32. Subsidiaries

Significant subsidiaries

Subsidiary	Country of primary operation	Ownership interest as of 31 December ¹	
		2018	2017
LLC Aviapredpriyatie Gazprom avia	Russia	100	100
WIBG GmbH	Germany	100	100
WIEE Hungary Kft.	Hungary	100	100
WIEH GmbH	Germany	100	100
WINGAS GmbH	Germany	100	100
OJSC Vostokgazprom	Russia	100	100
CJSC Gazprom Armenia	Armenia	100	100
JSC Gazprom gazoraspredelenie	Russia	100	100
LLC Gazprom geologorazvedka	Russia	100	100
GAZPROM Germania GmbH	Germany	100	100
Gazprom Gerosgaz Holdings B.V.	Netherlands	100	100
LLC Gazprom dobycha Astrakhan	Russia	100	100
LLC Gazprom dobycha Krasnodar	Russia	100	100
LLC Gazprom dobycha Nadym	Russia	100	100
LLC Gazprom dobycha Noyabrsk	Russia	100	100
LLC Gazprom dobycha Orenburg	Russia	100	100
LLC Gazprom dobycha Urengoy	Russia	100	100
LLC Gazprom dobycha shelf Yuzhno-Sakhalinsk	Russia	100	100
LLC Gazprom dobycha Yamburg	Russia	100	100
LLC Gazprom invest	Russia	100	100
LLC Gazprom invest RGK	Russia	100	100
LLC Gazprom investgazifikatsiia	Russia	100	100
LLC Gazprom komplektatciya	Russia	100	100
JSC Gazprom Space Systems	Russia	80	80
Gazprom Marketing and Trading Ltd.	United Kingdom	100	100
Gazprom Marketing and Trading Retail Ltd.	United Kingdom	100	100

32. Subsidiaries (continued)

Subsidiary	Country of primary operation	Ownership interest as of 31 December ¹	
		2018	2017
LLC Gazprom mezhregiongaz	Russia	100	100
LLC Gazprom mezhregiongaz Moskva	Russia	100	100
JSC Gazprom mezhregiongaz Nizhny Novgorod	Russia	51	51
LLC Gazprom mezhregiongaz Sankt-Peterburg	Russia	100	100
LLC Gazprom neftekhim Salavat	Russia	100	100
PJSC Gazprom Neft	Russia	96	96
Gazprom Neft Badra B.V. ²	Netherlands	100	100
LLC Gazprom neft shelf ²	Russia	100	100
LLC Gazprom pererabotka	Russia	100	100
LLC Gazprom pererabotka Blagoveshchensk	Russia	100	100
LLC Gazprom PKhG	Russia	100	100
Gazprom Sakhalin Holdings B.V.	Netherlands	100	100
OJSC Gazprom transgaz Belarus	Belorussia	100	100
LLC Gazprom transgaz Volgograd	Russia	100	100
LLC Gazprom transgaz Ekaterinburg	Russia	100	100
LLC Gazprom transgaz Kazan	Russia	100	100
LLC Gazprom transgaz Krasnodar	Russia	100	100
LLC Gazprom transgaz Moskva	Russia	100	100
LLC Gazprom transgaz Nizhny Novgorod	Russia	100	100
LLC Gazprom transgaz Samara	Russia	100	100
LLC Gazprom transgaz Sankt-Peterburg	Russia	100	100
LLC Gazprom transgaz Saratov	Russia	100	100
LLC Gazprom transgaz Stavropol	Russia	100	100
LLC Gazprom transgaz Surgut	Russia	100	100
LLC Gazprom transgaz Tomsk	Russia	100	100
LLC Gazprom transgaz Ufa	Russia	100	100
LLC Gazprom transgaz Ukhta	Russia	100	100
LLC Gazprom transgaz Tchaikovsky	Russia	100	100
LLC Gazprom transgaz Yugorsk	Russia	100	100
Gazprom Finance B.V.	Netherlands	100	100
Gazprom Holding Cooperatie U.A.	Netherlands	100	100
LLC Gazprom tsentrremont	Russia	100	100
GAZPROM Schweiz AG	Switzerland	100	100
LLC Gazprom export	Russia	100	100
JSC Gazprom energosbyt	Russia	58	58
LLC Gazprom energoholding	Russia	100	100
Gazprom EP International B.V.	Netherlands	100	100
LLC Gazpromneft Marine Bunker ²	Russia	100	100
JSC Gazpromneft-Aero ²	Russia	100	100
LLC Gazpromneft-Vostok ²	Russia	51	100
LLC Gazpromneft Corporate Sales ²	Russia	100	100
JSC Gazpromneft - MNPZ ²	Russia	100	100
JSC Gazpromneft-Noyabrskneftegaz ²	Russia	100	100
JSC Gazpromneft - ONPZ ²	Russia	100	100

32. Subsidiaries (continued)

Subsidiary	Country of primary operation	Ownership interest as of 31 December ¹	
		2018	2017
LLC Gazpromneft-Orenburg ²	Russia	100	100
LLC Gazpromneft Regional Sales ²	Russia	100	100
LLC Gazpromneft-Khantos ²	Russia	100	100
LLC Gazpromneft-Centr ²	Russia	100	100
LLC Gazpromneft-Yamal ²	Russia	100	100
LLC Gazpromtrans	Russia	100	100
OJSC Gazpromtrubinvest	Russia	100	100
Gazfin Cyprus Limited	Cyprus	100	100
LLC GPN-Invest ²	Russia	100	100
LLC GPN-Finans ²	Russia	100	100
PJSC Mosenergo ³	Russia	54	54
PJSC MIPC ³	Russia	99	100
Naftna Industrija Srbije a.d. ²	Serbia	56	56
LLC Novourengoysky gazohimicheskii kompleks	Russia	100	100
Nord Stream 2 AG	Switzerland	100	100
PJSC WGC-2 ³	Russia	80	80
Rosingaz Limited	Cyprus	100	100
South Stream Transport B.V.	Netherlands	100	100
OJSC Severneftegazprom ³	Russia	50	50
LLC Sibmetakhim	Russia	100	100
PJSC TGC-1	Russia	52	52
JSC Teploset Sankt-Peterburga	Russia	75	75
OJSC Tomsgazprom	Russia	100	100
LLC Faktoring-Finance	Russia	100	100
PJSC Centerenergoholding	Russia	100	100

¹ Cumulative share of the Group in share capital of investees.

² Subsidiaries of PJSC Gazprom Neft.

³ Share in voting shares.

33. Non-controlling interest

	Year ended 31 December	
	2018	2017
Non-controlling interest at the end of the previous year	386,395	347,308
Effect of changes in accounting policies	(140)	–
Non-controlling interest at the beginning of the year (restated)	386,255	347,308
Non-controlling interest share of profit of subsidiaries ¹	72,726	52,577
Change in ownership interest in LLC Gazpromneft-Vostok ²	21,279	–
Change in ownership interest in JSC Gazprom gazoraspredelenie Sever	(2,910)	(117)
Change in ownership interest in LLC Ural special valve plant ³	661	–
Change in ownership interest in PJSC MIPC	145	(777)
Change in ownership interest in PJSC WGC-2	79	91
Change in ownership interest in JSC Gazprom StroyTEK Salavat ³	–	(2,127)
Change in the non-controlling interest as a result of other acquisitions and disposals	217	(33)
Gain from hedging operations, net of tax	632	796
Loss arising from changes in fair value of financial assets measured at fair value through other comprehensive income, net of tax	(617)	(7)
Remeasurement of provision for post-employment benefits	122	(82)
Dividends	(15,135)	(18,379)
Translation differences	12,690	7,145
Non-controlling interest at the end of the year	476,144	386,395

¹ Non-controlling interest share of profit of subsidiaries includes share in impairment of assets in the amount of RUB 7,470 million and RUB 3,299 million for the years ended 31 December 2018 and 31 December 2017, respectively.
² Subsidiary of PJSC Gazprom Neft.
³ Subsidiary of LLC Gazprom neftekhim Salavat.

The following table provides information about each subsidiary that has non-controlling interest that is significant to the Group:

	Country of primary operation	Ownership interest held by non-controlling interest ¹	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends accrued to non-controlling interest during the year
As of and for the year ended 31 December 2018					
Gazprom Neft Group ²	Russia	4 %	47,280	224,980	7,114
Naftna Industrija Srbije a.d. Group	Serbia	46 %	7,296	92,673	2,016
Mosenergo Group	Russia	46 %	16,568	110,507	3,044
TGC-1 Group	Russia	48 %	2,163	68,355	910
WGC-2 Group	Russia	20 %	2,201	32,329	341
As of and for the year ended 31 December 2017					
Gazprom Neft Group ²	Russia	4 %	32,093	149,974	5,061
Naftna Industrija Srbije a.d. Group	Serbia	46 %	6,808	75,560	1,014
Mosenergo Group	Russia	46 %	10,857	97,594	1,556
TGC-1 Group	Russia	48 %	5,009	67,012	642
WGC-2 Group	Russia	20 %	915	30,364	171

¹ Effective share held by non-controlling interest in share capital of investments.
² Including non-controlling interest in Naftna Industrija Srbije a.d. Group.

33. Non-controlling interest (continued)

The summarised financial information of these subsidiaries before inter-company eliminations is presented in the table below:

	Gazprom Neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2018					
Current assets	652,207	66,310	83,237	25,970	34,821
Non-current assets	3,080,495	262,190	187,880	152,490	224,191
Current liabilities	562,466	37,010	17,438	19,904	27,185
Non-current liabilities	1,015,841	69,569	15,681	26,325	69,208
Sales	2,393,980	176,148	199,647	92,659	143,416
Profit for the year	394,779	15,166	21,038	85	19,979
Comprehensive income for the year	447,292	15,191	19,720	269	20,110
Net cash from (used in):					
operating activities	505,017	20,844	36,220	19,554	30,940
investing activities	(352,953)	(20,777)	(14,106)	(11,327)	(12,262)
financing activities	(3,470)	(7,372)	(26,558)	(8,651)	(17,364)
	Gazprom Neft Group	Naftna Industrija Srbije a.d. Group	Mosenergo Group	TGC-1 Group	WGC-2 Group
As of and for the year ended 31 December 2017					
Current assets	422,567	61,658	87,075	26,943	29,510
Non-current assets	2,732,329	218,321	189,909	159,749	216,978
Current liabilities	479,606	36,160	29,657	18,968	21,504
Non-current liabilities	851,041	61,812	21,726	33,874	80,831
Sales	1,857,929	127,927	196,216	87,568	141,504
Profit for the year	294,784	13,997	23,470	10,047	4,776
Comprehensive income for the year	326,072	14,340	23,463	9,926	4,630
Net cash from (used in):					
operating activities	401,778	29,130	42,067	17,209	24,741
investing activities	(328,608)	(19,533)	(6,580)	(9,968)	(9,788)
financing activities	(15,477)	(7,553)	(24,921)	(3,752)	(14,323)

The rights of the non-controlling shareholders of the presented subgroups are determined by the respective laws of country of incorporation and the charter documents of the subsidiaries.

34. Related parties

For the purpose of the consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making operational and financial decisions as defined by IAS 24 Related Party Disclosures. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding is detailed below.

34. Related parties (continued)

Government (Russian Federation)

The Government of the Russian Federation is the ultimate controlling party of PJSC Gazprom and has a controlling interest (including both direct and indirect ownership) of over 50 % in PJSC Gazprom.

As of 31 December 2018 38.373 % of PJSC Gazprom's issued shares are directly owned by the Government. 11.859 % of PJSC Gazprom's issued shares are owned by JSC Rosneftegaz and JSC Rosgazifikatsiya controlled by the Government.

The Government does not prepare consolidated financial statements for public use. The Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

As a condition of privatisation in 1992, the Government of the Russian Federation imposed an obligation on the Group to provide an uninterrupted supply of gas to customers in the Russian Federation at government-controlled prices.

Parties under the Government control

In the normal course of business the Group enters into transactions with other entities under the Government control.

As of 31 December 2018 prices of natural gas sales and gas transportation, electricity tariffs in the Russian Federation are regulated by the FAS.

Bank borrowings are provided on the basis of market interest rates. Taxes are accrued and settled in accordance with the applicable current legislation.

As of 31 December 2018 and 31 December 2017 and for the years ended 31 December 2018 and 31 December 2017 the Group had the following significant transactions and balances with the Government and parties under the Government control:

	As of 31 December 2018		Year ended 31 December 2018	
	Assets	Liabilities	Income	Expenses
Transactions and balances with the Government				
Current profit tax	5,011	26,296	–	264,017
Insurance contributions	1,526	9,449	–	141,271
VAT recoverable / payable	304,159	140,085	–	–
Customs duties	11,187	–	–	–
Other taxes	5,056	172,901	–	1,400,533
Transactions and balances with entities under the Government control				
Gas sales	–	–	144,411	–
Electricity and heating sales	–	–	174,512	–
Gas transportation sales	–	–	45,291	–
Other services sales	–	–	9,271	–
Accounts receivable	45,104	–	–	–
Oil and refined products transportation expenses	–	–	–	128,723
Accounts payable	–	18,671	–	–
Borrowings	–	206,681	–	–
Interest expense	–	–	–	10,431
Short-term financial assets	20,315	–	–	–
Long-term financial assets	4,742	–	–	–

34. Related parties (continued)

	As of 31 December 2017		Year ended 31 December 2017	
	Assets	Liabilities	Income	Expenses
Transactions and balances with the Government				
Current profit tax	4,088	53,112	–	228,221
Insurance contributions	1,359	7,689	–	129,947
VAT recoverable / payable	300,567	90,632	–	–
Customs duties	16,249	–	–	–
Other taxes	4,029	153,784	–	1,172,472
Transactions and balances with entities under the Government control				
Gas sales	–	–	113,062	–
Electricity and heating sales	–	–	166,292	–
Gas transportation sales	–	–	49,846	–
Other services sales	–	–	7,865	–
Accounts receivable	43,701	–	–	–
Oil and refined products transportation expenses	–	–	–	121,118
Accounts payable	–	17,201	–	–
Borrowings	–	226,565	–	–
Interest expense	–	–	–	19,171
Short-term financial assets	27,472	–	–	–
Long-term financial assets	5,711	–	–	–

See the consolidated statement of changes in equity for returns of social assets to governmental authorities during the years ended 31 December 2018 and 31 December 2017. See Note 13 for net book values as of 31 December 2018 and 31 December 2017 of social assets vested to the Group at privatisation.

34. Related parties (continued)

Transactions with JSC FSC

Some of the transactions on the wholesale electricity and capacity market are conducted through commission agreements with JSC FSC. Current financial system of JSC FSC does not provide the ultimate counterparty with automated information about transactions and outstanding balances with the participants of the wholesale electricity and capacity market.

The Group's significant transactions and balances with JSC FSC are presented below.

	As of 31 December 2018		Year ended 31 December 2018	
	Assets	Liabilities	Income	Expenses
Transactions and balances with JSC FSC				
Electricity and heating sales	–	–	157,705	–
Purchased electricity and heating	–	–	–	27,032
Accounts receivable	6,920	–	–	–
Accounts payable	–	1,975	–	–
	As of 31 December 2017		Year ended 31 December 2017	
	Assets	Liabilities	Income	Expenses
Transactions and balances with JSC FSC				
Electricity and heating sales	–	–	153,914	–
Purchased electricity and heating	–	–	–	26,621
Accounts receivable	6,030	–	–	–
Accounts payable	–	1,856	–	–

Compensation for key management personnel

Key management personnel (the members of the Board of Directors and Management Committee of PJSC Gazprom) receive short-term compensation, including salary, bonuses and remuneration for serving on the management bodies of the Group's companies, amounted to approximately RUB 4,312 million and RUB 4,537 million for the years ended 31 December 2018 and 31 December 2017, respectively.

The members of the Board of Directors, who are governmental officials, do not receive compensation from the Group.

The compensation of the members of the Board of Directors is approved by the Annual General Meeting of Shareholders of the Group's entities. Compensation of key management personnel (other than compensation of the members of the Board of Directors) is determined by the terms of the employment contracts. Key management personnel also receive certain short-term benefits related to healthcare.

According to the Russian legislation, the Group makes contributions to the Russian Federation State pension fund for all of its employees including key management personnel.

Key management personnel are also entitled to post-employment benefits. These benefits include pension benefits provided by the non-governmental pension fund, JSC NPF GAZFOND, and post-employment benefits from the Group's entities provided upon retirement (see Note 24).

Employees of the majority of the Group's companies are eligible for such post-employment benefits.

The Group also provides medical insurance and liability insurance for key management personnel.

34. Related parties (continued)

Associates and joint ventures

For the years ended 31 December 2018 and 31 December 2017 and also as of 31 December 2018 and 31 December 2017 significant transactions performed by the Group with associates and joint ventures and balances with associates and joint ventures are presented below.

	Year ended 31 December	
	2018	2017
	Income	
Gas sales		
Panrusgas Co.	62,906	46,715
JSV Moldovagaz	29,421	18,063
CJSC Gazprom YRGM Trading ¹	16,709	17,264
JSC Latvijas Gaze	16,095	14,608
JSC Gazprom YRGM Development ¹	11,935	12,332
Prometheus Gas S.A.	10,439	7,454
Bosphorus Gaz Corporation A.S.	8,784	15,128
KazRosGas LLP	7,762	11,118
VEMEX s.r.o. and its subsidiaries	2,978	8,654
JSC EUROPOL GAZ	2,715	2,347
Gas transportation sales		
CJSC Gazprom YRGM Trading ¹	25,430	25,391
JSC Gazprom YRGM Development ¹	18,164	18,137
KazRosGas LLP	2,758	2,432
Gas condensate, crude oil and refined products sales		
PJSC NGK Slavneft and its subsidiaries	45,541	39,597
JSC SOVEX	6,761	5,377
LLC NPP Neftekhimia	4,915	2,732
LLC Poliom	4,796	2,931
Sakhalin Energy Investment Company Ltd.	3,078	2,118
Field operator services sales and other services sales		
JSC Messoyakhaneftegas	3,632	4,389
PJSC NGK Slavneft and its subsidiaries	2,612	4,486
Gas processing services sales		
KazRosGas LLP	10,075	8,137
Interest income		
Gazprombank (Joint-stock Company) and its subsidiaries	37,153	39,507
JSC Messoyakhaneftegas	551	6,352
Other operating income (rental income)		
Sakhalin Energy Investment Company Ltd.	3,301	3,834

Under the agreement of subordinated loan the Group provided cash to Gazprombank (Joint-stock Company) in the amount of RUB 25,542 million and RUB 9,458 million for the years ended 31 December 2018 and 31 December 2017, respectively.

Gas is sold to and purchased from the Group's associates and joint ventures in the Russian Federation mainly at the rates established by the FAS. Gas is sold and purchased outside the Russian Federation generally on a long-term basis at prices based on world prices of oil products.

34. Related parties (continued)

Crude oil is sold to and purchased from the Group's associates and joint ventures in the ordinary course of business at prices not significantly different from average market prices.

34. Related parties (continued)

	As of 31 December 2018		As of 31 December 2017	
	Assets	Liabilities	Assets	Liabilities
Short-term accounts receivable and prepayments				
JSC Gazstroyprom ¹	46,746	–	–	–
Gazprombank (Joint-stock Company)	14,739	–	17,380	–
Panrusgas Co.	5,990	–	4,023	–
PJSC NGK Slavneft and its subsidiaries	4,929	–	5,304	–
CJSC Gazprom YRGM Trading	2,488	–	2,327	–
KazRosGas LLP	2,186	–	5,457	–
JSC Gazprom YRGM Development	1,777	–	1,662	–
Prometheus Gas S.A.	1,468	–	9	–
Sakhalin Energy Investment Company Ltd.	1,450	–	1,045	–
JSC Messoyakhaneftegaz	1,080	–	796	–
JSC Arcticgas	116	–	3,459	–
Bosphorus Gaz Corporation A.S.	–	–	2,603	–
Cash				
Gazprombank (Joint-stock Company) and its subsidiaries	436,061	–	388,436	–
OJSC Belgazprombank	14,446	–	19,320	–
Other current assets				
Gazprombank (Joint-stock Company) and its subsidiaries	705,968	–	290,322	–
OJSC Belgazprombank	11,610	–	7,436	–
Long-term accounts receivable and prepayments				
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	15,869	–	13,768	–
Wintershall Noordzee B.V.	3,842	–	5,595	–
JSC Evroteck-Yugra	2,636	–	1,514	–
OJSC Belgazprombank	2,479	–	4,957	–
JSC Messoyakhaneftegaz	–	–	24,414	–
JSC Arcticgas	–	–	4,483	–
Short-term accounts payable				
PJSC NGK Slavneft and its subsidiaries	–	52,601	–	31,164
JSC Messoyakhaneftegaz	–	35,371	–	6,928
CJSC Gazprom YRGM Trading	–	9,057	–	7,927
Nord Stream AG	–	7,100	–	6,172
JSC Gazprom YRGM Development	–	6,469	–	5,662
JSC Achimgaz	–	5,054	–	3,195
Sakhalin Energy Investment Company Ltd.	–	4,746	–	5,710
KazRosGas LLP	–	2,362	–	2,079
WIGA Transport Beteiligungs-GmbH & Co. KG and its subsidiaries	–	2,345	–	1,957
JSC EUROPOL GAZ	–	2,258	–	2,078
JSC Arcticgas	–	403	–	2,963
Short-term borrowings (including current portion of long-term borrowings)				
Gazprombank (Joint-stock Company) and its subsidiaries	–	55,475	–	80,807
Long-term borrowings				
Gazprombank (Joint-stock Company)	–	37,905	–	87,511

¹ Accounts receivable relate to a transaction for the sale of promissory notes, the income and expenses of which are presented in other operating expenses in the consolidated statement of comprehensive income on a net basis.

34. Related parties (continued)

Accounts receivable due from JSV Moldovagaz were RUB nil million as of 31 December 2018 and 31 December 2017 net of allowance for expected credit losses in the amount of RUB 431,660 million and RUB 339,481 million as of 31 December 2018 and 31 December 2017, respectively.

Accounts receivable for gas due from Overgas Inc. AD were RUB nil million as of 31 December 2018 and 31 December 2017 net of allowance for expected credit losses in the amount of RUB 7,307 million and RUB 6,058 million as of 31 December 2018 and 31 December 2017, respectively.

As of 31 December 2018 the Group sold the investment in the associate Bosphorus Gaz Corporation A.S. As of 31 December 2017 accounts receivable due from Bosphorus Gaz Corporation A.S. were RUB 2,603 million, net of allowance for expected credit losses in the amount of RUB 5,935 million.

Borrowings from Gazprombank (Joint-stock Company) and its subsidiaries are obtained on terms not substantially different from those on financial instruments with similar characteristics and equally exposed to influence of changes in economic or other factors. The amount of secured borrowings was RUB nil million and RUB 60,000 million as of 31 December 2018 and 31 December 2017, respectively.

Information on investments in associates and joint ventures is disclosed in Note 15.

Information on transactions performed by the Group with JSC NPF GAZFOND is disclosed in Note 24.

Financial guarantees issued by the Group for associates and joint ventures are disclosed in Note 37.

35. Commitments and contingencies

Capital commitments

The total investment utilisation in accordance with investment programme of the Group for 2019 (for gas, oil, electricity, heat generating and other assets) and current similar intentions of the Group is RUB 2,094,195 million.

Operating lease commitments

As of 31 December 2018 and 31 December 2017 the Group does not have significant liabilities related to operating leases.

Supply commitments

The Group has entered into long-term supply contracts for periods ranging from 5 to 20 years with various companies operating in Europe. The volumes and prices in these contracts are subject to change due to various contractually defined factors. As of 31 December 2018 no loss is expected to result from these long-term commitments.

Other

The Group has transportation agreements with certain of its associates and joint ventures (see Note 34).

36. Operating risks

Operating environment

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those related to environmental protection, in the Russian Federation. Due to the capital-intensive nature of the industry, the Group is also subject to physical risks of various kinds. It is impossible to predict the nature and frequency of these developments and events associated with these risks as well as their effect on future operations and earnings of the Group.

The future economic prospects of the Russian Federation is largely dependent upon the world economic situation, effectiveness of economic, financial and monetary measures undertaken by the Government of the Russian Federation, together with tax, legal, regulatory, and political developments.

Taxation

The Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments. Management believes that its interpretation of the relevant legislation as of 31 December 2018 is appropriate and all of the Group's tax, currency and customs positions will be sustainable.

Legal proceedings

On 16 June 2014 PJSC Gazprom submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against NJSC Naftogaz of Ukraine to recover unpaid debt for gas supplied under Contract No. KP dated 19 January 2009 regarding the sale and purchase of natural gas in 2009-2019 ("Contract No. KP"), and related interest charged. On 12 June 2015 PJSC Gazprom submitted to arbitration a defence to the claim from NJSC Naftogaz of Ukraine and a counter-claim, in which it specified its claims totalling USD 29,200 million. On 9 October 2015 NJSC Naftogaz of Ukraine filed a defence to the claim from PJSC Gazprom. On 14 March 2016 PJSC Gazprom filed a reply to the defence of NJSC Naftogaz of Ukraine. The corrected amount of claim of PJSC Gazprom against NJSC Naftogaz of Ukraine exceeded USD 37,000 million. This amount includes the outstanding payment for the gas supplied in May-June 2014, and take-or-pay obligations for 2012-2016, and penalty interest for late payment for the gas supplied.

At the same time on 16 June 2014 NJSC Naftogaz of Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom seeking a retroactive revision of the price of natural gas under Contract No. KP, compensation of all overpaid amounts starting from 20 May 2011 and cancellation of the provision of Contract No. KP which provided for the prohibition on reexport of natural gas out of Ukraine. The clarified claims of NJSC Naftogaz of Ukraine to PJSC Gazprom amounted to over USD 14,230 million.

On 21 July 2014 both cases were consolidated. Oral hearings in the case were held, the parties provided post-hearing statements on 11 November 2016.

On 31 May 2017 the arbitrators rendered an interim (separate) award on certain key legal issues. On 7 November 2017 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated interim (separate) award and to annul it partially. The final decision on the case was rendered on 22 December 2017. The arbitrators recognised that the basic provisions of Contract No. KP were valid and satisfied the majority of the claims filed by PJSC Gazprom seeking payment for the gas supplied, which initiated the proceedings, and obliged NJSC Naftogaz of Ukraine:

- 1) to pay PJSC Gazprom the overdue debt for the gas supplied amounting to USD 2,019 million, and interest for the period from 22 December 2017 to the date of such payment at the rate of 0.03 % for each day of delay;
- 2) starting from 2018 to buy and pay for 5 billion cubic meters of gas annually or in case of the failure to buy this quantity to pay for 80 % of this volume.

On 17 January 2018 the arbitrators adjusted the amount owed by NJSC Naftogaz of Ukraine to PJSC Gazprom by increasing it up to USD 2,030 million.

36. Operating risks (continued)

On 21 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated final decision of 22 December 2017 and to annul it partially. In accordance with the preliminary schedule compiled by the Swedish court following the procedural hearings, court sittings in the case on challenging the separate arbitration award on the supply are scheduled for October 2019. Court sittings in the case on challenging the final arbitration award on the supply are scheduled for February 2020.

On 13 October 2014 NJSC Naftogaz of Ukraine submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, against PJSC Gazprom, seeking:

- 1) to acknowledge that rights and obligations of NJSC Naftogaz of Ukraine under Contract No. TKGU dated 19 January 2009 ("Contract No. TKGU") on volumes and terms of gas transportation through Ukraine in 2009-2019 should be transferred to PJSC Ukrtransgaz;
- 2) to acknowledge that certain provisions of Contract No. TKGU, which will be subsequently updated, are invalid and / or inoperative and should be supplemented with or substituted by provisions which will be updated in line with the energy and anti-monopoly legislation of Ukraine and the European Union ("the EU");
- 3) to oblige PJSC Gazprom to pay a compensation of USD 3,200 million and related interest to NJSC Naftogaz of Ukraine for the failure to provide gas for transit;
- 4) to acknowledge that the transit tariff stipulated in Contract No. TKGU should be revised in such a way as will be provided in further written statements of NJSC Naftogaz of Ukraine in line with key principles of the Swedish contractual law.

On 28 November 2014 PJSC Gazprom filed its response to the request for arbitration. On 11 December 2014 the arbitration panel was formed. On 28 January 2015 the arbitration court made a decision not to combine the case with the above ones. On 30 April 2015 NJSC Naftogaz of Ukraine filed a claim, significantly increasing the amount of the claims, according to various estimates, up to USD 11,000-16,000 million. Oral hearings in the case were held, the parties provided post-hearing statements on 11 November 2016. On 2 February 2018 NJSC Naftogaz of Ukraine submitted the corrected amount of claim to the arbitration court, including a claim to recover damages for the failure to provide gas for transit and underpayment of the transit tariff for the second half of 2016 and 2017. Total amount of the claim filed by NJSC Naftogaz of Ukraine (without interest) was USD 14,865 million. On 16 February 2018 PJSC Gazprom submitted to the arbitration court a defence to this claim and a claim to refund the overpaid transit tariff for the period from April 2014 to December 2017 due to the change in the gas price under Contract No. KP for the purchase and sale of natural gas in 2009 - 2019 totaling USD 44 million without interest. The final award in the case was issued on 28 February 2018. The arbitration court rejected the request of NJSC Naftogaz of Ukraine to change the gas transit tariff, recognised almost all provisions of Contract No. TKGU as valid and refused application of the anti-monopoly legislation of Ukraine and the EU to the Contract. The arbitration court rejected the request of NJSC Naftogaz of Ukraine to transfer its rights and obligations under Contract No. TKGU to PJSC Ukrtransgaz or to another gas transportation system operator. The arbitration court satisfied the request of NJSC Naftogaz of Ukraine in the amount of USD 4,673 million for having provided less gas for transit to European consumers than stipulated in the Contract. With consideration for the amount awarded to PJSC Gazprom under the supply contract, the arbitration court set off counter-claims, as a result of which PJSC Gazprom is obliged to pay USD 2,560 million to NJSC Naftogaz of Ukraine. The amount of liabilities under the award is presented in the line "Accounts payable and provisions" in the consolidated balance sheet. On 29 March 2018 PJSC Gazprom filed with the Court of Appeal of Svea (Sweden) a petition to challenge stated final award of 28 February 2018 and to annul it partially. On 13 June 2018 the court rendered the decision to suspend execution of the arbitration award and on 28 June 2018 the court confirmed its decision to suspend execution of the arbitration award in relation to recovery from PJSC Gazprom of the amount of USD 2,560 million awarded by the arbitrators. On 13 September 2018 upon a motion from NJSC Naftogaz of Ukraine the court annulled its decision to suspend execution of the arbitration award. Hearings in the case on challenging the arbitration award in the transit case have not been scheduled yet.

On 29 May 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking actions to enforce the arbitration award in Switzerland. In particular, an injunction was issued seizing PJSC Gazprom's receivables from Nord Stream AG and Nord Stream 2 AG. Payments from these companies to PJSC Gazprom should be directed to the bailiff.

36. Operating risks (continued)

PJSC Gazprom has not received any official notifications on this issue. On 2 August 2018 PJSC Gazprom filed a reasoned objection to the injunction to the Swiss court. On 16 January 2019 the Swiss court rendered a decision to fully annul the injunction seizing PJSC Gazprom's assets issued on 29 May 2018. Based on this court decision the shares of Nord Stream AG and Nord Stream 2 AG in Switzerland and PJSC Gazprom's receivables from these companies are no longer seized. On 5 June 2018 PJSC Gazprom became aware of the fact that NJSC Naftogaz of Ukraine was taking similar actions in the Netherlands. In particular on 30 May 2018 the shares in Blue Stream Pipeline Company B.V., the operator of the Blue Stream pipeline, owned by PJSC Gazprom and the receivables payable to PJSC Gazprom (with such receivables remaining at the disposal of the Dutch Group's companies) were seized pursuant to the decision of the District Court of Amsterdam.

On 17 September 2018 NJSC Naftogaz of Ukraine filed a motion in the Netherlands to recognise and enforce the arbitration award in the transit case.

On 22 June 2018 PJSC Gazprom received an order of the High Court of Justice (the United Kingdom) dated 18 June 2018 for the seizure of PJSC Gazprom's assets in the United Kingdom as requested by NJSC Naftogaz of Ukraine as part of its efforts to enforce the above mentioned arbitration award and the decision of the court of first instance dated 8 June 2018 on the enforcement of this decision. On 13 September 2018 the High Court of England and Wales cancelled its order dated 18 June 2018 to seize PJSC Gazprom's assets in England and Wales. The condition for the cancellation was the obligation undertaken by PJSC Gazprom not to alienate shares of Nord Stream AG before the end of the hearings in the English court in the case on recognition and execution of the decision of the Stockholm arbitration court in the transit case dated 28 February 2018. The hearings in the case were held on 12-13 February 2019. On 15 March 2019 the English court suspended the proceedings in the case on recognition and execution in England and Wales of the decision of the Stockholm arbitration court in the transit case dated 28 February 2018 until the end of the proceedings in the Court of Appeal of Svea (Sweden).

On 15 February 2018 NJSC Naftogaz of Ukraine sent to Luxembourg branches of the major banks and Gaz Capital S.A. a notification on the seizure of any liabilities and assets of PJSC Gazprom in Luxembourg. On 15 April 2019 PJSC Gazprom filed with the court of Luxembourg a petition to challenge the seizure and intervene in order to defend its rights.

On 5 March 2018 PJSC Gazprom notified NJSC Naftogaz of Ukraine about the need to restore the balance of interests between the parties under gas supply and transit contracts disrupted by earlier awards of the Stockholm arbitration court and suggested negotiating this issue. Negotiations were unsuccessful, therefore, on 20 April 2018 PJSC Gazprom filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration seeking amendment or termination of contracts with NJSC Naftogaz of Ukraine for gas supply and gas transit through Ukraine in order to restore the balance between contractual obligations and eliminate disproportions in terms of parties' contractual liabilities. On 22 May 2018 NJSC Naftogaz of Ukraine filed in response to this a request for arbitration and counter-claims in respect of the gas supply and transit contracts. On 6 September 2018 the Stockholm Chamber of Commerce, Sweden, rendered a decision upon PJSC Gazprom's petition to consolidate these proceedings with the proceedings related to the request of NJSC Naftogaz of Ukraine to change the gas transit tariff. On 28 December 2018 the arbitration panel was formed. The hearings in the case are scheduled for April-May 2021.

On 10 July 2018 NJSC Naftogaz of Ukraine filed to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a request for arbitration for changing of the tariff for gas transit through Ukraine starting from 18 March 2018 and for enforced recovery from PJSC Gazprom of USD 11,580 million for the period from 18 March 2018 until the expiration date of the effective gas transit contract (until 31 December 2019). PJSC Gazprom filed a response to this request for arbitration on 14 August 2018. On 6 September 2018 upon a motion from PJSC Gazprom the Stockholm Chamber of Commerce, Sweden, decided to consolidate this proceeding and those initiated to consider PJSC Gazprom's request to amend or terminate contracts with NJSC Naftogaz of Ukraine for gas supply and gas transit through Ukraine in order to restore the balance between contractual obligations and eliminate disproportions in terms of the parties' contractual liabilities. On 28 December 2018 the arbitration panel was formed. The hearings in the case are scheduled for April-May 2021.

On 3 October 2012 the Ministry of Energy of the Republic of Lithuania submitted a request for arbitration to the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden,

36. Operating risks (continued)

against PJSC Gazprom. The Ministry of Energy of the Republic of Lithuania declared that PJSC Gazprom violated the shareholders' agreement with AB Lietuvos dujos, by unfair pricing of gas supplied to the Republic of Lithuania and claimed for LTL 5,000 million compensation (at the exchange rate as of 31 December 2018 — RUB 115,067 million). PJSC Gazprom did not agree to the claims and on 9 November 2012 filed with the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden, a response to the request for arbitration. The hearing on the merits took place from 1 to 9 July 2015. On 30 September 2015 the parties submitted additional written opinions based on the analysis of the hearing materials including witness and expert statements. On 22 June 2016 the arbitration court issued a final award which rejects all claims raised by the Ministry of Energy of the Republic of Lithuania, including the claims on unfair pricing of the gas which PJSC Gazprom supplied to Lithuania in 2006-2015. On 22 September 2016 it became known that the Ministry of Energy of the Republic of Lithuania had filed a motion with the Court of Appeal of Stockholm, Sweden, to annul the Final arbitration award of 22 June 2016. On 4 April 2017 PJSC Gazprom was officially served with this motion. On 9 June 2017 PJSC Gazprom filed a defence to the claim with the Court of Appeal of Stockholm, Sweden. The Ministry of Energy of the Republic of Lithuania submitted its detailed written opinions on the case on 10 October 2017. PJSC Gazprom is keeping on analysing received documents and is preparing its legal position. The hearings in the case are scheduled for May 2019.

In December 2015 South Stream Transport B.V., a subsidiary of the Group, was served with an official notification by the Secretariat of the International Court of Arbitration of the International Chamber of Commerce stating that Saipem S.p.A. had submitted a request for arbitration against South Stream Transport B.V. in view of unilateral termination by South Stream Transport B.V. of the agreement dated 14 March 2014 for the construction of the "South Stream" pipeline. The amount of current claims of Saipem S.p.A. to South Stream Transport B.V. is about EUR 615 million (at the exchange rate as of 31 December 2018 — RUB 48,868 million). On 18 April 2019 Saipem S.p.A. and South Stream Transport B.V. agreed to terminate the legal proceedings initiated in December 2015 by signing a settlement agreement.

On 22 January 2016 the Antimonopoly Committee of Ukraine rendered a decision to impose a fine on PJSC Gazprom in the amount of 85,966 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 — RUB 215,522 million) for violation of economic competition. On 12 April 2016 PJSC Gazprom filed a claim with the Kiev Economic Court to challenge the decision of the Antimonopoly Committee of Ukraine. In April 2017 the Antimonopoly Committee of Ukraine filed a request with the Department of State Executive Service of the Ministry of Justice of Ukraine for enforced recovery from PJSC Gazprom of an amount of 171,932 million Ukrainian hryvnia (about USD 6 billion). On 12 May 2017 PJSC Gazprom was served via its Kiev-based Representative office Order of the Department of the State Executive Service of the Ministry of Justice of Ukraine on institution of enforcement proceedings to recover an amount of 189,125 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 — RUB 474,148 million), including an execution fee of 17,193 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 — RUB 43,104 million), and on the seizure of the bank accounts of the Kiev-based Representative office of PJSC Gazprom, dividends due to PJSC Gazprom for the participation in JSC Gaztransit, the shares of JSC Gaztransit owned by PJSC Gazprom, the shares of PJSC YUZHNIIGIPROGAZ Institute, equity interests in LLC Gazprom sbyt Ukraine, and LLC International Consortium for the Ukrainian Gas Transmission System Management and Development. PJSC Gazprom is currently challenging the actions under the enforcement proceedings in the Ukrainian courts. PJSC Gazprom is also considering other legal remedies to restore its violated rights.

The shares of PJSC YUZHNIIGIPROGAZ Institute with a nominal value of 651,500 Ukrainian hryvnia (at the exchange rate as of 31 December 2018 — RUB 2 million) (estimated value — 6,241,386 Ukrainian hryvnia, at the exchange rate as of 31 December 2018 — RUB 16 million) were sold on 22 August 2018 in a forced sale auction.

The shares of JSC Gaztransit with a nominal value of 33.3 million Ukrainian hryvnia (at the exchange rate as of 31 December 2018 — RUB 83 million) (estimated value — 44.22 million Ukrainian hryvnia, at the exchange rate as of 31 December 2018 — RUB 111 million) were sold on 29 January 2019 in a forced sale auction.

On 26 October 2018 pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL) PJSC Gazprom commenced an arbitration against Ukraine to protect its investments in Ukraine due to the fact that Ukraine represented by

36. Operating risks (continued)

the Antimonopoly Committee of Ukraine had imposed an unjustified and unfair fine on PJSC Gazprom, which means that it violated PJSC Gazprom's rights guaranteed by the Agreement between the Government of the Russian Federation and the Cabinet of Ministers of Ukraine on the Encouragement and Mutual Protection of Investments dated 27 November 1998. The procedural schedule has not currently been compiled.

On 15 October 2018 PGNiG S.A., Poland, filed a claim with the General Court of the EU for cancellation of the decision of the European Commission on the pro-competition commitments which completed the antitrust investigation against alleged breach of the EU antitrust law by PJSC Gazprom and its subsidiary LLC Gazprom export within the activity in EU member countries from the Central and Eastern Europe. The pro-competition commitments came into effect on 28 May 2018 when PJSC Gazprom was officially served with the adopted decision. The decision on the pro-competition commitments was published by the European Commission on 17 July 2018.

On 14 March 2017 the European Commission received a complaint from PGNiG S.A., Poland, stating that PJSC Gazprom and LLC Gazprom export allegedly violated Article 102 of the Treaty on the Functioning of the EU. In this complaint PGNiG S.A. states that PJSC Gazprom and LLC Gazprom export violate the antitrust law of the EU through:

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

Based on this complaint, the European Commission registered case No. AT.40497. The commencement of the case does not necessarily entail formal investigation and constitute an accusation of PJSC Gazprom and LLC Gazprom export in violating the antitrust law of the EU. These claims relate to issues covered by the European Commission investigation of PJSC Gazprom and LLC Gazprom export's operation in the countries of Central and Eastern Europe, which formal phase was initiated in 2012 and finalised in 2018. It is currently impossible to assess a potential negative impact of this ongoing investigation on Gazprom Group's operation in Europe and on the financial position of Gazprom Group as a whole.

On 4 May 2018 PJSC Gazprom received a notice from Poland's antimonopoly authority on initiation of proceedings over alleged concentration exercised by PJSC Gazprom and foreign investors when implementing the Nord Stream 2 project (on the basis of "the establishment of a joint venture without obtaining the prior consent of the President of the Polish Office of Competition and Consumer Protection"). The notice states that in accordance with the Polish legislation the President of the Polish Office of Competition and Consumer Protection has the right to impose certain sanctions on companies that, in his opinion, exercise concentration without obtaining the consent of the Polish Office of Competition and Consumer Protection (in particular, to impose a fine of up to 10 % annual turnover of the company). On 15 June 2018 PJSC Gazprom filed its objections to the position declared by Poland's antimonopoly authority and a motion to terminate the antitrust investigation.

The Group is also a party to certain other legal proceedings arising in the ordinary course of business and subject to various regulations of environmental protection issued by various governmental authorities regarding handling, storage and disposal of certain products. Management believes that there are no such current legal proceedings or other claims outstanding, which could have a material adverse effect on the results of operations or the financial position of the Group.

Sanctions

Since 2014 the EU, the United States ("U.S.") and some other countries introduced a series of sanctions against the Russian Federation and some Russian legal entities. Some of these sanctions are aimed directly against PJSC Gazprom, PJSC Gazprom Neft and their subsidiaries and other companies, including Gazprombank (Joint-stock Company), and some of them include general restrictions of economic activity in certain sectors of the Russian Federation economy.

The U.S. sanctions prohibit any U.S. person and legal entities incorporated in U.S. (including their foreign branches) and any person or entity in the U.S. or related with the territory of U.S. from:

- 1) transacting in, providing financing for, or otherwise dealing with new debt of longer than 90 days maturity (from 28 November 2017 — 60 days maturity) or newly issued share capital, property or rights to property in respect of a number of energy companies, including PJSC Gazprom Neft;

36. Operating risks (continued)

- 2) transacting in, providing financing for, or otherwise dealing with new debt of longer than 30 days maturity (from 28 November 2017 — 14 days maturity) or newly issued share capital, property or rights to property in respect of a number of Russian companies of the banking sector, including Gazprombank (Joint-stock Company) (PJSC Gazprom is not on the list of restricted entities in this respect);
- 3) providing, exporting, or reexporting, directly or indirectly, goods, services (except for financial services), or technology in support of potential exploration and production of oil in deep water, Arctic offshore, or shale formations in the Russian Federation, inland or in territorial waters claimed by the Russian Federation with participation of Russian companies, including PJSC Gazprom and PJSC Gazprom Neft. Since 7 August 2015 restriction has included the Yuzhno-Kirinskoye field located in the Sea of Okhotsk. According to the changes of 31 October 2017 the scope of the stated restriction is extended for projects that meet three criteria at the same time:
 - projects start after 29 January 2018;
 - projects relate to oil production around the world;
 - Russian companies included in the Sectoral Sanctions Identifications List, including PJSC Gazprom and PJSC Gazprom Neft and their subsidiaries, own a share of 33 % and more in such project or control the majority of voting rights.

On 2 August 2017 the U.S. President signed the Countering America's Adversaries Through Sanctions Act (the "Act of 2 August 2017"), which expanded the U.S. sanctions regime against the Russian Federation. The Act of 2 August 2017, inter alia, gives the U.S. President the right to impose certain sanctions in interaction (coordination) with the U.S. allies against any person who after the adoption of the Act of 2 August 2017 consciously made investments or sold goods, supplied technologies or provided services to the Russian Federation (for the amount exceeding USD 1 million, or during the year — totally exceeding USD 5 million) in the construction and maintenance of Russian energy export pipelines. The implementation of these sanctions can create risks for the development of new prospective gas transportation projects of PJSC Gazprom.

The Act of 2 August 2017 creates the risk of extraterritorial application of certain U.S. sanctions and may adversely affect the participation of foreigners in certain new projects of PJSC Gazprom. At the same time, the provisions of the Act of 2 August 2017 should be applied along with the explanations of the U.S. Department of the Treasury and the U.S. Department of State.

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

PJSC Gazprom is not expressly stated among the entities against whom the EU sanctions are imposed. However, PJSC Gazprom Neft and Gazprombank (Joint-stock Company), as well as their subsidiaries in which they own more than 50 percent equity interest are subject to certain financial restrictions imposed by the EU.

The sanctions imposed by the EU prohibit all citizens of EU member countries, as well as all legal entities, companies and bodies incorporated or established under the laws of an EU member country (both within the EU and abroad), as well as all legal entities, companies and bodies in connection with any economic activities carried out in whole or in part within the EU:

- 1) provision of drilling, wells testing, logging and completion services, supply of specialised floating vessels necessary for deep water oil exploration and production, and (or) Arctic oil exploration and production, and shale oil projects in Russia, as well as the direct or indirect financing, financial assistance, technical and brokerage services in relation to these activities;
- 2) purchasing, selling and providing of investment services for or assistance in the issuance of, or other dealings with transferable securities and money market instruments with a maturity of more than 90 days issued from 1 August 2014 to 12 September 2014 or more than 30 days, issued after 12 September 2014 by certain Russian companies in banking sector, including Gazprombank (Joint-stock Company), but excluding PJSC Gazprom;
- 3) purchasing, selling and providing of investment services for or assisting in the issuance of, or other dealings with transferable securities and money market instruments issued by some Russian energy companies, including PJSC Gazprom Neft but excluding PJSC Gazprom, after 12 September 2014 with a maturity of more than 30 days;
- 4) after 12 September 2014 providing directly or indirectly or being part of any arrangement to make new borrowings with a maturity exceeding 30 days to some Russian companies

36. Operating risks (continued)

(including PJSC Gazprom Neft and Gazprombank (Joint-stock Company) but excluding PJSC Gazprom), except for borrowings that have a specific and documented objective to provide financing for non-prohibited imports or exports of goods and non-financial services between the EU and the Russian Federation or for borrowings that have a specific and documented objective to provide emergency funding to meet solvency and liquidity criteria for bodies established in the EU, whose proprietary rights are owned for more than 50 percent by any entity referred to above.

These EU sanctions also apply to any entity if 50 percent or more in its capital is owned, directly or indirectly, by entities that are subject to sanctions.

Canada and some other countries also imposed sanctions on some Russian individuals and legal entities, including PJSC Gazprom, PJSC Gazprom Neft and other oil and gas companies of the Russian Federation. Sanctions imposed by Canada prohibit any person in Canada and any Canadian citizen outside Canada to transact in, provide financing for, or otherwise deal in new debt of longer than 90 days' maturity for a number of Russian energy companies, including PJSC Gazprom and PJSC Gazprom Neft. Furthermore, there is an ongoing restriction on the export, sale and delivery by persons in Canada and Canadian citizens outside Canada of certain goods to the Russian Federation or any person in the Russian Federation, if such goods are used for deep-water oil exploration (at a depth of more than 500 metres), for oil exploration or production in the Arctic, as well as shale oil exploration or production.

The Group is currently assessing an influence of adopted economic measures on its financial position and results of operations.

37. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the financial performance of the Group.

Risks are managed centrally and to some extent at the level of subsidiaries in accordance with Group policies.

Market risk

Market risk is a risk that changes in market prices, such as foreign currency exchange rates, interest rates, commodity prices and prices of marketable securities, will affect the Group's financial results or the value of its holdings of financial instruments.

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying amounts of the Group's financial instruments are denominated in the following currencies.

37. Financial risk factors (continued)

Notes		Russian Ruble	US dollar	Euro	Other	Total
As of 31 December 2018						
Financial assets						
Current						
8	Cash and cash equivalents	335,175	204,757	289,942	19,545	849,419
12	Short-term deposits	554,724	212,156	24,170	5,090	796,140
9	Short-term financial assets (excluding equity securities)	25,900	–	–	–	25,900
10	Trade and other accounts receivable	310,128	355,355	344,286	132,725	1,142,494
Non-current						
12	Long-term deposits	–	–	–	1,432	1,432
16	Long-term accounts receivable	110,528	1,765	37,809	1,029	151,131
17	Long-term financial assets (excluding equity securities)	262	–	–	–	262
Total financial assets		1,336,717	774,033	696,207	159,821	2,966,778
Financial liabilities						
Current						
18	Accounts payable (excluding derivative financial instruments)	651,391	341,204	173,789	89,975	1,256,359
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	113,450	277,983	139,450	38,178	569,061
Non-current						
21	Long-term borrowings, promissory notes	647,937	826,125	1,529,969	290,730	3,294,761
Total financial liabilities		1,412,778	1,445,312	1,843,208	418,883	5,120,181
As of 31 December 2017						
Financial assets						
Current						
8	Cash and cash equivalents	478,401	201,232	162,436	26,938	869,007
12	Short-term deposits	233,520	83,761	506	10,182	327,969
9	Short-term financial assets (excluding equity securities)	30,851	–	–	–	30,851
10	Trade and other accounts receivable	533,110	132,995	244,398	133,929	1,044,432
Non-current						
12	Long-term deposits	–	311	–	1,248	1,559
16	Long-term accounts receivable	121,411	2,026	33,254	1,642	158,333
17	Long-term financial assets (excluding equity securities)	249	–	–	–	249
Total financial assets		1,397,542	420,325	440,594	173,939	2,432,400
Financial liabilities						
Current						
18	Accounts payable (excluding derivative financial instruments)	595,188	363,597	157,961	46,875	1,163,621
20	Short-term borrowings, promissory notes and current portion of long-term borrowings	216,858	259,646	366,685	31,616	874,805
Non-current						
21	Long-term borrowings, promissory notes	416,025	933,435	841,633	200,620	2,391,713
Total financial liabilities		1,228,071	1,556,678	1,366,279	279,111	4,430,139

Information on derivative financial instruments is presented in Note 23.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities comparable in selected foreign currencies.

As of 31 December 2018, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 134,256 million, mainly as a result of foreign exchange loss on translation of US dollar-

37. Financial risk factors (continued)

denominated borrowings partially offset by foreign exchange gain on translation of US dollar-denominated trade receivables. As of 31 December 2017, if the Russian Ruble had weakened by 20 % against the US dollar with all other variables held constant, profit before profit tax would have been lower by RUB 227,271 million, mainly as a result of foreign exchange loss on translation of US dollar-denominated borrowings partially offset by foreign exchange gain on translation of US dollar-denominated trade receivables. The effect of related Russian Ruble strengthening against the US dollar would have been approximately the same amount with opposite impact.

As of 31 December 2018, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 229,400 million, mainly as a result of foreign exchange loss on translation of Euro-denominated borrowings partially offset by foreign exchange gain on translation of Euro-denominated trade receivables. As of 31 December 2017, if the Russian Ruble had weakened by 20 % against the Euro with all other variables held constant, profit before profit tax would have been lower by RUB 185,137 million, mainly as a result of foreign exchange loss on translation of Euro-denominated borrowings partially offset by foreign exchange gain on translation of Euro-denominated trade receivables. The effect of related Russian Ruble strengthening against the Euro would have been approximately the same amount with opposite impact.

(b) Cash flow and fair value interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group's interest rate risk primarily arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The table below summarises the balance between long-term borrowings at fixed and at variable interest rates:

Notes	Long-term borrowings and promissory notes	31 December	
		2018	2017
21	At fixed rate	2,709,599	2,355,672
21	At variable rate	1,079,332	824,665
		3,788,931	3 180,337

The Group does not have a formal policy of determining level of acceptable risk associated with fixed or variable interest rates. However, the Group performs periodic analysis of the current interest rate environment and depending on that analysis at the time of raising new debts management makes decisions whether obtaining financing on fixed-rate or variable-rate basis would be more beneficial to the Group over the expected period until maturity.

In 2017-2018 the Group's borrowings at variable rates were mainly denominated in US dollar and Euro.

As of 31 December 2018, if benchmark interest rates on borrowings had been 100 basis points higher with all other variables held constant, profit before profit tax would have been lower by RUB 9,520 million for 2018, mainly as a result of higher interest expense on variable interest rate long-term borrowings. As of 31 December 2017, if benchmark interest rates on borrowings had been 100 basis points higher with all other variables held constant, profit before profit tax would have been lower by RUB 7,537 million for 2017, mainly as a result of higher interest expense on variable interest rate long-term borrowings. The effect of a corresponding decrease in benchmark interest rates is approximately equal and opposite.

(c) Commodity price risk

Commodity price risk — possible change in prices for natural gas, crude oil and their refined products, and its impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net profit and cash flows.

The Group's overall strategy in production and sales of natural gas, crude oil and their refined products is centrally managed. Natural gas export prices to Europe and other countries are generally based on a formula linked to refined products prices, which in turn are linked to crude oil prices.

37. Financial risk factors (continued)

The Group's exposure to the commodity price risk is related essentially to the export market. As of 31 December 2018, if the average gas export prices had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 334,918 million for 2018. As of 31 December 2017, if the average gas export prices had decreased by 10 % with all other variables held constant, profit before profit tax would have been lower by RUB 246,490 million for 2017.

Gas prices in the Russian Federation are regulated by the FAS and are as such less subject to significant fluctuations.

The Group assesses on regular basis the potential scenarios of future fluctuation in commodity prices and their impact on operational and investment decisions. However, in the current economic environment management estimates may significantly differ from actual impact of change in commodity prices on the Group's financial position.

(d) Securities price risk

The Group is exposed to movements in the equity securities prices included in financial assets held by the Group and classified in the consolidated balance sheet either as financial assets measured at fair value with changes recognised through profit or loss or other comprehensive income (see Notes 9 and 17).

As of 31 December 2018 and 31 December 2017, if London Stock Exchange equity index, which primarily affects the major part of Group's equity securities, had decreased by 20 % with all other variables held constant, assuming high correlation of the value of these securities with the index, the Group's comprehensive income for the period would have been RUB 83,473 million and RUB 53,678 million lower, respectively.

The Group is also exposed to movements in prices of securities held by JSC NPF GAZFOND and used for fair value estimation of the Group's pension plan assets (see Note 24).

Credit risk

Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if a counterparty defaults on its contractual obligations. The maximum exposure to credit risk is the value of the assets which might be lost.

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Financial instruments, which potentially subject the Group to concentrations of credit risk, primarily consist of accounts receivable. Credit risks related to accounts receivable are systematically monitored, taking into account customer's financial position, past experience and other factors.

Management systematically reviews ageing analysis of receivables and uses this information for calculation of allowance for expected credit losses (see Note 10, 16). Credit risk exposure mainly depends on the individual characteristics of customers, more particularly customers default risk and country risk. Group operates with various customers and substantial part of sales relates to major customers.

Although collection of accounts receivable could be influenced by economic factors affecting these customers, management believes there is no significant risk of loss to the Group beyond the allowance for expected credit losses already recorded.

Cash and cash equivalents are deposited only with banks that are considered by the Group to have a minimal risk of default.

The Group's maximum exposure to credit risk is presented in the table below.

37. Financial risk factors (continued)

Notes	31 December	
	2018	2017
8 Cash and cash equivalents	849,419	869,007
12 Deposits	797,572	329,528
9, 17 Debt securities	26,162	30,851
10, 16 Trade and other accounts receivable	1,293,625	1,202,765
Financial guarantee contracts	320,668	303,842
Total maximum exposure to credit risk	3,287,446	2,735,993

Financial guarantee contracts

	31 December	
	2018	2017
Guarantees issued for:		
Nord Stream AG	136,086	128,913
LLC Stroygazconsulting	87,094	70,013
Sakhalin Energy Investment Company Ltd.	66,317	78,563
Other	31,171	26,353
Total financial guarantees	320,668	303,842

In 2017 and 2018 counterparties fulfilled their contractual obligations.

Included in financial guarantee contracts amounts are denominated in US Dollars of USD 955 million and USD 1,391 million as of 31 December 2018 and 31 December 2017, respectively, as well as amounts denominated in Euros of EUR 1,879 million and EUR 1,905 million as of 31 December 2018 and 31 December 2017, respectively.

In June 2008 the Group pledged the shares of Sakhalin Energy Investment Company Ltd. to the bank-agent Mizuho Bank Ltd. under the loan obligations of Sakhalin Energy Investment Company Ltd. As of 31 December 2018 and 31 December 2017 the amount of Sakhalin Energy Investment Company Ltd. obligations up to the amount of the Group's share (50 %) amounted to RUB 66,317 million (USD 955 million) and RUB 78,563 million (USD 1,364 million), respectively.

In March 2010 the Group pledged the shares of Nord Stream AG to the bank-agent Societe Generale under the obligations of Nord Stream AG under the project financing agreement. As of 31 December 2018 and 31 December 2017 the amount of Nord Stream AG obligations up to the amount of the Group's share (51 %) amounted to RUB 136,086 million (EUR 1,713 million) and RUB 128,913 million (EUR 1,872 million), respectively.

Since December 2017 the Group provided guarantees to Gazprombank (Joint-stock Company) for LLC Stroygazconsulting under its loan obligations. As of 31 December 2018 and 31 December 2017 the guarantees amounted to RUB 87,094 million and RUB 70,013 million, respectively.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group liquidity is managed centrally. The management of the Group monitors the planned cash inflow and outflow.

Important factor in the Group's liquidity risk management is an access to a wide range of funding through capital markets and banks. Management aims is to maintain flexibility in financing sources by having committed facilities available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

37. Financial risk factors (continued)

	Less than 6 months	Between 6 and 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
As of 31 December 2018					
Short-term and long-term loans and borrowings and promissory notes	351,077	217,984	607,775	1,654,576	1,032,410
Accounts payable (excluding derivative financial instruments)	999,534	256,825	–	–	–
Financial guarantee contracts	7,687	832	10,365	69,402	232,382
As of 31 December 2017					
Short-term and long-term loans and borrowings and promissory notes	404,002	470,803	481,070	1,087,239	823,404
Accounts payable (excluding derivative financial instruments)	1,118,632	44,989	–	–	–
Financial guarantee contracts	10,765	5,916	912	81,786	204,463

The Group's borrowing facilities do not usually include financial covenants which could trigger accelerated reimbursement of financing facilities. For those borrowing facilities where the Group has financial covenants, the Group is in compliance. If the financial covenants are not met, the Group reclassifies long-term borrowing facilities into short-term.

Reconciliation of liabilities arising from financing activities

	Borrowings	Dividends	Other liabilities	Total
As of 31 December 2017	3,266,518	5,099	31,065	3,302,682
Cash flows, including:				
Proceeds from borrowings (net of costs directly related to the receipt)	1,297,462	–	–	1,297,462
Repayment of borrowings	(1,178,655)	–	(13,288)	(1,191,943)
Interest paid (in financing activities)	(36,384)	–	(1,904)	(38,288)
Dividends paid	–	(188,313)	–	(188,313)
Finance expense	28,902	–	1,904	30,806
Dividends declared	–	192,822	–	192,822
Change in fair value of hedging operations	–	–	310	310
Translation differences	458,206	–	434	458,640
Other movements	27,773	(2,022)	(971)	24,780
As of 31 December 2018	3,863,822	7,586	17,550	3,888,958
As of 31 December 2016	2,829,623	3,029	43,051	2,875,703
Cash flows, including:				
Proceeds from borrowings (net of costs directly related to the receipt)	1,008,563	–	–	1,008,563
Repayment of borrowings	(622,058)	–	(10,033)	(632,091)
Interest paid (in financing activities)	(33,757)	–	(539)	(34,296)
Dividends paid	–	(191,875)	–	(191,875)
Finance expense	37,063	–	539	37,602
Dividends declared	–	196,059	–	196,059
Change in fair value of hedging operations	–	–	(956)	(956)
Translation differences	25,103	–	–	25,103
Other movements	21,981	(2,114)	(997)	18,870
As of 31 December 2017	3,266,518	5,099	31,065	3,302,682

37. Financial risk factors (continued)

Capital risk management

The Group considers equity and debt to be the principal elements of capital management. The Group's objectives when managing capital are to safeguard the Group's position as a leading global energy company by further increasing the reliability of natural gas supplies and diversifying activities in the energy sector, both in the domestic and foreign markets.

In order to maintain and to adjust the capital structure, the Group may revise its investment program, attract new or repay existing loans and borrowings or sell certain non-core assets.

The Group considers its target debt to equity ratio at the level of not more than 40 %.

On the Group level capital is monitored on the basis of the net debt to adjusted EBITDA ratio. This ratio is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt (short-term borrowings and current portion of long-term borrowings, short-term promissory notes payable, long-term borrowings, long-term promissory notes payable) less cash and cash equivalents.

Adjusted EBITDA is calculated as operating profit less depreciation and less impairment loss on assets (excluding accounts receivable, advances paid and prepayments).

The net debt to adjusted EBITDA ratio as of 31 December 2018 and 31 December 2017 is presented in the table below.

	31 December	
	2018	2017
Total debt	3,863,822	3,266,518
Less: cash and cash equivalents	(849,419)	(869,007)
Net debt	3,014,403	2,397,511
Adjusted EBITDA	2,599,284	1,467,692
Net debt / Adjusted EBITDA	1.16	1.63

PJSC Gazprom has an investment grade credit rating of BBB- (stable outlook) by Standard & Poor's and BBB- (positive outlook) by Fitch Ratings as of 31 December 2018.

38. Fair value of financial instruments

The fair value of financial assets and liabilities is determined as follows:

a) Financial instruments included in Level 1

The fair value of financial instruments traded in active markets is based on quoted market closing prices at the date nearest to the reporting date.

b) Financial instruments included in Level 2

The fair value of financial instruments that are not traded in active markets is determined according to various valuation techniques, primarily based on the market or income approach, particularly the discounted cash flows valuation method. These valuation techniques maximise the use of observable inputs where they are available and rely as little as possible on the Group's specific assumptions. If all significant inputs required to fair value a financial instrument are based on observable data, such an instrument is included in Level 2.

c) Financial instruments included in Level 3

If one or more of the significant inputs used to measure the fair value of an instrument are not based on observable data, such an instrument is included in Level 3.

The fair value of long-term accounts receivable is classified as Level 3 (see Note 16), long-term borrowings — Level 2 (see Note 21).

38. Fair value of financial instruments (continued)

As of 31 December 2018 and 31 December 2017 the Group had the following assets and liabilities that are measured at fair value:

Notes	31 December 2018				
	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value with changes recognised through profit or loss:					
12	Derivative financial instruments	7,238	100,041	589	107,868
9	Bonds	25,868	–	–	25,868
9	Equity securities	207	–	752	959
Financial assets measured at fair value with changes recognised through other comprehensive income:					
9	Promissory notes	–	32	–	32
Total short-term financial assets measured at fair value		33,313	100,073	1,341	134,727
Financial assets measured at fair value with changes recognised through profit or loss:					
12	Derivative financial instruments	9,395	27,998	–	37,393
17	Equity securities	–	–	2,131	2,131
Financial assets measured at fair value with changes recognised through other comprehensive income:					
17	Equity securities	365,090	43,594	5,589	414,273
17	Promissory notes	–	262	–	262
Total long-term financial assets measured at fair value		374,485	71,854	7,720	454,059
Total financial assets		407,798	171,927	9,061	588,786
Financial liabilities measured at fair value with changes recognised through profit or loss:					
18, 23	Short-term derivative financial instruments	11,776	83,493	4,221	99,490
23	Long-term derivative financial instruments	11,622	42,344	529	54,495
Total financial liabilities measured at fair value		23,398	125,837	4,750	153,985

38. Fair value of financial instruments (continued)

Notes	31 December 2017				
	Level 1	Level 2	Level 3	Total	
Financial assets measured at fair value with changes recognised through profit or loss:					
12	Derivative financial instruments	7,182	46,109	1,911	55,202
9	Bonds	30,758	–	–	30,758
9	Equity securities	206	–	–	206
Financial assets measured at fair value with changes recognised through other comprehensive income:					
9	Promissory notes	–	93	–	93
Total short-term financial assets measured at fair value		38,146	46,202	1,911	86,259
Financial assets measured at fair value with changes recognised through profit or loss:					
12	Derivative financial instruments	4,764	14,745	66	19,575
17	Equity securities	–	–	797	797
Financial assets measured at fair value with changes recognised through other comprehensive income:					
17	Equity securities	215,733	43,594	8,059	267,386
17	Promissory notes	–	249	–	249
Total long-term financial assets measured at fair value		220,497	58,588	8,922	288,007
Total financial assets		258,643	104,790	10,833	374,266
Financial liabilities measured at fair value with changes recognised through profit or loss:					
18, 23	Short-term derivative financial instruments	6,912	55,137	2,293	64,342
23	Long-term derivative financial instruments	346	27,180	181	27,707
Total financial liabilities measured at fair value		7,258	82,317	2,474	92,049

The derivative financial instruments include natural gas purchase and sale contracts and are categorised in Levels 1, 2 and 3 of the classification of derivative financial instruments. The contracts in Level 1 are valued using active market prices of identical assets and liabilities. Due to absence of quoted prices or other observable, market-corroborated data the contracts in Level 2 are valued using models internally developed by the Group. These models include inputs such as: quoted forward prices, time value of money, volatility factors, current market prices, contractual prices and expected volumes of the underlying instruments. If necessary, the price curves are extrapolated to the expiry of the contracts using all available external pricing information, statistical and long-term pricing relationships. These instruments are categorised in Level 3.

Foreign currency hedge contracts are categorised in Level 2. For fair value estimation the Group uses valuation prepared by independent financial institutes. Valuation results are regularly analysed by the Group's management. For the reporting period all foreign currency hedge contracts were effective.

There were no transfers between Levels 1, 2 and 3 and changes in valuation techniques during the reporting period.

Financial assets measured at fair value with changes recognised through profit or loss include derivative financial instruments, equity and debt securities intended to generate short-term profit through trading.

39. Offsetting financial assets and financial liabilities

In connection with its derivative activities, the Group generally enters into master netting agreements and collateral agreements with its counterparties. These agreements provide the Group with the right to offset, in the event of a default by the counterparty (such as bankruptcy), counterparty's rights and obligations under the agreement or to liquidate and set off collateral against any net amount owed by the counterparty.

The following financial assets and liabilities are subject to offsetting, enforceable master netting agreements and similar agreements:

	Gross amounts before offsetting	Amounts offset	Net amounts after offsetting in the consolidated balance sheet	Amounts subject to netting agreements
As of 31 December 2018				
Financial assets				
Long-term and short-term trade and other accounts receivable	1,789,206	495,570	1,293,636	65,643
Derivative financial instruments	709,935	564,674	145,261	1,156
Financial liabilities				
Accounts payable (excluding derivative financial instruments)	1,751,929	495,570	1,256,359	65,643
Derivative financial instruments	718,659	564,674	153,985	1,156
As of 31 December 2017				
Financial assets				
Long-term and short-term trade and other accounts receivable	1,535,132	332,367	1,202,765	64,696
Derivative financial instruments	364,018	289,241	74,777	1,010
Financial liabilities				
Accounts payable (excluding derivative financial instruments)	1,495,988	332,367	1,163,621	64,696
Derivative financial instruments	381,290	289,241	92,049	1,010

40. Events after reporting period

Borrowings

In February 2019 the Group issued Loan Participation Notes in the amount of USD 1,250 million at an interest rate of 5.15 % due in 2026 under USD 40,000 million Programme for the Issuance of Loan Participation Notes.

In February 2019 the Group obtained a long-term loan from PJSC Bank Otkritie Financial Corporation in the amount of EUR 400 million at an interest rate of 2.5 % due in 2024.

In February-April 2019 the Group obtained long-term loans from a consortium of banks in the total amount of EUR 421 million at an interest rate of EURIBOR + 1.6 % due in 2021 under the agreement concluded in December 2018. Intesa Sanpaolo Bank Luxembourg S.A. was appointed as a bank agent.

In March 2019 the Group obtained a long-term loan from a consortium of banks in the total amount of EUR 500 million at an interest rate of EURIBOR + 1.65 % due in 2024. Bank Natixis was appointed as a bank agent.

In March 2019 the subsidiary Nord Stream 2 AG obtained long-term loans from Wintershall Nederland Transport and Trading B.V., OMV Gas Marketing Trading & Finance B.V., Shell Exploration and Production (LXXI) B.V., Engie Energy Management Holding Switzerland AG, Uniper Gas Transportation and Finance B.V. in the amount of EUR 220 million within the terms of the long-term financing agreement signed between the parties in April 2017.

Financial guarantee contracts

In January 2019 the Group terminated guarantees provided to Gazprombank (Joint-stock Company) for LLC Stroygazconsulting under its loan obligations (see Note 37).

In January 2019 the Group provided guarantees to Gazprombank (Joint-stock Company) for LLC MK-1 under its loan obligations until 2028. The liability limit according to the guarantees is RUB 117,191 million.

Investors relations

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